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This announcement and the listing document referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on the Stock Exchange and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.

VIVA BIOTECH INVESTMENT MANAGEMENT LIMITED

(Incorporated in the British Virgin Islands with limited liability)

(the “**Issuer**”)

US\$280 million 1.00% Guaranteed Convertible Bonds due 2025

(Stock Code: 40514)

(the “**Bonds**”)

Unconditionally and Irrevocably Guaranteed by

VIVA BIOTECH HOLDINGS



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)

(the “**Guarantor**”)

Publication of the Offering Circular

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Please refer to the offering circular dated 28 December 2020 (the “**Offering Circular**”) appended herein in relation to the issuance of the Bonds. As disclosed in the Offering Circular, the Bonds were intended for purchase by professional investors (as defined in Chapter 37 of the Listing Rules) only and will be listed on the Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

Hong Kong, 31 December 2020

As at the date of this announcement, the director of the Issuer is Mr. MAO Chen Cheney.

As at the date of this announcement, the board of directors of the Guarantor comprises Mr. MAO Chen Cheney, Mr. WU Ying, Mr. HUA Fengmao and Mr. REN Delin as executive directors, Ms. SUN Yanyan as non-executive directors and Mr. FU Lei, Ms. LI Xiangrong and Mr. WANG Haiguang as independent non-executive directors.

IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY OUTSIDE OF THE U.S.

IMPORTANT: You must read the following before continuing. The following applies to the attached Offering Circular following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE FOLLOWING OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORIZED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORIZED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN.

The following Offering Circular is not a prospectus for the purposes of the European Union’s Prospectus Regulation (EU) 2017/1129.

The communication of the attached Offering Circular and any other document or materials relating to the issue of the securities described therein is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom’s Financial Services and Markets Act 2000, as amended. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “**Financial Promotion Order**”)), or within Article 49(2)(a) to (d) of the Financial Promotion Order, or who are any other persons to whom it may otherwise lawfully be made under the Financial Promotion Order (all such persons together being referred to as “**relevant persons**”). In the United Kingdom, the securities described in the attached Offering Circular are only available to, and any investment or investment activity to which the attached Offering Circular relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached Offering Circular or any of its contents.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS — The Bonds described in the following Offering Circular are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the “**EEA**”) and in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA and in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA and in the UK may be unlawful under the PRIIPs Regulation.

CONFIRMATION AND YOUR REPRESENTATION: IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED OFFERING CIRCULAR OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE SECURITIES, INVESTORS MUST BE OUTSIDE THE UNITED STATES. BY ACCEPTING THE E-MAIL AND ACCESSING THE ATTACHED OFFERING CIRCULAR, YOU SHALL BE DEEMED TO HAVE REPRESENTED TO J.P. MORGAN SECURITIES PLC, CREDIT SUISSE (HONG KONG) LIMITED, CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED AND THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED AS LEAD MANAGERS (THE “**JOINT LEAD MANAGERS**”) THAT (1) YOU AND ANY CUSTOMERS YOU REPRESENT ARE OUTSIDE THE UNITED STATES AND THAT THE E-MAIL ADDRESS THAT YOU GAVE US AND TO WHICH THIS E-MAIL HAS BEEN DELIVERED IS NOT LOCATED IN THE UNITED STATES AND (2) THAT YOU CONSENT TO DELIVERY OF SUCH OFFERING CIRCULAR BY ELECTRONIC TRANSMISSION.

You are reminded that the attached Offering Circular has been delivered to you on the basis that you are a person into whose possession the attached Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorized to, deliver or disclose the contents of the attached Offering Circular to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the issuer in such jurisdiction.

The attached Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently, none of the Joint Lead Managers, the Trustee (as defined in the Offering Circular), the Agents (as defined in the Offering Circular) or any of their respective affiliates, advisers, directors, officers, employees, representatives or agents or any person who controls any of them accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

Singapore Securities and Futures Act (Chapter 289) of Singapore (the “**SFA**”) Product Classification: In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the “**CMP Regulations 2018**”), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are ‘prescribed capital markets products’ (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

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VIVA BIOTECH INVESTMENT MANAGEMENT LIMITED

(incorporated in the British Virgin Islands with limited liability)

U.S.\$280,000,000 1.00 per cent. Guaranteed Convertible Bonds Due 2025

Unconditionally and Irrevocably Guaranteed by



Viva Biotech Holdings

(incorporated in the Cayman Islands with limited liability)

Issue Price: 100.00 per cent.

The 1.00 per cent. guaranteed convertible Bonds due 2025 in an aggregate principal amount of U.S.\$280,000,000 (the “**Bonds**”, which shall include, unless the context requires otherwise, any further bonds issued in accordance with the terms and conditions of the Bonds set out in “*Terms and Conditions of the Bonds*” (the “**Terms and Conditions**”) or the “**Conditions**”) and consolidated and forming a single series therewith) will be issued by Viva Biotech Investment Management Limited (the “**Issuer**”). Each Bond will, at the option of the holder, be convertible (unless previously redeemed or purchased and cancelled) into ordinary shares of par value of U.S.\$0.000025 each of the Guarantor (as defined below) (the “**Shares**”) at an initial conversion price of HK\$11.6370 per Share, during the conversion period and subject to adjustment as provided in, and otherwise on the terms of, the Conditions. The Bonds will be unconditionally and irrevocably guaranteed (the “**Guarantee**”) by Viva Biotech Holdings (維亞生物科技控股有限公司) (the “**Guarantor**” or the “**Company**”).

Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each Bond at 105.23 per cent. of its principal amount together with accrued and unpaid interest thereon on 30 December 2025 (the “**Maturity Date**”). On giving not less than 30 nor more than 60 days’ notice, the Issuer may redeem the Bonds in whole, but not in part, at any time, on the date specified in the Tax Redemption Notice (as defined in the Conditions) at the Early Redemption Amount (as defined in the Conditions) together with interest accrued but unpaid to but excluding such date, in the event of certain changes to the laws or regulations of the British Virgin Islands, the Cayman Islands or the PRC or, in each case, any political subdivision or any authority thereof or therein having power to tax, subject to the non-redemption option of each Bondholder after the exercise by the Issuer of its tax redemption option as described in the Conditions. On giving not less than 30 nor more than 60 days’ notice, the Issuer may redeem in whole, but not in part, the Bonds for the time being outstanding at the Early Redemption Amount together with interest accrued but unpaid to but excluding the date fixed for redemption (i) at any time after 9 January 2024 and prior to the Maturity Date, provided that the Closing Price of the Shares (derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange and translated into U.S. dollars at the Prevailing Rate) for each of 20 out of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption is published was at least 130 per cent. of the applicable Early Redemption Amount for each Bond divided by the Conversion Ratio then applicable; or (ii) at any time prior to the Maturity Date provided that prior to the date on which the Issuer gives a redemption notice at least 90 per cent. in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled (capitalised terms each as defined in the Conditions). The Issuer will, at the option of the holder of any Bond redeem all or some only of such holder’s Bonds on 30 December 2023 at 103.08 per cent. of its principal amount, together with interest accrued but unpaid up to but excluding such date. The holder of each Bond will also have the right at such holder’s option, to require the Issuer to redeem all or some only of such holder’s Bonds on the Relevant Event Redemption Date at the Early Redemption Amount, together with interest accrued but unpaid to but excluding the date fixed for redemption following the occurrence of (i) the Shares ceasing to be listed or admitted to trading or being suspended for trading for a period equal to or exceeding 30 consecutive Trading Days on the Hong Kong Stock Exchange or, if applicable, the Alternative Stock Exchange; or (ii) a Change of Control (capitalised terms each as defined in the Conditions). See “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation*”.

The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions, at all times rank at least equally with all of their respective other present and future unsecured and unsubordinated obligations.

Each Bond will, at the option of the holder thereof, be convertible (unless previously redeemed, converted or purchased and cancelled) at any time on or after 9 February 2021 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the 10th day prior to the Maturity Date (both days inclusive) into fully paid Shares at an initial conversion price of HK\$11.6370 per Share. The Conversion Price (as defined in the Terms and Conditions) is subject to adjustment in the circumstances described under “*Terms and Conditions of the Bonds — Conversion*”. The Closing Price (as defined in the Terms and Conditions) of the Shares on The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) on 17 December 2020 was HK\$8.62 per Share.

Investors should be aware that the Bonds and Guarantees are unsecured, there are risks attached to exercise of Conversion Rights of the Bonds, and there are various other risks relating to the Bonds, the Issuer and the Guarantor, their business and their jurisdictions of operations which investors should familiarize themselves with before making an investment in the Bonds. See “*Risk Factors*” beginning on page 37.

With reference to the Notice on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the “**NDRC Notice**”) promulgated by National Development and Reform Commission (the “**NDRC**”) of the PRC on 14 September 2015 which came into effect on the same day, we have registered the issuance of the Bonds with the NDRC and obtained a certificate from the NDRC dated 30 September 2020 evidencing such registration. Pursuant to the registration certificate and the Terms and Conditions, the Guarantor will undertake to (i) within the prescribed time period, file or cause to be filed with the NDRC the requisite information and documents in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and effective as of 14 September 2015 (the “**NDRC Post-issue Filing**”) and (ii) comply with all applicable PRC laws, rules and regulations in connection with the Bonds (including, but not limited to, any rules issued by the NDRC from time to time).

Application has been made to the Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (“**Professional Investors**”) only.

Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Bonds are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this Offering Circular, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Circular to Professional Investors only have been reproduced in this document. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds or the Issuer, the Guarantor or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the content of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

The distribution of this Offering Circular should be limited to Professional Investors only. This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purpose of giving information with regard to the Issuer and the Guarantor. The Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this Offering Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge there are no other material facts the omission of which would make any statement herein misleading. The expected date of listing of the Bonds on the Hong Kong Stock Exchange is on or around 31 December 2020.

The Bonds will be issued in the denomination of U.S.\$200,000 and integral multiples of U.S.\$100,000 in excess thereof.

The Bonds, the Shares to be issued upon conversion of the Bonds (the “**New Shares**”) and the Guarantee of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Bonds are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S. For a description of certain further restrictions on offers and sales of the Bonds and the New Shares and the distribution of this Offering Circular, see “*Subscription and Sale*”.

The Bonds will be evidenced by a global certificate (the “**Global Certificate**”) in registered form, which will be registered in the name of a nominee of, and deposited with, a common depositary for Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, the records maintained by Euroclear and Clearstream and their respective accountholders. Except in the limited circumstances set out in the Global Certificate, individual certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate. It is expected that delivery of the Global Certificate will be made on the 30 December 2020 (the “**Issue Date**”) or such later date as may be agreed by the Issuer, the Registrar and the Joint Lead Managers.

J.P. Morgan
(Lead Left Bookrunner and Lead Left
Global Coordinator)

Credit Suisse
(Joint Global Coordinator)

Joint Bookrunners

J.P. Morgan

Credit Suisse

**China International
Capital Corporation**

HSBC

The date of this Offering Circular is 28 December 2020.

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This Offering Circular does not constitute an offer to sell to, or a solicitation of an offer to buy from, any person in any jurisdiction to whom it is unlawful to make the offer or solicitation in such jurisdiction. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this Offering Circular or that the information contained in this Offering Circular is correct as at any time after that date.

This Offering Circular is not a prospectus for the purposes of the European Union’s Prospectus Regulation (EU) 2017/1129.

The communication of the attached Offering Circular and any other document or materials relating to the issue of the securities described therein is not being made, and such documents and/or materials have not been approved, by an authorized person for the purposes of section 21 of the United Kingdom’s Financial Services and Markets Act 2000, as amended. Accordingly, such documents and/or materials are not being distributed to, and must not be passed on to, the general public in the United Kingdom. The communication of such documents and/or materials as a financial promotion is only being made to those persons in the United Kingdom falling within the definition of investment professionals (as defined in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Financial Promotion Order”)), or within Article 49(2)(a) to (d) of the Financial Promotion Order, or to any other persons to whom it may otherwise lawfully

be made under the Financial Promotion Order (all such persons together being referred to as “relevant persons”). In the United Kingdom, the securities described in the attached Offering Circular are only available to, and any investment or investment activity to which the attached Offering Circular relates will be engaged in only with, relevant persons. Any person in the United Kingdom that is not a relevant person should not act or rely on the attached Offering Circular or any of its contents.

We, having made all reasonable inquiries, confirm that: (i) this Offering Circular contains all information with respect to the Issuer and the Guarantor, their respective subsidiaries and affiliates taken as a whole (together, the “**Group**”) and to the Guarantee, the Shares and the Bonds, which is material in the context of the issue and offering of the Bonds; (ii) the statements contained in this Offering Circular relating to the Issuer, the Guarantor, the Group, the Langhua Pharmaceutical Group and the Enlarged Group are in every material particular true, accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor, the Group, the Langhua Pharmaceutical Group and the Enlarged Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements in the Offering Circular; and (v) the Offering Circular does not include an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they will be made, not misleading. We accept responsibility accordingly.

This Offering Circular is highly confidential. We are providing it solely for the purpose of enabling you to consider a purchase of the Bonds. You should read this Offering Circular before making a decision whether to purchase the Bonds. You must not use this Offering Circular for any other purpose, or disclose any information in this Offering Circular to any other person.

We have prepared this Offering Circular, and we are solely responsible for its contents. Each person receiving this Offering Circular acknowledges that such person has not relied on J.P. Morgan Securities plc, Credit Suisse (Hong Kong) Limited, China International Capital Corporation Hong Kong Securities Limited and The Hongkong and Shanghai Banking Corporation Limited (the “**Joint Lead Managers**”), The Bank of New York Mellon, London Branch (the “**Trustee**”), The Bank of New York Mellon, London Branch (the “**Principal Agent**”), The Bank of New York Mellon SA/NV, Luxembourg Branch (the “**Registrar**”) or The Bank of New York Mellon SA/NV, Luxembourg Branch (the “**Transfer Agent**” and together with the Principal Agent and the Registrar, the “**Agents**”) or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates or any person who controls any of them in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer, the Guarantor and the Guarantor and its subsidiaries and affiliates taken as a whole and the merits and risks involved in investing in the Bonds.

No representation or warranties, express or implied, are made by the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, officers, employees, representatives or agents or any person who controls any of them as to the accuracy or completeness of the information set forth herein, and nothing contained in this Offering Circular is, or should be relied upon as, a promise or representation, whether as to the past or the future. To the fullest extent permitted by law, the Joint Lead Managers, the Trustee, the Agents and each of their respective affiliates, advisers, directors, officers, employees, representatives and agents and each person who controls any of them do not accept any responsibility for the contents of this Offering Circular or for any statement made or purported to be made by the Joint Lead Managers, the Trustee, the Agents or any of their respective affiliates, advisers, directors, officers, employees, representatives or agents or any person who controls any of them or on their behalf in connection with the Issuer, the Guarantor, the Group or the issue and offering of the Bonds. Each of the Joint Lead Managers, the Trustee, the Agents and each of their respective directors, officers, employees, agents, advisers, representatives and affiliates and each person who controls any of them accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

Each person receiving this Offering Circular acknowledges that: (i) such person has been afforded an opportunity to request from us and to review, and has received, all additional information considered by it to be necessary to verify the accuracy of, or to supplement, the information contained herein; (ii) such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates or any person who controls any of them in connection with any investigation of the accuracy of such information or its investment decision; and (iii) no person has been authorized to give any information or to make any representation concerning us, our subsidiaries and affiliates, the Bonds (other than as contained herein and information given by our duly authorized officers and employees in connection with investors' examination of our company and the terms of the offering of the Bonds) and, if given or made, any such other information or representation should not be relied upon as having been authorized by us, the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, officers, employees, agents, advisers, representatives or affiliates or any person who controls any of them.

The Bonds, the New Shares and the Guarantee of the Bonds have not been approved or disapproved by the United States Securities and Exchange Commission (the “SEC”), any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offense in the United States.

PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS — The Bonds described in the following Offering Circular are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in

the European Economic Area (the “**EEA**”) and in the United Kingdom (the “**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the “**PRIIPs Regulation**”) for offering or selling the Bonds or otherwise making them available to retail investors in the EEA and in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA and in the UK may be unlawful under the PRIIPs Regulation.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are “prescribed capital markets products” (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

We are not, and the Joint Lead Managers are not, making an offer to sell the Bonds in any jurisdiction except where an offer or sale is permitted. The distribution of this Offering Circular and the offering of these securities may in certain jurisdictions be restricted by law. Persons into whose possession this Offering Circular comes are required by us and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of the restrictions on offers, sales and resales of the securities, including the Bonds, and distribution of this Offering Circular, see the section entitled “*Subscription and Sale*” below.

This Offering Circular summarizes certain material documents and other information, and we refer you to them for a more complete understanding of what we discuss in this Offering Circular. In making an investment decision, you must rely on your own examination of us and the terms of the offering, including the merits and risks involved. We, the Joint Lead Managers, the Trustee, the Agents and each of our and their respective affiliates, advisers, directors, officers, employees, representatives and agents and each person who controls us or any of them are not making any representation to you regarding the legality of an investment in the Bonds by you under any legal, investment or similar laws or regulations. You should not consider any information in this Offering Circular to be legal, business or tax advice. You should consult your own professional advisors for legal, business, tax and other advice regarding an investment in the Bonds.

We reserve the right to withdraw the offering of the Bonds at any time, and the Joint Lead Managers reserves the right to reject any commitment to subscribe for or purchase of the Bonds in whole or in part and to allot to any prospective purchaser less than the full amount of the Bonds sought by such purchaser. The Joint Lead Managers and certain related entities may acquire for their own account a portion of the Bonds.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATIONS

We have prepared this Offering Circular using a number of conventions, which you should consider when reading the information contained herein. The term the “**Issuer**” refers to Viva Biotech Investment Management Limited. When we use the terms “**we**”, “**us**”, “**our**”, the “**Company**”, the “**Guarantor**”, the “**Group**” and words of similar import, we are referring to the Issuer, Viva Biotech Holdings itself or Viva Biotech Holdings and its consolidated subsidiaries and affiliates taken as a whole, as the context requires.

Market data, industry forecasts and the innovative drug market statistics in this Offering Circular have been obtained from both public and private sources, including market research, publicly available information and industry publications. Although we believe this information to be reliable, it has not been independently verified by us or the Joint Lead Managers or our or its directors and advisors, and neither we, the Joint Lead Managers nor our or its directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Due to possibly inconsistent collection methods and other problems, such statistics herein may be inaccurate. You should not unduly rely on such market data, industry forecast and the PRC and property industry statistics.

In this Offering Circular, all references to “**HK\$**”, “**Hong Kong dollars**” and “**H.K. dollars**” are to Hong Kong dollars, the official currency of the Hong Kong Special Administrative Region of the People’s Republic of China (“**Hong Kong**” or “**HK**”); all references to “**RMB**” or “**Renminbi**” are to Renminbi, the official currency of the People’s Republic of China (“**China**” or the “**PRC**”); and all references to “**US\$**”, “**U.S.\$**” and “**U.S. dollars**” are to United States dollars, the official currency of the United States of America (the “**United States**” or the “**U.S.**”).

We record and publish our financial statements in Renminbi. Unless otherwise stated in this Offering Circular, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB7.0651 to U.S.\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on 30 June 2020, and all translations from H.K. dollars into U.S. dollars were made at the rate of HK\$7.7501 to U.S.\$1.00, the exchange rate set forth in the H.10 statistical release of the Federal Reserve Board on 30 June 2020. All such translations in this Offering Circular are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars or H.K. dollars, or vice versa, at any particular rate or at all.

References to “**Enlarged Group**” are to the enlarged Group immediately after the completion of our acquisition of Langhua Pharmaceutical.

References to “**Langhua**” or “**Langhua Pharmaceutical Group**” are to Langhua Pharmaceutical and its subsidiaries, being Nuobai Pharm and Nuobai Hong Kong.

References to the PRC and China, in the context of statistical information and description of laws and regulations in this Offering Circular, except where the context otherwise requires, do not include Hong Kong, the Macau Special Administrative Region of the People's Republic of China (“**Macau**”) or Taiwan. “**PRC government**” or “**State**” means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governments) and instrumentalities thereof, or, where the context requires, any of them.

Our financial statements are prepared in accordance with International Financial Reporting Standards (the “**IFRS**”) which differ in certain respects from generally accepted accounting principles in certain other countries.

Unless the context otherwise requires, references to “**2017**”, “**2018**” and “**2019**” in this Offering Circular are to our financial years ended 31 December 2017, 2018 and 2019, respectively.

References to “**Share**” are to, unless the context indicates otherwise, an ordinary share, with a nominal value of U.S.\$0.000025, in our share capital.

References to “**sq.m.**” are to square meters.

In this Offering Circular, unless the context otherwise requires, all references to “**affiliate**” are to a person or entity directly or indirectly controlled by, or under the direct or indirect common control of, another person or entity; all references to “**subsidiary**” are used with the meaning ascribed to it in the Listing Rules, which includes: (i) a “**subsidiary undertaking**” as defined in the twenty-third schedule to the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (the “**Companies Ordinance**”), (ii) any entity which is accounted for and consolidated in the audited consolidated accounts of another entity as a subsidiary pursuant to IFRS or Hong Kong Financial Reporting Standards, as applicable, and (iii) any entity which will, as a result of acquisition of its equity interest by another entity, be accounted for and consolidated in the next audited consolidated accounts of such other entity as a subsidiary pursuant to IFRS or Hong Kong Financial Reporting Standards, as applicable; all references to “**associate**” are used with the meaning ascribed thereto under the Listing Rules, which includes: (i) in relation to an individual, his spouse and children under the age of 18, certain trustees, his or his family holding companies, as well as companies over which he, his family, trustee interests and holding companies exercise at least 30% voting power, (ii) in relation to a company, its subsidiaries, its holding companies, subsidiaries of such holding companies, certain trustees, as well as companies over which such company and its subsidiaries, trustee interests, holding companies and subsidiaries of such holding companies together exercise at least 30% voting power and (iii) in the context of connected transactions, certain connected persons and enlarged family members of a director, chief executive or substantial shareholder of a listed issuer; and all references to “**controlling shareholder**” are used with the meaning ascribed thereto under the Listing Rules, including any person or group of persons who are entitled to exercise 30% or more of the voting power at our general meetings or are in a position to control the composition of a majority of our board of directors, and “**controlling interest**” will be construed accordingly.

In this Offering Circular, where information has been presented in thousands, millions or billions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to such rounding.

The English names of the PRC nationals, entities, departments, facilities, laws, regulations, certificates, titles and the like are translations of their Chinese names and are included for identification purposes only. In the event of any inconsistency, the Chinese names prevail.

GLOSSARY

This glossary contains definitions of certain terms used in this Offering Circular in connection with us and our business. Some of these may not correspond to standard industry definitions.

affinity selection mass spectrometry (ASMS)	experiments designed to measure the binding of compounds to a protein. In ASMS, a mixture of compounds are incubated with a protein target, where the bound and free compounds are separated by certain separation methods (i.e., selection) and are analyzed by LCMS to detect binding and measure binding affinity
allosteric binder	a substance which indirectly influences, or modulates, the effects of a primary ligand that directly activates or deactivates the function of a target protein. It usually binds to a site distinct from that of the orthosteric binding site
ALS	abbreviation of Australian Light Source. ALS is a 3 GeV national synchrotron radiation facility located in Clayton, in the south-eastern suburbs of Melbourne, Victoria, and opened in 2007
antibody, also known as immunoglobulin (Ig)	a large, Y-shaped protein produced mainly by plasma cells that is used by the immune system to neutralize pathogens such as pathogenic bacteria and viruses. The antibody recognizes a unique molecule of the pathogen, called an antigen, via the Fab's variable region
antibody humanization	the process of developing antibodies from non-human species whose protein sequences have been modified to increase their similarity to antibody variants produced naturally in humans
antibody maturation	the process to improve antibody affinity for an antigen. In vivo, natural affinity maturation by the immune system takes place through somatic hypermutation and clonal selection. In vitro, affinity maturation can be obtained by mutation and selection in the laboratory
anti-C. difficile infection small molecule drug	a chemical drug to treat the infection of <i>C. difficile</i> , a species of Gram-positive spore-forming bacterium

anti-tumor agonist	a chemical that binds to and activates a receptor to produce biological anti-tumor responses in human body
antitumor inhibitor	a molecule that binds to a protein target and decreases its bioactivity and produces anti-tumor efficacy in human body
APS	abbreviation of the Advanced Photon Source at Argonne National Laboratory, located in Argonne, Illinois, U.S., a national synchrotron-radiation light source research facility funded by the United States Department of Energy Office of Science
binding and kinetic measurement	the process of measuring the binding affinity of a molecule to a protein target and the chemical kinetics of the molecule-binding to the protein target
bioassay	an analytical method to determine concentration or potency of a substance by its effect on a model system including purified proteins, living cells or tissues. Bioassays are used to estimate the potency of agents by observing their effects on living animals (<i>in vivo</i>) or tissues/cells/purified proteins (<i>in vitro</i>)
bispecific antibody	an artificial protein that can simultaneously bind to two different types of antigen. Bispecific antibody can be manufactured in several structural formats, whose current applications have been explored for cancer immunotherapy and drug delivery
botulinum toxin (BTX)	a neurotoxic protein produced by the bacterium <i>Clostridium botulinum</i> and related species
CDMO	Contract Development Manufacturing Organization, a company that mainly provides CMC and manufacturing services in the pharmaceutical industry

cGMP	the Current Good Manufacturing Practice regulations enforced by the FDA, providing that systems assure proper design, monitoring, and control of manufacturing processes and facilities. Adherence to the cGMP regulations requires that manufacturers of medications adequately control manufacturing operations, hence assuring the identity, strength, quality and purity of drug products. Such adherence includes establishing strong quality management systems, obtaining appropriate quality raw materials, establishing robust operating procedures, detecting and investigating product quality deviations and maintaining reliable testing laboratories
chemiluminescence	the generation of electromagnetic radiation as light by the release of energy from a chemical reaction. While the light can, in principle, be emitted in the ultraviolet, visible or infrared region, the emitting visible light are the most common
CLS	abbreviation of Canada Light Source, which is Canada's national synchrotron light source facility, located on the grounds of the University of Saskatchewan in Saskatoon, Saskatchewan, Canada. The CLS has a third-generation 2.9 GeV storage ring, whose building occupies a footprint sized approximately a football field
CMC	chemistry, manufacturing and control
CMO	Contract Manufacturing Organization, a company that serves other companies in the pharmaceutical industry on a contract basis to provide comprehensive drug manufacturing services
cryo-Em	an electron microscopy technique where a sample is cooled to cryogenic temperatures
DNA encoded libraries (DEL)	a technology for the synthesis and screening on unprecedented scale of collections of small molecule compounds. In DEL technology, compounds are synthesized with DNA tags and screened by binding assay as mixtures. The binding components are decoded by DNA sequencing to reveal the binders' identities and confirmed by re-synthesizing and testing the compounds without the initial DNA tag

epigenetics targets	a group of drug target proteins that can regulate the genomic functions, including gene expression, through changes in DNA methylation and/or histone tail modifications
Flp-In technology	a technology that allows integration and expression of your gene of interest in mammalian cells at a specific genomic location. The Flp-In technology involves the introduction of a Flp Recombination Target (FRT) site into the genome of a mammalian cell line of choice
fluorescence	the emission of light by a substance that has absorbed light or other electromagnetic radiation. It is a form of luminescence. Fluorescence is used in the life sciences generally as a non-destructive way of tracking or analyzing biological molecules by means of the fluorescent emission at a specific frequency where there is no background from the excitation light, as relatively few cellular components are naturally fluorescent (called intrinsic or autofluorescence). Alternatively, a protein or other component can be “labelled” with an extrinsic fluorophore, a fluorescent dye that can be a small molecule, protein, or quantum dot, finding a large use in many biological applications
fluorescence polarization, also known as fluorescence anisotropy	referring to the phenomenon that if a fluorescent molecule is stationary and exposed to plane-polarized light, it will become excited and consequently emit radiation back to the polarized-plane. Because polarization is a general property of fluorescent molecules (with certain exceptions such as lanthanide chelates), fluorescence polarization-based readouts are somewhat less dye-dependent and less susceptible to environmental interferences such as pH changes than assays based on fluorescence intensity measurements

Food and Drug Administration (FDA)	a federal agency of the United States Department of Health and Human Services, one of the United States federal executive departments. The FDA is responsible for protecting and promoting public health through the control and supervision of food safety, tobacco products, dietary supplements, prescription and over-the-counter pharmaceutical drugs, vaccines, biopharmaceuticals, blood transfusions, medical devices, electromagnetic radiation emitting devices, cosmetics, animal foods & feed and veterinary products
fragment-based drug discovery (FBDD)	a new approach, increasingly used in the pharmaceutical industry, for reducing attrition and providing leads for previously intractable biological targets. FBDD identifies low-molecular-weight ligands (approximately 150 Da) that bind to biologically important macromolecules
fluorescence resonance energy transfer (FRET)	a mechanism describing energy transfer between two light-sensitive molecules, or chromophores. A donor chromophore, initially in its electronic excited state, may transfer energy to an acceptor chromophore through nonradiative dipole-dipole coupling
global synchrotron radiation light source	synchrotron radiation facilities around the world, especially the third-generation synchrotron radiation facilities such as APS, SSRF, ESRF, Photon factory, CLS, ALS, etc.
G protein-coupled receptors (GPCRs), also known as the seven-transmembrane domain receptors	a large protein family of receptors that detects molecules outside cells and activate internal signal transduction pathways and, ultimately, cellular responses. GPCRs are an important drug target addressed by approximately 34% of all FDA-approved drugs
hit-to-lead (H2L, also known as lead generation) and lead optimization	a stage in early drug discovery where small molecule hits from an HTS are evaluated and undergo limited optimization to identify promising lead compounds. These lead compounds undergo more extensive optimization in a subsequent step of drug discovery called lead optimization
homogeneous solution binding	the process of one molecule binding to another, (for example, a small molecule binding to a protein,) in homogeneous solution

high-throughput screening (HTS)	a method for scientific experimentation especially used in drug discovery and relevant to the fields of biology and chemistry. Using robotics, data processing/control software, liquid handling devices and sensitive detectors, high-throughput screening allows a researcher to quickly conduct millions of chemical, genetic, or pharmacological tests to rapidly identify active compounds, antibodies or genes that modulate a particular biomolecular pathway
hybridoma	a method for producing large numbers of identical antibodies (also called monoclonal antibodies). This process starts by injecting a mouse (or other mammal) with an antigen that provokes an immune response. B cells, a type of white blood cell that produces antibodies that bind to the antigen, are then harvested from the mouse. These isolated B cells are in turn fused with immortal B cell cancer cells, a myeloma, to produce a hybrid cell line called a hybridoma, which has both the antibody-producing ability of B cells and the exaggerated longevity and reproductivity of the myeloma
hydrophobic domain	the region of a protein that has hydrophobic amino acids (such as glycine, alanine, valine, leucine, isoleucine, phenylalanine, tryptophan and methionine) clustered together. Structures of water-soluble proteins have a hydrophobic core where side chains are buried from water which stabilizes the folded state
IDH2	a mitochondrial NADP-dependent isocitrate dehydrogenase (EC 1.1.1.42) that catalyzes oxidative decarboxylation of isocitrate to alpha-ketoglutarate, producing NADP
immuno-oncology targets	a group of drug targets related with the immune recognition of immune systems to cancer cells in human body
<i>in vitro</i> pharmacology, also known as bioassay	an analytical method to determine concentration or potency of a substance by its effect on living cells or tissues
influenza virus polymerase protein inhibitor	a new therapeutic agent for treatment of influenza virus infection

Interleukin 15 (IL-15)	a cytokine with structural similarity to Interleukin-2 (IL-2). Like IL-2, IL-15 binds to and signals through a complex composed of IL-2/IL-15 receptor beta chain (CD122) and the common gamma chain (gamma-C, CD132). IL-15 is secreted by mononuclear phagocytes (and some other cells) following infection by virus(es)
ion channels	pore-forming membrane proteins that allow ions to pass through the channel pore. Their functions include establishing a resting membrane potential, shaping action potentials and other electrical signals by gating the flow of ions across the cell membrane, controlling the flow of ions across secretory and epithelial cells, and regulating cell volume
kinase	an enzyme that catalyzes the transfer of phosphate groups from high-energy, phosphate-donating molecules to specific substrates. This process is known as phosphorylation, where the substrate gains a phosphate group and the high-energy adenosine triphosphate (ATP) molecule donates a phosphate group. This transesterification produces a phosphorylated substrate and adenosine diphosphate (ADP)
lentivirus method	a method of delivering genetic materials into cells to generate stable cell lines
liposome	a spherical vesicle having at least one lipid bilayer. As liposome can easily merge with the cell membrane because they are both made of a phospholipid bilayer, which can be used to transfect genetic material into a cell to generate stable cell line
liquid chromatography-mass spectrometry (LCMS)	an analytical chemistry technique that combines the physical separation capabilities of liquid chromatography with the mass analysis capabilities of mass spectrometry
mass spectrometry (MS)	an analytical technique that ionizes chemical species and sorts the ions based on their mass-to-charge ratio. In simpler terms, a mass spectrum measures the masses within a sample. Mass spectrometry is used in many different fields and applied to pure samples as well as complex mixtures

methionine adenosyltransferase 2A (MAT2A)	an enzyme that catalyzes the formation of S-adenosylmethionine (S-AdoMet) by joining methionine and ATP together
membrane proteins	proteins that interact with, or are part of, biological membranes. They include integral membrane proteins that are permanently anchored or part of the membrane and peripheral membrane proteins that are only temporarily attached to the lipid bilayer or to other integral proteins
membrane protein-targeted drug discovery	a drug discovery process that starts with a membrane protein target
μ -opioid receptors (MOR)	members of the G-protein-coupled receptor (GPCR) family with a high affinity for enkephalins and beta-endorphin, but a low affinity for dynorphins. The prototypical μ -opioid receptor agonist is morphine, the primary psychoactive alkaloid in opium. It is an inhibitory G-protein-coupled receptor that activates the G_i alpha subunit, inhibiting adenylate cyclase activity, lowering cAMP levels. μ -opioid receptors play an important role in mediating the actions of a class of opioids including morphine and heroin
MOR1	one of isoforms of μ -opioid receptors (MOR)
MOR2	one of isoforms of μ -opioid receptors (MOR)
nicotinamide adenine dinucleotide phosphate (NADP)	a cofactor used in anabolic reactions, which require NADP as a reducing agent. It is used by all forms of cellular life
nano-SPR technology	a nanomaterial-enhanced surface plasma resonance (SPR) technology, which significantly increases the sensitivities of the traditional SPR and therefore is able to detect trace amounts of small molecular weight molecules such as cancer biomarkers, hormones, antibiotics, insecticides and explosive materials which are respectively important for early-stage disease diagnosis, food quality control, environmental monitoring, and homeland security protection

nuclear receptors	a class of proteins found within cells that are responsible for sensing steroid and thyroid hormones and certain other molecules. In response, these receptors work with other proteins to regulate the expression of specific genes, thereby controlling the development, homeostasis and metabolism of the organism
PA/PB1 Small Molecule inhibitors	new therapeutic agents that can interfere with the interaction between PA and PB1 submit
phage display library	Phage display is a technology that allows expression of exogenous (poly) peptides on the surface of phage particles. A phage display library is a library of phage particles expressing a wide diversity of peptides or antibodies and is used to select those that bind the desired target
protease, also known as peptidase or proteinase	an enzyme that performs proteolysis: protein catabolism by hydrolysis of peptide bonds
R&D	research and development
receptor-interacting protein (RIP) kinases	a group of threonine/serine protein kinases with a relatively conserved kinase domain but distinct non-kinase regions. A number of different domain structures, such as death and caspase activation and recruitment domains (CARD), was found in different RIP family members, and these domains should be keys in determining the specific function of each RIP kinase
size exclusion chromatography (SEC), also known as molecular size chromatography	a chromatographic method in which molecules in solution are separated by their size, and in some cases molecular weight. It is usually applied to large molecules or macromolecular complexes such as proteins and industrial polymers
surface plasmon resonance (SPR)	an optical effect that can be utilized to measure the binding of molecules in real time without the use of labels. SPR instruments are primarily used to measure the binding kinetics and affinity of molecular interactions
structure-activity relationship (SAR)	the relationship between the chemical or 3D structure of a molecule and its biological activity

structure-aided SAR analysis	the SAR analysis facilitated with the structure information of a molecule interacting with its macromolecule target
structure-based drug discovery (SBDD)	a drug discovery process utilizing knowledge of the 3D structure of a target protein, the architecture of the active site environment where the substrate binds, and the structural aspects of the drug interaction with the protein target
synchrotron time, also known as beam time	machine time used for collecting crystal diffraction data in synchrotron beam station
targeted enzymatic hydrolysis (TED)	technology using the PROTAC molecules which are bifunctional small molecules that simultaneously bind a target protein and an E3-ubiquitin ligase, thus causing ubiquitination and degradation of the target protein by the proteasome
thermos shift assays	assays measuring the thermal stability of a target protein and the increase in protein melting temperature upon the binding of a ligand to the protein. Protein melting is useful for identifying ligands, buffer conditions, cofactors and drugs affecting protein stability
time-resolved fluorescence (TRF) detection	a detection technology using long-lifetime fluorophores, known as lanthanides, such as europium, terbium, samarium and dysprosium. Unlike fluorescence intensity measurements, where emission occurs within nanoseconds upon excitation, lanthanides emit light over a longer period of time after excitation (microseconds as opposed to nanoseconds). The TRF detection helps reduce background noise by delaying the start of the measurement until after the background signal has decayed and results in better performance in time-resolved fluorescence assays
transporters	a membrane protein involved in the movement of ions, small molecules, or macromolecules, such as another protein, across a biological membrane
transporters in detergent and in nanodisc	a description of a purified transporter protein that is solubilized in a detergent-contained solution or assembled in nanodisc which is composed of a lipid bilayer of phospholipids with the hydrophobic edge surrounded by two amphipathic proteins

ultracentrifugation-ASMS	an ASMS technology where the bound and free compounds are separated with ultracentrifugation method
ultrafiltration-ASMS	an ASMS technology where the bound and free compounds are separated with ultrafiltration method
unbiased screening method	a screening method where there is no discrimination or bias with regard to the location on the protein target where a hit compound can bind. As such, an unbiased screening method can discover allosteric binders as well as orthosteric binders
UV/Vis	absorption spectroscopy or reflectance spectroscopy in the ultraviolet-visible spectral region
x-ray crystallography	the study of molecular structure by examining diffraction patterns made by x-rays passing through a crystalline form of the molecules. X-ray crystallography is used extensively in biochemistry to examine the molecular structure of such molecules as proteins and DNA

FORWARD-LOOKING STATEMENTS

This Offering Circular includes forward-looking statements. All statements other than statements of historical fact contained in this Offering Circular, including, without limitation, those regarding our future financial position and results of operations, strategies, plans, objectives, goals and targets, future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include, the words “**believe**”, “**expect**”, “**aim**”, “**intend**”, “**will**”, “**may**”, “**anticipate**”, “**seek**”, “**should**”, “**could**”, “**would**”, “**plan**”, “**potential**”, “**continue**”, “**estimate**” or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, results, liquidity and capital resources and are not guarantees of future performance and some of which may not materialize or may change. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, among others, the following:

- our operations and business prospects and our ability to develop and manage our operations and business;
- our business and operating strategies and our ability to implement such strategies;
- our ability to attract and retain our customers;
- general economic, political and business conditions in the markets in which we operate;
- our ability to attract and retain qualified employees and key personnel;
- our capital expenditure programs and future capital requirements;
- our ability to control costs;
- our dividend policy;
- capital market development;
- the actions and developments of our competitors; and

- all other risks and uncertainties described in the section headed “*Risk Factors*” in this prospectus.

Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot assure you that those expectations will prove to be correct, and you are cautioned not to place undue reliance on these forward-looking statements, which speak only as at the date of this Offering Circular. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Offering Circular might not occur in the way we expect, or at all.

ENFORCEMENT OF CIVIL LIABILITIES

We are an exempted company incorporated in the Cayman Islands with limited liability. The Cayman Islands has a different body of securities laws from the United States and protections for investors may differ.

All of our assets are located outside England. In addition, the majority of our directors and officers are nationals or residents of countries other than England (principally in the PRC), and all or a substantial portion of such persons' assets are located outside England. As a result, it may be difficult for investors to effect service of process within England upon us or such persons or to enforce against us or such persons judgments obtained in courts of England, including judgments predicated upon the civil liability provisions of the securities laws of England and Wales.

We have been advised by our Cayman Islands legal advisors, Maples and Calder (Hong Kong) LLP, that any final and conclusive monetary judgment obtained against the Company in the courts of England and Wales (the "**Foreign Court**"), for a definite sum, may be registered and enforced as a judgment of the Cayman Islands court if application is made for registration of the judgment within twelve months or such longer period as the Cayman Islands court may allow, and if the Cayman Islands court considers it just and convenient that the judgment be so enforced. Although there is no statutory enforcement in the Cayman Islands of judgments obtained in the Foreign Court, the courts of the Cayman Islands may, at common law, recognise and enforce a foreign money judgment of a foreign court of competent jurisdiction without any re-examination of the merits of the underlying dispute. In either case, it will be necessary that in respect of the judgment of the Foreign Court:

- 1 the Foreign Court issuing the judgment had jurisdiction in the matter and the Company either submitted to such jurisdiction or was resident or carrying on business within such jurisdiction and was duly served with process;
- 2 the judgment given by Foreign Court imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been given, is final and is not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of the Company;
- 3 in obtaining judgment there was no fraud on the part of the person in whose favour judgment was given or on the part of Foreign Court;
- 4 the judgment was not obtained in a manner and is not of a kind the enforcement of which would not be contrary to natural justice or the public policy of the Cayman Islands; and
- 5 the judgment given by Foreign Court is not the subject of an appeal.

Further, we have been advised by our PRC legal advisors, JunHe LLP, that there is uncertainty as to whether the courts of the PRC would (i) enforce judgments of the courts of England obtained against us or our directors and officers predicated upon the laws of the England and Wales or (ii) entertain original actions brought in the courts of the PRC against us or our directors and officers predicated upon the laws of the England and Wales.

SUMMARY

This summary does not contain all the information that may be important to you in deciding to invest in the Bonds. You should read the entire Offering Circular including the section entitled “Risk Factors” and our consolidated financial statements and related notes thereto, before making an investment decision.

OVERVIEW

We provide structure-based drug discovery services to our biotechnology and pharmaceutical customers worldwide for their preclinical-stage innovative drug development. Our services cover the full spectrum of our customers’ needs for early-stage drug discovery, including target protein expression and structure research, hit screening, lead optimization and drug candidate determination. Our patented core technologies, as well as our proprietary know-how which enables us to effectively shorten the average time required for drug discovery, are highly regarded by our customers. According to Frost & Sullivan, we provide world-leading structure-based drug discovery (SBDD) services. SBDD has resulted in faster definition of drug-binding properties and made it easier to identify hit compounds through screening programs. We have provided drug discovery services to all of the ten largest global pharmaceutical companies, as well as hundreds of biotechnology companies and research institutes worldwide, including 31 companies named in the Fierce Biotech Top 15 Promising Biotechs. As at 30 June 2020, we provided drug discovery services to over 495 biotechnology and pharmaceutical customers worldwide, worked on over 1,300 independent drug targets and delivered over 17,000 independent protein structures.

Our mission is to become a cradle for promising biotechnology startups around the world. We have developed a scalable business model combining the conventional cash-for-service (CFS) model, pursuant to which we receive cash service fees from our non-investee customers, and our unique equity-for-service (EFS) model. Under the EFS model, we provide drug discovery and/or incubation services to select customers in exchange for equity or economic interest in them, and to certain promising biotechnology companies in which we have invested. By acquiring equity or economic interest in these select customers or investees, we can effectively foster the development of these promising biotechnology startups and enjoy the upside of their intellectual property value, while maintaining the steady cash inflow generated from services provided to our CFS customers. In addition, we may also make strategic investments in biotechnology startup companies that we think have potential for future cooperation.

Our management team and key business partners comprise top scientists and talent from renowned global pharmaceutical companies and prestigious biomedical research institutes, such as Pfizer Inc., Merck & Co., Abbott and Novartis, and are specialized in innovative drug R&D in diversified therapeutic fields. For example, certain members of our management team and business partners have committed to diverse areas, such as immunology, oncology, metabolism and ophthalmology, and been deeply involved in the R&D of certain marketed drugs, such as Lifitegrast for the treatment of dry eye syndrome, Sutent for the treatment of metastatic renal cell

carcinoma and Venetoclax for the treatment of chronic lymphocytic leukemia. Led by these top scientists and talent, we have established a scalable and reliable technology platform for innovative drug R&D. We also introduced a business partner system to identify business partners from external sources and our incubation portfolio companies. With the help of the specialty and experience of our business partners, we established a systematic, scientific and modularized incubation program that helps ensure the scalability and sustainability of our unique business model. Leveraging our world-leading and integrated platform, we are able to successfully maintain high customer stickiness and build up an ecosystem comprising top scientists, talent, biotechnology startups, large pharmaceutical companies, research institutes and other industry participants. We believe that our strong value propositions to the customers and our ecosystem partners strengthen our leading position and create entry barriers for potential competitors.

We enjoy an excellent reputation in the industry, and have accumulated a diversified and growing quality customer base via word-of-mouth referrals. Our customers include all of the top 10 global pharmaceutical companies, as well as 31 biotechnology companies named in the Fierce Biotech Top 15 Promising Biotech. We also provide services to scientific research institutes such as Shanghai Jiaotong University.

Since 2014, we have established three incubation centers and incubated 56 early-stage R&D projects. We further plan to establish several additional modularized incubation centers in Shanghai, Jiaxing and Chengdu. We aim to expand our incubation portfolio by continuously screening new projects. We added 4, 11, 19 and 10 incubation portfolio companies in 2017, 2018 and 2019 and six months ended on 30 June 2020, respectively.

We have experienced significant growth. We recorded revenue of RMB148.2 million, RMB210.0 million and RMB323.1 million (U.S.\$45.7 million) in the years ended 31 December 2017, 2018 and 2019 and RMB142.3 million (U.S.\$20.1 million) and RMB197.6 million (U.S.\$28.0 million) the six months ended on 30 June 2019 and 2020, respectively, and adjusted net profit of RMB76.3 million, RMB135.5 million and RMB318.0 million (U.S.\$45.0 million) in 2017, 2018 and 2019 and RMB98.6 million (U.S.\$14.0 million) and RMB123.7 million (U.S.\$17.5 million) the six months ended on 30 June 2019 and 2020.

COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and differentiate us from our competitors:

- world-leading structure-based technologies that enable us to stand at the gateway for first-in-class drug discovery;
- innovative and unique business model to tap into vast pharmaceutical market;
- integrated drug discovery platform attracting top scientists and talent worldwide;

- systematic incubation program to capture the highest return of the biotechnology value chain; and
- growing ecosystem open to global industry participants.

BUSINESS STRATEGIES

Our mission is to become a cradle for promising biotechnology companies around the world. We aim to leverage on our leading drug discovery capability to scalably participate in our customers' early-stage R&D activities, thereby driving and capitalizing the value of our customers' intellectual property. We plan to execute the following key strategies to achieve our goal:

- continue to invest in cutting-edge technologies through both in-house R&D and potential acquisitions;
- further expand our incubation portfolio;
- develop CMO business to achieve vertical integration of a discovery, development and manufacturing platform;
- continue to attract and train quality talents and further strengthen our R&D team; and
- further expand our customer base.

RECENT DEVELOPMENTS

Resignation of Non-Executive Director

On 3 November 2020, Ms. MAO Jun tendered her resignation from the office as a non-executive Director of the Company with immediate effect. Ms. MAO resigned from her position out of reasons unrelated to the Company.

Entry into an Investment Agreement with Hangzhou Qiantang New Area Management Committee

On 22 September 2020, we signed an investment agreement with Hangzhou Qiantang New Area Management Committee, pursuant to which we will establish a project company that constructs and establishes a medical chemistry research and development laboratory and an accompanying analytical laboratory, as well as introducing and supporting the incubation of innovative research and development projects. We have committed to investing RMB700 million (U.S.\$99.1 million) as fixed asset investment into the project. In return, Hangzhou Qiantang New

Area Management Committee will initiate the land auction process for the project, and provide administrative assistance and facilitative measures in relation to the development and operation of our project.

Acquisition of Entire Equity Interest in SYNthesis Med Chem (Hong Kong) Limited

On 20 September 2020, we entered into an agreement to acquire the entire equity interest in SYNthesis Med Chem (Hong Kong) Limited, a contract research organization for research and development of new preclinical small molecule drugs, with a consideration of approximately U.S.\$80 million. To facilitate the acquisition and the settlement of external loans in relation to the acquired company, we entered into a bridging loan deed whereby we provided a U.S.\$2.5 million short-term loan facility to SYNthesis med chem Pty Limited, parent company of the acquired company.

Acquisition of 80% Equity Interest in Langhua Pharmaceutical

On 8 August 2020, we entered into a share purchase agreement pursuant to which we would acquire 80% of the equity interest in Langhua Pharmaceutical, at a consideration of RMB2,560 million (U.S.\$362.3 million) in cash (the “**Langhua Acquisition**”). Langhua Pharmaceutical Group is an integrated and comprehensive drug R&D and manufacturing company in Taizhou, Zhejiang Province. It is primarily engaged in production of small molecule APIs and intermediates and CDMO business. The acquisition of Langhua Pharmaceutical, a comprehensive manufacturing enterprise focusing on API and intermediate production and CDMO projects, is in line with our corporate strategy of vertical integration in the industry chain and expansion into the CDMO business. After the Langhua Acquisition, Langhua Pharmaceutical will become one of our non-wholly owned subsidiary and will serve as the Enlarged Group’s sole CDMO platform for small molecule drugs and intermediate. We expect the Langhua Acquisition to achieve a potential scalable market penetration into the European market, and attract a larger client base by offering a wider range of services. For details of the Langhua Acquisition, the historical financial statements of Langhua Pharmaceutical and the expected financial impact on the Enlarged Group, please refer to our circular published on October 16, 2020: <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1016/2020101601069.pdf>. This Offering Circular does not contain all information set out in such circular, and investors are advised to access and read such circular in addition to the information set out in this Offering Circular. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers makes any representation or warranty, express or implied, regarding the accuracy, completeness and sufficiency of the contents of such circular. Potential investors must exercise caution when using such information to evaluate our financial condition and results of operations.

Placement of New Shares under General Mandate

On 10 July 2020, we placed an aggregate of 130,000,000 placing shares under general mandate, with net proceeds amounted to approximately HK\$1,050.7 million (U.S.\$135.6 million). We intended to apply the net proceeds towards business development and expansion, as well as other working capital and general corporate purposes.

Bidding and Acquisition of Land Use Right for a Property in Shanghai

On 1 July 2020, we successfully entered into and confirmed a bid for the land use right of a property by way of internet auction through taobao.com published by the Shanghai Pudong District People's Court at a bidding price of RMB392.4 million (U.S.\$55.5 million). The acquisition of the property would provide operating space to meet our business growth and development in the coming years.

GENERAL INFORMATION

We are incorporated in the Cayman Islands on 27 August 2008 as an exempted company with limited liability. Our principal place of business in the PRC is 334 Aidisheng Road, Zhangjiang High-Tech Park, Pudong New District, Shanghai, China. Our place of business in Hong Kong is Room 1901, 19/F Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong. Our registered office is located at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. Our website is www.vivabiotech.com. Information contained on our website does not constitute part of this Offering Circular.

The Issuer was incorporated in the British Virgin Islands on 9 July 2020 as a limited liability company. The registered office of the Issuer is Trinity Chambers, PO Box 4301, Road Town, Tortola, British Virgin Islands.

THE OFFERING

The following contains summary information about the Bonds. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in “Terms and Conditions of the Bonds” and “Provisions relating to the Bonds in Global Form” shall have the same meanings in this summary. For a more complete description of the terms of the Bonds, see “Terms and Conditions of the Bonds” in this Offering Circular.

Issuer	Viva Biotech Investment Management Limited.
Guarantor	Viva Biotech Holdings (维亚生物科技控股集团).
Issue	U.S.\$280,000,000 1.00 per cent. guaranteed convertible bonds due 2025 (the “ Bonds ”). The Bonds will be convertible at the option of the holder thereof into fully paid Shares of the Guarantor.
Shares	Ordinary shares of U.S.\$0.000025 each in the share capital of the Guarantor.
Interest	Interest on the Bonds is payable at the rate of 1.00 per cent. per annum payable semi-annually in arrear in equal instalments of U.S.\$500 per Calculation Amount (as defined in the Terms and Conditions) on 30 June and 30 December in each year, beginning on 30 December 2020. See “ <i>Terms and Conditions of the Bonds — Interest</i> ”.
Issue Price	100.00 per cent. of the principal amount of the Bonds.
Issue Date	30 December 2020.
Maturity Date	30 December 2025.
Form and Denomination of the Bonds	The Bonds will be issued in registered form in the denomination of U.S.\$200,000 and integral multiples of U.S.\$100,000 in excess thereof.
Guarantee	The due payment of all sums expressed to be payable by the Issuer and the due performance by the Issuer of its obligations under the Trust Deed and the Bonds has been unconditionally and irrevocably guaranteed by the Guarantor.

Negative Pledge

So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries (as defined in the Terms and Conditions) will, create or permit to subsist any Encumbrance (as defined in the Terms and Conditions) upon the whole or any part of their respective present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (as defined in the Terms and Conditions) or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness unless, at the same time or prior thereto the Bonds are secured (a) equally and rateably therewith or (b) by such other security, guarantee, indemnity or other arrangement as either (i) the Trustee in its absolute discretion shall deem to be not materially less beneficial to the interests of the Bondholders or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders. See “*Terms and Conditions of the Bonds — Covenants — Negative Pledge*”.

Status of the Bonds

The Bonds shall constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds and of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions, at all times rank at least equally with all of their respective other present and future unsecured and unsubordinated obligations. See “*Terms and Conditions of the Bonds — Status and Guarantee — Status*”.

Conversion Right and Period

Subject as provided in the Terms and Conditions, each Bond shall entitle the holder to convert such Bond into Shares (as defined in Condition 6(a)(v) (*Meaning of “Shares”*) of the Terms and Conditions) at any time during the Conversion Period referred to below (the “**Conversion Right**”). Subject to and upon compliance with the Terms and Conditions, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time (a) on or after 9 February 2021 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the 10th day prior to the Maturity Date (as defined in Condition 8(a) (*Maturity*) of the Terms and Conditions) (both days inclusive) (but, except as provided in Condition 6(a)(iv) (*Revival and/or survival after Default*) and Condition 10 (*Events of Default*) of the Terms and Conditions, in no event thereafter), or (b) if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than 15 days (both days inclusive and in the place aforesaid) prior to the date fixed for redemption thereof or (c) if notice requiring redemption has been given by such Bondholder pursuant to Condition 8(d) (*Redemption at the option of the Bondholders*) or Condition 8(e) (*Redemption for Delisting or Change of Control*) of the Terms and Conditions then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice. See “*Terms and Conditions of the Bonds — Conversion — Conversion Right*”.

Conversion Price

HK\$11.6370 per Share, subject to adjustment for, among other things, (a) consolidation, subdivision, redesignation or reclassification; (b) capitalization of profits or reserves; (c) distributions; (d) rights issues of Shares or options over Shares at less than 95% of the current market price per Share; (e) rights issues of other securities; (f) issues at less than 95% of the current market price; (g) other issues at less than 95% of the current market price; (h) modification of rights of conversion at less than 95% of the current market price; (i) other offers to Shareholders and (j) other events as described in the Terms and Conditions.

Adjustment upon a Change of Control

If a Change of Control (as defined in Condition 8(j) (*Definitions*)) shall occur, the Issuer shall give notice of that fact to the Bondholders (the “**Change of Control Notice**”) in accordance with Condition 17 (*Notices*) within seven days after it becomes aware of such Change of Control. Following the giving of a Change of Control Notice, upon any exercise of Conversion Rights such that the relevant Conversion Date falls within 30 days following a Change of Control, or, if later, 30 days following the date on which the Change of Control Notice is given to Bondholders (such period, the “**Change of Control Conversion Period**”), the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \frac{\text{OCP}}{1 + (\text{CP} \times c/t)}$$

where:

“**NCP**” means the new Conversion Price after adjustment.

“**OCP**” means the Conversion Price in effect on the relevant Conversion Date in respect of any conversion to which this Condition 6(d) (*Adjustment upon Change of Control*) is applicable.

“**CP**” means 35.0 per cent. expressed as a fraction.

“**c**” means the number of days from and including the date the Change of Control occurs to but excluding the Maturity Date.

“**t**” means the number of days from and including the Issue Date to but excluding the Maturity Date, provided that the Conversion Price shall not be reduced pursuant to Condition 6(d) (*Adjustment upon Change of Control*) below the level permitted by applicable laws and regulations from time to time (if any).

Redemption for Taxation Reasons

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders in accordance with Condition 17 (*Notices*) of the Terms and Conditions (which notice shall be irrevocable) and in writing to the Trustee and the Principal Agent at their Early Redemption Amount, together with interest accrued but unpaid to but excluding such date, if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer (or if the Guarantee was called, the Guarantor) has or will become obliged to pay Additional Tax Amounts (as defined in the Terms and Conditions) as provided or referred to in Condition 9 (*Taxation*) of the Terms and Conditions as a result of any change in, or amendment to, the laws or regulations of British Virgin Islands, the Cayman Islands or the PRC or in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 17 December 2020, and (ii) such obligation cannot be avoided by the Issuer (or as the case may be, the Guarantor) taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer (or as the case may be, the Guarantor) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due.

If the Issuer gives a Tax Redemption Notice pursuant to Condition 8(b)(i) (*Redemption for Taxation Reasons*), each Bondholder will have the right to elect that its Bond(s) shall not be redeemed and that the provisions of Condition 9 (*Taxation*) of the Terms and Conditions shall not apply in respect of any payment of principal, Early Redemption Amount, premium (if any) or interest to be made in respect of such Bond(s) whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 (*Taxation*) of the Terms and Conditions and payment of all amounts shall be made subject to the deduction or withholding of any tax required to be deducted or withheld.

See "*Terms and Conditions of the Bonds — Redemption for Taxation Reasons*".

**Redemption at the Option
of the Issuer**

On giving not less than 30 nor more than 60 days' notice to the Bondholders and in writing to the Trustee and the Principal Agent (which notice will be irrevocable), the Issuer:

- (i) may at any time after 9 January 2024 and prior to the Maturity Date redeem in whole, but not in part, the Bonds for the time being outstanding at the Early Redemption Amount, together with interest accrued but unpaid to but excluding the date fixed for redemption, provided that the Closing Price of the Shares (derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange and translated into U.S. dollars at the Prevailing Rate) for each of 20 out of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption, is published was at least 130 per cent. of the applicable Early Redemption Amount for each Bond divided by the Conversion Ratio (as defined in the Terms and Conditions) then applicable; or
- (ii) may at any time prior to the Maturity Date redeem in whole, but not in part, the Bonds for the time being outstanding at their Early Redemption Amount, together with interest accrued but unpaid to but excluding the date fixed for redemption provided that prior to the date of such notice at least 90 per cent. in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

Redemption at the Option of the Bondholders

The Issuer will, at the option of the holder of any Bond, redeem all or some only of such holder's Bonds on 30 December 2023 (the "**Put Option Date**") at 103.08 per cent. of its principal amount, together with interest accrued but unpaid to but excluding such date. To exercise such option, the holder must deposit during normal business hours (being between 9:00 a.m. and 3:00 p.m.) at the specified office of any Paying Agent a duly completed and signed put notice in the form for the time being current, obtainable from the specified office of any Paying Agent, together with the Certificate evidencing the Bonds to be redeemed not more than 60 days and not less than 30 days prior to the Put Option Date.

Redemption for Delisting or Change of Control

If at any time (i) the Shares cease to be listed or admitted to trading or suspended for trading for a period equal to or exceeding 30 consecutive Trading Days (as defined in the Terms and Conditions) on the Hong Kong Stock Exchange or, if applicable, the Alternative Stock Exchange (as defined in the Terms and Conditions); or (ii) a Change of Control (as defined in the Terms and Conditions) occurs, the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of such holder's Bonds on the Relevant Event Redemption Date (as defined in the Terms and Conditions) at their Early Redemption Amount, together with interest accrued but unpaid to (but excluding) the date fixed for redemption.

**Issuer, Guarantor and
Shareholders Lock-up**

Each of the Issuer and the Guarantor has agreed in the Subscription Agreement that neither the Issuer, the Guarantor nor any person acting on its or their behalf will (a) issue, offer, sell, contract to sell, pledge, encumber or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Joint Lead Managers between the date of the Subscription Agreement and the date which is 90 days after the Closing Date (both dates inclusive); except for (i) the Bonds and the Shares to be issued on conversion of the Bonds (the “**New Shares**”), (ii) any Shares issued pursuant to conversion under the existing U.S.\$180,000,000 2.50 per cent. Guaranteed Convertible Bonds due 2025 (ISIN: XS2101337124) (the “**Existing Bonds**”); (iii) any Shares or options granted or issued pursuant to the share option schemes adopted by the Guarantor, the terms of which were described in the Guarantor’s interim report for the six months ended 30 June 2020 published by the Guarantor on the website of the Stock Exchange on 28 September 2020 (“**2020 Interim Report**”) (“**Share Option Scheme**”) and the share award scheme adopted by the Guarantor, the terms of which were described in the 2020 Interim Report (“**Share Award Scheme**”), (iv) Shares issued by the Guarantor pursuant to the exercise of options granted under the pre-IPO share incentive schemes which are beneficially owned by employees other than directors and senior management of the Guarantor, (v) Shares disposed of in accordance with any order made by a court of competent jurisdiction, and (vi) Shares disposed of arising by operation of or required by law.

Mao Chen Cheney has executed a lock-up undertaking whereby he undertakes not to sell Shares or enter into any other transaction with a similar effect, for a period commencing from the date of the undertaking to 90 days after the Closing Date except for: (i) Shares disposed of in accordance with any order made by a court of competent jurisdiction; (ii) Shares disposed of arising by operation of or required by law; (iii) Shares disposed of following the death of Mao Chen Cheney; (iv) the 118,000,000 Relevant Shares which are subject to the securities lending agreements entered into between J.P. Morgan Securities plc with each of Chencheney Ltd, Wu and Sons Limited, and Fenghe Harvest Ltd, each dated December 17, 2020; and (v) Shares transferred to (A) the Immediate Family Members of Mao Chen Cheney, (B) any companies or entities wholly-owned by Mao Chen Cheney and/or his Immediate Family Members, and (C) a trust for tax planning purposes or to a trustee, executor, or other fiduciary for the benefit of Mao Chen Cheney and/or his Immediate Family Members for bona fide estate planning purposes, provided, that in each case, such transfer shall be effected in compliance with all applicable laws. For the purposes of the lock-up undertaking, “Immediate Family Members” means spouse and children.

Events of Default

For a description of certain Events of Default that will permit the Bonds to become immediately due and payable at their Early Redemption Amount, together with accrued interest (if any) to (but excluding) the date of payment, see “*Terms and Conditions of the Bonds — Events of Default*”.

Clearing Systems

The Bonds will be cleared through Euroclear and Clearstream. Euroclear and Clearstream each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book entry transfer between their respective account holders.

Governing Law

The Bonds and any non-contractual obligations arising out of or in connection with them will be governed by and will be construed in accordance with English law.

Trustee

The Bank of New York Mellon, London Branch

Principal Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
Registrar and Transfer Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch
Legal Entity Identifier	549300VUSXNS8AW4T635
Listing and Trading of the Bonds	Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only and formal permission is expected to become effective on or around 31 December 2020.
Listing of Shares	The Shares are listed on the Hong Kong Stock Exchange. Application has been made to the Hong Kong Stock Exchange for the listing of the New Shares.
Use of Proceeds	See “ <i>Use of Proceeds</i> ”.
Selling Restrictions	There are certain restrictions on the offer, sale and transfer of the Bonds and the Shares to be issued upon conversion of the Bonds in certain jurisdictions including the United States and Hong Kong. For a description of the restrictions on the distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds and the Shares to be issued upon conversion of the Bonds, see “ <i>Subscription and Sale</i> ”.
Global Certificate	For as long as the Bonds are represented by the Global Certificate and the Global Certificate is deposited with a common depositary for Euroclear and Clearstream, payments of principal in respect of the Bonds represented by the Global Certificate will be made without presentation and, if no further payment falls to be made in respect of the Bonds, against surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to Bondholders for such purpose. The Bonds which are represented by the Global Certificate will be transferable only in accordance with the rules and procedures for the time being of the relevant clearing system.
ISIN	XS2248816493

Common Code

224881649

Securities Lending Agreement

In connection with the proposed issue of the Bonds, J.P. Morgan Securities plc (the “**Borrower**”) as borrower has entered into securities lending agreements with each of Chencheney Ltd, Wu and Sons Limited and Fenghe Harvest Ltd, as Shareholders of the Company (collectively, the “**Lenders**”), each dated 17 December 2020 (collectively, the “**Securities Lending Agreements**”), to allow the Lenders to provide securities lending to the Borrower, for 118,000,000 Shares upon and subject to the terms and conditions stated in the Securities Lending Agreements.

The following is a brief summary of the terms of this offering and is qualified in its entirety by the remainder of this Offering Circular. Terms used in this summary and not otherwise defined shall have the meanings given to them in “Terms and Conditions of the Bonds”.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our summary financial and other data. The summary consolidated statement of comprehensive income data for the years ended 31 December 2017, 2018 and 2019 and the summary consolidated statement of financial position data as at 31 December 2017 and 2018 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as at such dates (the “**Audited Financial Statements**”), as audited by Deloitte Touche Tohmatsu, independent certified public accountants, and included elsewhere in this Offering Circular. The summary condensed consolidated statement of comprehensive income data for the six months ended 30 June 2019 and 2020 and the summary audited consolidated statement of financial position data as at 31 December 2019 and the summary condensed consolidated statement of financial position data as at 30 June 2020 set forth below (except for EBITDA data) have been derived from our unaudited condensed consolidated interim financial statements for such periods and as at such date (the “**Review Financial Statements**”), as reviewed by Ernst & Young, independent certified public accountants, and included elsewhere in this Offering Circular. The Audited Financial Statements and the Reviewed Financial Statements have been prepared and presented in accordance with IFRS.

The Reviewed Financial Statements have not been audited by our independent auditor. As a result, the Reviewed Financial Statements should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or advisers makes any representation or warranty, express or implied, regarding the accuracy, completeness and sufficiency of such unaudited but reviewed consolidated financial statements. Potential investors must exercise caution when using such data to evaluate our financial condition and results of operations. The Reviewed Financial Statements should not be taken as an indication of our expected financial condition and results of operations and prospect for the full financial year ending 31 December 2020 or any other future period.

SUMMARY CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND OTHER FINANCIAL DATA

	Year ended 31 December			
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	U.S.\$'000 (unaudited)
Revenue	148,245	210,033	323,057	45,726
Cost of services ⁽¹⁾	(62,056)	(104,576)	(167,184)	(23,663)
Gross profit	86,189	105,457	155,873	22,062
Other income	6,412	4,671	20,870	2,954
Other gains and losses	18,953	30,934	44,420	6,287
Research and development expenses ⁽¹⁾ ..	(17,253)	(25,251)	(44,954)	(6,363)
Selling and marketing expenses ⁽¹⁾	(2,017)	(3,925)	(3,571)	(505)
Administrative expenses	(15,228)	(25,576)	(51,215)	(7,249)
Listing expenses	—	(24,274)	(17,909)	(2,535)
Fair value gain on financial assets at fair value through profit or loss (“FVTPL”)	14,720	68,286	217,630	30,804
Impairment losses under expected credit model, net of reversal	—	—	(1,812)	(256)
Share of loss of associates	(2,418)	(1,748)	(34)	(5)
Share of loss of joint ventures	(1,694)	(1,498)	(1,874)	(265)
Finance cost	(853)	(557)	(2,261)	(320)
Profit before fair value loss on financial liabilities at FVTPL and tax	86,811	126,519	315,163	44,608
Fair value loss on financial liabilities at FVTPL	—	(20,658)	(34,238)	(4,846)
Profit before tax	86,811	105,861	280,925	39,762
Income tax expense	(10,551)	(15,311)	(15,053)	(2,131)
Profit for the year	76,260	90,550	265,872	37,631
Other comprehensive income				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	—	—	231	33
Profit and total comprehensive income for the year/period	<u>76,260</u>	<u>90,550</u>	<u>266,103</u>	<u>37,664</u>
Other financial data				
Adjusted net profit ⁽¹⁾	76,260	135,482	318,019	45,013

Note:

- (1) Adjusted net profit for any period consists of profit and total comprehensive income for the year/period, excluding fair value loss on financial liabilities at FVTPL, interest expenses of the debt components of the convertible bonds, transaction costs relating to the derivative component of the convertible bonds, gain on repurchase of the convertible bonds and listing expenses. Adjusted net profit is not a standard measure under IFRS. Adjusted net profit should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating adjusted net profit, we believe that investors should consider, among other things, the components of adjusted net profit such as sales and operating expenses. We have included adjusted net profit because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. Adjusted net profit presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our adjusted net profit to adjusted net profit presented by other companies because not all companies use the same definition.

	Six months ended 30 June			
	2019		2020	
	<i>RMB'000</i>	<i>U.S.\$'000</i>	<i>RMB'000</i>	<i>U.S.\$'000</i>
	<i>(unaudited)</i>		<i>(unaudited)</i>	
REVENUE	142,341	20,147	197,557	27,962
Cost of services	(70,450)	(9,972)	(97,439)	(13,792)
Gross profit	71,891	10,175	100,118	14,170
Other income and gains	34,208	4,842	27,190	3,849
Selling and distribution expenses	(1,837)	(260)	(1,951)	(276)
Administrative expenses	(22,359)	(3,165)	(37,048)	(5,244)
Research and development expenses	(15,616)	(2,210)	(22,324)	(3,160)
Listing expenses	(17,909)	(2,535)	—	—
Fair value gain on financial assets at fair value through profit or loss (“FVTPL”)	48,168	6,818	66,658	9,435
Impairment losses on financial assets, net	(1,324)	(187)	(434)	(61)
Other expenses	(13)	(2)	(161)	(23)
Finance costs	(872)	(123)	(38,594)	(5,463)
Share of losses of:				
A joint venture	(909)	(129)	(321)	(45)
An associate	(34)	(5)	—	—
PROFIT BEFORE FAIR VALUE LOSS ON FINANCIAL LIABILITIES AT FVTPL AND TAX.	93,394	13,219	93,133	13,182
Fair value loss on financial liabilities at FVTPL	(34,238)	(4,846)	(615,526)	(87,122)
(LOSS)/PROFIT BEFORE TAX	59,156	8,373	(522,393)	(73,940)
Income tax expense	(12,660)	(1,792)	(7,879)	(1,115)
(LOSS)/PROFIT FOR THE PERIOD	<u>46,496</u>	<u>6,581</u>	<u>(530,272)</u>	<u>(75,055)</u>
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Exchange differences on translation of foreign operations	—	—	7,150	1,012
Profit and total comprehensive income for the period	46,496	6,581	(523,122)	(74,043)
Other financial data				
Adjusted net profit	98,643	13,962	123,660	17,503

SUMMARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2017	2018
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	34,400	66,899
Right-of-use assets	—	—
Interests in associates	5,276	2,675
Interests in joint ventures	1,234	2,602
Financial assets at fair value through profit or loss	71,059	204,740
Contract assets	3,693	3,368
Rental deposits and prepayments	1,832	6,872
Deferred tax assets	1,461	1,013
Total non-current assets	118,955	288,169
Current Assets		
Inventories	3,323	4,900
Contract costs	3,459	4,261
Trade and other receivables	36,875	68,410
Loans to a related party	2,002	—
Financial assets at fair value through profit or loss	—	—
Restricted bank balances	8,022	8,045
Cash and cash equivalents	29,766	155,554
Time deposits with original maturity of over three months	—	—
Total current assets	83,447	241,170
Current Liabilities		
Trade and other payables	15,571	25,578
Contract liabilities	1,092	1,483
Income tax payables	7,745	14,904
Loans from related parties	12,112	—
Bank borrowings	471	497
Obligations under a finance lease	—	—
Deferred income	—	—
Lease liabilities	—	—
Total current liabilities	36,991	42,462
Net Current Assets	46,456	198,708
Total Assets Less Current Liabilities	165,411	486,877
Non-Current Liabilities		
Bank borrowings	2,362	1,865
Lease liabilities	—	—
Deferred income	10,287	9,849
Financial liabilities at fair value through profit or loss	—	220,600
Convertible bonds	—	—
Deferred tax liabilities	—	3,121
Total non-current liabilities	12,649	235,435
Net Assets	152,762	251,442
Capital and Reserves		
Share capital	120	164
Reserves	152,642	251,278
Total Equity	152,762	251,442

	As at 31 December		As at 30 June	
	2019		2020	
	RMB'000	U.S.\$'000 (unaudited)	RMB'000	U.S.\$'000 (unaudited)
Non-current assets				
Property, plant and equipment	106,348	15,053	163,904	23,199
Right-of-use assets	50,638	7,167	151,053	21,380
Interests in a joint venture	4,228	598	3,907	553
Financial assets at FVTPL	622,854	88,159	760,123	107,588
Contract assets	5,405	765	10,728	1,518
Rental deposits and prepayments	11,097	1,571	27,002	3,822
Deferred tax assets	3,789	536	7,185	1,017
Total non-current assets	804,359	113,850	1,123,902	159,077
Current assets				
Inventories	8,530	1,207	9,669	1,369
Trade receivables	57,505	8,139	69,642	9,857
Contract costs	5,612	794	6,341	898
Prepayments, other receivables and other assets	83,151	11,770	44,005	6,229
Financial assets at FVTPL	29,629	4,194	95,652	13,539
Restricted bank balances	5,908	836	71,614	10,136
Cash and cash equivalents	904,091	127,966	1,521,285	215,324
Time deposits with original maturity of over three months	—	—	355,933	50,379
Total current assets	1,094,426	154,906	2,174,141	307,731
Current liabilities				
Trade payables	7,552	1,069	6,281	889
Other payables and accruals	28,394	4,019	89,085	12,609
Derivative financial instruments	—	—	503	71
Interest-bearing bank borrowings	525	74	15,902	2,251
Contract liabilities	635	90	1,816	257
Lease liabilities	24,458	3,462	10,924	1,546
Income tax payable	11,399	1,613	9,651	1,366
Total current liabilities	72,963	10,327	134,162	18,989
Net current assets	1,021,463	144,579	2,039,979	288,740
Total assets less current liabilities	1,825,822	258,429	3,163,881	447,818
Non-Current Liabilities				
Interest-bearing bank borrowings	1,340	190	1,067	151
Convertible bonds — debt component	—	—	537,634	76,097
Convertible bonds — embedded derivative instruments	—	—	687,043	97,245
Deferred income	15,844	2,243	20,294	2,872
Lease liabilities	23,084	3,267	9,185	1,300
Deferred tax liabilities	8,160	1,155	9,910	1,403
Total non-current liabilities	48,428	6,855	1,265,133	179,068
Net Assets	1,777,394	251,574	1,898,748	268,750
Equity				
Equity attributable to owners of the parent				
Share capital	261	37	283	40
Other reserves	1,777,133	251,237	1,898,465	268,710
Total Equity	1,777,394	251,574	1,898,748	268,750

RISK FACTORS

You should carefully consider the risks and uncertainties described below and other information contained in this Offering Circular before making an investment decision. The risks and uncertainties described below may not be the only ones that we face. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business, financial condition or results of operations. If any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected. In such case, we may not be able to satisfy our obligations under the Bonds, and you could lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Our business largely depends on our customers' demand for outsourced services and their R&D budget, and any reduction in such demand or budget could have a material adverse effect on our business, financial condition, results of operations and prospects.

The success of our business primarily depends on the number and size of drug discovery service contracts that we obtain from pharmaceutical and biotechnology companies. Over the past few years, our business has benefited from increased outsourcing levels of drug discovery by pharmaceutical and biotechnology companies. While we believe the upward outsourcing trend is expected to continue in the next several years, a reversal or slowing down of such trend could result in diminished growth in our business and therefore materially and adversely affect our business, financial condition, results of operations and prospects.

Fluctuations in the R&D budgets of pharmaceutical and biotechnology industry participants could also significantly affect the demand for our services. Our customers determine their R&D budgets based on several factors, including the need to develop new products, the availability of internal and external funding, competition and general availability of resources. Our customers' R&D budgets could also fluctuate due to, among other things, negative trend in general economic conditions or global pharmaceutical and biotechnology market conditions, consolidation of pharmaceutical and biotechnology companies, spending priorities and internal budgetary policies. There is no assurance that our customers will maintain the level of their R&D budgets sufficient to purchase our services. If our customers reduce their spending on our services as a result of any of the above or other factors, we may not be able to secure sufficient numbers of customers to support the continuous growth of our business, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our success depends on our ability to attract, train and retain highly skilled scientists and other technical personnel.

Our strong technical capability and ability to quickly adapt to the latest technologies in the industry allow us to provide comprehensive and customized preclinical drug discovery services to our customers. Highly skilled and talented scientists help us keep pace with changes in pharmaceutical and biotechnology R&D technologies and methodologies and are therefore critical to our success. Our business operations rely on qualified personnel to perform in R&D, quality control, safety and compliance, information technology and marketing.

We intend to continue attracting and retaining highly skilled scientists and other technical personnel. However, given the limited supply of qualified scientists and technical personnel and competition in recruitment with pharmaceutical companies, biotechnology companies, contract research firms and other academic and research institutions, we need to provide competitive compensation and benefit packages to attract and retain talent. We cannot assure you that we can always hire and retain sufficient numbers of qualified personnel to keep pace with our anticipated growth while maintaining consistent quality of our services. In addition, we may not be successful in training our professionals to quickly adapt to technological changes, evolving standards and changing customer requirements, which in turn, could adversely and materially affect the quality of our services. Therefore, any failure to attract, train or retain qualified scientists and technical personnel may materially and adversely affect our reputation, business, financial condition, results of operations and prospects.

We may not be able to realize our anticipated investment returns from our incubation portfolio companies.

In general, CROs charge cash for the services they provide. Our business model combines the conventional CFS model, pursuant to which we receive cash service fees from our non-investee customers, with our unique EFS model, pursuant to which we provide drug discovery and/or incubation services in exchange for equity or economic interest. In addition, we may also make strategic investments in biotechnology startup companies that we think have potential for future cooperation. Our incubation portfolio companies include our EFS customers and strategic investees. As a result, we face risks relating to our equity investments in such incubation portfolio companies.

Our incubation portfolio companies are primarily startups that engage in new drug development. Given that they are still in the development stages, such companies may have a high failure rate. These companies may also have relatively short operating histories and are in need of significant amounts of capital to grow their business. Moreover, they may not have sufficient financial resources to meet their financial obligations, particularly during economic slowdowns. Our investments at this stage of a company's development are therefore speculative and entail a number of risks. Accordingly, we may fail to realize our anticipated returns on investments in such incubation portfolio companies and may even incur losses on such investments.

Further, if the potential incubation portfolio companies are valued higher, we may need to contribute more investment to obtain the same amount of equity or economic interest in such companies or risk dilution. Moreover, we have limited influence over the management and operations of our incubation portfolio companies when we acquire minority interests in such companies. We are subject to the risk that the majority shareholders or the management of our incubation portfolio companies may act in a manner that is adverse to our interests. The general operational risks, such as inadequate or failed internal control of our incubation portfolio companies, may also expose our investments to risk. Furthermore, our incubation portfolio companies may fail to abide by their agreements with us, for which we may have limited or no recourse. If any of the foregoing occurs, our business, reputation, financial condition and results of operations could be materially and adversely affected.

In addition, if any of our incubation portfolio companies goes bankrupt, it will first repay any debt to its creditors and any remaining assets will be shared among the shareholders. We cannot assure you that there will be any assets remaining for the shareholders after the repayment of debt and we could lose all our investment contributed to such entity. Any such event could materially and adversely affect our business, financial condition and results of operations.

Valuation methodologies for our investments can involve subjective judgments, and our financial condition and results of operations may be materially impacted by gains or losses arising from changes in the fair value of the equity interest that we hold in our incubation portfolio companies.

The incubation portfolio companies in which we invest under our EFS model are privately held companies for which there are often no readily ascertainable market prices. As such, we are required to reassess the fair value of our equity interest in these incubation portfolio companies. After initial recognition, we carry such equity interest at fair value, representing fair market value determined on each of our balance sheet dates by external valuers. Such fair value is determined by reference to recent transaction price, comparable companies' price or cost of services we provide. In addition, the fair value of our investments may vary depending on the appraiser and valuation method employed, as well as other factors. Because there is significant uncertainty in the valuation of, or in the stability of the value of, illiquid investments, the fair market value itself may not necessarily reflect the actual, liquidated value of our equity interest in an incubation portfolio company that could be obtained by us when such investments are realized. As such, our revenue recognition under the EFS model is subject to a high uncertainty in terms of the amount of revenue to be recognized and the timing of recognition.

Furthermore, gains or losses arising from changes in the fair value of any such invested equity interest will affect our results of operations in the period when they arise and such impact may be significant. We recorded gains arising from financial assets designated as at fair value through profit or loss of RMB14.7 million, RMB68.3 million, RMB217.6 million (U.S.\$30.8 million) and RMB66.7 million (U.S.\$9.4 million) for the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020, respectively, which represented a significant

portion of our profit for such periods. We cannot assure you that we can recognize comparable fair value gains in our invested equity interest in the future and we may even experience fair value losses, which would impact our results of operations for future periods. Fair value gains in our invested equity securities would not change our cash position as long as these equity securities are held by us, and thus would not increase our liquidity in spite of the increased profit. On the other hand, fair-value losses in our invested equity securities would have a negative effect on our results of operations, even though such losses would not change our cash position as long as these equity securities are held by us. As our own valuation is substantially based on the fair value of our incubation portfolio companies, it may be subject to fluctuations unrelated to our business performance, and any material decreases in the fair value of our investments may have a negative impact on our own valuation and accordingly, the price of our shares.

The due diligence process that we undertake in connection with investments in our incubation portfolio companies may not reveal all facts that may be relevant in connection with an investment.

Before offering our drug discovery services under our EFS model, we conduct due diligence that we deem reasonable and appropriate on each of our incubation portfolio companies based on facts and circumstances applicable to each investment. In the course of conducting such due diligence, we rely on the resources available to us, including information provided by the candidate company. However, we cannot guarantee that the due diligence investigations carried out by us with respect to any incubation portfolio company will reveal or identify all instances of fraud, accounting irregularities and other improper, illegal or deceptive practices in which such company may have engaged. Accordingly, we cannot assure you that our due diligence investigations will result in investments being successful, and any failure to identify such risks through our due diligence processes could result in the actual financial performance of an investment falling short of our expectations or result in unsuccessful investments.

We face liquidity risks relating to our incubation portfolio companies.

Our ability to realize anticipated investment returns may depend on the incubation portfolio companies' ability to complete a domestic or overseas initial public offering or trade sale, which in turns relies on, among other things, the business and financial performance of our incubation portfolio companies. Our incubation portfolio companies' ability to achieve satisfactory business and financial performance is affected by a variety of factors beyond our control, including general economic conditions, global pharmaceutical and biotechnology market conditions and their ability to develop products or services that meet evolving market demands. Therefore, we face liquidity risks relating to our incubation portfolio companies and we may be unable to receive any dividend from our incubation portfolio companies or to exit our investment due to a lack of market for such investments. We also face concentration risks given that all of our incubation portfolio companies operate in pharmaceutical and biotechnology industry. Any negative trend in the pharmaceutical and biotechnology market could materially diminish the value of our investments.

If we or our incubation portfolio companies fail to obtain additional funding in a timely manner or on acceptable terms, or at all, our expansion of our EFS model will be materially and adversely affected.

We plan to continuously expand our EFS model by providing our CRO services to a larger number of promising biotechnology start-ups and emerging pharmaceutical companies in China and overseas. The expansion of our EFS model requires significant amount of capital resources. If our internal capital resources and available credit facilities are insufficient to finance our existing and new incubation projects, our other capital expenditure and growth plans, we may need to seek additional financing from third parties, including banks or other financial institutions. Our ability to obtain additional capital is subject to various factors, including our financial condition, results of operations, general market conditions, and economic and political conditions in China, the United States and other parts of the world. We cannot assure you that we will be able to secure additional funding on terms acceptable to us or in a timely manner, or at all.

Our business expansion may also be negatively affected if our incubation portfolio companies fail to secure sufficient funding required for their business operations, which could have material and adverse effect on their operations. As a result, our business, results of operations and financial condition could be materially and adversely affected. For more details, please see “— *We may not be able to realize our anticipated investment returns from our incubation portfolio companies*” in this section.

We may not be successful in developing, enhancing or adapting to new technologies and methodologies.

The global pharmaceutical and biotechnology outsourcing services market is constantly evolving, and we must keep pace with new technologies and methodologies to maintain our competitive position. It is critical for us to continue investing in resources to develop or acquire new technologies in order to enhance the scope and quality of our services. For the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020, our R&D expenditure amounted to RMB17.3 million, RMB25.3 million, RMB45.0 million (U.S.\$6.4 million) and RMB22.3 million (U.S.\$3.2 million), respectively. We may also decide to continue expanding our business by entering new markets and new therapeutic areas, and therefore may need to develop or adapt to new technologies and methodologies. We cannot assure you that we will be able to develop, enhance or adapt to new technologies and methodologies in a timely manner or at all. Any failure to do so could significantly reduce demand for our services and harm our business, results of operations and financial condition.

Furthermore, to successfully develop and market our new technologies and methodologies, we need to continuously maintain efficient operations, which requires us to accurately assess and meet customers’ needs, optimize our drug discovery and development process, control costs, hire, train and retain qualified personnel, obtain required regulatory clearances or approvals, increase customer awareness and acceptance of our services, provide high-quality services in a timely

manner, price our services competitively and effectively integrate customer feedback into our business planning. If we fail to create demand for our new technologies or methodologies, our business, financial condition, results of operations and prospects could be materially and adversely affected.

In addition, technological innovations could provide alternatives to our services and may materially and adversely affect the demand for them. Our failure to develop, introduce or enhance our services to compete with new technologies in a cost-effective and timely manner could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business growth could be severely disrupted if we lose the services of our senior management, key employees and business partners.

The continued services of our senior management, key employees and business partners are critical to the success of our business. In particular, we are highly dependent on Dr. Mao, our founder and chairman, for his management, supervision and planning of our business. The loss of service with respect to any of our senior management, key employees and business partners may have a material adverse effect on our business and operations. If we lose the services of any senior management member, key employee or business partner, we may be unable to identify and retain a suitable qualified replacement and may incur additional expenses and time to recruit and train new personnel, which could severely disrupt our business operations. In addition, although each of our senior management member and key employee has signed a non-compete agreement with us, we may not be able to enforce these provisions should any of them leaves us to join a competitor or to start their own business which competes with us, which in turn, could have a material and adverse effect on our business, results of operations and financial condition.

We face risks relating to the new and innovative nature of our EFS model.

We believe that our EFS model, which we combine with the traditional CFS model, is a new and unproven business model. We created the business model based on our understanding of pharmaceutical and biotechnology industry and certain assumptions of market participants' behaviors, general economic conditions, market competition, expected investment returns, operating costs and the market acceptance level. Our understandings may be incorrect, and our assumptions inaccurate. Furthermore, we are unable to test and validate the effectiveness and profitability of the EFS model prior to its implementation. We also expect that our business model will continue to evolve in conjunction with the evolution of the pharmaceutical and biotechnology R&D outsourcing market in China and around the world. We cannot assure you that we will be successful in implementing our EFS model and other future innovative business models in an effective manner, or at all.

In addition, we only have a limited operating history of our EFS model. We commenced our EFS model in a systematic manner in 2016. Accordingly, it could be difficult for you to evaluate the viability and sustainability of our business and its profitability. However, we cannot assure you

that our incubation portfolio companies will be able to continue growing their business in a sustainable manner and you should not rely on the historic growth rate of us or our incubation portfolio companies as an indication of our future performance.

The success of our incubation portfolio companies largely depends on the capability, reputation and reliability of our business partners.

The capability, reputation and reliability of our business partners, which are composed of the founders or senior management of our incubation portfolio companies, our employees specialized in project management and external professionals, are critical to the success of our business.

The continued growth of our incubation portfolio companies' businesses is significantly dependent on the capability, reputation, persistence and vision of their respective founders and senior management. If their senior managements fail to adapt evolving market demands, unable to develop and adopt new technologies and methodologies, suffer reputational damage or negative publicity, or choose to quit the business, the business, financial condition and prospects of our incubation portfolio companies, and, by extension, us, could be materially and adversely affected. Furthermore, we have limited control over our incubation portfolio companies and are subject to the risk that the management of our incubation portfolio companies may act in a manner that is adverse to our interests. For more details, please see "*— We may not be able to realize our anticipated investment returns from our incubation portfolio companies*" in this section.

We also rely on external professionals to identify potential targets of our incubation portfolio companies, for our investment committee and provide valuable support to the business operations and development of our invested entities. If any such business partner fails to maintain or improve their professional capabilities, suffers reputational damage or negative publicity, decides to terminate cooperation with us, or discovers or develops a conflict of interest, our business, reputation, financial condition and results of operations could be adversely and materially affected.

In conducting drug discovery and development when providing CDMO services, we may face potential liabilities, in particular, product liability risks.

When providing CDMO services, we may face a range of potential liabilities. We typically undertake to defend, indemnify and hold our customers harmless from and against any liabilities and damages (including reasonable attorneys' fees) resulting from any third-party claims, demands, suits or proceedings to the extent arising out of or relating to our negligence, willful misconduct, unlawful activities or material breach of the long-term service agreement or project-based service contract or a work order under the long-term service agreement. In particular, we may face product liability risks if the biologics we help discover, develop or manufacture are subject to product liability claims.

Our liability is not always capped under long-term service agreements or project-based service contracts. Though we do not commercially market or sell products to end users, our CDMO services extends in the discovery, development and commercial manufacturing of biologics that are intended ultimately to be used in humans. If any of those biologics brings harm to end users due to our negligence, willful misconduct, unlawful activities or material breach, we may be subject to litigation, or even required to pay damages. Damages awarded in a product liability action could be substantial and have a material adverse impact on our reputation, business, financial condition, results of operations and prospects. The product liability and professional liability insurance that we currently carry may be inadequate or unavailable on terms acceptable to us.

We may face disputes from time to time relating to the intellectual property rights of third parties.

We may be exposed to intellectual property right infringement or misappropriation claims by third parties when we develop and use any of our own technology, know-how and brand. As at 30 June 2020, we had not received notices of any material claims or complaints against us for intellectual property infringement. However, there is no assurance that we will not be subject to third parties' claims of infringement of their proprietary intellectual property rights in the future. Although we plan to defend ourselves vigorously in any such litigations or legal proceedings, there is no assurance that we will prevail in these matters. Participation in such litigation and legal proceedings may cause us to incur expenses and divert the time and attention of our management. An adverse determination in any such litigations or proceedings could subject us to significant liability, require us to obtain licenses from third parties, pay ongoing royalties, or subject us to injunctions prohibiting the distribution and marketing of our services. Any similar claim against us, even without merit, could also damage our reputation and brand image. There is no assurance that we can resolve the disputes in a timely manner or on favorable terms or at all. Any such claim could have a material and adverse effect on our reputation, business, financial condition and results of operations.

Moreover, we agree to indemnify some of our customers from and against all losses and liabilities they may suffer in connection with any claim or lawsuit arising from, among others, our negligence or willful misconduct or breach of contract, including our infringement or misappropriation to third parties' intellectual property rights. As a result, if any aspect of a deliverable created by us and thereafter used by our customers infringes a third party's intellectual property rights due to our negligence, and particularly if such deliverable ultimately becomes a commercially successful product, we could be exposed to substantial liability. Any material intellectual property infringement claim raised against us or our customers could have a material adverse impact on our reputation, business, financial condition and results of operations.

If we fail to protect our intellectual property rights, we may lose our competitive edge and our brand image, reputation and operations may be materially and adversely affected.

Unauthorized use of any of our intellectual property rights may materially and adversely affect our business and reputation. We endeavor to protect our intellectual property rights by various means including registering our trademarks, copyrights and patents and filing patent applications in accordance with applicable laws and regulations both in China, the U.S. and other parts of the world. Nevertheless, third parties may obtain and use our intellectual property rights without due authorization.

The validity, enforceability and scope of protection available under the relevant intellectual property laws in the PRC are uncertain and still evolving. Implementation and enforcement of PRC intellectual property-related laws have historically been deficient and ineffective. Accordingly, intellectual property and confidentiality legal regimes in China may not afford protection to the same extent as in the United States or other countries. The experience and capabilities of PRC courts in handling intellectual property litigation varies, and outcomes are unpredictable. Further, such litigation may require a significant expenditure of resources and divert management's attention, which could have a material and adverse effect on our business, financial condition and results of operations. An adverse determination in any such litigation could materially impair our intellectual property rights and may have a material and adverse effect on our reputation, business, financial condition and results of operations.

In addition, we may encounter significant problems in protecting and defending our intellectual property rights in foreign jurisdictions. The legal systems of certain countries has historically been unfavorable to the enforcement of patents, trade secrets and other intellectual property protection, particularly those relating to biotechnology products. Proceedings to enforce our intellectual property rights and proprietary rights in foreign jurisdictions could require substantial resources and divert time and attention of our management. There is no assurance that we may enforce our intellectual property rights in a timely manner or at all. If we were unable to enforce our intellectual property rights, our reputation, business, financial condition and results of operations could be materially and adversely affected.

If we are unable to maintain the confidentiality of our trade secrets, our business and competitive position may be harmed.

In addition to the protection afforded by our registered intellectual property, we rely on trade secrets and know-how to develop and maintain our competitive position. We seek to protect our proprietary technology and processes by entering into confidentiality agreements with our collaborators, employees and other third parties and invention assignment agreements with our consultants and employees. We cannot guarantee that we have entered into such agreements with each party that may have or have had access to our trade secrets or know-how. We may not be able to prevent the unauthorized disclosure or use of our trade secrets or know-how by the parties to these agreements. If any party breaches or violates the agreements or otherwise discloses our

proprietary information, we may not be able to have adequate remedies to such breach or violation. Enforcing a claim that a third party illegally disclosed or misappropriated our trade secrets or know-how, including through intellectual property litigation or other proceedings, could be expensive and time-consuming. There is no assurance that we will successfully enforce such agreement in a timely manner, or at all. Any failure to enforce such agreement could cause us to lose our trade secrets or know-how, which in turn could have a material and adverse effect on our reputation, business, results of operations and financial condition.

If we fail to protect the intellectual property rights or confidential information of our customers, our reputation may be damaged and we may be subject to legal liabilities.

The protection of intellectual property rights and confidential information associated with pharmaceutical and biotechnology outsourcing R&D services is critical to all of our customers. Our customers generally retain ownership of associated intellectual property rights, including those they provide to us and those arising from the services we provide. We are also required to exercise all reasonable precautions to protect the integrity and confidentiality of our customers' confidential information. Our success therefore depends in substantial part on our ability to protect the intellectual property rights and confidential information of our customers. Notwithstanding our efforts to protect our customers' intellectual property rights and confidential information, unauthorized parties may still attempt to obtain and use such information. Any such unauthorized disclosure of our customers' proprietary rights or confidential information could subject us to liability for breach of contract and significantly damage our reputation, which could materially harm our business, financial condition, results of operations and prospects.

Changes in government regulations relating to the pharmaceutical and biotechnology industries could decrease demand for the services we provide and compliance with the regulations in new business may result in additional costs.

The pharmaceutical and biotechnology market is heavily regulated in the U.S. and China. Changes in government regulations relating to the pharmaceutical and biotechnology industries, including a relaxation in regulatory requirements or the introduction of simplified biologics approval procedures which will lower the entry barrier for potential competitors, or an increase in regulatory requirements which may increase the difficulty and expenses for us to satisfy such requirements or may make our services less competitive, could have a material and adverse effect on the demand for our services. The U.S. government may decide to closely scrutinize business transactions that involve high tech or sensitive information of U.S. citizens, and therefore may restrict or even prohibit foreign companies from providing drug discovery and development services for U.S. pharmaceutical and biotechnology companies due to national security or other concerns. Any such changes could materially and adversely affect our business, financial condition, results of operations and prospects.

In the future, we plan to strategically expand into the CMO business to provide integrated R&D, manufacturing and other ancillary services for our customers. In order to conduct the new CMO business, we need to comply with applicable practice requirements such as GLP, GCP and GMP standards. The cost to comply with such regulatory requirements could exceed our estimation, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Any accidental contamination, biological hazards or personal injuries could materially and adversely affect our business.

We cannot fully eliminate the risks relating to accidental contamination, biological hazards or personal injuries at our facilities during our operations. In the event of such accident, we could be held liable for damages and clean-up costs which could adversely affect our business, financial condition and results of operations. The occurrence of such accident could also damage our reputation among our customers and in the pharmaceutical and biotechnology industry. We may also need to suspend operations at our affected facilities temporarily or cease operation at the affected facilities permanently. As a result, any accidental contamination, biological hazards or personal injuries could have a material and adverse impact on our reputation business, financial condition, results of operations and prospects.

Our insurance coverage may not be sufficient.

We maintain various insurance policies to safeguard against certain risks and unexpected events, such as insurance for key employees and health insurance. We consider our insurance coverage in line with what we believe to be customary practice in our industry. For more details, please see “*Business — Insurance*” of this Offering Circular. However, we cannot assure you that our insurance coverage is sufficient. We do not carry any business disruption insurance, product liability insurance or key-man life insurance. Therefore, we are exposed to various risks associated with our business and operations. Such risks include but are not limited to, accidents, fires, explosions, loss of key management and personnel, business interruption, litigation or legal proceedings, natural disasters such as epidemics, pandemics or earthquakes, terrorist attacks and social instability or any other events beyond our control. Our business, financial condition and results of operations may be materially and adversely affected as a result.

Failure to comply with environmental regulations could harm our operating results, financial condition and reputation.

We are required to comply with various environmental protection, health and safety laws and regulations in the PRC and any other jurisdictions in which we are operating or may operate in the future. In general, we are required to go through environmental impact assessment procedures before we commence the construction of an operating facility. We need to pass environmental protection completion inspection and obtain completion inspection certificate for such construction project after completion of construction. In the past, one of our construction projects in Shanghai

commenced operation prior to acquiring a completion inspection certificate, but we have reapplied for a new environmental impact assessment and obtained a completion inspection certificate for such project thereafter. In addition, the relevant environmental authority required us to move certain projects from the current sites during the environmental impact assessment procedures. Although we have been approved to continue our projects on such sites and obtained completion inspection certificates thereafter, we may be required to move our projects from current sites or make adjustments as required by relevant governmental authorities in the future, which may increase our cost of operation or interrupt our operations.

Although we eventually passed or conducted the environmental protection completion inspection and obtained or prepared and published the completion inspection certificates or reports as the case may be with respect to our laboratories and offices in our Shanghai, Jiaxing and Chengdu sites in which we are operating our business, we cannot assure you that the relevant authority will not impose any fines or other penalties on us for the past non-compliance. Any penalties, allegations or proceedings due to such defects may have an adverse effect on our business, financial condition, reputation, results of operations and prospects. As at the date of 30 June 2020, we were not subject to any findings of material non-compliance or fines regarding the aforementioned laws and regulations by the relevant authority. However, there is no assurance that we will not be subject to adverse findings under future inspections.

If we fail to comply with any of the relevant environmental laws and regulations, depending on the type and severity of any violation, we may be subject to, among other things, further warnings from relevant authorities, imposition of fines and/or criminal liability, being ordered to close down our business operations and suspension of relevant permits. Our reputation may also be harmed and our business, financial condition and results of operations and prospects could be materially and adversely affected. In addition, because these laws and regulations are becoming increasingly more stringent in the PRC, there can be no assurance that we will incur additional expenses to comply with such laws and regulations in the future.

Our business may be materially and adversely affected by the increasing trade tensions between U.S. and China.

In recent years, trade tensions between the U.S. and China intensified. In 2018 and 2019, the U.S. government, under the administration of President Donald J. Trump, imposed several rounds of tariffs on cumulatively U.S.\$550 billion worth of Chinese products. In retaliation, the Chinese government responded with tariffs on cumulatively U.S.\$185 billion worth of U.S. products. In addition, in 2019, the U.S. government restricted certain Chinese technology firms from exporting certain sensitive U.S. goods. The Chinese government lodged a complaint in the World Trade Organization against the U.S. over the import tariffs in the same year. The trade war created substantial uncertainties and volatilities to global markets. On January 15, 2020, the U.S. and Chinese governments signed the U.S.-China Economic and Trade Agreement (the “**Phase I Agreement**”). Under the Phase I Agreement, the U.S. agreed to cancel a portion of tariffs imposed on Chinese products, China promised additional purchases of U.S. goods and services, and both

parties expressed a commitment to further improving various trade issues. Despite this reprieve, however, it remains to be seen whether the Phase I Agreement will be abided by both governments and successfully reduce trade tensions. If either government violates the Phase I Agreement, it is likely that enforcement actions will be taken and trade tensions will escalate. Furthermore, additional concessions are needed to reach a comprehensive resolution of the trade war. The roadmap to the comprehensive resolution remains unclear, and the lasting impact the trade war may have on China's economy and the industry in which we operate remains uncertain. We cannot assure you that trade tensions will not escalate and we will not be negatively influenced by the in trade tensions between the United States and China as well as by adverse changes in U.S. laws and regulations towards diplomatic relations. As a result, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Changes to U.S. foreign investment and export control laws and regulations may restrict our ability to acquire technologies and assets in the United States that are material to our commercial success.

Foreign investments in U.S. companies and exports from the United States of technology and technical data (including disclosures of technology and technical data to foreign persons in the United States) are potentially subject to restrictions under U.S. laws and regulations. Such restrictions may apply to our business with U.S. customers under our CRO and EFS business models. The United States recently enacted the Foreign Investment Risk Review Modernization Act of 2018 ("**FIRRMA**") and the Export Control Reform Act of 2018 ("**ECRA**"), which together made significant changes to this legal framework.

In general, FIRRMA broadened the authority of the President of the United States and the Committee on Foreign Investment in the United States ("**CFIUS**") to determine whether foreign investments present a threat to U.S. national security, and to impose restrictions on or to block such investments. FIRRMA and ECRA also established new authority to identify "emerging" or "foundational" technologies that should be subject to greater foreign investment and export controls. The U.S. administration is currently engaged in rulemakings to implement the requirements of these statutes.

As an initial step, effective in November 2018, CFIUS instituted a pilot program ("**Pilot Program**") applicable to certain foreign investments in U.S. businesses that (i) are involved in "critical technologies" and (ii) are classified within one of 27 industry sectors defined by North American Industry Classification System code numbers ("**Pilot Program U.S. Businesses**"). In addition, in December 2018, the U.S. Department of Commerce initiated a rulemaking process, required by ECRA, to identify emerging and foundational technologies, and to impose appropriate export controls on items so identified. The Pilot Program rules also deem such technologies to be critical technologies. U.S. agencies are continuing the rulemaking processes to implement FIRRMA and ECRA.

Businesses of our U.S. customers and prospective portfolio companies may have critical technology, and they may fall within NAICS 541714 (“Research and Development in Biotechnology (except Nanobiotechnology)”) or one of the other Pilot Program specified sectors. Our Company’s ability to adopt the SFE charge method when we provide drug discovery services to such customers, or to make future strategic investments in an incubation portfolio company in the United States, may be adversely impacted if such a customer or portfolio company is a Pilot Program U.S. Business (or if it otherwise possesses export-controlled technology). While the Pilot Program currently applies only to controlling and certain non-controlling investments made by foreign persons in Pilot Program U.S. businesses, through new or amended rules the Pilot Program and U.S. export regulations may constrain our Company’s ability to invest in U.S. entities and opportunities to acquire technologies that are material to our business operations, which in turn could detrimentally affect our capacity to acquire foreign assets in the United States that may be material to our commercial success.

We cannot assure you any future change in laws, regulations and implementations will not detrimentally affect our capacity to acquire assets in the U.S., which in turn, may have a material adverse effect on our business, results of operation and financial condition.

We may not be able to compete effectively, which could materially and adversely affect our business, financial position, results of operations and prospects.

The global pharmaceutical and biotechnology outsourcing R&D services market is rapidly evolving and highly competitive. We primarily compete with other drug discovery services providers in the global drug discovery outsourcing services market. We compete with our competitors across a range of factors, including quality and scope of service, competitiveness of our service price, the ability to be responsive and efficient with respect to customers’ request, the ability to protect intellectual property or other confidential information of our customers.

Some of our competitors may have greater financial, research and other resources, broader scope of service, greater pricing flexibility, more extensive technical capabilities, greater sales and marketing efforts and longer operating history than us, and therefore may be able to respond more quickly than we do to changes in market demands. Our competitors may also improve the quality of their services, introduce new services at lower prices and with improved performance characteristics, or adapt more quickly to new or emerging technologies. Furthermore, consolidation within the global pharmaceutical and biotechnology R&D outsourcing markets may create stronger competitors than those we are facing today.

We also expect increased competition as new companies enter our market and more advanced technologies become available. Our services and expertise may be rendered obsolete or uneconomical by technological advances or new approaches or technologies. Increased competition may subject us to increasing pricing pressure and reduce demand for our services. As such, we may be required to further improve the quality of our service, reduce our services fee or increase spending in response to competition in order to attract and retain customers or pursue new market

opportunities. We cannot assure you that we will be able to compete effectively with existing competitors or new competitors. Any failure to compete could materially and adversely affect our business, financial position, results of operations and prospects.

Some of our service contracts are contingent on successful completion of mutually agreed milestones, and we may bear financial risks related to our failure to accomplish such milestones on schedule.

Some of our service contracts are based on fee-for-services arrangements, and are contingent on successful completion of certain mutually agreed milestones. As a result, if we fail to accomplish milestones in a timely manner in accordance with our contractual obligations, we could suffer financial and reputational damage in connection with such failure, which could have a material and adverse effect on our business, financial condition and results of operations.

Furthermore, we consider various factors in pricing our service contracts, such as the market positioning of our services, prices of comparable services offered by our competitors, degree of saturation of the current market, market trends, complexities of the services required, costs and expenses of our services and the timeline of the service contract. However, our evaluation of these factors may not be accurate. If we fail to adequately price our contract or accurately estimate costs of our performance, we would incur losses from our service contracts, which in turn could have a material adverse effect on our business, financial condition and results of operations.

We face foreign exchange risk, and fluctuations in exchange rates could have a material adverse effect on our financial condition and results of operations.

Changes in exchange rates have in the past, and could in the future continue to, materially and adversely affect our financial condition and results of operations. We recorded a net foreign exchange gain of RMB14.6 million, RMB32.7 million (U.S.\$4.6 million) and RMB8.7 million (U.S.\$1.2 million), in the year ended 31 December 2018 and 2019 and the six months ended on 30 June 2020, respectively, while we recorded a net foreign exchange loss of RMB1.2 million in 2017. Our foreign currency exposure is mainly to U.S. dollars. In the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020, a significant portion of our revenues was generated from sales denominated in U.S. dollars. In the same periods, a significant portion of cost of services and operating costs and expenses were denominated in the Renminbi. Material fluctuation in the exchange rates between the Renminbi and the U.S. dollars may negatively impact our net profits.

The exchange rates of the Renminbi fluctuate against the U.S. dollars and other foreign currencies, and is affected by, among other factors, the policies of the PRC Government and changes in international and domestic political and economic conditions. From 1995 to 20 July 2005, the conversion of the Renminbi into foreign currencies was based on fixed rates set by the PBOC. However, effective from 21 July 2005, the PRC Government decided to permit the Renminbi to fluctuate within a regulated band based on market supply and demand and by

reference to a basket of currencies. On 30 November 2015, the Executive Board of the International Monetary Fund completed a regular five-year review of the basket of currencies that make up the Special Drawing Right and determined that, effective from 1 October 2016, the Renminbi will be included in the Special Drawing Right basket as a fifth currency along with the U.S. dollar, the Euro, the Japanese yen and the British pound. It is difficult to predict how market forces and the PRC Government's policies will continue to impact Renminbi exchange rates going forward. In light of the trend towards Renminbi internationalization, the PRC Government may announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar, U.S. dollar or other foreign currencies.

Payment delay by our customers or any other failure for us to receive service fees could significantly affect our cash flows and profitability.

We generally grant our customers credit terms ranging from 30 days to 90 days. As at 31 December 2017, 2018 and 2019 and 30 June 2020, our trade receivables were RMB28.6 million, RMB51.5 million, RMB57.5 million (U.S.\$8.1 million) and RMB69.6 million (U.S.\$9.9 million), respectively. We recorded impairment loss on financial assets measured at amortized cost of RMB0.1 million; RMB0.1 million, RMB1.8 million (U.S.\$0.3 million) and RMB0.4 million (U.S.\$0.1 million) in the years ended 31 December 2017, 2018 and 2019 and the six month ended on 30 June 2020, respectively. If any of our customers' cash flow, working capital, financial condition or results of operations deteriorate, it may not pay account receivables owed to us in a timely manner or at all. Any substantial default or delay in a customer's payment obligations may materially and adversely affect our working capital, financial condition and results of operations.

In addition, we may not be able to receive our anticipated service fees generated from our FFS or FTE service contracts for a variety of reasons, including any party's material breach of the contracts, the early termination of the contracts, our failure to accomplish mutually agreed milestones and payment delay or failure by our customers. For more details on risks relating to our failure to accomplish mutually agreed milestones, please see "*— Some of our service contracts are contingent on successful completion of mutually agreed milestones, and we may bear financial risks related to our failure to accomplish such milestones on schedule*" in this section. Our business, financial position, results of operations and prospects could be materially and adversely affected if we fail to receive our anticipated service fees.

Our financial condition and results of operations may be materially and adversely impacted by different valuation methods or accounting treatments.

Some of our equity interests held in our incubation portfolio companies are treated as financial assets at FVTPL, which are required to be valued at each of our balance sheet date. As a result, our operating income may not necessarily accurately reflect our cash inflow. Calculations of financial metrics that involve operating income may not necessarily be an authentic reflection of

our leverage level. There are a number of valuation methods in which the value of minority equity interests acquired and held by us under our EFS model may be determined. We are granted discretions to decide on the most appropriate and applicable methods to determine the value of our equity interests acquired and held under our EFS model. In case we choose or change the methods of valuation used in determining the fair value of equity interests acquired and held by us, there could be an impact on our revenue, net profits and the value of our interests in certain incubation portfolio companies.

We may not be able to execute our growth strategies or manage our growth effectively.

We intend to continuously grow our business through investing in cutting-edge technologies, expanding our incubation portfolio, developing a CMO business, attracting and retaining quality talents and further expanding our customer base. Pursuing our growth strategies has and will continue to result in a substantial demand on capitals and other resources. In addition, managing our growth and executing our growth strategies will require, among other things, our ability to continuously innovate and develop advanced technology in the highly competitive global pharmaceutical and biotechnology outsourcing R&D services market, locate suitable start-ups and emerging growth companies for our EFS model, effectively coordinate and integrate our facilities and teams across different sites, hire, train and retain qualified personnel, implement effective cost control and quality control, maintain sufficient liquidity, maintain effective and efficient financial and management control, carry out increased marketing and customer support activities, and manage our suppliers to leverage our purchasing power. If we fail to successfully execute our growth strategies, we may not be able to maintain our growth. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

If we are unable to successfully develop our CMO business, our business, results of operations and financial condition could be adversely affected.

In the future, we plan to strategically develop our CMO business to provide integrated R&D, manufacturing and other ancillary services for our customers. The CMO business is more capital intensive, compared to drug R&D. We have limited experience in manufacturing biologic or chemical drugs at a commercial scale. Hence, we may encounter various issues regarding commercial manufacturing of biologics or chemical drugs, such as low success rate of manufacturing products that meet regulatory requirements or our customers' quality standards. There is no assurance that we will be able to resolve such issues cost-effectively and in a timely manner. If our business expansion is not successful, our business, financial condition, results of operations and prospects could be materially and adversely affected.

If we are unable to successfully expand in new geographic markets, our business, results of operations and financial condition could be adversely affected.

In the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020, we generated a substantial portion of our revenue from customers headquartered in the United States and China. We intend to further diversify our customer bases by expanding into the Europe or other parts of the world. The legal and regulatory frameworks, competitive landscapes and customer preferences of the new markets may be different from the U.S. and China. We have limited experience conducting business in the new markets that we plan to expand into, and we may encounter unforeseeable barriers and challenges, which may result in a delay to or failure of our expansion plans. In addition, we may invest significant time and resources on promoting brand awareness and acquiring market shares in foreign markets. We may not be able to manage our costs or generate sufficient revenue to justify the time and resources spent. There is no assurance that our expansion will be timely, cost-effective or successful. If our expansion is unsuccessful, our business, results of operations and financial condition could be materially and adversely affected.

Our business may be materially and adversely affected if our competitors imitate our EFS model.

We started strategically focused on the EFS model in 2016. As our combination of EFS and CFS model becomes established to be a successful business model, there might be competitors adopting similar business models. We may face risks relating to higher incubation costs, unfavorable terms and conditions for cooperation, or failure to locate sufficient number of qualified and promising biotechnology start-ups or emerging pharmaceutical companies. We cannot assure you that we will be able to compete successfully. Any such failure could materially and adversely affect our business, financial condition and prospects.

Any failure to comply with applicable regulations and industry standards or obtain various licenses and permits could harm our reputation and materially and adversely affect our business and prospects.

We are subject to extensive and stringent laws, regulations and industry standards governing our drug discovery and development activities. The relevant rules and regulations governing this industry are general in nature and yet to be further interpreted or supplemented. We cannot assure you that we will be able to comply with all applicable legal and industrial requirements and obtain all necessary approvals in relation to our business operations in a timely manner or at all. We are also required to obtain and maintain various licenses and permits in order to conduct and operate our business in China. While we intend to use best efforts to comply with all legal and industrial requirements and obtain all requisite licenses and permits on a timely basis for our business operations, there is no assurance that we will be able to do so. In addition, we may have to make significant changes to our operations from time to time in order to comply with changing laws, regulations and policies, which may increase our cost of operation or limit our service offerings.

Any failure to comply with applicable laws, regulations or industry standards could result in failure or delay to obtain or maintain such licenses and permits, administrative fines and other penalties imposed by regulatory bodies, incurrence of additional costs of compliance, termination of ongoing research projects, disqualification of data for submission to regulatory authorities, or governmental order to cease our business operations, each of which could have a material adverse impact on our reputation, business, financial condition, results of operations and prospects.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in significant monetary damages, fines and other penalties.

Our business operations are subject to extensive national and local laws and regulations of the PRC pertaining to protection of the environment and health and safety, including without limitation the treatment and discharge of pollutants and the use of toxic and hazardous chemicals during our drug discovery and development process. Given that the requirements imposed by such laws and regulations may change and more stringent laws or regulations may be adopted, we may not be able to comply with, or to accurately predict the potential cost of complying with, such laws and regulations. If we fail to comply with environmental protection and health and safety laws and regulations, we may be subject to rectification orders, substantial fines, potentially significant monetary damages, suspend production or suspensions in our business operations.

We may not be able to continue serving our customers if we fail to meet our customers' standards in audits and inspections.

Our customers are entitled to review our standard operating procedures and records pertaining to our services and inspect the facilities used to render our services to such customers. However, we cannot assure you that we will be able to pass all the customer audits and inspections. Failure to pass any of those audits or inspections to our customers' satisfaction could significantly harm our reputation and result in the termination of ongoing drug discovery and development projects by our customers, which could materially and adversely affect our business, financial condition, results of operations and prospects.

We may undertake acquisitions or joint ventures that may have a material adverse effect on our ability to manage our business and may not be successful. In particular, our most recent acquisition in Langhua Pharmaceutical Group may fail to achieve the desired benefits as expected, which could have a material adverse effect on our results of operations and financial position.

To pursue our growth strategy, we may acquire new technologies, businesses or services or enter into strategic alliances with third parties. However, we cannot assure you that we will be able to identify suitable opportunities. Acquisitions involve uncertainties and risks, including, without limitation, potential ongoing financial obligations and unforeseen or hidden liabilities, failure to achieve the intended objectives, benefits or revenue-enhancing opportunities and diversion of resources and management attention. Even if we manage to identify suitable opportunities, we may not be able to complete the acquisitions on terms favorable or acceptable to us, in a timely manner, or at all. The inability to identify suitable acquisition targets or complete acquisitions could materially and adversely affect our competitiveness and growth prospects.

For example, in October 2020, we completed the acquisition of 80% equity interest in Langhua Pharmaceutical Group (Langhua) for a consideration of RMB2,560 million (U.S.\$362.3 million) in cash. Upon the acquisition, Langhua became a non-wholly owned subsidiary of the

Company and serves as our sole CDMO platform for small molecule drugs, active pharmaceutical ingredients and intermediates. An integrated and comprehensive drug R&D and manufacturing company incorporated in the PRC, Langhua strives to become a top-tier CDMO/CMO provider to numerous multi-national pharmaceutical companies worldwide. Langhua was ranked 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). See “Summary — Recent Development” for more information.

With the Langhua acquisition, we expect to capture the potential growth of the CDMO market, enhance our geographical coverage, form potential synergy with our existing business and strengthen institutional investors’ interest in us. But relatively significant acquisitions like this project and others may subject us to risks due to the time-consuming and complex nature of acquisition activities.

Though for the years ended December 31, 2017, 2018 and 2019 and for the six months ended June 30, 2020, the revenue, gross profit and gross profit margin of Langhua each achieved an overall increase year by year, its cost of sales also increased on an annual basis. Moreover, we may face difficulties in integrating the acquired operations with our existing business, particularly when integrating their existing workforce with ours, and fail to create the expected synergies with our existing business. Our ability to integrate the acquired business may be affected by a variety of factors. These factors include, but are not limited to, the complexity and size of the acquired business, the risks of operating in new markets, unfamiliarity with new regulatory regimes, differences in corporate cultures, the inability to retain the acquired business’s personnel, as well as additional hidden costs associated with the acquisition. As a result, we cannot assure you that our acquisition of Langhua would achieve our desired strategic objectives or the expected return on investment.

Further, the diversion of our management’s attention, increase of our expenses and any difficulty encountered in these acquisitions could have a material adverse impact on our business, results of operations and financial position.

We depend on a stable and sufficient supply of quality raw materials from our suppliers, and interruptions of such supply could have an adverse impact on our business.

Stable and sufficient supply of quality raw materials is important to our business operations. We cannot assure you that we will be able to maintain a stable supply of qualified raw materials. Our suppliers may not be able to keep up with our fast-growing business, may not be able to adapt to new technologies and methodologies to produce qualified raw materials, or may reduce or cease their supply of raw materials to us at any time. We cannot assure you that we would be able to locate a suitable replacement supplier in a timely manner, or at all, when our supplier cease to supply raw materials to us. Any such disruption in the supply of raw materials could have a material adverse effect on our business, results of operations and financial position.

Negative publicity may adversely affect our reputation, business and growth prospects.

Any negative publicity concerning us or our affiliates who share the “VIVA” name could adversely affect our reputation and brand value. In addition, because customer referrals and word-of-mouth marketing is an important way for us to acquire customers, any negative publicity about us or any of our affiliates who share the “VIVA” name could materially and adversely affect our ability to retain our existing customers or attract new customers. As a result, any negative publicity concerning us could have a material adverse effect on our business, results of operations, financial condition and growth prospects.

The discontinuation of any of the financial incentives currently available to us could adversely affect our financial condition, results of operations, cash flows and prospects.

We have benefited from a number of government grants and subsidies since our inception. For the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020, we recorded under other income RMB5.7 million, RMB3.8 million, RMB5.8 million (U.S.\$0.8 million) and RMB3.6 million (U.S.\$0.5 million) of government grants and subsidies, respectively. We also received preferential tax treatment in the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020. The government grants and subsidies are subject to discretion of the relevant authorities. There is no assurance that we will be able to receive the same level of financial incentives in the future, or at all. Any loss of or reduction in government grants and subsidies could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our facilities may be vulnerable to natural disasters or other unforeseen catastrophic events.

We conduct our business primarily through our facilities located in Shanghai, Jiaxing, Zhejiang and Chengdu, Sichuan. Natural disasters or other unanticipated catastrophic events, including power outage, water shortage, storms, fires, earthquakes, acts of god, terrorist attacks and wars could significantly impair our ability to operate our business. In addition, our facilities and equipment could suffer damage and need to be replaced. We cannot assure you that we can repair or replace facilities and equipment in a timely manner, or at all. The occurrence of any such event and ensuing damage may materially and adversely affect our business, financial condition, results of operations and prospects.

We rely on our information technology system and may face security risks.

We rely on a variety of information technology systems and automated operating systems to manage and support our business operations. These systems may require modification or upgrade due to technological changes or growth in our business. Such modification or upgrade may be costly and disruptive to our operations. Our systems may be vulnerable to damage or disruption caused by circumstances beyond our control, such as power outages, natural disasters, computer system or network failures, viruses or malware, physical or electronic break-ins, unauthorized

accesses, cyber-attacks and thefts. We cannot assure you that our measures to secure our information technology systems and automated operating systems are sufficient to prevent loss of functions or information. Any significant disruption to our systems could materially and adversely affect our business and operating results.

We may be adversely affected by fluctuations in the global economy and financial markets

The global economic slowdown and turmoil in the global financial markets that started in the second half of 2008 have had a negative impact on the world economy, which in turn has affected the PRC real estate industry and many other industries. On 6 August 2011, S&P downgraded the rating for long-term United States debt to “AA+” from “AAA” for the first time in 70 years. The downgrade of United States debt by S&P, coupled with the economic turmoil in Europe and other parts of the world, has slowed the pace of the global economic recovery and could lead to another global economic downturn and financial market crisis.

The outlook for the world economy and financial markets remains uncertain. In Europe, several countries are facing difficulties in refinancing sovereign debt. In the United States, the recovery in the housing market remains subdued. In Asia and other emerging markets, some countries are expecting increasing inflationary pressure as a consequence of liberal monetary policy or excessive foreign fund inflow, or both. In the United Kingdom, a remain-or-leave referendum on its membership within the European Union was held in June 2016, the result of which favored the exit of the United Kingdom from the European Union (“**Brexit**”). On January 31, 2020, the United Kingdom officially exited the European Union following a UK-EU Withdrawal Agreement signed in October 2019. The United Kingdom and the European Union will have a transition period until December 31, 2020 to negotiate, among others, trade agreements in details. Given the lack of precedent and uncertainty of the negotiation, the effect of Brexit remains uncertain, and Brexit has and may continue to create negative economic impact and increase volatility in the global market.

These and other issues resulting from the global economic slowdown and financial market turmoil have adversely affected, and may continue adversely affecting, global economic performance. In addition, any further tightening of liquidity in the global financial markets may negatively affect our liquidity. Therefore, if the global economic slowdown and turmoil in the financial markets crisis continue, our business, financial condition and results of operations may be negatively affected.

We face risks related to health epidemics or other outbreaks in China.

Our business could be materially and adversely affected by the outbreaks of health epidemics such as avian influenza and severe acute respiratory syndrome, or SARS, Influenza A virus, such as H5N1 subtype and H5N2 subtype flu viruses, and novel coronavirus, such as COVID-19, as well as terrorist attacks, other acts of violence or war or social instability in the region in which we operate or those generally affecting China. If any of these epidemics or outbreaks and so forth

occur, our facilities may suffer damage or be required to temporarily or permanently close and our operation businesses may be suspended or even terminated. Our personnel may also be negatively affected by such events. In addition, any of these could adversely affect the PRC economy and demographics of the affected region, which could adversely affect our business. If this takes place, our business, financial condition and results of operations could be materially adversely affected.

RISKS RELATING TO DOING BUSINESS IN CHINA

Adverse changes in the PRC economic, political and social conditions as well as laws and government policies, may materially and adversely affect our business, financial condition, results of operations and prospects.

The economic, political and social conditions in the PRC differ from those in more developed countries in many respects, including structure, government involvement, level of development, growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance positions. Before the adoption of its reform and opening up policies in 1978, the PRC was primarily a planned economy. In recent years, the PRC government has been reforming the PRC economic system and government structure. For example, the PRC government has implemented economic reform and measures emphasizing the utilization of market forces in the development of the PRC economy. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country.

We cannot predict whether the ongoing evolution of economic condition in China would have any adverse effect on our current or future business, financial condition or results of operations. Despite these economic reforms and measures, the PRC government continues to play a significant role in regulating industrial development, allocation of natural and other resources, production, pricing and management of currency, and there can be no assurance that the PRC government will continue to pursue a policy of economic reform or that the direction of reform will continue to be market friendly.

Our ability to successfully expand our business operations in the PRC depends on a number of factors, including macro-economic and other market conditions, and credit availability from lending institutions. Stricter credit or lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. We cannot assure you that the PRC government will not implement any additional measures to tighten credit or lending standards, or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

Demand for our services and our business, financial condition and results of operations may be materially and adversely affected by the following factors: (i) political instability or changes in social conditions of the PRC; (ii) changes in laws, regulations, and administrative directives or the

interpretation thereof; (iii) measures which may be introduced to control inflation or deflation; and (iv) changes in the rate or method of taxation. These factors are affected by a number of factors which are beyond our control.

The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God and occurrence of epidemics.

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the cities where we and our portfolio companies operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as the Severe Acute Respiratory Syndrome, or SARS, the H5N1 avian flu, the human swine flu, also known as Influenza A (H1N1), or, most recently, the novel coronavirus temporarily named 2019-nCoV by the World Health Organization. In addition, past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. Another public health crisis in China triggered by a recurrence of SARS or an outbreak of any other epidemics, including, for example, the ongoing 2019-nCoV epidemic, particularly where we or our portfolio companies operate, may result in material disruptions to our operations and the operations of our portfolio companies, which in turn may adversely affect our financial condition and results of operations.

PRC's legal system embodies inherent uncertainties that may affect the protection afforded to our business.

Our business and operations in the PRC are governed by the PRC legal system that is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters such as foreign investment, corporate organization and governance, commerce, taxation and trade with a view of developing a comprehensive system of commercial law. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC. In particular, because these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve significant uncertainties and different degrees of inconsistency. For example, the Notice of the National Development and Reform Commission on Promoting the Reform of the Filing and Registration System for Issuance of Foreign Debt by Enterprises (《國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)》) (the “NDRC Notice”) does not explicitly require an overseas parent company like us to register the issuance of the offshore bonds. However, in practice, we are required to register the issuance of the Bonds with the NDRC and file a post-issuance report with the NDRC within 10 working days after the issuance. If we fail to complete such filing in accordance with the relevant requirements, due to any change in the relevant regulation we may be subject to penalties or other enforcement actions by relevant PRC government authorities. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. In addition, the PRC legal system

is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after having violated them. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to us. Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us. In addition, any litigation in the PRC may be protracted and result in substantial costs the diversion of resources and management attention.

You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us or our management named in the documents based on Hong Kong or other foreign laws.

We are an exempted company incorporated under the laws of the Cayman Island, while we conduct most of our operations in China. In addition, substantially all of our senior executive officers reside within China for a significant portion of the time. As a result, it may be difficult for the Bondholders to effect service of process upon us or those persons inside mainland China. In addition, our PRC legal advisor, Junhe LLP, has advised us that China does not have treaties providing for the reciprocal recognition and enforcement of judgment of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgments of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters under Consensual Jurisdiction by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》) (the “**Arrangement**”) and revised on 3 July 2008, pursuant to which a party with a final court judgement rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgement in the PRC. Similarly, a party with a final judgement rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgement in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgement rendered by a Hong Kong court in the PRC if the parties in

dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

We rely principally on dividends and other distributions on equity paid by our operating subsidiaries in the PRC to fund cash and financing requirements. Limitations on the ability of our operating subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.

We are a holding company, and we rely principally on dividends and other distributions on equity paid by our subsidiaries in the PRC for our cash and financing requirements, including the funds necessary to pay dividends, to service any debt we may incur, including to repay the principal amount of and accrued interest on Bonds when they fall due, and to pay our operating expenses. If any of our subsidiaries in the PRC incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Moreover, despite we may record a significant fair value gain in connection with the equity interests of our customers acquired by us via our EFS model, we are unable to realize such gains until the exit of our minority interest upon the occurrence of certain events, such as a trade sale or an initial public offering. Therefore, the distributable net profits of our Company and our subsidiaries could be far below the level of net profits shown on our financial statements.

Furthermore, relevant PRC laws and regulations permit payments of dividends by our subsidiary in the PRC only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC laws and regulations, each of our operating subsidiaries in the PRC is required to set aside at least 10% of its net profit each year as a statutory reserve and it may stop contributing if the aggregate amount of the statutory reserve accounts for more than 50% of its registered capital. These reserves are not distributable as cash dividends. Moreover, where the company's statutory reserve is insufficient to cover the loss of previous years, the profit of the current year shall first be used to cover the loss before contributing to its statutory reserve. As a result of these PRC laws and regulations, each of our PRC subsidiaries is restricted in its ability to transfer its net profit to us in the form of dividends. Limitations on the ability of our operating subsidiaries in the PRC to pay dividends or make other distributions to us could materially and adversely limit our ability to grow, make investments or acquisitions, pay dividends or otherwise fund and conduct our business.

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), we may be classified as a “resident enterprise” of China. This classification could result in unfavorable tax consequences to us, our non-PRC shareholders and our non-PRC holders of the Bonds.

Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), or the EIT Law and the related regulations, an enterprise established outside of the PRC with “de facto management bodies” within the PRC may be considered a PRC “resident enterprise”, meaning that

it can be treated in a manner similar to a Chinese enterprise for PRC enterprise income tax purposes and will be generally subject to the uniform 25% enterprise income tax. The Notice of the State Administration of Taxation on Issues Concerning the Determination of Chinese-Controlled Enterprises Registered Overseas as Resident Enterprises on the Basis of Their Bodies of Actual Management (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) issued by the State Administration of Taxation (the “SAT”) on 22 April 2009 and amended on 29 December 2017, or Circular 82, sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by the PRC enterprises or the PRC enterprise groups is located within the PRC. This circular also subjects such resident enterprises to various reporting requirements with the PRC tax authorities. The implementing rules of the EIT Law define “de facto management bodies” as “management bodies that exercise substantial and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. In addition, Circular 82 specifies that certain overseas China-invested enterprises controlled by the PRC enterprises or the PRC enterprise groups will be classified as resident enterprises if all of the following apply: (i) the places where the senior management and core management departments that are responsible for daily production, operation and management perform their duties are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals, and minutes and files of board meetings and shareholders’ meetings are located or kept within the PRC; and (iv) half or more of senior management or directors having voting rights reside within the PRC. Further to Circular 82, on 27 July 2011, the SAT issued the Administrative Measures of Enterprise Income Tax of Chinese-Controlled Offshore Incorporated Resident Enterprises (Trial) (《境外註冊中資控股居民企業所得稅管理辦法(試行)》), or Bulletin 45, which became effective on 1 September 2011 and amended subsequently, to provide more guidance on the implementation of Circular 82. Bulletin 45 clarifies certain issues related to determining PRC resident enterprise status, including which competent tax authorities are responsible for determining offshore incorporated PRC resident enterprise status, as well as post-determination administration. In 2014, SAT, released the Announcement of the SAT on Issues Concerning the Recognition of Chinese-Controlled Enterprises Incorporated Overseas as Resident Enterprises on the Basis of Their Actual Management Bodies (《國家稅務總局關於依據實際管理機構標準實施居民企業認定有關問題的公告》), or Bulletin 9 and supplemented some provisions on the administrative procedures for the recognition of resident enterprise, while the standards used to classify resident enterprises in Circular 82 remain unchanged.

Currently, most of the members of our management team are located in China. However, Circular 82 and Bulletin 45 only apply to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those controlled by foreign individuals or foreign corporations like us. We do not currently consider our Company or any of our overseas subsidiaries to be a PRC resident enterprise.

Despite the foregoing, the SAT may take the view that the determining criteria set forth in Circular 82 and Bulletin 45 reflect the general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. Additional implementing regulations or guidance may be issued determining that our Cayman Islands holding company is a “resident enterprise” for PRC enterprise income tax purposes. If the PRC tax authorities determine that our Cayman Islands holding company is a resident enterprise for PRC enterprise income tax purposes, a number of unfavorable PRC tax consequences could follow. First, we may be subject to enterprise income tax at a rate of 25% on our worldwide taxable income, as well as to PRC enterprise income tax reporting obligations. Second, although under the EIT Law and its implementing rules and Bulletin 45 dividends paid by a PRC tax resident enterprise to an offshore incorporated PRC tax resident enterprise controlled by a PRC enterprise or enterprise group may qualify as tax-exempted income, we cannot assure that dividends paid by our PRC subsidiaries to us will not be subject to a 10% withholding tax, as the PRC foreign-exchange control authorities and tax authorities have not yet issued guidance with respect to the processing of outbound remittances to entities that are treated as resident enterprises for PRC enterprise income tax purposes but not controlled by a PRC enterprise or enterprise group like us. Finally, the EIT Law and its implementing rules issued by PRC tax authorities suggest that interest we pay on the Bonds and dividends paid by us to our non-PRC shareholders and, while less clear, capital gains recognized by them with respect to the sale of our bonds and stocks may be subject to a withholding tax of 10% for non-PRC enterprise shareholders and potentially 20% for non-PRC individual shareholders. Similarly, these unfavorable consequences could apply to other offshore companies if they are classified as a PRC resident enterprise.

We face uncertainty relating to PRC laws and regulations relating to transfers by a non-resident enterprise of assets of a PRC resident enterprise.

On 3 February 2015, the SAT issued the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》), or Circular 7, which supersedes certain provisions in the Notice on Strengthening the Administration of Enterprise Income Tax on non-Resident Enterprises (《關於加強非居民企業股權轉讓企業所得稅管理的通知》), or Circular 698, which was previously issued by the SAT on 10 December 2009 with retroactive effect from 1 January 2008, as well as certain other rules providing clarification on Circular 698. Circular 7 provides comprehensive guidelines relating to, and heightened the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise, or PRC Taxable Assets.

For example, Circular 7 specifies that when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company which directly or indirectly holds such PRC Taxable Assets, the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets by disregarding the existence of such overseas

holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose.

Except as described above, transfers of PRC Taxable Assets under the following circumstances shall be automatically deemed as having no reasonable commercial purpose, and are subject to PRC enterprise income tax: (i) more than 75% of the value of the equity interest of the overseas enterprise is directly or indirectly attributable to the PRC Taxable Assets; (ii) more than 90% of the total assets (cash excluded) of the overseas enterprise are directly or indirectly composed of investment in China at any time during the year prior to the indirect transfer of PRC Taxable Assets, or more than 90% of the income of the overseas enterprise is directly or indirectly from China during the year prior to the indirect transfer of PRC Taxable Assets; (iii) the overseas enterprise and its subsidiaries directly or indirectly hold PRC Taxable Assets and have registered with the relevant authorities in the host countries (regions) in order to meet the local legal requirements in relation to organization forms, yet prove to be inadequate in their ability to perform their intended functions and withstand risks to prove the existence of their economic substance; or (iv) the income tax from the indirect transfer of PRC Taxable Assets payable abroad is lower than the income tax in China that may be imposed on the direct transfer of such PRC Taxable Assets.

Although Circular 7 contains certain exemptions (including, (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject us to additional PRC tax reporting obligations or tax liabilities.

On 17 October 2017, the SAT issued the Circular on the Source of Deduction of Income Tax for Non-resident Enterprises (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》), or Circular 37, which became effective on 1 December 2017 and amended on 15 June 2018 and abolish Circular 698 as well as certain provisions in Circular 7. In accordance with the Circular 37, where the party responsible to deduct such income tax did not or was unable to make such deduction, the non-resident enterprise receiving such income should declare and pay the taxes that should have been deducted to the relevant tax authority.

Any failure by the shareholders or beneficial owners of our shares who are PRC residents to comply with certain PRC foreign exchange regulations relating to offshore investment activities by such PRC residents could restrict our ability to distribute profits, restrict our overseas and cross-border investment activities and subject us to liability under PRC laws.

On 21 October 2005, SAFE issued the Circular Regarding Certain Administrative Measures on Financing and Round-trip Investment by PRC Residents through Offshore Special Purpose Vehicles (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 75, which became effective on 1 November 2005.

On 4 July 2014, the State Administration of Foreign Exchange (“SAFE”) Circular 75 was superseded by the Circular Regarding Certain Administrative Measures on Offshore Investing and Financing and Round-trip Investment by PRC Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》), or SAFE Circular 37, issued by SAFE. SAFE Circular 37 requires PRC residents, including both legal and natural persons, to register with the local SAFE branch before making capital contribution to any company outside of China (an “**offshore SPV**”) with onshore or offshore assets and equity interests legally owned by PRC residents. In addition, any PRC resident who is the shareholder of an offshore SPV is required to update its SAFE registration with the local SAFE branch with respect to that offshore SPV in connection with change of basic information of the offshore SPV, such as its company name, business term, shareholding by PRC resident, merger, division and, with respect to the PRC resident, in case of any increase or decrease of capital in the offshore SPV, or transfer of shares or swap of shares by the PRC resident. Failure to comply with the required SAFE registration or update requirements described above may result in restrictions being imposed on the foreign exchange activities of the PRC subsidiaries of such offshore SPV, including increasing the registered capital of, making payment of dividends and other distributions to, and the receipt of capital inflows from, the offshore SPV. Failure to comply with SAFE Circular 37 by relevant PRC resident may also subject such resident to penalties under PRC foreign exchange administration regulations for evasion of applicable foreign exchange restrictions. Furthermore, in the event of non-compliance of SAFE Circular 37, the PRC subsidiary of such offshore SPV may be subject to restrictions on settlement of capital in foreign exchange or distribution of the dividend to its shareholder.

On 13 February 2015, SAFE promulgated the Notice on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》), or SAFE Circular 13, which came into effect on 1 June 2015 and was partially abolished on 30 December 2019, pursuant to which, local banks shall review and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular 37, while the application for remedial registrations shall still be submitted to, reviewed and handled by the relevant local branches of SAFE.

There remains uncertainty as to the interpretation and implementation of the latest SAFE rules at practice level. We are committed to complying with and to ensuring that our shareholders who are subject to the regulations will comply with the relevant SAFE rules and regulations, however, due to the inherent uncertainty in the implementation of the regulatory requirements by PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be able to compel them to comply with SAFE Circular 37 or other related regulations. We cannot assure you that SAFE or its local branches will not release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such shareholders to comply with SAFE Circular 37 or other related regulations could subject us to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit our subsidiaries' ability to make distributions, pay dividends or other payments to us or affect our ownership structure, which could adversely affect our business and prospects.

On February 15, 2012, SAFE promulgated the Circular on Relevant Issues Concerning Foreign Exchange Administration for Domestic Individuals Participating in an Employees Share Incentive Plan of an Overseas-Listed Company (《國家外匯管理局關於境內個人參與境外上市公司股權激勵計劃外匯有關問題的通知》), replacing the prior circular in 2007, Application Procedure of Foreign Exchange Administration for Domestic Individuals Participating in an Employee Stock Holding Plan or Stock Option Plan of an Overseas-Listed Company, or the Share Incentive Rules (《境內個人參與境外上市公司員工持股計劃和認股期權計劃等外匯管理操作規程》). Under the Share Incentive Rules, PRC resident individuals who participate in a share incentive plan of an overseas publicly listed company are required to register with SAFE and complete certain other procedures. All such participants need to retain a PRC agent through PRC subsidiaries to register with SAFE and handle foreign exchange matters such as opening accounts, transfer and settlement of the relevant proceeds. The Share Incentive Rules further require an offshore agent to be designated to handle matters in connection with the exercise of share options and sale of proceeds for the participants of share incentive plans. We and our PRC employees who have been granted stock options are subject to the Share Incentive Rules. So far, our 2009 and 2018 Stock Incentive Plan have not been registered with SAFE, which may cause fines or legal sanctions on us or our PRC optionees.

Fluctuation in the exchange rates between the Renminbi and foreign currencies, particularly U.S. dollars, may have a material adverse effect on us and on your investment.

Part of our revenue and expenses are denominated in Renminbi, a currency not freely convertible into other currencies. The value of the Renminbi against other foreign currencies is subject to changes in the PRC's foreign exchange policies and international economic and political developments. On July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. The Renminbi has appreciated significantly since then. The People's Bank of China (the "PBOC") authorised the China Foreign Exchange Trading Centre to announce the central parity exchange rate of certain

foreign currencies against the Renminbi on each Business Day from January 2006. In May 2007, the PBOC announced that the floating band for trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar was to be expanded from 0.3% to 0.5%. This trading band was widened again to 1% in April 2012, and further to 2% in March 2014. On 11 August 2015, the PBOC decided to improve the quotation of the central parity exchange rate of RMB against the U.S. dollar, and the market makers shall deliver quotes of the central parity exchange rate to the China Foreign Exchange Trade System by referring to the closing rates in the interbank foreign exchange market on the previous day and fully considering the supply and demand of foreign exchange as well as the exchange rate changes of the world's major currencies. There can be no assurance that any future movements in the exchange rate of the Renminbi against the U.S. dollar or other foreign currencies will not adversely affect our results of operations and financial condition (including our ability to pay dividends). The PRC government may from time to time make further adjustments to the exchange rate system in the future.

In addition, the proceeds from the issue and offering of the Convertible Bonds will be received in U.S. dollars. As a result, any appreciation of the Renminbi against the U.S. dollar, may result in the decrease in the value of and our proceeds from the Offering. Conversely, any depreciation of the Renminbi may adversely affect the value of our businesses.

In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable cost. We are required to comply with the Notice of the State Administration of Foreign Exchange on Reforming and Standardising the Administrative Provisions on Capital Account Foreign Exchange Settlement (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》), or Circular 16, when converting foreign currencies into Renminbi. According to Circular 16, the foreign currency income of a PRC enterprise and such income settled in Renminbi under the capital account cannot be used directly and indirectly for any purposes out of the PRC enterprise's business scope or in areas prohibited by laws and regulations. Pursuant to the Circular of the Notice of the State Administration of Foreign Exchange on Further Promoting Cross-border Trade and Investment Facilitation (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》), or Circular 28, promulgated on 23 October 2019, non-investment foreign invested enterprises are allowed to invest their capital in domestic equity in accordance with laws and regulations on condition that such investment is not in violation of the Special Administrative Measures (Negative List) for Admission of Foreign Investment in force and the domestic projects to be invested shall be authentic and legal. However, as the Circular 28 is a new regulation, there are still uncertainties regarding its interpretation, implementation and enforcement. All of these factors could materially and adversely affect our business, results of operations, financial condition and prospects.

The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and profitability.

The labor laws and rules impose stringent requirements on employers in relation to entering into fixed term employment contracts, hiring of temporary employees and dismissal of employees. According to the Labor Contract Law (《勞動合同法》), which was amended on 28 December 2012

and became effective from 1 July 2013, an employer is obligated to sign a non-fixed term labor contract with an employee if the employer continues to employ the employee after two consecutive fixed term labor contracts or the employee has already worked for the employer for ten years consecutively. The employer also has to pay compensation to the employee if the employer terminates a non-fixed term labor contract. Unless an employee refuses to extend an expired labor contract under the same terms or terms which are better than those in the original labor contract, compensation is also required when the labor contract expires and the employer does not extend the labor contract with the employee. A minimum wage requirement has also been imposed by the Labor Contract Law. In addition, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年休假條例》) and its implementation measures, which became effective on January 2008 and 18 September 2008, respectively, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from five to fifteen days, depending on the length of the employees' work time. Employees who waive their vacation time at the request of employers shall be compensated at three times their normal daily salaries for each vacation day being waived. Such laws and regulations may increase our labor costs. We cannot assure you that labor disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could significantly disrupt our operations and expansion plans, and thus materially and adversely affect our business, financial condition or results of operation.

RISKS RELATING TO THE BONDS AND THE SHARES

The Bonds and the Guarantee are unsecured obligations.

As the Bonds and the Guarantee are unsecured obligations, the ability of the Issuer or the Guarantor to fulfill their financial obligations may be compromised if:

- the Issuer or the Guarantor enters into bankruptcy, liquidation, reorganization or other winding-up proceeding;
- there is a default in payment under secured indebtedness or other unsecured indebtedness of the Issuer or the Guarantor; or
- there is an acceleration of any indebtedness of the Issuer or the Guarantor.

If any of these events occur, the assets of the Issuer and the Guarantor may not be sufficient to pay amounts due on the Bonds and the Guarantee.

The Company depends on the receipt of dividends.

The Company will depend, to a significant extent, upon the receipt of dividends from its subsidiaries and associated companies to make payments with respect to its obligations, including those under the Guarantee. The ability of subsidiaries and associated companies of the Company to pay dividends to their shareholders is subject to the performance and profitability of such

subsidiaries and associated companies and to applicable law and restrictions contained in debt instruments of such subsidiaries and associated companies, if any. PRC laws require that dividends can only be paid out of the net income calculated according to PRC GAAP and financial regulations in the PRC. In addition, PRC laws require companies incorporated in the PRC to set aside part of their net income as statutory reserves. These statutory reserves are not available for distribution as cash dividends. Furthermore, some of our existing and future debt instruments may contain restrictions on our subsidiaries' ability to distribute dividends. As a result, we cannot assure you that the Company will have sufficient cash flow to satisfy its obligations, including its obligations under the Guarantee.

The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of an investment in the Bonds in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of its financial and other professional advisers, whether it: (i) has sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained in this Offering Circular; (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio; (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or Distributions is different from the currency in which the potential investor's financial activities are principally denominated; (iv) understands thoroughly the terms of the Bonds and is familiar with the behavior of any relevant indices and financial markets; and (v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Bonds are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

Risks attached to the exercise of Conversion Rights.

At any point when the Bonds are outstanding, depending on the performance of the Shares, the value of the Shares may be substantially lower than when the Bonds were initially purchased. In addition, because there will be a delay between when Conversion Rights are exercised and when Shares are delivered, the value of the Shares to be delivered may vary substantially between the date on which Conversion Rights are exercised and the date on which such Shares are delivered.

The Bonds may be redeemed early at the Issuer's option.

The Issuer may, on giving not less than 30 nor more than 60 days' notice to the Bondholders and in writing to the Trustee and the Principal Agent (which notice will be irrevocable), redeem the Bonds in whole, but not in part, at the Early Redemption Amount, together with interest accrued but unpaid to but excluding the date fixed for redemption: (i) at any time after 9 January 2024 and prior to the Maturity Date, provided that the Closing Price of the Shares (derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange and translated into U.S. dollars at the Prevailing Rate) for each of 20 out of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption, is published was at least 130 per cent. of the applicable Early Redemption Amount for each Bond divided by the Conversion Ratio (as defined below) then applicable; or (ii) at any time prior to the Maturity Date, provided that prior to the date of such notice at least 90 per cent. in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

As a result, the trading price of the Bonds may be affected when the redemption options of the Issuer become exercisable. Accordingly, Bondholders may not be able to sell their Bonds at an attractive price, thereby having a material adverse effect on the trading price and liquidity of the Bonds. In addition, the proceeds from the redemption of the Bonds may be reinvested by the Bondholders and the Bondholders may thereby be subject to additional risks associated to such reinvestment.

We may be able to redeem the Bonds in whole, but not in part, at the Early Redemption Amount in the event we are required to pay Additional Tax Amounts because we are treated as a PRC "resident enterprise".

As discussed above in "*Risk Factors — Risks Relating to Doing Business in China — Under China's Enterprise Income Tax Law, we may be classified as a 'resident enterprise' of China. This classification could result in unfavorable tax consequences to us,*" in the event that we are treated as a PRC "resident enterprise" under the EIT Law, we may be required to withhold PRC tax on payments to certain of our non-resident investors. In such case, we will, subject to certain exceptions, be required to pay such Additional Tax Amounts as will result in receipt by a holder of a Security of such amounts as would have been received by the holder had no such withholding been required. As described in Condition 8(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions, in the event we are required to pay Additional Tax Amounts as a result of certain changes in specified tax law or certain other circumstances, including any change in the application or official interpretation thereof, we may redeem the Bonds in whole, but not in part, at the Early Redemption Amount.

Bondholders will have no rights as holders of the Shares prior to conversion of the Bonds, but are subject to changes made with respect to the Shares.

Unless and until the Bondholders acquire the Shares upon conversion of the Bonds, Bondholders will have no rights with respect to the Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Shares. Upon conversion of the Bonds, these holders will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the date of conversion. However, such Bondholders are subject to all changes affecting the Shares. For example, in the event that an amendment is proposed to the Issuer's articles requiring shareholder approval, and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to the date of conversion of the Bonds for such Shares and (as applicable) the date of registration by the relevant Bondholder as the holder thereof, that Bondholder would not be entitled to vote on the amendment but would nevertheless be subject to any resulting changes in the powers, preferences or special rights that affect the Shares after conversion.

There is a limited period during which the Bondholders may convert their Bonds.

Subject as provided in the Conditions, Conversion Rights under the Conditions may only be exercised in certain limited circumstances (subject to any applicable fiscal or other laws or regulations and as further provided in the Conditions) at any time on or after 9 February 2021 (a) up to the close of business on the 10th day prior to the Maturity Date (both days inclusive) (but, except as provided in the Conditions, in no event thereafter); or (b) if the Bonds shall have been called for redemption by the Issuer before the Maturity Date, up to the close of business on a date no later than 15 days (both days inclusive) prior to the date fixed for redemption thereof; or (c) if notice requiring redemption has been given by the holder of such Bond pursuant to Condition 8(d) (*Redemption at the option of the Bondholders*) or Condition 8(e) (*Redemption for Delisting or Change of Control*) then up to the close of business on the day prior to the giving of such notice. If the Conversion Rights are not exercised by Bondholders during the Conversion Period, the Bonds will be redeemed at their principal amount on the Maturity Date unless the Bonds are previously purchased and cancelled or redeemed in accordance with the Conditions.

Bondholders have limited anti-dilution protection.

The conversion price of the Bonds will be adjusted only in the situations and only to the extent provided in the "*Terms and Conditions of the Bonds — Conversion*". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and therefore, adversely affect the value of the Bonds.

Bondholders bear the risk of fluctuation in the price of the Shares.

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Shares and it is impossible to predict whether the price of the Shares will rise or fall. The share price of companies admitted to the Hong Kong Stock Exchange can be highly volatile and

their shares may have limited liquidity. Investors may be unable to recover their original investment. In addition, equity market conditions may affect the price and market liquidity for Shares regardless of our performance. Equity market conditions are affected by many factors, such as the general economic, political or regulatory outlook, movements in or outlook on interest rates and inflation rates, currency fluctuations, commodity prices, changes in investor sentiment towards particular market sectors and the demand for and supply of capital. Trading in the Shares by other investors, such as large purchases or sales of Shares may also affect the share price. Accordingly, the market price of Shares may not reflect the underlying value of our investments and the price at which investors may dispose of their Shares at any point in time may be influenced by a number of factors, only some of which may pertain to us while others may be outside our control. Investors should not expect that they will necessarily be able to realise, within a period that they would otherwise regard as reasonable, their investment in Shares issued on conversion of the Bonds. Our results and prospects from time to time may be below the expectations of market analysts and investors. Any decline in the market price of the Shares may have an adverse effect on the market price of the Bonds.

In addition, the future issue of Shares by us or the disposal of Shares by any of our substantial shareholders or the perception that such issues or sales may occur may significantly affect the trading price of the Bonds and the Shares. Except for our undertakings described in the Conditions, there is no restriction on our ability to issue Shares, and there can be no assurance that we will not issue Shares or that any substantial shareholder will not dispose of, encumber, or pledge its Shares or related securities.

The conversion of some or all of the Bonds will dilute the ownership interests of existing shareholders.

The conversion of some or all of the Bonds will dilute the ownership interests of existing shareholders. Any sales in the public market of the Shares issuable upon such conversion could affect prevailing market prices for the Shares.

An active trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds. However, the Issuer cannot assure investors as to the liquidity of the Bonds, that an active trading market will develop, or that the Issuer will be able to maintain a listing of the Bonds on the Hong Kong Stock Exchange. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial price depending on many factors, including prevailing interest rates, our operating and financial results and the market for similar securities. In addition, one or more initial investors in the Bonds may purchase a significant portion of the aggregate principal amount of the Bonds pursuant to the offering. The existence of any such significant Bondholder(s) may reduce the liquidity of the Bonds in the secondary trading market. Accordingly, no assurance can be given that an active trading market for the Bonds will

develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds. The Joint Lead Managers are not obliged to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers.

The Trustee may request the holders of the Bonds to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, the Trustee may request holders of the Bonds to provide an indemnity and/or security and/or prefunding to its satisfaction before it will take actions and/or steps and/or institute proceedings on their behalf. The Trustee will not be obliged to take any such actions and/or steps and/or to institute any such proceedings if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions and/or steps can be taken or such proceedings can be instituted. Further, the Trustee may not be able to take or institute actions, steps or proceedings, notwithstanding the provision of an indemnity and/or security and/or prefunding to it, in breach of the terms of the Trust Deed or the Terms and Conditions or in circumstances where there is uncertainty or dispute as to whether such actions and/or steps and/or proceedings are in compliance with applicable laws and regulations. In such circumstances, to the extent permitted by any applicable agreements or applicable laws, it will be for the holders of the Bonds to take such actions and/or steps and/or to institute such proceedings directly.

The insolvency laws of the British Virgin Islands, the Cayman Islands, the PRC and other local insolvency laws applicable to us may differ from those of any other jurisdiction with which holders of the Bonds are familiar.

Because we are incorporated under the laws of the Cayman Islands, an insolvency proceeding relating to us, even if brought in other jurisdictions, would likely involve Cayman Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law in other jurisdictions.

Because the Issuer is incorporated under the laws of the British Virgin Islands, an insolvency proceeding relating to the Issuer, even if brought in other jurisdictions, would likely involve British Virgin Islands insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of bankruptcy law in other jurisdictions.

We conduct substantially all of our business operations through PRC-incorporated subsidiaries in China. We as equity holders in our PRC subsidiaries, are necessarily subject to the bankruptcy and insolvency laws of China in a bankruptcy or insolvency proceeding involving any of such PRC subsidiaries. The PRC laws and regulations relating to bankruptcy and insolvency and the legal proceedings in that regard may significantly differ from those of other jurisdictions with

which the holders of the Bonds are familiar. You should analyze the risks and uncertainties in the insolvency of the British Virgin Islands, the Cayman Islands, the PRC and other jurisdictions applicable to us carefully before you invest in our Bonds.

We may be unable to obtain and remit foreign exchange.

Our ability to satisfy our obligations under the Bonds depends solely upon the ability of our subsidiaries in the PRC to obtain and remit sufficient foreign currency to pay dividends to us and to repay shareholder loans. Our PRC subsidiaries must present certain documents to SAFE, its authorized branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of the PRC (including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE). Prior to payment of interest and principal on any shareholder loan we make to our PRC subsidiaries, the relevant PRC subsidiary must also present evidence of payment of the 10% (or 7% if the interest is paid to a Hong Kong resident, subject to approval by local tax authorities) withholding tax on the interest payable in respect of such shareholder loan. If any PRC subsidiary for any reason fails to satisfy any of the PRC legal requirements for remitting foreign currency payments, the PRC subsidiary will be unable to pay us dividends or interest and principal on our existing shareholder loans, which may affect our ability to satisfy our obligations under the Bonds. In addition, the PRC government may also at its discretion or impose additional requirements to restrict access to foreign currencies in the future. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to satisfy our obligations under the Bonds.

The Bonds will initially be held in book-entry form, and therefore investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Bonds will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the Global Certificate representing the Bonds will trade in book-entry form only, and securities in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Bonds for purposes of the Bonds. The nominee of the common depositary for Euroclear and Clearstream will be the sole registered holder of the Global Certificate. Accordingly, investors must rely on the procedures of Euroclear or Clearstream, and if an investor is not a participant in Euroclear or Clearstream, on the procedures of the participant through which such investor owns an interest, to exercise any rights and obligations of a holder of the Bonds under the Bonds. Upon the winding-up of the Issuer, unless and until definitive registered certificates are issued with respect to all book-entry interests, if an investor owns a book-entry interest, it will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Bonds. See *“Terms and Conditions of the Bonds”*.

The liquidity and price of the Bonds following the placement may be volatile.

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in price for comparable companies and government regulations and changes thereof applicable to our industry and general economic conditions nationally or internationally could cause the price of the Bonds to change. A substantial portion of the Bonds may be purchased by the Joint Lead Managers or their affiliates for their own account. The Joint Lead Managers may sell the Bonds in the initial distribution or from time to time in subsequent sales in negotiated transactions at varying prices (which may be lower than the initial issue price to the Joint Lead Managers set forth on the cover page of this Offering Circular). Any such developments may result in large and sudden changes in the trading volume and price of the Bonds. We cannot assure you that these developments will not occur in the future.

We will follow the applicable corporate disclosure standards for debt securities listed on the Hong Kong Stock Exchange, which standards may be different from those applicable to companies in certain other countries.

For so long as the Bonds are listed on the Hong Kong Stock Exchange, we will be subject to continuing listing obligations in respect of the Bonds. The disclosure standards imposed by the Hong Kong Stock Exchange may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a result, the level of information that is available may not correspond to what investors in the Bonds are accustomed to.

The Issuer and the Guarantor may not have the ability to redeem the Bonds.

Bondholders may require the Issuer, subject to certain conditions, to redeem for cash some or all of their Bonds at the option of the Bondholders upon a Relevant Event as described under “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption for Delisting or Change of Control*” or on the Put Option Date as described under “*Terms and Conditions of the Bonds — Redemption, Purchase and Cancellation — Redemption at the option of the Bondholders*”. The Issuer or the Guarantor (whom will be required to make payments pursuant to the Guarantee) may not have sufficient funds or other financial resources to make the required redemption in cash at such time or the ability to arrange necessary financing on acceptable terms, or at all. The Issuer’s and the Guarantor’s ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by the Issuer or the Guarantor would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness held by the Issuer or the Guarantor.

If the Issuer, the Guarantor or any of their respective subsidiaries is unable to comply with the restrictions and covenants in their respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of its debt to be accelerated.

If the Issuer, the Guarantor or any of their respective subsidiaries is unable to comply with the restrictions and covenants in their respective current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend, accelerate repayment of the debt and declare all outstanding amounts due and payable or terminate the agreements, as the case may be. As a result, a default under one debt agreement may cause the acceleration of repayment of not only such debt but also other debt, including the Bonds, or result in a default under the Issuer's, the Guarantor's or such subsidiary's other debt agreements. If any of these events occur, there is no assurance that the Issuer or the Guarantor would have sufficient assets and cash flow to repay in full all of its indebtedness, or that the Issuer or the Guarantor would be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, it could not guarantee that it would be on terms that are favourable or acceptable to the Issuer or the Guarantor.

The Issuer's ability to make payments under the Bonds depends on timely payments by the Guarantor or its subsidiaries and affiliates under the on-lent loans.

The Issuer is a direct wholly-owned subsidiary of the Guarantor with limited operations of its own and will on-lend the entire proceeds from the issue of the Bonds to the Guarantor and/or the Guarantor's subsidiaries and affiliates. The Issuer has limited net assets other than such loans and its ability to make payments under the Bonds depends on timely payments under such loans. In the event that the Guarantor or its subsidiaries and affiliates do not make such payments, due to lack of available cash flow or other factors, the Issuer's ability to make payments under the Bonds may be adversely affected.

Short selling of the Shares by Bondholders could materially and adversely affect the market price of the Shares.

The issuance of the Bonds may result in downward pressure on the market price of the Shares. Investors in convertible securities may seek to hedge their exposure in the underlying equity securities, often through short selling of the underlying equity securities or similar transactions. Any short selling and similar hedging activity could place significant downward pressure on the market price of the Shares, thereby having a material adverse effect on the market value of the Shares owned by an investor as well as on the trading price of the Bonds.

RISKS RELATING TO THE GUARANTEE

We are a holding company and payments with respect to the Bonds are structurally subordinated to liabilities, contingent liabilities and obligations of our subsidiaries.

We are a holding company with no material operations. We conduct our operations through our PRC subsidiaries. The Bonds will not be guaranteed by any current or future PRC subsidiaries. Our primary assets are loans to and ownership interests in our PRC subsidiaries. Accordingly, our ability to pay principal and to satisfy our obligations under the Trust Deed and the Bonds will depend upon distributions of dividends from our subsidiaries.

Creditors including trade creditors of our PRC subsidiaries and any holders of preferred shares in such entities would have a claim on such subsidiaries' assets that would be prior to the claims of holders of the Bonds. As a result, our payment obligations under the Bonds are effectively subordinated to all existing and future obligations of such subsidiaries, and all claims of creditors of our PRC subsidiaries will have priority as to the assets of such entities over our claims and those of our creditors, including holders of the Bonds.

The Bonds and the Trust Deed do not restrict the ability of our subsidiaries to provide certain categories of guarantee in the ordinary course of business. In addition, our secured creditors would have priority as to our assets securing the related obligations over claims of holders of the Bonds.

The Guarantee may be challenged under applicable insolvency or fraudulent transfer laws, which could impair the enforceability of the Guarantee.

Under bankruptcy laws, fraudulent transfer laws, insolvency laws in the Cayman Islands or bankruptcy law, fraudulent transfer laws, insolvency or unfair preference or similar laws in the British Virgin Islands, Hong Kong and other jurisdictions where insolvency proceeding may be commenced with respect to the Guarantor, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of the Guarantor if, among other things, the Guarantor, at the time it incurred the indebtedness evidenced by, or when it gives, its guarantee:

- incurred the debt with the intent to hinder, delay or defraud creditors or was influenced by a desire to put the beneficiary of the guarantee in a position which, in the event of the guarantor's insolvency, would be better than the position the beneficiary would have been in had the guarantee not been given;
- received less than reasonably equivalent value or fair consideration for the incurrence of such guarantee;
- was insolvent or rendered insolvent by reason of such incurrence;
- was engaged in a business or transaction for which the guarantor's remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In particular, pursuant to Cayman Islands law, in the event of the insolvency of a company, if a conveyance or transfer of property (including the granting of a charge) in favour of a credit will be invalid if each of the following is shown:

- (a) it is made at a time when the company is unable to pay its debts within the meaning of section 93 of the Companies Act of the Cayman Islands;
- (b) it is made by with a view to giving such creditor a preference over the other creditors; and
- (c) it is made within the 6 months immediately preceding the commencement of a winding up.

In addition, pursuant to Cayman Islands law, every disposition of property made (i) with an intent to defraud; and (ii) at an undervalue, shall be voidable and any disposition of property made after the commencement of a winding up order is void unless the court orders otherwise.

The measure of insolvency for purposes of the foregoing will vary depending on the laws of the jurisdiction which are being applied. Generally, however, the Guarantor would be considered insolvent at a particular time if it were unable to pay its debts as they fell due or if the sum of its debts was then greater than all of its property at a fair valuation or if the present fair saleable value of its assets was then less than the amount that would be required to pay its probable liabilities in respect of its existing debt as it became absolute and matured. We cannot assure you that such limitation will be effective in preserving the enforceability of the Guarantee. In addition, the Guarantee may be subject to review under applicable insolvency or fraudulent transfer laws in certain jurisdictions or subject to a lawsuit by or on behalf of creditors of the guarantors. In such case, the analysis set forth above would generally apply, except that the Guarantee could also be subject to the claim that, since the Guarantee was not incurred for the benefit of the Guarantor, the obligations of the Guarantor thereunder were incurred for less than reasonably equivalent value or fair consideration, and, as a result, the Guarantee would be rendered void.

In an attempt to limit the applicability of insolvency and fraudulent transfer laws in certain jurisdictions, the obligations of the Guarantor under the Guarantee will be limited to the maximum amount that can be guaranteed by the Guarantor without rendering the Guarantee voidable under such applicable insolvency or fraudulent transfer laws.

If a court voided the Guarantee, subordinated the Guarantee to other indebtedness of the Guarantor, or held the Guarantee unenforceable for any other reason, holders of the Bonds would cease to have a claim against that the Guarantor based upon such guarantee, would be subject to the prior payment of all liabilities (including trade payables) of the Guarantor, and would solely be creditors of the Issuer. We cannot assure you that, in such an event, after providing for all prior claims, there would be sufficient assets to satisfy the claims of the holders of the Bonds.

USE OF PROCEEDS

The gross proceeds from this offering of the Bonds, before deducting the underwriting discounts and commissions and other estimated expenses payable by us in connection with this offering, will be U.S.\$280.0 million. We intend to use the net proceeds towards business development and expansion, as well as other working capital and general corporate purposes.

We may adjust the foregoing plans in response to changing market conditions and, thus, reallocate the use of the proceeds.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated cash and cash equivalents, short-term debt and capitalization as at 30 June 2020 on an actual basis and on an adjusted basis after giving effect to the issuance of the Bonds in this offering, before deducting the underwriting discounts and commissions and other estimated expenses of this offering payable by us. The following table should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this Offering Circular.

	As at 30 June 2020			
	Actual		As adjusted	
	RMB	U.S.\$	RMB	U.S.\$
	(in thousands)			
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash and cash equivalents	1,521,285	215,324	3,499,514	495,324
Current borrowings:				
— Bank borrowings	15,902	2,251	15,902	2,251
Total short-term indebtedness	15,902	2,251	15,902	2,251
Non-current borrowings:				
— Bank borrowings	1,067	151	1,067	151
— Convertible bonds	1,224,677	173,342	1,224,677	173,342
Total long-term indebtedness	1,225,744	173,493	1,225,744	173,493
Equity:				
— Bonds to be issued	—	—	1,978,228	280,000
Total Equity	1,898,748	268,750	3,876,974	548,750
Total capitalization ⁽¹⁾	3,124,492	442,243	5,102,720	722,243

Note:

(1) Total capitalization includes total long-term borrowings and total equity.

Except as otherwise disclosed in this Offering Circular, there has been no material change in our capitalization and indebtedness since 30 June 2020.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table presents our selected financial and other data. The selected consolidated statement of comprehensive income data for the years ended 31 December 2017, 2018 and 2019 and the selected consolidated statement of financial position data as at 31 December 2017 and 2018 set forth below (except for EBITDA data) have been derived from our consolidated financial statements for such years and as at such dates, as audited by Deloitte Touche Tohmatsu, independent certified public accountants, and included elsewhere in this Offering Circular. The selected condensed consolidated statement of comprehensive income data for the six months ended 30 June 2019 and 2020 and the selected audited consolidated statement of financial position data as at 31 December 2019 and the selected condensed consolidated statement of financial position data as at 30 June 2020 set forth below (except for EBITDA data) have been derived from our unaudited condensed consolidated interim financial statements for such periods and as at such date, as reviewed by Ernst & Young, independent certified public accountants, and included elsewhere in this Offering Circular. Historical results are not necessarily indicative of results that may be achieved in any future period, and results for interim periods are not indicative of the results for the full year. Our financial statements have been prepared and presented in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions.

SELECTED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND OTHER FINANCIAL DATA

	Year ended 31 December			
	2017	2018	2019	
	RMB'000	RMB'000	RMB'000	U.S.\$'000 (unaudited)
Revenue	148,245	210,033	323,057	45,726
Cost of services ⁽¹⁾	(62,056)	(104,576)	(167,184)	(23,663)
Gross profit	86,189	105,457	155,873	22,063
Other income	6,412	4,671	20,870	2,954
Other gains and losses	18,953	30,934	44,420	6,287
Research and development expenses ⁽¹⁾	(17,253)	(25,251)	(44,954)	(6,363)
Selling and marketing expenses ⁽¹⁾	(2,017)	(3,925)	(3,571)	(505)
Administrative expenses	(15,228)	(25,576)	(51,215)	(7,249)
Listing expenses	—	(24,274)	(17,909)	(2,535)
Fair value gain on financial assets at fair value through profit or loss (“FVTPL”)	14,720	68,286	217,630	30,804
Impairment losses under expected credit model, net of reversal	—	—	(1,812)	(256)
Share of loss of associates	(2,418)	(1,748)	(34)	(5)
Share of loss of joint ventures	(1,694)	(1,498)	(1,874)	(265)
Finance cost	(853)	(557)	(2,261)	(320)
Profit before fair value loss on financial liabilities at FVTPL and tax	86,811	126,519	315,163	44,610
Fair value loss on financial liabilities at FVTPL	—	(20,658)	(34,238)	(4,846)
Profit before tax	86,811	105,861	280,925	39,764
Income tax expense	(10,551)	(15,311)	(15,053)	(2,131)
Profit for the year	76,260	90,550	265,872	37,633
Other comprehensive income				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation of foreign operations	—	—	231	33
Profit and total comprehensive income for the year/period	<u>76,260</u>	<u>90,550</u>	<u>266,103</u>	<u>37,666</u>
Other financial data				
Adjusted net profit ⁽¹⁾	76,260	135,482	318,019	45,013

Note:

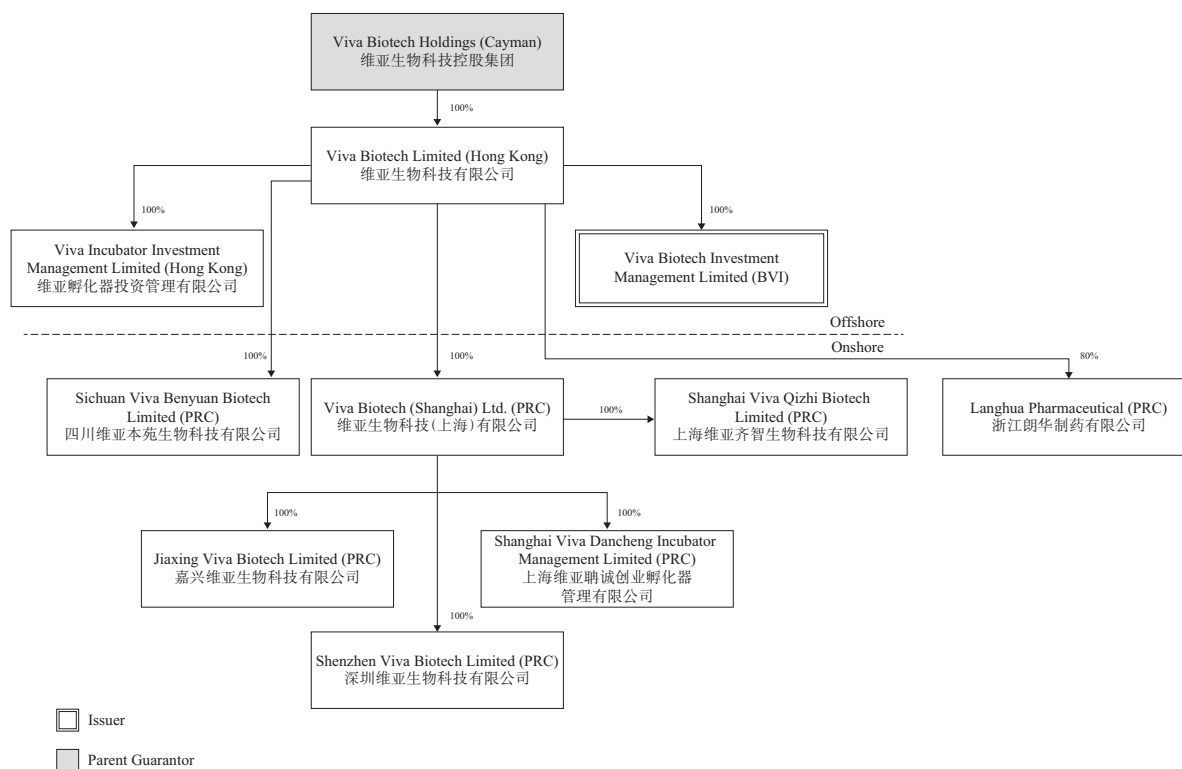
- (1) Adjusted net profit for any period consists of profit and total comprehensive income for the year/period plus fair value loss on financial liabilities at FVTPL and listing expenses. Adjusted net profit is not a standard measure under IFRS. Adjusted net profit should not be considered in isolation or construed as an alternative to cash flows, net income or any other measure of financial performance or as an indicator of our operating performance, liquidity, profitability or cash flows generated by operating, investing or financing activities. In evaluating adjusted net profit, we believe that investors should consider, among other things, the components of adjusted net profit such as sales and operating expenses. We have included adjusted net profit because we believe it is a useful supplement to cash flow data as a measure of our performance and our ability to generate cash flow from operations to cover debt service and taxes. Adjusted net profit presented herein may not be comparable to similarly titled measures presented by other companies. Investors should not compare our adjusted net profit to adjusted net profit presented by other companies because not all companies use the same definition.

SELECTED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at 31 December	
	2017	2018
	RMB'000	RMB'000
Non-current assets		
Property, plant and equipment	34,400	66,899
Right-of-use assets	—	—
Interests in associates	5,276	2,675
Interests in joint ventures	1,234	2,602
Financial assets at fair value through profit or loss	71,059	204,740
Contract assets	3,693	3,368
Rental deposits and prepayments	1,832	6,872
Deferred tax assets	1,461	1,013
Total non-current assets	118,955	288,169
Current Assets		
Inventories	3,323	4,900
Contract costs	3,459	4,261
Trade and other receivables	36,875	68,410
Loans to a related party	2,002	—
Financial assets at fair value through profit or loss	—	—
Restricted bank balances	8,022	8,045
Cash and cash equivalents	29,766	155,554
Time deposits with original maturity of over three months	—	—
Total current assets	83,447	241,170
Current Liabilities		
Trade and other payables	15,571	25,578
Contract liabilities	1,092	1,483
Income tax payables	7,745	14,904
Loans from related parties	12,112	—
Bank borrowings	471	497
Obligations under a finance lease	—	—
Deferred income	—	—
Lease liabilities	—	—
Total current liabilities	36,991	42,462
Net Current Assets	46,456	198,708
Total Assets Less Current Liabilities	165,411	486,877
Non-Current Liabilities		
Bank borrowings	2,362	1,865
Lease liabilities	—	—
Deferred income	10,287	9,849
Financial liabilities at fair value through profit or loss	—	220,600
Convertible bonds	—	—
Deferred tax liabilities	—	3,121
Total non-current liabilities	12,649	235,435
Net Assets	152,762	251,442
Capital and Reserves		
Share capital	120	164
Reserves	152,642	251,278
Total Equity	152,762	251,442

CORPORATE STRUCTURE

The following chart shows our simplified corporate structure as at the date of this Offering Circular:



BUSINESS

OVERVIEW

We provide structure-based drug discovery services to our biotechnology and pharmaceutical customers worldwide for their preclinical-stage innovative drug development. Our services cover the full spectrum of our customers' needs for early-stage drug discovery, including target protein expression and structure research, hit screening, lead optimization and drug candidate determination. Our patented core technologies, as well as our proprietary know-how which enables us to effectively shorten the average time required for drug discovery, are highly regarded by our customers. According to Frost & Sullivan, we provide world-leading structure-based drug discovery (SBDD) services. SBDD has resulted in faster definition of drug-binding properties and made it easier to identify hit compounds through screening programs. We have provided drug discovery services to all of the ten largest global pharmaceutical companies, as well as hundreds of biotechnology companies and research institutes worldwide, including 31 companies named in the Fierce Biotech Top 15 Promising Biotech. As at 30 June 2020, we provided drug discovery services to over 495 biotechnology and pharmaceutical customers worldwide, worked on over 1,300 independent drug targets and delivered over 17,000 independent protein structures.

Our mission is to become a cradle for promising biotechnology startups around the world. We have developed a scalable business model combining the conventional cash-for-service (CFS) model, pursuant to which we receive cash service fees from our non-investee customers, and our unique equity-for-service (EFS) model. Under the EFS model, we provide drug discovery and/or incubation services to select customers in exchange for equity or economic interest in them, and to certain promising biotechnology companies in which we have invested. By acquiring equity or economic interest in these select customers or investees, we can effectively foster the development of these promising biotechnology startups and enjoy the upside of their intellectual property value, while maintaining the steady cash inflow generated from services provided to our CFS customers. In addition, we may also make strategic investments in biotechnology startup companies that we think have potential for future cooperation.

Our management team and key business partners comprise top scientists and talent from renowned global pharmaceutical companies and prestigious biomedical research institutes, such as Pfizer Inc., Merck & Co., Abbott and Novartis, and are specialized in innovative drug R&D in diversified therapeutic fields. For example, certain members of our management team and business partners have committed to diverse areas, such as immunology, oncology, metabolism and ophthalmology, and been deeply involved in the R&D of certain marketed drugs, such as Lifitegrast for the treatment of dry eye syndrome, Sutent for the treatment of metastatic renal cell carcinoma and Venetoclax for the treatment of chronic lymphocytic leukemia. Led by these top scientists and talent, we have established a scalable and reliable technology platform for innovative drug R&D. We also introduced a business partner system to identify business partners from external sources and our incubation portfolio companies. With the help of the specialty and experience of our business partners, we established a systematic, scientific and modularized

incubation program that helps ensure the scalability and sustainability of our unique business model. Leveraging our world-leading and integrated platform, we are able to successfully maintain high customer stickiness and build up an ecosystem comprising top scientists, talent, biotechnology startups, large pharmaceutical companies, research institutes and other industry participants. We believe that our strong value propositions to the customers and our ecosystem partners strengthen our leading position and create entry barriers for potential competitors.

We enjoy an excellent reputation in the industry, and have accumulated a diversified and growing quality customer base via word-of-mouth referrals. Our customers include all of the top 10 global pharmaceutical companies, as well as 31 biotechnology companies named in the Fierce Biotech Top 15 Promising Biotechs. We also provide services to scientific research institutes such as Shanghai Jiaotong University.

Since 2014, we have established three incubation centers and incubated 56 early-stage R&D projects. We further plan to establish several additional modularized incubation centers in Shanghai, Jiaxing and Chengdu. We aim to expand our incubation portfolio by continuously screening new projects. We added 4, 11, 19 and 10 incubation portfolio companies in 2017, 2018 and 2019 and six months ended on 30 June 2020, respectively.

We have experienced significant growth. We recorded revenue of RMB148.2 million, RMB210.0 million and RMB323.1 million (U.S.\$45.7 million) in the years ended 31 December 2017, 2018 and 2019 and RMB142.3 million (U.S.\$20.1 million) and RMB197.6 million (U.S.\$28.0 million) the six months ended on 30 June 2019 and 2020, respectively, and adjusted net profit of RMB76.3 million, RMB135.5 million and RMB318.0 million (U.S.\$45.0 million) in 2017, 2018 and 2019 and RMB98.6 million (U.S.\$14.0 million) and RMB123.7 million (U.S.\$17.5 million) the six months ended on 30 June 2019 and 2020.

OUR STRENGTHS

We believe the following strengths have contributed to our success and differentiate us from our competitors:

World-leading structure-based technologies that enable us to stand at the gateway for first-in-class drug discovery

We provide world-leading structure-based drug discovery services to our biotechnology and pharmaceutical customers worldwide for their preclinical-stage innovative drug development. We specialize in SBDD, fragment-based drug discovery (FBDD), affinity selection mass spectrum (ASMS) screening technologies and membrane protein targeted drug discovery, which serve as a gateway of innovative drug R&D especially in the area of first-in-class drug research. Our structure-based technologies enable us to tap into a broad range of diseases and therapeutic areas. In addition, our services cover the full spectrum of our customers' needs for early-stage drug discovery, including target protein expression and structure research, hit screening, lead

optimization and the determination of drug candidates. With the long development history of a modern target-based new drug, we believe that the screening of new drugs and the validation of new targets have become increasingly challenging, in particular regarding the hit screening for many newly identified targets. Therefore, our world-leading structure-based drug discovery services allow us to excel in this rapidly changing field.

Our four core technologies are supported by our *in vitro* pharmacology, medicinal chemistry research, antibody generation and molecular cloning platforms. Our ASMS screen platform has also been highly regarded by our customers. Based on our research results, several of our customers made significant breakthroughs in their respective research and therapeutic areas and published articles in prestigious journals such as *Science*, *Nature Communication*, *Journal of Medicinal Chemistry*, *Journal of Organic Chemistry* and *Chemistry & Biology*.

Research on target proteins has been increasingly important in novel drug research and development. As at 30 June 2020, we provided drug discovery services to over 495 biotechnology and pharmaceutical customers, worked on over 1,300 independent drug targets and delivered over 17,000 independent protein structures. Leveraging our proprietary technologies, we are able to attract more new customers while benefitting from a profit margin that is higher than our peers.

Innovative and unique business model to tap into vast pharmaceutical market

We have developed a scalable business model combining the conventional CFS model and our unique EFS model. Under the EFS model, we provide drug discovery and/or incubation services to select customers in exchange for equity or economic interest in them, and to certain promising biotechnology companies in which we invested. By holding equity or economic interest in these select customers or investees, we can effectively foster the development of these promising biotechnology startups and enjoy the appreciation potential of their IP value, while maintaining the steady cash inflow generated from services provided to our CFS customers. In addition, we may also make strategic investments in biotechnology startup companies that we think have potential for future cooperation.

Our expertise in the less competitive SBDD sector, proprietary technologies and quality services contribute to a strong demand from our customers. Under the EFS model, we are able to acquire equity or economic interests in our select customers or investees that stand in the frontier of the vast pharmaceutical market, including those developing first-in-class drugs for gastric and liver cancers, acute myelocytic leukemia, diabetes and hypercholesterolemia. Since 2018, we have strategically shifted our focus from CFS model to EFS model, and selectively increased the number of our incubation portfolio companies while maintaining steady growth and revenue stream under our CFS model. Under our EFS model, we have access to a large number of early-stage R&D projects, which in turn provides us with a large pool of high-quality candidates for potential

investment. Through our innovative and unique business model, we are able to tap into the vast pharmaceutical market and maximize our shareholders' value by sharing the upside of our customers' IP value and significantly increase our profit per employee to a higher level than our peers.

Integrated drug discovery platform attracting top scientists and talent worldwide

Our management team and key business partners comprise top scientists and talent from renowned global pharmaceutical companies and other prestigious biomedical research institutes, such as Pfizer Inc., Merck & Co., Abbott and Novartis, and are specialized in innovative drug R&D in diversified therapeutic fields. For example, certain members of our management team and business partners have committed to diverse areas, such as immunology, oncology, metabolism and ophthalmology, and have been deeply involved in the research and development of certain marketed drugs, such as Lifitegrast for the treatment of dry eye syndrome, Sutent for the treatment of metastatic renal cell carcinoma and Venetoclax for the treatment of chronic lymphocytic leukemia. With an average of more than ten years' experience of new drug R&D in multi-national pharmaceutical companies, these scientists and professionals in our senior management team are familiar with the entire process and management of new drug R&D projects, possess a clear and differentiated development strategy and business philosophy, and have accurate experience-based judgment on the development trend of innovative drug R&D. Among the members of our management team, one was awarded as a member to the "National Thousand Talent Program" and two were awarded as members to the "Shanghai Thousand Talent Program". Led by these top scientists and talent, we have established a stable and reliable technology platform for innovative drug R&D, and set up a professional and efficient technical team. As at 30 June 2020, we had 647 biomedical and chemical drug research personnel, accounting for 81.1% of our total number of employees. We had a good mix of technical service professionals, with 48.2% hold master's degree and 7% hold doctorate degrees.

Through our integrated platform, we aim to attract more reputable scientists to join us. We introduced a business partner system to identify business partners from external sources and our incubation portfolio companies. As at 30 June 2020, we had a team of 30 business partners consisting of top scientists from China and overseas. In the meantime, they have complementary professional backgrounds and experience of founding outstanding biopharmaceutical companies or a good track record of venture investment management. Based on their respective specialty and experience, we have established a systematic and scientific incubation program to effectively evaluate and manage returns and associated risks by crafting of milestone terms, provision of technical services and periodic assessment of project progress. We believe that the business partner system is crucial to our incubation program, as it not only enhances the quality of our incubation portfolio companies to generate additional return, but in turn continues to develop and attract more top scientists to join our team as business partners.

Systematic incubation program to capture the highest return of the biotechnology value chain

Timing of entry significantly affects the potential gains from an investment in a drug candidate. In general, the return on investments in new drugs in their early stage is higher than that in later stage, according to the Frost & Sullivan Report. Our strong preclinical drug discovery services platform and the extensive knowledge and industry experience of our management team enable us to secure opportunities to participate in innovative drug R&D projects through our EFS model and share the appreciation potential of their IP value. In addition, our gateway role in the drug discovery process provides us with access to a significant number of first-in-class drug R&D projects in their early stage. Compared to venture capital firms that only address the financial needs of these startup projects, we enjoy the unique advantage in our ability to provide drug discovery services, experienced technicians and well-equipped laboratory facilities. As such, aside from participating in innovative drug R&D projects through providing services to our select customers or investees, we may from time to time make strategic investments in biotechnology startup companies that we consider have potential for future cooperation.

Unlike venture capital firms, we focus on early-stage opportunities. Therefore, we enjoy greater flexibility on exit strategies. If and when venture capital firms invest in a customer of ours, we may choose to exit with anticipated returns. Furthermore, our management has the expertise to assess systematically and scientifically the respective success rates of these R&D projects, and minimize the associated risks of our incubation portfolio companies through diversification. In the meantime, we actively participate in the drug discovery process of these incubation portfolio companies, which enables us to benefit from the growth of the portfolio companies and track real-time progress of these projects to minimize our risks. With the value of the intellectual property owned by these portfolio companies continue to increase, we realize gains in our equity interest in these portfolio companies at the time and in a manner that our management considers appropriate to generate a higher return on the drug discovery services we provided.

According to the Frost & Sullivan Report, the incubation model based on early-stage drug discovery services has strong technical barriers. As a pioneer of this model and to leverage our gateway role in the drug discovery process, we have established a systematic, scientific and modularized program that enables us to effectively improve our capital utilization while managing associated risks. Since 2014, we have established three incubation centers and incubated 56 early-stage R&D projects. We further plan to establish several additional modularized incubation centers in Shanghai, Jiaxing, Chengdu and Hangzhou. We aim to expand our incubation portfolio by continuously screening new projects. We added 4, 11, 19 and 10 incubation portfolio companies in 2017, 2018 and 2019 and six months ended on 30 June 2020, respectively.

Growing ecosystem open to global industry participants

We focus on our leading technologies and capabilities to provide high-quality drug discovery services to over 495 innovative biotechnology startups, which are mainly located in the United States, and major pharmaceutical customers worldwide as well as a number of domestic or foreign

research institutes. For example, Enasidenib (also known as Idhifa) which was developed based on the structure we delivered and was approved by the FDA in August 2017 for relapsed or refractory acute myeloid leukemia (the “AML”) in people with specific mutations of the IDH2 gene. In addition, one of our major customers has developed a MAT2A inhibitor based on our FBDD technology and has entered Phase I clinical trial for this drug candidate. Through years of development, we established an excellent reputation in the industry, become highly regarded by our customers and accumulated a diversified and growing quality customer base via word of mouth. As at 31 December 2017, 2018 and 2019 and 30 June 2020, we had provided services to, an aggregate of 271, 356, 438 and 495 customers, respectively. In 2017, 2018 and 2019 and the six months ended on 30 June 2020, over 80% of our existing customers used our service for more than once, while the dollar value of orders from these repeated customers showed an increasing trend.

Our customers include all of the top 10 global pharmaceutical companies, as well as 31 biotechnology companies named in the Fierce Biotech Top 15 Promising Biotechs. We also provide services to scientific research institutes such as Shanghai Jiaotong University. Leveraging our world-leading and proprietary technologies, we were able to successfully maintain high stickiness of our customers and to build up an ecosystem comprising top scientists, biotechnology startups, large pharmaceutical companies, research institutes and other industry participants. We believe that our strong value propositions to the customers and our ecosystem partners strengthen our leading position, and create entry barriers for potential competitors. We believe that our scalable business model and strong technology capabilities position us at the forefront of the evolution of the biotechnology value chain. With our scalable business model and our ecosystem open to diversified industry participants, we believe that we are well-positioned to expand beyond early-stage drug discovery market to provide a comprehensive suite of services and drive further growth.

OUR STRATEGIES

Our mission is to become a cradle for promising biotechnology companies around the world. We aim to leverage on our leading drug discovery capability to scalably participate in our customers’ early-stage R&D activities, thereby driving and capitalizing the value of our customers’ intellectual property. We plan to execute the following key strategies to achieve our goal:

Continue to invest in cutting-edge technologies through both in-house research and development and potential acquisitions

We believe that our core competence is our advanced technologies and platforms that allow us to offer more efficient and effective solutions to our customers. Leveraging our world-leading technologies, we are able to acquire more high-quality biotechnology and pharmaceutical customers, generate higher revenues, and further invest to advance our R&D capabilities than our competitors, thereby creating a virtuous circle.

Going forward, we will continue to invest in cutting-edge technologies to stay at the forefront of the drug discovery service industry. We will further strengthen our in-house research and development, in particular in the Cryo-EM technology, which will enable us to further enhance our R&D capabilities and provide more comprehensive services. In addition to organic growth, we will also actively seek opportunities to acquire or invest in technologies or companies that complement and strengthen our existing platforms.

Further expand our incubation portfolio

Our unique EFS model enables us to identify and participate in quality innovative drug R&D projects in an early-stage. As we continue to expand our incubation program, we plan to further expand our scientist and professional team and to establish several additional modularized incubation centers in Shanghai, Jiaxing and Chengdu. In addition, we plan to allocate additional resources to our incubation portfolio companies to expedite their R&D progress, and increase values of their IPs. We believe the return generated from our incubation portfolio companies not only enables us to maximize our share value, but also further strengthens our leading position in early-stage drug discovery industry.

Develop CMO business to achieve vertical integration of a discovery, development and manufacturing platform

With the increasing demand from pharmaceutical companies for cost control and efficiency improvement, we believe drug discovery service providers with vertical integration capabilities will have greater market competitiveness. We plan to strategically develop the CMO business to provide R&D, manufacturing and other ancillary services to global biotechnology and pharmaceutical companies. We believe this plan will help our customers further improve the efficiency of their R&D of new drugs, effectively control their manufacturing costs, expand our service offerings and enhance our market competitiveness.

We plan to acquire a parcel of land in Wenjiang District, Chengdu for the construction of a biologics CMO project and to expand into the chemical CMO business through potential acquisitions of high-quality assets. Once completed, our CMO business will enable us to provide process development, process optimization and trial manufacturing services required for drug production to our pharmaceutical customers. By complementing our proprietary, technology driven R&D capabilities with mass production capabilities, we will be able to better meet various needs of our pharmaceutical customers and provide them with end-to-end service offerings.

Continue to attract and train quality talent and further strengthen our R&D team

We have established a talent platform comprised management team and top scientists with outstanding capabilities and abundant resources, as well as a seasoned service team. Since our establishment in 2008, we have recruited talent from top colleges and universities for our R&D

divisions, and provide them with professional training under the supervision of our top scientists. In addition, we have also recruited talent from multinational biotechnology or pharmaceutical companies to optimize our existing research and development team.

With the continuing expansion of our operations, we plan to further strengthen our professional R&D team through our own internal trainings and recruitment of talent to satisfy our increasing demand for professionals. We believe that the expanding Chinese biopharmaceutical market will continue to attract more quality talent. In addition, we have adopted various measures to attract and retain promising talent in our industry. The higher profitability resulted from our EFS model provides us with more resources, and enables us to offer competitive compensation packages to employees, which consist of salary, other employee benefits and share-based awards, as the case may be. With our recruiting measures and competitive compensation packages, we believe we will effectively satisfy our demand for talent in near future.

Further expand our customer base

As a leading brand in the global early-stage drug discovery service industry, we have provided high-quality services to over 495 biotechnology and pharmaceutical companies worldwide as well as a number of domestic and foreign research institutes. Most of our new customers come to us as a result of word-of-mouth referrals from our existing customers and our reputation in the industry. We believe that our large base of loyal customers enables us to maintain a steady growth. We are also committed to further strengthening our relationship with and increasing the stickiness of our existing customers.

Going forward, we will continue to improve and enhance our service offerings to further expand our customer base, which will provide us with access to more potential incubation portfolio candidates. We set up a dedicated sales and marketing team in North America to actively develop marketing and promotion channels and to increase our brand promotion efforts. We will improve the capabilities of marketing personnel through trainings to further enhance our influence and reputation in the market to attract more customers. We also plan to obtain real-time industry intelligence and develop business opportunities through cooperation with selected universities, industry associations, research institutes and reputable venture capital investors.

RECENT DEVELOPMENTS

Resignation of Non-Executive Director

On November 3, Ms. MAO Jun tendered her resignation from the office as a non-executive Director of the Company with immediate effect. Ms. MAO resigned from her position out of reasons unrelated to the Company.

Entry into an Investment Agreement with Hangzhou Qiantang New Area Management Committee

On 22 September 2020, we signed an investment agreement with Hangzhou Qiantang New Area Management Committee, pursuant to which we will establish a project company that constructs and establishes a medical chemistry research and development laboratory and an accompanying analytical laboratory, as well as introducing and supporting the incubation of innovative research and development projects. We have committed to investing RMB700 million (U.S.\$99.1 million) as fixed asset investment into the project. In return, Hangzhou Qiantang New Area Management Committee will initiate the land auction process for the project, and provide administrative assistance and facilitative measures in relation to the development and operation of our project.

Acquisition of Entire Equity Interest in SYNthesis Med Chem (Hong Kong) Limited

On 20 September 2020, we entered into an agreement to acquire the entire equity interest in SYNthesis Med Chem (Hong Kong) Limited, a contract research organization for research and development of new preclinical small molecule drugs, with a consideration of approximately U.S.\$80 million. To facilitate the acquisition and the settlement of external loans in relation to the acquired company, we entered into a bridging loan deed whereby we provided a U.S.\$2.5 million short-term loan facility to SYNthesis med chem Pty Limited, parent company of the acquired company.

Acquisition of 80% Equity Interest in Langhua Pharmaceutical

On 8 August 2020, we entered into a share purchase agreement pursuant to which we would acquire 80% of the equity interest in Langhua Pharmaceutical, at a consideration of RMB2,560 million (U.S.\$362.3 million) in cash (the “**Langhua Acquisition**”). Langhua Pharmaceutical Group is an integrated and comprehensive drug R&D and manufacturing company in Taizhou, Zhejiang Province. It is primarily engaged in production of small molecule APIs and intermediates and CDMO business. The acquisition of Langhua Pharmaceutical, a comprehensive manufacturing enterprise focusing on API and intermediate production and CDMO projects, is in line with our corporate strategy of vertical integration in the industry chain and expansion into the CDMO business. After the Langhua Acquisition, Langhua Pharmaceutical will become one of our non-wholly owned subsidiary and will serve as the Enlarged Group’s sole CDMO platform for small molecule drugs and intermediate. We expect the Langhua Acquisition to achieve a potential scalable market penetration into the European market, and attract a larger client base by offering a wider range of services. For details of the Langhua Acquisition, the historical financial statements of Langhua Pharmaceutical and the expected financial impact on the Enlarged Group, please refer to our circular published on October 16, 2020: <https://www1.hkexnews.hk/listedco/listconews/sehk/2020/1016/2020101601069.pdf>. This Offering Circular does not contain all information set out in such circular, and investors are advised to access and read such circular in addition to the information set out in this Offering Circular. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, directors or

advisers makes any representation or warranty, express or implied, regarding the accuracy, completeness and sufficiency of the contents of such circular. Potential investors must exercise caution when using such information to evaluate our financial condition and results of operations.

Placement of New Shares under General Mandate

On 10 July 2020, we placed an aggregate of 130,000,000 placing shares under general mandate, with net proceeds amounted to approximately HK\$1,050.7 million (U.S.\$135.6 million). We intended to apply the net proceeds towards business development and expansion, as well as other working capital and general corporate purposes.

Bidding and Acquisition of Land Use Right for a Property in Shanghai

On 1 July 2020, we successfully entered into and confirmed a bid for the land use right of a property by way of internet auction through taobao.com published by the Shanghai Pudong District People's Court at a bidding price of RMB392.4 million (U.S.\$55.5 million). The acquisition of the property would provide operating space to meet our business growth and development in the coming years.

OUR LEADING TECHNOLOGY PLATFORMS

We operate a leading structure-based, integrated drug discovery platform with a number of world-leading technologies. We provide SBDD services to our biotechnology and pharmaceutical customers worldwide for their preclinical-stage innovative drug development. Our core technologies include the SBDD platform, FBDD platform, ASMS screening platform and membrane protein-targeted drug discovery platform. In addition, we have *in vitro* pharmacology, medicinal chemistry research, antibody generation and molecular cloning platforms. Our technology platforms provide us with strong competitive edge and allow us to offer comprehensive services for our customers' drug discovery projects. As at 30 June 2020, we had 22 patents in the United States and in China. Our ASMS screening and FBDD platforms are highly regarded by our customers. With our technical support, several of our customers made significant breakthroughs in their respective research or therapeutic areas and published articles on prestigious journals, such as *Science*, *Nature Communication*, *Journal of Medicinal Chemistry*, *Journal of Organic Chemistry* and *Chemistry & Biology*.

SBDD Platform

SBDD is a commonly used technology in modern drug discovery. The critical step of SBDD is to understand the structure information of a target protein. There are several structure biology technologies that can help obtain the structure information at the atomic level, such as NMR, X-ray or EM. Among them, X-ray is the most widely used technology. The process of obtaining

structure information of a target protein is similar to taking a photo of the target protein at the atomic level, which provides chemists with a direct view of where and how a compound binds to the target protein and guides the chemists to optimize the compound efficiently and effectively.

We are one of the world's top brand drug discovery service companies in the area of protein sciences and structure biology. We have four different protein expression systems including *E.Coli*, yeast, insect and mammalian cell culture systems. For protein expression, we design constructs with all commercially available vectors, use tags and make protein sequence mutation, insertion or deletion when appropriate. We use a variety of purification technologies and protein refolding technologies, and can make stable isotope labeled proteins. We have 14 commercial crystallization screening kits with up to 1,344 screening conditions, while two of the 14 screening kits are dedicated to membrane protein crystallization. We have also developed three additional membrane protein crystallization screening kits internally. Over the past 10 years, we have supported our customers with researches on more than 1,300 target proteins and delivered approximately 17,000 protein structures which evidenced our industry leading position in this field.

ASMS Screening Platform

Library compound screening is an important part in drug discovery. ASMS is one of the most powerful screening methods developed in late 20th century to measure the binding of a compound to a target protein. In ASMS, the library compounds are ranked according to their affinity to the target protein in homogeneous solution conditions. The top-ranked compounds that are above the experiment cutoff are considered hits for further testing. To date, we have developed a unique screening technology platform combining three ASMS screening technologies, including ultrafiltration-ASMS, ultracentrifugation-ASMS and size-exclusion-chromatography-ASMS (SEC-ASMS). With this ASMS screening platform, we are able to screen any soluble protein targets (including GPCRs, ion channels, transporters in detergent and in nanodisc), and any compound libraries (including our proprietary Viva libraries, natural product libraries and customers' libraries). ASMS detects homogeneous solution binding and is an unbiased screening method, suitable for finding allosteric binders. ASMS can accommodate wide selections of screening formats and conditions, and is fast, flexible, label-free, high throughput and more cost-effective when compared to other screening technologies such as HTS, SPR and DNA encoded libraries (DEL). We provided ASMS screening services for many customers in the past and observed an increasing interest from new customers. Many of the compounds discovered using our ASMS have advanced to leads and clinical candidates.

Membrane Protein Targeted Drug Discovery Technology

Membrane protein is an important class of drug targets. Approximately 50% of the marketed drugs and a considerable portion of drugs under development modulate membrane proteins. However, membrane protein is one of the most challenging target classes for drug discovery. Membrane proteins are extensively associated with cellular membranes in living systems through hydrophobic domain interactions. These hydrophobic domains may cause protein aggregation and

mis-folding during expression and purification of full-length membrane proteins. To overcome such and other technical challenges, we developed proprietary membrane protein expression and screening technologies. These patented technologies allow production of soluble full-length and functioning membrane proteins for antibody drug discovery, for small molecule drug discovery by ASMS and for SBDD applications.

FBDD Platform

FBDD is an alternative strategy compared to traditional drug discovery. FBDD uses library compounds with diverse structure and lower molecular weight. Hits from fragment library have weaker activity or affinity and are generally discovered with biophysical screening technologies. Compounds discovered from screening of fragment library may bind to allosteric binding sites, and therefore may have broader options for optimization. SBDD is more critical for advancing compounds from FBDD. For example, some compounds were discovered from Viva fragment library against a novel enzyme target, which behave as allosteric inhibitors, binding to a site remote from the enzyme active site but also inhibiting the enzyme activity. These compounds were successfully optimized to leads and candidate drugs and are now in clinical trials. We have developed our FBDD platform combining a proprietary FBDD compound library with our ASMS screening technology. Our FBDD library was designed with structural diversity as well as the need for mass spec detection. Hits from ASMS screening of FBDD library are confirmed by orthogonal methods such as SPR, thermoshift, x-ray crystallography and bioassays. Our advanced structure biology capabilities also provide synergy for advancing hits from FBDD library screening for our customers. We successfully provided FBDD services for a number of our customers' projects, and many of the compounds discovered have advanced to leads and clinical candidates.

***In Vitro* Pharmacology**

In Vitro pharmacology refers to the enzyme and cell-based bioactivity test of compounds. We have excellent bioassay capabilities with experienced teams. We generate stable cell lines for cell-based assays using both conventional liposome, lentivirus method and Flip-in technology, determine compound profiling using 96 well or 384 well format and develop assays for various protein targets such as GPCR, transporters, ion channels, kinases, epigenetics targets, protease, nuclear receptors and immune oncology targets. We have all common bioassay detection technologies including UV/Vis, fluorescence, fluorescence polarization, FRET, time-resolved fluorescence and chemiluminescence. We also have SPR technology to provide binding and kinetic measurements. Our *in vitro* pharmacology platform provides us with critical and timely support for hit follow-up, hit-to-lead and lead optimization efforts.

Medicinal Chemistry Research

Our experienced medicinal chemistry teams provide hit-to-lead and lead optimization support for our customers. Over the years, our medicinal chemistry teams and their drug discovery achievements have supported our customers with twelve first-in-class drugs that had entered into clinical trials.

Antibody Generation

We have a number of antibody discovery technologies including hybridoma, phage display library, antibody humanization and antibody maturation, based on which we can provide antibody drug discovery and optimization services for our customers.

Molecular Cloning Platform

Molecular cloning is the foundation of modern molecular biology. We can provide gene cloning services from animal or plant tissue or microorganisms through our molecular cloning platform, as well as providing subclone, mutation, insertion, deletion and other related services.

CryoEM Platform

CryoEM is the most popular approach for structural studies of challenging targets, such as membrane proteins and protein complexes. Our CryoEM Platform covers a full range of services, including negative staining EM, cryo grids screening, cryo data collection and structure determination.

CMC Platform

Our CMC department, as a newly formed CDMO division of Viva Biotech, once fully established, will be committed to the production of small molecule drugs and intermediates with high value. It will provide one-stop services for IND enabling to API production and the formulation for clinical trials to accelerating drug development from bench side to market. Led by qualified and experienced professionals, our CMC department is also consisted of a R&D center for innovative drugs.

Computational Chemistry Platform

We provide expert computational chemistry services via state-of-the-art computational technologies and in-house tools. Our services include target site identification, hit screening and expansion, hit-to-lead, lead optimization and ADMET optimizations. We perform virtual screening, molecular docking, homology modelling, pharmacophore mapping, structure-activity relationship

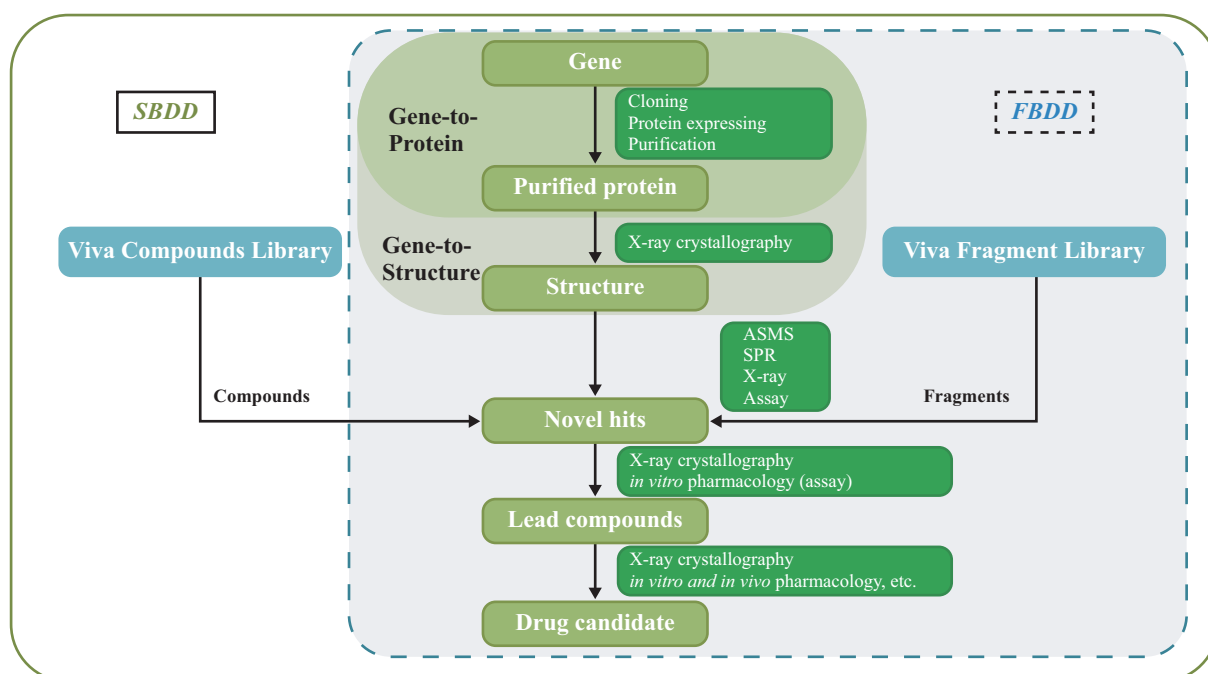
analysis, molecular dynamics simulation and free energy perturbation calculations, with programming capabilities to pull data from different databases or other sources and create data pipelines, in order to meet our clients' needs to the greatest degree possible.

OUR SERVICES

We provide a wide range of high-quality, integrated services across the preclinical drug discovery and development process to pharmaceutical and biotechnology companies worldwide. Leveraging our world-leading structure-based drug discovery capabilities, our service offerings cover discovery biology, discovery chemistry and preclinical development. Our customers recognize our ability to offer a wide range of quality services to meet their early-stage drug R&D needs, and we expect to capitalize on our strong customer base and expand our service offerings along the drug discovery and development value chain.

According to Frost & Sullivan, we are one of the world's top branded preclinical drug discovery service provider specialized in SBDD. We have provided drug discovery services to all of the ten largest global pharmaceutical companies, as well as hundreds of biotechnology companies and research institutes worldwide including 29 companies named in the Fierce Biotech Top 15 Promising Biotechs. As at 30 June 2020, we had provided drug discovery services to over 495 biotechnology and pharmaceutical customers, worked on over 1,300 independent drug targets and delivered approximately 17,000 independent protein structures.

The following chart sets forth the structure-based drug discovery process and our services:



Note: Schematics of our SBDD services: Starting from a disease-relevant gene, a target protein is produced through gene cloning, protein expression and purification. Purified proteins can be used for x-ray crystallography and bioassay developments. Hits are discovered from screening of compound or fragment libraries with affinity screening mass spectrometry (ASMS) against purified target protein and are developed into drug leads and candidates through hit-to-lead and lead optimization processes. If the hits are discovered from the fragment library, the process is called fragment based drug discovery (FBDD). Alternately, if the gene expresses a membrane protein, then the process is called membrane protein targeted drug discovery. During hit-to-lead and lead optimization, structure information from X-ray crystallography allows a better understanding of the molecular interactions of the compound with the target protein, while data from bioassay facilitate the establishment of SAR of the compounds. This SBDD capability can significantly reduce the cost of drug discovery and expedite the process.

Gene-to-Protein and Gene-to-Structure

We provide gene-to-protein and gene-to-structure services. Based on our customers' needs, we perform construct design, pilot expression, construct selection for scale-up expression, and finally protein purification and crystallization. We collaborate with a number of synchrotron light sources in the world including Shanghai Light Source, APS, CLS, and ALS. We have on average over 17 hour per week available synchrotron time to provide fast turnaround crystal data collection services for our customers. We enjoy a world-leading position in drug target protein structure research and according to the statistics on beam time of global synchrotron radiation light source, according to the Frost & Sullivan Report.

Viva Engine for Lead Discovery

Lead discovery is an important early step in drug discovery projects. We provide lead discovery services for our customers with our proprietary Viva Engine for Lead Discovery platform based on ASMS screening technologies and several compound libraries. We have designed a unique fragment library, a GPCR-related compound library and a large diversity compound library, comprising approximately 208,000 compounds in total. We provide fast turnaround and flexible lead discovery services for any soluble proteins, and we can also screen compound libraries of our customers. In addition, we provide hit confirmation and characterized services using thermoshift, SPR, X-ray, and bioassay technologies.

Membrane Protein Targeted Discovery

We provide comprehensive services on small molecule and antibody drug discovery with membrane protein targets based on world class, patented membrane protein expression and screening technologies. In general, our customers only provide the target names, and we will support our customers with drug discovery process leading to developmental candidate selection.

Medicinal Chemistry

Our medicinal chemistry services include hit-to-lead and lead optimization. We focus on a traditional medicinal chemistry approach, a process through which a series of compounds are carefully designed with the structure-aided SAR analysis, followed by chemical synthesis and evaluations of biological activities. We also design and synthesize focused libraries to support SAR analysis.

***In Vitro* Pharmacology**

Our *in vitro* pharmacology profiling services include generating stable cell line, developing assay, screening compounds with the developed assay, determining compound profiling using 96 well or 384 well plate and binding affinity and kinetics with SPR for small compound and antibody.

Antibody Discovery Service

Our antibody drug discovery services include, among others, antigen preparation, antibody discovery, optimization, humanization, maturation, affinity measurement, lab-sale and large scale purification, and epitope characterization by antibody-antigen complex structural determination.

OUR INCUBATION PROGRAM AND BUSINESS PARTNERS

According to the Frost & Sullivan Report, the incubation business model based on early-stage drug discovery services has strong technical barriers. As a pioneer of this model and to leverage on our gateway role in the structure-based drug discovery process, we have established a systematic, scientific and modularized incubation program that enables us to effectively improve our capital utilization while managing associated risks. As at 30 June 2020, we had incubated 56 early-stage R&D projects.

Since 2014, we have established three incubation centers and plan to establish several additional modularized incubation centers in Shanghai, Jiaxing, Chengdu and Hangzhou. Our modularized incubation center is expected to be approximately 3,000 sq.m. in size and be able to incubate 12 early-stage R&D projects per year with an average turnover time of one to two years. In general, for each of our incubation projects under the EFS model, we plan to exit our investment in accordance with our internal investment and management policies.

While it generally takes around 10 years in total for a new drug candidate to achieve commercialization, we believe the value of equity interests in these incubation portfolio companies increase along with the respectively development stages of their pipeline products. As we specialize in the drug discovery area, we mainly aim to enjoy the incubation portfolio companies' value growth in their drug discovery and early phases of clinical trial stages. By deeply involved in the incubation portfolio companies' R&D processes, we are in a better position to assess the

potential of their pipeline products. Furthermore, by investing in the earliest stage of our incubation portfolio companies and exiting during the development process of their new drug candidates before they obtain NDAs or market approvals from the FDA or other regulators, we are able to enjoy a more flexible exit strategy and reduce our exposure to the risks of failure in the later stages of new drug development.

In addition, we have built an investment and incubation team comprising our founders/senior management, our employees specialized in project management and our business partners to evaluate and supervise our incubation program. Our investment and incubation team is responsible for identifying and evaluating potential incubation targets and supervising our incubation portfolio companies. Leveraging their respective specialty and experience, we have established a systematic, scientific and modularized incubation program to effectively evaluate and manage returns and associated risks by crafting of milestone terms, provision of technical services and periodic assessment of project progress. Our systematic incubation program makes our EFS model highly scalable and sustainable. Supported by our large number of experienced professionals and technicians, we can easily allocate additional resources to our incubation portfolio companies and to include more incubation portfolio companies as the management of our Company deems fit, thereby enhancing our capital efficiency and further increasing our profit per employee.

In evaluating the potential incubation targets, we focus on first-in-class drugs and consider the following criteria, among others:

- scientific achievements and execution capabilities of the founder and management team;
- the mechanism of the drug target and druggability;
- projected market size of the indications;
- competitive landscape of similar drugs in the market;
- uniqueness and scarcity of the drug;
- suitability to our Company's technology platforms; and
- likelihood for potential exits within three years.

We believe our incubation program and EFS model are difficult for our competitors to replicate for a number of reasons, including, among others:

- Technology: our proprietary technologies enable us to provide drug discovery services to incubation projects that other competitors cannot deliver;

- Screening capability: while there are many biotechnology startup candidate projects that can be considered, it is crucial to have an experienced team with deep industry knowledge and network to screen and identify candidates with potential; and
- Risk management: by participating in innovative drug R&D projects in their earliest stage and being deeply involved in their development process, we are able to track real-time progress of the projects and better positioned to take advantages of exit opportunities, thereby minimizing our risks.

Our board has adopted an internal policy regarding the investment in and management of our incubation portfolio companies, pursuant to which, among others:

- (i) Six pre-screening work groups comprising members from our incubation execution team and our business partners are set up to identify and pre-screen potential incubation portfolio companies. Each group has a different area of expertise and our incubation execution team members in such group consult our business partners and make recommendations to the board based on the advices and feedback of our business partners;
- (ii) Once a potential incubation portfolio company is identified, a scientist committee comprising six to ten internal and external scientists will evaluate the technology and potential of such candidate. A candidate will be presented to the management investment committee for approval only if (a) no less than two affirmative votes (after netting off any negative votes) from the members of the scientist committee and (b) none of the members in the scientist committee has major concerns on such candidate. A project failing these criteria will be rejected.
- (iii) Upon review by our scientist committee, relevant due diligence processes will be conducted before such potential incubation portfolio company is presented to the management investment committee;
- (iv) A management investment committee comprising our chief executive officer, general manager, chief science officer, chief financial officer and chief business officer is set up to evaluate the proposed investment. We only approve investment in an incubation portfolio company with unanimous consent by the management investment committee; and
- (v) In the event an incubation portfolio company becomes listed or is being acquired, or if we approach or are approached by potential buyers, the management investment committee will consider and decide if it is appropriate for us to exit and relevant terms, such as deal structure, percentage of equity interest to be disposed and transfer prices. A simple majority approval by our management investment committee members is required for any such exit. If the dollar value of the proposed exit exceeds U.S.\$5.0 million, the

management investment committee needs to report such exit to our board. If the dollar value of the proposed exit exceeds U.S.\$10.0 million, a majority approval by our board is required in addition to the management investment committee approval.

We have established a project management methodology to manage the potential risks associated with our incubation portfolio companies. Once we approve an incubation project, it enters the project management stage where our incubation management team is responsible for tracking its day-to-day operations and reporting its progress to our investment committee on a weekly basis. We also delegate a project management team to each incubation project. The project management team will set the schedule of the project and liaise with other departments to determine the staffing of the project team. If any issue arises during the R&D process of the incubation project, the project management team will report to the investment committee to determine whether such issues have a material effect on the operating results, business, financial condition and reputation of the incubation portfolio company and whether we should terminate the incubation project. This project management methodology ensures that we can detect potential risks early and thus increase the success rate of our incubation portfolio companies.

While our revenue derived from the CFS model continued to grow in 2017, 2018 and 2019 and the six months ended on 30 June 2020, which provided us with steady cash inflow, we have strategically and selectively increased the number of customers under the EFS model to create greater value for our shareholders. Our EFS model allows us to share the appreciation potential of our customers' IP value, which is primarily reflected by the gains from the fair-value change of the equity interest in our incubation portfolio companies. Such fair-value gains are recorded as fair value gain on financial assets at fair value through profit or loss in our financial statements.

Under our EFS model, we have access to a large number of early-stage R&D projects, which in turn provides us with a large pool of high-quality candidates to invest in before venture capital investors have access to them. Our strong technical capabilities and deep industry knowledge allow us to identify projects that we think have potential. Through our unique EFS model and, to a lesser extent, through our proprietary technologies for drug discovery, we are able to share the increase in our customers' intellectual property value and significantly increase our profit per employee to a higher level than our competitors.

Our Business Partners and Incubation Team

We have introduced a business partners system whereby we identify business partners from external sources and our incubation portfolio companies. Our business partners have diverse professional backgrounds, such as founders of biopharmaceutical companies and venture investment manager. As at 30 June 2020, we had a team of 30 business partners consisting of top scientists from China and overseas.

Our business partners play a leading role in our incubation program. Their duties primarily include: (i) in the project analysis and screening stage, our business partners will assist us in analyzing and screening potential candidates; (ii) after the project has been approved by our investment committee or our Board, our business partners will advise us on the due diligence of the project; (iii) once a project becomes our incubation portfolio company, our business partners will advise such incubation portfolio company on its R&D activities; and (iv) supervision and guidance for the incubation portfolio companies. Meanwhile, along with the growth of an incubation portfolio company, our business partners will offer various resources to assist such incubation portfolio company. Once an incubation project commences, the incubation services that involve the daily operations of an incubation portfolio company will be provided by our project management team and technicians.

In selecting our business partners who will be in charge of evaluating and supervising our incubation program, we take into account a number of criteria, including the business partners' credentials, R&D achievements of their research projects in their respective scientific fields, relevant industry experience and execution capabilities. In order to prevent any potential conflicts of interest, such as studying same indications or situated in similar therapeutic areas as the potential incubation portfolio companies, our business partners involved in the due diligence process will be asked to enter into a confidentiality agreement with us before they can obtain the access to confidential technology and target information. If conflicts of interest have been identified, a business partner is required to abstain from participating in the project assessment until we exit the incubation portfolio company or such potential candidate ceases to be an incubation portfolio company. We also conduct a check on conflicts of interest as part of the standard operating procedures for our investment approval process.

For our business partners who are the senior management of our existing incubation portfolio companies, they may serve as the chief scientists of our incubation project candidates or to co-invest in such candidates. For our business partners who are external professionals, we may provide a combination of advisory fees and discretionary bonus payments for their services.

We believe that the business partner system is crucial to our incubation program as it not only enhances the quality of our incubation portfolio companies to generate additional return, but also attracts more top scientists to join us, thereby ensuring the scalability and sustainability of our incubation program and EFS model. Our business partners, together with our senior management team and in-house scientists, form our incubation management team.

Our Incubation Portfolio Companies

Our incubation portfolio consists of select customers under our EFS model, to whom we provide drug discovery and/or incubation services in exchange for equity or economic interest in them, as well as promising biotechnology startup companies in which we invest. In providing our drug discovery services to our incubation portfolio companies, the founders and scientists of our incubation portfolio companies lead in research, execute R&D projects and control the timelines,

and we provide preclinical drug discovery services which include, among others, construct design, protein expression, protein purification and crystallization, assay development, compound/hit screening and lead optimization. As at 30 June 2020, we have incubated a total of 56 incubation portfolio companies.

As at 30 June 2020, we had realized gains from disposal of our equity interests in Dogma Therapeutics, Inc., Epican Technology Limited, QureBio Limited, Bonti, Inc., Weimou Biotech (Shanghai) Co., Ltd. and Proviva Therapeutics, Inc. with return rates of 212%, 494%, 200%, 315%, 893% and 279%, respectively. Our return rate in connection with the exits of our incubation portfolio companies is calculated by dividing (i) the consideration for transferring respective equity interest held by us with (ii) our original investment costs. We expect to have more exits of our incubation portfolio companies as market condition permits. Leveraging our world-leading and proprietary technologies and our deep participation in our incubation portfolio's research and development process, we believe we are able to minimize our risks and enjoy a high success rate in our incubation program.

OUR CHARGE METHODS

We provide drug discovery services to our customers in exchange for cash under CFS model or for equity under EFS model. We charge our customers and recognize our revenue using the following methods, as applicable:

- **Full-time-equivalent (FTE):** Under the FTE method, we designate employees to the customers' drug discovery projects at a fixed rate per FTE employee per period of time, and determine the amount of service fees based on the number of scientists and the amount of time required for completing the project, among others. Our FTE contracts generally have a term of one to two years and may be subject to annual review. We use the FTE method under both the CFS and EFS models. We generated revenue primarily from service fees charged under the FTE method in 2017, 2018 and 2019 and the six months ended on 30 June 2020.
- **Fee-for-service (FFS):** Under the FFS method, we generally receive payments in accordance with a pre-agreed payment schedule and milestones specified in the contract or work order. Our FFS contracts generally have a term of two to four months depending on the complexity of the projects. We use the FFS method under both the CFS and EFS models.
- **Service-for-equity (SFE):** Under the SFE method, we receive equity interests in our SFE customers in accordance with a pre-agreed development schedule set forth in the contract or work order. In this way, we can effectively foster the development of select customers and enjoy the appreciation potential of their IP value. In addition to the pre-agreed payment schedule and milestones, our SFE contracts typically allow us to obtain additional bonus equity interests in relevant customers in the event that we

produce novel molecules that will become the clinical candidates in pursuit of the project milestones. We recognize revenue based on the fair value of an EFS customer's equity interest that we are entitled to receive upon satisfying related performance obligations. We use the SFE method under the EFS model.

In addition, under our FFS and SFE charge models, we may enter into milestone bonus arrangements with our customers on an *ad hoc* basis to provide incentives to us to achieve scientific breakthrough.

In the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020, revenue generated from our 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 our revenue by charge method under our CFS and EFS models for the periods indicated:

	Year ended 31 December				Six months ended 30 June			
	2017	2018	2019		2019		2020	
	RMB'000	RMB'000	RMB'000	U.S.\$'000	RMB'000	U.S.\$'000	RMB'000	U.S.\$'000
			(unaudited)		(unaudited)			
Revenue from								
services to								
non-investees:								
— FTE	65,334	117,358	181,009	25,620	79,781	11,292	118,102	16,716
— FFS.	56,119	37,317	64,548	9,136	25,620	3,626	35,908	5,082
	121,453	154,675	245,557	34,756	105,401	14,919	154,010	21,799
Revenue from								
services to								
investees:								
— FTE	6,979	33,593	31,902	4,515	12,330	1,745	13,924	1,971
— FFS.	3,192	1,365	1,936	274	270	38	867	123
— SFE	16,621	20,400	43,662	6,180	24,340	3,445	28,756	4,070
	26,792	55,358	77,500	10,969	36,940	5,229	43,547	6,164
	148,245	210,033	323,057	45,726	142,341	20,147	197,557	27,962

In 2017, 2018 and 2019 and the six months ended on 30 June 2020, our benchmark charge rate for biologics drug discovery services was approximately U.S.\$85,000 per FTE per year, as compared to approximately U.S.\$75,000 per FTE per year for chemical drug discovery services. The total working hours of our biologics drug discovery technicians were 190,828 hours, 331,872 hours, 473,960 hours and 226,960 hours in 2017, 2018 and 2019 and the six months ended on 30 June 2020, respectively, while the total working hours of our chemical drug discovery technicians were 81,196 hours, 253,972 hours, 457,592 hours and 252,500 hours, respectively, during the same years or period.

OUR FACILITIES

We currently conduct our operations primarily at our headquarters in Shanghai Zhangjiang High-Tech Park and our facility in Jiaxing, Zhejiang province.

Shanghai Sites

Our Shanghai sites mainly consist of five leased properties. The primary building is approximately 5,213 sq.m., which houses our headquarters, drug discovery and preclinical development facilities. Our four other sites in Shanghai are approximately 1,845 sq.m., 2,800 sq.m., 1,132 sq.m. and 180 sq.m. respectively, which are mainly used for our laboratories to develop cell lines, purify protein and analyze and test compounds and biologics, and for our international incubator center. We entered into long term lease agreements for our Shanghai sites with landlords, which have terms ranging from three to six years.

Jiaxing Site

Our Jiaxing site houses our incubation center, as well as our biological laboratory, cell culture laboratory and medicinal chemistry laboratory. Our Jiaxing site primarily focuses on developing cell lines, purifying protein, and analyzing and testing compounds and biologics.

Sichuan Sites

The primary building in our Sichuan sites has a total GFA of 1,780.71 sq.m. and currently house our chemical laboratory. The building's lease is effective till the end of November, 2021.

Further, we have obtained the land use right of a plot that has a total GFA of 33,607.94 sq.m. in Wenjiang, Chengdu, where we intend to build a Viva Biotech Incubation Center. Our then-established new site in Sichuan will provide us with new biologics manufacturing facilities and additional incubators for innovative drug research and development projects, further strengthening our contract research and manufacturing capabilities and meeting our business development needs.

FUTURE EXPANSION

As part of our strategy to become an integrated services provider, in addition to our continued expansion of our preclinical drug discovery team, we plan to build up our commercial and research manufacturing capabilities and capacities both in biologics CMO and chemistry CMO areas in the future, are with a Ph.D., master's and bachelor's degrees, respectively. With the additional technicians joining us, we also expect to further expand our office space, laboratories and relevant facilities and equipment in accordance with our expansion plans.

It is common for a company engaging early drug discovery to extend its capability to production CMO. There are strong connections between drug discovery platforms and CMOs. All the material production for preclinical studies and clinical studies are developed based on its synthetic route in the early drug discovery and it is nature to extend the technical knowhow. According to the Frost & Sullivan Report, with the industry development and increasing demand of customers, vertical integration, expanding their services to manufacturing sector, becomes a strategic business option for some CROs.

Our drug discovery platform and ASMS screening platform serve as an early drug discovery gateway. The SBDD platform utilizes a broad range of our expertise in protein science, structure biology, *in vitro* assay and medicinal chemistry, which are essential for CRO services. After the completion of the discovery study, a project moves into a later stage of preclinical development, which is the IND-enabling study. A CMO is focused on process development and large scale production of drug candidates for safety and toxicity evaluation in IND-enabling studies and material provision for clinical trial after completion of IND filing. Our discovery platform generates a steady pipeline of projects for the CMO business. Moreover, our ASMS screening platform lays a solid technological foundation to expand into the CMO business, as it provides a pivotal entry point for small molecule drug discovery program. We plan to develop biologics and chemical CMO operations through acquisitions and/or internal development.

Aside from organic growth, we will also actively seek opportunities to acquire or invest in technologies, facilities or companies with capabilities that complement and strengthen our existing operations in China. We believe our strong business execution capabilities will enable us to synergize the acquired business with our existing business.

RESEARCH AND DEVELOPMENT

We believe research and development is critical to our future growth and our competitiveness in the global drug discovery outsourcing services market. Leveraging our proprietary technology platforms, our research and development activities are mainly focused on target-based innovative drugs, in particular first-in-class drugs. Our core technologies include our drug target expression, purification and structure determination platform, ASMS screening platform, membrane protein targeted drug discovery technology and FBDD platform. Utilizing our proprietary technology platforms and research results, several of our customers made significant breakthroughs in their respective research/therapeutic areas and published articles on prestigious journals such as *Science*, *Nature Communication*, *Journal of Medicinal Chemistry*, *Journal of Organic Chemistry* and *Chemistry & Biology*. As a result of our continuing dedication to research and development, the People's Government of Pudong New Area, Shanghai granted us the 2018 Innovative Startup Award in April 2019 as the only biotech company for such award in 2019.

We designate employees in our business units to our research and development projects based on their credentials, areas at expertise and capacity. Our chief scientific officer, Zhixiong Ye, has extensive industry experience in drug discovery research and development and oversees our

research and development activities. Going forward, we plan to continuously invest in developing new technologies in connection with drug discovery to further enhance our capabilities and provide better technologies to our customers.

EMPLOYEES

As at 30 June 2020, we had a total of 798 employees, of which 69 have doctoral degrees and 338 have master's degrees.

We believe that our ability to attract, recruit and retain quality employees is crucial to our long-term success. We provide our employees with opportunities to work on cutting-edge drug discovery projects with top scientists. We also aim to establish a collaborative work environment that encourages our employees to grow with us. In addition, we have an effective training system, including orientation and continuous on-the-job training, to solidify the learning progress and improve the knowledge and skill levels of our workforce.

We enter into individual employment contracts with our employees to cover matters such as wages, benefits and grounds for termination. In general, we determine the remuneration package based on the qualifications, position and performance of our employees at market rate, and we regularly review and adjust our remuneration package in accordance with the market conditions. We also make contributions to social insurance fund, including basic pension insurance, medical insurance, unemployment insurance, childbirth insurance, work-related injury insurance funds, and housing reserve fund.

In support of our growth, we regularly hold on-campus recruiting events at prestigious universities and have launched an internship program that offers university students the opportunity to work at our Shanghai and Jiaxing sites. In addition, we actively seek talent from recent graduates of top universities in the PRC and recruit lateral employees from other reputable biotechnology or pharmaceuticals companies. We review our capabilities and make adjustments to our workforce periodically to ensure we have the right mix of expertise to meet the demand for our services. We believe that we maintain a good working relationship with our employees. We had not experienced any material labor disputes or any material difficulty in recruiting employees for our operations in 2017, 2018, 2019 and the six months ended on 30 June 2020.

BUSINESS COLLABORATION

Certain steps in some of our projects require testing procedures which we currently do not have the capabilities for or which we consider not cost efficient to conduct in-house, such as light source data, gene synthesis and sequencing. Such testing procedures normally form a minor part of the overall project and, as such, we typically outsource such work to reputable vendors, the cost of which is directly passed on to our customers. We make payments to the vendors after receiving invoices from such vendors. For the years ended 31 December 2017, 2018 and 2019 and six

months ended on 30 June 2020, we incurred expenses of RMB8.9 million, RMB6.0 million, RMB11.9 million (U.S.\$1.71 million) and RMB5.9 million (U.S.\$0.8 million), respectively, for outsourced testing or ancillary services provided by our external vendors.

PROJECT MANAGEMENT

We believe that we have a renowned reputation among our customers for high quality and productivity, rapid turnaround and comprehensive customer support. We generally assume full project management responsibility for our projects. We strictly adhere to our internal quality and project management processes.

We have developed a project management methodology to ensure timely, consistent and accurate delivery of quality services. Upon receiving a new project from a customer, our project management team will set the schedule of the project and liaise with other departments, including the relevant business units, to determine the staffing of the project team. A leading scientist is usually appointed to oversee the entire project. Scientists assigned on a project team are typically divided into several groups based on the type of services to be provided. Each group is assigned a group leader who is responsible for supervising the services carried out by such group and reporting back to the leading scientist of the project team. Our project management team also works closely with the project team to monitor the progress of the project and to liaise with the customer. To ensure our service quality, each technical report will be reviewed by the head of the relevant business units before being submitted to the customer.

In addition, we have developed our Viva Project Management System to facilitate the customers' and our project management needs, which contains the following functions:

- Display statistics in connection with each stage/phase of the project;
- List of projects, which shows the content of each project and the customers and our project manager may add, track and modify any such content in accordance with their respective authority;
- Prepare the progress report for each project; and
- Manage the users of the system and grant access/permissions.

We believe our processes, methodologies and knowledge management systems reduce the overall cost for our customers and enhance the quality and speed of delivery.

SALES AND MARKETING

We market our services primarily through word-of-mouth marketing and referrals by our existing customers. As a result of the quality services we provide, our existing customers are willing to refer us to other biotech and pharmaceutical companies seeking for a drug discovery service provider. A new customer typically assigns us a small project to test our capabilities. After we successfully complete the assignment, the customer often increases the size and duration of succeeding contracts and mandates us for more types of assignments. We also hold receptions in the United States regularly to maintain our relationships with our existing and potential customers.

In addition, we have set up a sales and marketing team in North America comprised of our employees and certain third-party business development and marketing specialists we engaged to help us to actively participate in trade conferences, trade shows and scientific conferences, and to build up direct contacts with pharmaceutical and biotechnology companies through regular meetings with their representatives and senior management. During those meetings, we highlight the advantages of our proprietary technology platform and how we can expedite the customers' product development process. We believe by having our business development team in North America, which is close to many of our existing and potential customers, we will be able to generate more business opportunities.

Our well-trained sales and marketing specialists who are dedicated to understanding the demands of existing and potential customers and work closely with our technical experts to prepare quotes and to secure customer orders. In anticipation of our business expansion and increasing customer base, we plan to further expand our sales and marketing force in the next few years.

CUSTOMERS

We have a diversified customer base. During the year ended 31 December 2019, we provided services to 257,188, 31 and 19 customers headquartered in the United States, PRC, Europe and the rest of the world, respectively, and revenue generated from these regions accounted for approximately 83.3%, 13.7%, 1.2%, 1.8% of our revenue for the year ended 31 December 2019, respectively. Most of our customers are pharmaceutical and biotechnology companies, including many renowned industry players. As at 30 June 2020, we worked with all of the 10 largest pharmaceutical companies in the world and have provided drug discovery services to 31 biotech companies that were named as Top 15 Promising Biotechs by Fierce Biotech. In the six months ended 30 June 2020, revenue generated from North America accounted for over 83% of our revenue for the six months ended 30 June 2020.

As a result of our world-leading technology platforms and our quality services, we enjoy a high level of customer loyalty and have developed solid working relationships with many customers. We provided services to 117, 152, 438 and 406 customers in the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020, respectively. Many of

our customers return to us for additional projects, and our customer base grew both in number and in average revenue per customer in 2017, 2018 and 2019 and the six months ended on 30 June 2020. Revenue generated from our repeated customers amounted to RMB131 million, RMB170.2 million, RMB263.4 million (U.S.\$37.8 million) and RMB183.7 million (U.S.\$26.0 million) for the years ended 31 December 2017, 2018 and 2019 and the six months ended on 30 June 2020, respectively, accounting for 88.5%, 81.0%, 81.5% and 93.0% of our total revenue in such periods. In 2017, 2018 and 2019 and 30 June 2020, our five largest customers together accounted for 46.9%, 26.5%, 26.7% and 26.5%, respectively, of our revenue, and our largest customer accounted for 23.0%, 5.9%, 7.2% and 8.5%, respectively, of our revenue. As at 30 June 2020, we had 195 customer orders with total contract value of RMB493 million, representing an increase of 138.2% compared to the same period last year.

Our clients generally requires high-level protection of their IP. We accommodate their needs of enhanced security and protection of our customers' intellectual property through physical and operational separation of customer projects. The laboratory configuration and setup, research plan, operating procedures, information technology and security protocols all can be tailored to our customers' specifications.

The term of our service agreements with our customers for our integrated services mainly depends on the service model elected by such customer. Our FTE service agreements typically have a longer term of one to two years while our FFS contracts typically have a term ranging from two to four months. These contracts terminate upon the completion of the relevant projects and set forth project specifications and milestones, project management regime, project schedule and discovery and/or development steps, payment terms, confidentiality obligations of the parties, ownership of intellectual property rights, termination clause and other general terms and conditions. Our customers typically retain ownership of all intellectual property associated with their projects, including both intellectual property it provides to us and that arising from the services we provide, except for intellectual property created or developed in connection with the provision of our services that is derivative of our own intellectual property or that relates to manufacturing processes developed at our expense.

In 2017, 2018 and 2019 and the six months ended on 30 June 2020, we did not encounter any material dispute with our customers or any material breach of our service contracts or agreements. To the best of our knowledge, as at 30 June 2020, we were not aware of any information or arrangement that would lead to termination of our relationships with any of our key customers.

Payment Terms

Under the FTE model, we typically require our customers to make monthly payments for services rendered with a credit term from 30 to 90 days. Under the FFS model, a contract or work order typically comprises a number of tasks, each including several discovery, development steps and/or milestones. We bill our customers by task and typically give our customers a credit term from 30 to 90 days. We typically request our customers to make a portion of the corresponding

payment upon the commencement of each task and the remaining payment after we complete such task to the satisfaction of our customers. In the event that there is a milestone arrangement, we typically send our invoice to the customer shortly after the completion of each milestone, and request the customer to make milestone payment within 30 days to 90 days after the receipt of each invoice.

Customer Support

Prior to entering into service agreements with our customers, we prepare proposals and fee quotations in accordance with the customers' instructions and specifications. After the service agreement or a work order is executed, we commence our services in accordance with the agreed protocols, and our project manager will report the progress and status of the project to our customer via conference call or emails on a weekly or bi-weekly basis. To facilitate project management, we have developed an online system allowing a customer's project manager to monitor and report on the progress of its projects through an encrypted website. Under a service agreement contract or work order, we are typically required to deliver a technical laboratory report, product samples and/or other deliverables and transfer the relevant data and rights to the customer upon completion of each discovery, development step or milestone. Upon the acceptance of such deliverables by our customers, the relevant discovery or development step is deemed to be completed and revenue is recognized. Additionally, our project team interacts regularly with a customer's project-management team through emails, reports and regular conference calls. Our project management involves strict adherence to our strategic imperative to protect our customers' intellectual property and other confidential information. See "*— Our Customers' Intellectual Property*" below for more information.

We conduct frequent customer satisfaction surveys with certain key customers, which enable us to improve our planning, execution, evaluation and support. We focus internally on operational improvement and innovation to achieve lower direct costs, better use of assets, faster discovery and development time, increased accuracy, greater customization or precision of data, more added value and simplified processes. Dedicated to improving responsiveness to our customers' needs and inquiries, our customer support department focuses on sales support and relationship management with our customers. Less-than-satisfactory remarks and comments are scrutinized for root causes and used to continuously improve operations and services.

SUPPLIERS

To support our comprehensive service offerings, we procure a wide variety of raw materials, such as reagents and culture media, equipment and synchrotron radiation light source. These raw materials and equipment are generally available from various suppliers in quantities adequate to meet our needs. Many of our suppliers offer both equipment needed for our integrated services and the corresponding raw materials. We primarily source our raw materials and equipment from a variety of suppliers that are located in China or have branches or subsidiaries in China. We have maintained stable relationships with many of our key suppliers.

The raw materials and equipment required for the provision of our services are generally readily available in the market through a number of suppliers. We have established detailed internal rules governing the selection of raw material suppliers and raw material quality control. We carefully select our suppliers based on various factors, including their qualifications, product selection, quality, reputation, pricing, business scale, technological strengths, quality management capabilities and overall services. We regularly monitor and review the performance of our suppliers and conduct annual on-site audit for our key suppliers. For more information about raw material quality control, see “— *Quality Assurance — Raw Material Quality Control*”.

Our procurement team manages the raw materials’ inventory level by monitoring the status of our ongoing projects and incoming new projects and places orders with suppliers for any inventory that is expected to decline below targeted levels. Our procurement team procures raw materials and equipment in accordance with our business expansion plan or to replace obsolete equipment on an as-need basis.

We generally enter into long-term framework supply agreements with our suppliers, which typically have a term of one to six years. For purchases of raw materials under a long-term supply agreement, we typically agree on the purchase price of the raw material for each calendar year with the supplier and send a separate purchase order with quantity and delivery requirements for each purchase. Given that we have long-term supply agreements in place with a majority of our key raw material suppliers, we believe our supply arrangements enable us to largely manage fluctuations of raw material prices. Typically there are no minimum purchase obligations under the long-term supply agreements. We also enter into one-off supply contracts with some suppliers. Our suppliers typically extend to us credit terms ranging from 30 days to 90 days.

Generally, under a long-term supply agreement or a one-off supply contract, the supplier undertakes to provide products made of the best materials with first class workmanship according to our specifications and bears shipping and insurance costs. If equipment is procured, the supplier is typically also responsible for installing and debugging the equipment and providing trainings to our equipment operators. Generally, our suppliers are subject to monetary penalties for failing to deliver products on time, and we have the right to terminate a long-term supply agreement or one-off supply contract if the supplier fails to make delivery within a specific period after the agreed delivery date. In addition, each party generally has the right to terminate a long-term supply agreement or a purchase order under the long-term supply agreement immediately upon notice to the other party if a material breach by the other party is not curable or remains uncured for a period of time (ranging from 15 days to 30 days) after notice of the material breach is received by the other party.

In 2017, 2018 and 2019 and the six months ended on 30 June 2020, our five largest suppliers together accounted for 31.5%, 30.9%, 32.0% and 36.05%, respectively, of our total purchases, and our largest supplier accounted for 9.1%, 8.9%, 7.5% and 11.08%, respectively, of our total purchases for the same periods. As at 31 December 2017, 2018 and 2019 and 30 June 2020, we did not encounter any material dispute with our suppliers or any material breach of our supply

contracts or agreements. To the best of our knowledge, as at 30 June 2020, we were not aware of any information or arrangement that would lead to termination of our relationships with any of our major suppliers.

QUALITY ASSURANCE

We believe that an effective quality management system for our raw materials, equipment and services is critical to ensure the quality of our services and maintain our reputation and success. We have established our Viva Project Management System and devote significant attention to quality control. We seek to ensure that our services consistently meet high industry standards and requirements. Our procurement department is responsible for supervising the implementation of the quality strategies for raw materials and equipment.

Raw Material Quality Control

For each of our projects, our procurement team or our customer compiles a list of required raw materials in accordance with our internal policies and procedures. We assess the material risks associated with such raw materials and determine their specifications. We carefully select raw material suppliers and conduct background checks on supplier candidates. Each step of our raw material procurement is documented for our internal records as well as customer audits. In 2017, 2018 and 2019 and the six months ended on 30 June 2020, we did not experience any material quality issue relating to our raw materials.

Equipment Quality Control

We purchase equipment and spares only from selected reputable suppliers in accordance with our internal policies and procedures. We conduct inspections and relevant testing on the incoming equipment to ensure that the equipment is in satisfactory condition and fully functional before we accept delivery from our suppliers. We also communicate with the technical and customer support staff of our equipment suppliers regularly for the maintenance and upgrade of our equipment.

INTELLECTUAL PROPERTY

Our Intellectual Property

We develop and use a number of proprietary methodologies, analytics, systems, technologies, trade secrets, know-how and other intellectual property during the conduct of our business. As at 30 June 2020, we had 22 registered patents in the PRC and the United States, one pending patent application in the United States.

Due to the nature of our services, we typically have access to a significant amount of intellectual property owned by our customers. In addition, our customers generally retain ownership of all intellectual property associated with their projects, including the intellectual

property provided to us and arising from our services. We enter into agreements with all of our employees under which they disown all intellectual property they create during their employment and waive all relevant intellectual property rights or claims. All of our employees have agreed to disclose and assign us all inventions conceived by them during their term of employment.

Our Customers' Intellectual Property

The protection of our customers' intellectual property is essential to our businesses. In addition to protecting our customers' intellectual property, our success also substantially depends on our ability to protect our own proprietary rights. Protecting the proprietary rights of our customers has been a top priority since our inception. This is particularly important for us because a substantial part of our operation is based in China, and China and Chinese companies have not traditionally enforced intellectual property protection to the same extent that the United States and U.S. companies have. Our employees are bound by confidentiality obligations under their employment contracts and are prohibited from disclosing the intellectual property of ours and our customers. In 2017, 2018 and 2019 and the six months ended on 30 June 2020, none of our employees breached the confidentiality obligations under their employment contracts.

In addition, prior to entering into any service agreement with a potential customer, our customer service staff would discuss with such customer on their drug discovery project and conduct a search on our completed and pending projects for internal assessment on risks of potential IP infringement and conflict of interest. We also adopted the following measures to protect our customers' intellectual property rights:

- for drug discovery projects on the same drug target, we designate different teams to work on such projects;
- we have set up an internal screening system/firewall, for our R&D staffs; and
- we have set up access control systems in our laboratories and the laboratories can only be accessed by relevant scientists and laboratory technicians that work on relevant projects.

This physical and operational separation of customer projects ensures enhanced security and protection of our customers' intellectual property. The laboratory configuration and setup, research plan, operating procedures, information technology and security protocols all can be tailored to our customers' specifications.

Despite the measures and efforts we have taken to protect our own and our customers' intellectual property, unauthorized parties may attempt to obtain and use information that we regard as proprietary. Under our contractual arrangements with our customers, we typically undertake to indemnify our customers for damages resulting from any third party intellectual property infringement claims that are solely based on our intellectual property; our customers

typically undertake to indemnify us for damages resulting from any third party intellectual property infringement claims other than those that are solely based on our intellectual property. See “*Risk Factors — Risks Relating to Our Business and Industry — If we fail to protect the intellectual property rights or confidential information of our customers, our reputation may be damaged and we may be subject to legal liabilities*” for more information. In 2017, 2018 and 2019 and the six months ended on 30 June 2020, we were not subject to, nor were we party to, any intellectual property rights infringement claims or litigations and were not aware of any material infringement of our intellectual property rights that had a material adverse effect on our business. We had complied with all applicable intellectual property laws and regulations in all material respects in 2017, 2018 and 2019 and the six months ended on 30 June 2020.

COMPETITION

We have developed a scalable business model combining the conventional CFS model and our unique EFS model.

For our EFS model, we are not aware of other drug discovery or incubation service providers adopting similar model in a systematic, scalable and modularized manner. According to the Frost & Sullivan Report, the incubation model based on early-stage drug discovery services has strong technical barriers. We compete with other drug discovery or incubation service providers on several factors, including expertise and capability in drug discovery, ability to provide integrated incubation services, project screening or risk management methodology and access to early-stage drug R&D projects.

For our CFS model, we face competition from other drug discovery services providers, including large, established multinational CROs that are able to provide a wide range of services, as well as smaller to medium sized CROs that focus on structure based drug discovery services. According to the Frost & Sullivan Report, the global drug discovery outsourcing services market is highly fragmented. We compete with other CROs on several factors, including expertise and capability in drug discovery, quality and breadth of services, ability to protect our customers’ intellectual property or other confidential information, timeliness of delivery and price.

We believe our proprietary technology platforms, modularized incubation program and world-class scientists and business partners provide us with competitive advantage, which increase our profit per employee and improve the success rate of our incubation projects.

INSURANCE

We believe that the insurance policies maintained by us are sufficient to cover the potential losses and damages of our facilities. We do not maintain key-man life insurance for any members of our senior management or other key personnel or business disruption insurance. While we believe that our insurance coverage is adequate and in line with the industry norm in China and the United States, it may be insufficient to cover all claims for product liability or damage to our

fixed assets. See “*Risk Factors — Risks Relating to Our Business and Industry — We have limited insurance coverage, and any claims beyond our insurance coverage may result in us incurring substantial costs and a diversion of resources*” for more information.

PROPERTIES

As at 30 June 2020, we owned our laboratory facilities in Jiaxing, Zhejiang province and Shanghai with a total gross floor area of 11,278 sq.m. and leased seven properties with a total gross floor area of 12,960 sq.m. In the ordinary course of business, we entered into mortgage agreements in respect of certain properties that we owned. In addition, certain of our leased assets have been mortgaged to third parties.

HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

Our operations and facilities are subject to extensive environmental protection and health and safety laws and regulations, which govern, among other things, the generation, storage, handling, use and transportation of hazardous materials and the handling and disposal of hazardous and biohazardous waste generated at our facilities. These laws and regulations generally impose liability regardless of the negligence or fault of a responsible party, unless it has legally defined immunities. These laws and regulations also require us to obtain permits from governmental authorities for certain operations. See “*Regulation*” for more details.

Our environmental, safety and health department is responsible for overseeing the implementation of our measures and procedures to ensure our compliance with the applicable environmental protection and health and safety laws and regulations and the health and safety of our employees. These measures and procedures include (i) adopting protective measures at our facilities, (ii) promulgating safety operation procedures relating to various aspects of our integrated services, such as the use and storage of chemicals and operation of equipment, (iii) promulgating specific rules about the purchase, storage, handling, use and transportation of hazardous materials and the handling and disposal of hazardous and biohazardous waste generated at our facilities, (iv) engaging professional waste-disposal companies to manage the disposal of hazardous and biohazardous waste, (v) providing regular safety awareness training to our employees, and (vi) maintaining a system of recording and handling accidents and implementation of relevant policies, and a health and work safety compliance record.

There had not been any material accidents in the course of our operation or any material claims for personal or property damages in connection with environmental protection, health or work safety against us in 2017, 2018 and 2019 and the six months ended on 30 June 2020.

LEGAL PROCEEDINGS

We may from time to time be involved in contractual disputes or legal proceedings arising out of the ordinary course of business. In 2017, 2018 and 2019 and the six months ended on 30 June 2020, none of us or any of our subsidiaries was subject to any material claims, damages or losses. As at 30 June 2020, no material litigation, arbitration or administrative proceedings had been threatened against us or any of our subsidiaries.

REGULATION

Set out below is a summary of certain aspects of PRC legal and regulatory provisions relating to our operations and business. These include laws and regulations relating to foreign investment, bio industry, environmental protection, intellectual property, hazardous chemicals, pathogenic microorganism laboratories, radiation safety, laboratory animals, import and export foreign exchange, offshore investment, dividend distribution, M&A and overseas listing, employment and social welfare and tax.

LAWS AND REGULATIONS RELATING TO FOREIGN INVESTMENT

Companies established and operating in the PRC shall be subject to Company Law of the PRC (《中華人民共和國公司法》) (the “**PRC Company Law**”), which was promulgated on 29 December 1993 and newly amended on 26 October 2018. The PRC Company Law provides general regulations for companies’ set up and operation in the PRC including the foreign-invested companies. Unless otherwise provided in the PRC foreign investment laws, the provisions in the PRC Company Law shall prevail.

The establishment procedures, examination and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labor matters of a wholly foreign-owned enterprise are governed by the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986 and newly amended on 3 September 2016. The implementation regulations under the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法實施細則》) was promulgated on 12 December 1990 and newly amended on 19 February 2014, which became effective as from 1 March 2014.

Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the “**Foreign Investment Law**”), which was promulgated on 15 March 2019, and came into force as of 1 January 2020, repealing simultaneously the Wholly Foreign-owned Enterprise Law of the PRC, Sino-foreign Equity Joint Ventures Law of the PRC and Sino-foreign Cooperative Joint Ventures Law of the PRC. Foreign-invested companies established prior to the implementation of the Foreign Investment Law in accordance with the aforesaid laws may retain their original business forms for five years after the Foreign Investment Law comes into force. The “foreign investments”, according to the Foreign Investment Law, refers to investment activities within the PRC directly or indirectly conducted by foreign natural persons, enterprises, or other organizations (hereinafter referred to as “foreign investors”), including the following circumstances: (i) a foreign investor, alone or jointly with any other investors, forms a foreign-invested companies within the PRC; (ii) a foreign investor acquires any shares, equities, portion of property, or other similar interests in a PRC domestic enterprise; (iii) a foreign investor, alone or jointly with any other investors, invests in any new PRC domestic project; (iv) the investments in any other manner as specified by laws, administrative regulations or provisions regulated by the State Council. The Implementing Regulations of the Foreign Investment Law has been promulgated by the State Council on 26 December 2019 and came into force as of 1 January 2020. The Foreign Investment Law stipulates that the PRC implements a system of pre-establishment national treatment and negative list of foreign investment. The negative list, which will be issued by or upon approval by

the State Council, refers to special administrative measures for access of foreign investment in specific fields in China. A foreign investor shall not invest in any field prohibited from foreign investment under the negative list. A foreign investor shall meet the investment conditions stipulated under the negative list for any restricted fields under the negative list. For fields not mentioned in such negative list, domestic and foreign investments shall be treated equally. Foreign-invested enterprises can raise funds through public issuance of stocks, corporate bonds and other securities in accordance with the law.

Investments in the PRC by foreign investors and foreign-invested enterprises are regulated by the Catalog of Industries for Guiding Foreign Investment (《外商投資產業指導目錄(2017年修訂)》 the “**Foreign Investment Catalog**”), the latest version of which was promulgated by the National Development and Reform Commission (the “**NDRC**”) and the MOFCOM on 28 June 2017 and became effective as from 28 July 2017. The Foreign Investment Catalog categorizes the industries into four categories including “encouraged”, “restricted”, “prohibited” and (all industries that are not listed under one of “encouraged”, “restricted” or categories are deemed to be permitted). The Foreign Investment Catalog is subject to review and update by the Chinese government from time to time. Moreover, the NDRC and the MOFCOM promulgated the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2018 version) (《外商投資准入特別管理措施(負面清單)(2018年版)》 (the “**2018 Negative List**”) on 28 June 2018 and became effective as from 28 July 2018. The Negative List repeals the “restricted” and “prohibited” categories stipulated in the Foreign Investment Catalog. On 30 June 2019 the NDRC and the MOFCOM jointly promulgated the Special Administrative Measures (Negative List) for the Access of Foreign Investment (2019 version) (《外商投資准入特別管理措施(負面清單)(2019年版)》 (the “**2019 Negative List**”) and the Catalog of Industries for Encouraged Foreign Investment (《鼓勵外商投資產業目錄(2019年版)》), which became effective as from 30 July 2019 and repealed the Foreign Investment Catalog and the 2018 Negative List on 23 June 2020, the NDRC and the MOFCOM again jointly promulgated the Special Administrative Measures ((Negative List) for Foreign Investment Access (2020 version) (《外商投資准入特別管理措施 (負面清單) (2020年版) 》), which became effective from 23 July 2020 and repealed the 2019 Negative List.

Pursuant to Interim Provisions on the Investment of Foreign-invested Enterprise in China (《關於外商投資企業境內投資的暫行規定》) implemented on 1 September 2000 and amended on 26 May 2006 and 28 October 2015, foreign investment enterprises may invest in encouraged and permitted projects in the PRC, but shall not invest in prohibited projects. Pursuant to the Measures on Foreign Investment Information Reporting (《外商投資信息報告辦法》) implemented on 1 January 2020, foreign investors or foreign invested enterprises shall report investment information by submitting initial report, amendment report, cancellation report, annual report or other reports. The foreign investors shall submit an initial report for the incorporation of a foreign invested enterprise or merger or acquisition of non-foreign invested enterprises. If any information in the initial report changes, the foreign invested enterprise shall submit an amendment report when making amendment registration (filing), or otherwise submit the amendment report within 20 working days after the occurrence of the changes if no amendment registration (filing) need to be made.

LAWS AND REGULATIONS RELATING TO BIO INDUSTRY

For the purpose of promoting the development of bio-industry, a series of industry policies have been promulgated by the PRC government in recent years. The General Office of the State Council promulgated the Circular on Printing and Issuing Certain Policies for Promotion of Accelerated Development of Bio-industry (《關於印發促進生物產業加快發展若干政策的通知》) on 2 June 2009, clearly indicating that accelerating the development of bio-industry is a major initiative for China to grasp the strategic opportunity of the revolution of new scientific technology and to build an innovation-oriented country in an all-round way in the new century. On 9 October 2010, the Guidance on the Acceleration of the Structural Adjustment of the Pharmaceutical Industry (《關於加快醫藥行業結構調整的指導意見》) was promulgated which is intended to (i) encourage innovation of biological technologies and increase in the investment in medical research and development for new drugs with China's own independent intellectual property rights, (ii) encourage carrying out fundamental research and develop common, critical and frontier significant projects, (iii) support the enterprise strengthening its technical center construction and (iv) promote the enterprise to become the subject of innovation of biological technologies.

On 10 October 2010, the State Council issued the Decision of the State Council on Accelerating the Fostering and Development of Strategic Emerging Industries (《國務院關於加快培育和發展戰略性新興產業的決定》), categorizing the bio-industry as a strategic emerging industry and calling for strong supports to not only develop biotechnology-derived pharmaceuticals, new types of vaccines, diagnostic reagents, chemical drugs and other large varieties of innovative pharmaceuticals used for the prevention and control of critical diseases, but also raise standards of biomedical industry. According to which, the key technology development, demonstration and application of bio-manufacturing will be promoted.

According to the Notice of the State Council on Issuing the "13th Five-year Plan" for Hygiene and Health (《國務院關於印發“十三五”衛生與健康規劃的通知》) (Guo Fa [2016] No. 77), which became effective on 27 December 2016, the development target of Chinese government is to (1) improve the hygiene and health institution and system; (2) continually perfect the health service system; (3) make a progress on the illness prevention and control; (4) realize a shift on the health service model; (5) maintain the moderate fertility level. Meanwhile, the Chinese government intends to (1) increase the medical services level by improving the medical quality safety level; and (2) accelerate the development of health industry by innovatively developing drug and medical equipment industry.

According to the Notice of the NDRC on Outline of the "13th Five-year Plan" for Biological Industry (《發展和改革委員會關於印發“十三五”生物產業發展規劃的通知》), the Chinese government, among others, intends to cultivate new industry format in bio-pharma industry by (1) establishing professional specialization services platform and (2) promoting specialization division level, including prioritizing the pharmaceutical services, which are in conformity with international standards, covering translational medicine, CRO, CMO), third-party detection institution, and health management, to research and develop a batch of world-leading innovative drugs, particularly in treatment of malignant tumors and fatal infectious diseases.

The Draft Revised Pharmaceutical Administration Law of the PRC

The Pharmaceutical Administration Law (《中華人民共和國藥品管理法》) was last revised in 2019 and came into effect on 1 December 2019, which provides that any pharmaceutical research and development, manufacturing, business operation and use and the supervision and administration activities in the PRC shall comply with the Pharmaceutical Administration Law. However, the Pharmaceutical Administration Law only generally governs pharmaceutical research and development and registration, pharmaceutical marketing permit holders, pharmaceutical manufacturing, pharmaceutical business operation, pharmaceutical management of medical institutions, pharmaceutical post-market launch management, pharmaceutical pricing and advertising, pharmaceutical reserve and supply and supervision and administration, but does not specifically provides for the liabilities assumed by the CROs.

According to the Good Laboratory Practices for Nonclinical Drug Research (《中華人民共和國藥物非臨床研究質量管理規範》), “GLP” or “Good Laboratory Practices” is a quality system of management controls for how nonclinical safety research organizations are operated and how the experiment protocols of nonclinical safety research projects are designed, implemented, executed, inspected, recorded, archived and reported. This quality system is only applicable to nonclinical drug safety evaluation and research conducted for the purpose of drug registration.

According to the Good Clinical Practice of Pharmaceutical Products (《中華人民共和國藥物臨床試驗質量管理規範》), “GCP” or “Good Clinical Practice” is a regulation on the standardization of the whole process of a clinical trial, including protocol designing, organizing, performing, monitoring, auditing, recording, analyzing, summarizing and reporting.

According to the Good Manufacturing Practice for Drugs (《中華人民共和國藥品生產質量管理規範》), “GMP” or “Good Manufacturing Practices” is a quality assurance which aims to minimize the risks of contamination, cross contamination, confusion and errors during the manufacture process of pharmaceutical products and to ensure that pharmaceutical products subject to these guidelines and regulations are consistently produced and controlled in conformity to quality and standard appropriate for their intended use.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Environmental Protection

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), promulgated on 24 April 2014, the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), promulgated on 29 December 2018, the Administrative Regulations on the Environmental Protection of Construction Project (《建設項目環境保護管理條例》), promulgated on 16 July 2017 and other relevant environmental laws and regulations, entities generating environmental pollution and other public hazards must incorporate environmental protection measures into their plans and set up a responsibility system of environmental protection. Construction projects shall go through environmental impact assessment procedure. The construction projects which may have significant impact on the environment shall prepare an environmental impact report with full assessment of their impact on the environment while those projects which have less severe environmental impact are not required to conduct environment impact assessment but need to complete the environmental impact registration form. Pollution prevention facilities for construction projects must be designed, constructed and launched into production and use at the same time with the main part of the projects. Construction projects can only be put into operation after the pollution prevention facilities has passed the examination. Enterprises and public institutions discharging pollutants must report to and register with relevant authorities in accordance with the provisions of the environmental protection administrative authority under the State Council. Relevant authorities have the authority to impose penalties on individuals or entities breaching environmental regulations. The penalties that can be imposed include issuing a warning, the suspension of operation of pollution prevention facilities for construction projects where such facilities are uncompleted or fail to meet the prescribed requirements but are put into operation, reinstallation of pollution prevention facilities which have been dismantled or left idle, administrative sanctions against the officer-in-charge, suspension of business operations or the shut-down of an enterprise or public institution. Fines could also be imposed together with these penalties.

Prevention and Control of Air Pollution

According to the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), promulgated on 29 August 2015 and amended on 26 October 2018, construction, renovation and expansion projects which discharge air pollutants shall comply with regulations regarding environmental protection of construction projects. The environmental impact assessment report regarding a construction project, which is subject to the approval of the environmental protection administrative authorities, shall include an assessment on the air pollution the project is likely to produce and its potential impact on the ecological environment. No construction projects may be put into operation before adequate facilities for prevention and control of air pollution have been inspected and accepted by the environmental protection administrative authorities. Construction projects which have an impact on the atmosphere environment shall conduct the environmental impact assessment, and that discharge of pollutants to the atmosphere shall conform to the atmospheric pollutant discharge standards and abide by the total quantity control requirements for the discharge of key atmospheric pollutants.

Prevention and Control of Environmental Pollution by Solid Waste

The Law of PRC on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), promulgated on 7 November 2016 and subsequently revised on 1 September 2020, stipulates that construction projects where solid waste are generated or projects for storage, utilization or disposal of solid waste shall be subject to environmental impact assessment. Facilities for the prevention and control of solid waste are required to be designed, constructed and put into use or operation simultaneously with the main part of the construction project. No construction projects may be put into operation before its facilities for the prevention and control of solid waste have been inspected and accepted by the construction entity according to the provisions of the relevant laws and regulations.

Prevention and Control of Water Pollution

According to the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》) promulgated on 27 June 2017, construction, renovation and expansion projects and other upper-water facilities that directly or indirectly discharge pollutants to water are subject to environmental impact assessment. In addition, water pollution prevention facilities are required to be designed, constructed and put into operation simultaneously with the main part of the project. No construction projects may be put into operation until the relevant environmental protection administrative authorities inspect and accept their water pollution prevention facilities.

Pollutant Discharge

The Environmental Protection Law of the PRC stipulates that the government shall implement the pollutant emission license administration system. Pollutant discharge by enterprises, public institutions and other producers and business operators is subject to relevant pollutant emission license. The Environmental Protection Law of the PRC requires any entity operating a facility that produces pollutants or other hazardous materials to adopt environmental protection measures in its operations, and to establish an environmental protection responsibility management system. Effective measures to control and properly dispose of waste gas, waste water, waste residue, dust or other waste materials shall be adopted. Any entity operating a facility that discharges pollutants shall report to and register with the competent authority pursuant to applicable regulations. According to the Environmental Protection Law of the PRC, in the event that an entity discharges pollutants in violation of the pollutant discharge standards or volume control requirement, the entity would be subject to administrative penalties, including order to suspend business for rectification, and even order to terminate or close down business under severe circumstances.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

The Copyright Law

China has enacted various laws and regulations relating to the protection of copyright. China is a signatory to some major international conventions on protection of copyright and became a member of the Berne Convention for the Protection of Literary and Artistic Works in October

1992, the Universal Copyright Convention in October 1992, and the Agreement on Trade-Related Aspects of Intellectual Property Rights upon its accession to the World Trade Organization in December 2001.

The Copyright Law of the PRC (《中華人民共和國著作權法》) (the “**Copyright Law**”) which was promulgated on 7 September 1990 and subsequently amended on 27 October 2001 and 26 February 2010 and the Implementation Regulation of the Trademark Law of the PRC promulgated by the State Council on 2 August 2002 and further amended on 8 January 2011 and 30 January 2013 (《中華人民共和國著作權法實施條例》) provides that Chinese citizens, legal persons, or other organizations shall, whether published or not, enjoy copyright in their works, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. The purpose of the Copyright Law aims to encourage the creation and dissemination of works which is beneficial for the construction of socialist spiritual civilization and material civilization and promote the development and prosperity of socialist science and culture.

The Trademark Law

Trademarks are protected by the Trademark Law of the PRC (《中華人民共和國商標法》) which was promulgated on 23 August 1982 and subsequently amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019 respectively and became effective as from 1 November 2019 as well as the Implementation Regulation of the PRC Trademark Law adopted by the State Council on 3 August 2002 and further amended on 29 April 2014 (《中華人民共和國商標法實施條例》). In China, registered trademarks include commodity trademarks, service trademarks, collective trademarks and certification trademarks.

The Trademark Office under the State Administration for Market Regulation handles trademark registrations and grants a term of ten years to registered trademarks. Trademarks are renewable every ten years where a registered trademark needs to be used after the expiration of its validity term. A registration renewal application shall be filed within twelve months prior to the expiration of the term. A trademark registrant may license its registered trademark to another party by entering into a trademark license contract. Trademark license agreements have not been filed with the Trademark Office to be recorded cannot be used against any third party. The licensor shall supervise the quality of the commodities on which the trademark is used, and the licensee shall guarantee the quality of such commodities. As with trademarks, the PRC Trademark Law has adopted a “first come, first file” principle with respect to trademark registration. Where trademark for which a registration application has been made is identical or similar to another trademark which has already been registered or been subject to a preliminary examination and approval for use on the same kind of or similar commodities or services, the application for registration of such trademark may be rejected. Any person applying for the registration of a trademark may not prejudice the existing right first obtained by others, nor may any person register in advance a trademark that has already been used by another party and has already gained a “sufficient degree of reputation” through such party’s use.

Domain Names

On 18 June 2019, the China Internet Network Information Center (the “**CNNIC**”) issued the Implementing Rules for National Top-level Domain Name Registration (《國家頂級域名註冊實施細則》) setting forth detailed rules for registration of domain names. The Ministry of Industry and Information Technology of the PRC (the “**MIIT**”) promulgated the Administrative Measures on Internet Domain Name (《互聯網域名管理辦法》) (the “**Domain Name Measures**”) on 24 August 2017, which became effective on 1 November 2017. According to the Domain Name Measures, domain names are required to be registered and the MIIT is in charge of the administration of PRC Internet domain names. The domain name services follow a “first come, first file” principle. Applicants for registration of domain names shall provide the true, accurate and complete information of the holder of such domain names to domain name registration service institutions. The applicants will become the holders of such domain names upon the completion of the registration procedure. The holder of the domain names shall make amendment registration to the domain name registration service institutions within 30 days if the contact information or other information of the holder changed.

The Patent Law

According to the Patent Law of the PRC (《中華人民共和國專利法》) promulgated by the Standing Committee of the National People’s Congress of the PRC (the “**SCNPC**”), and its Implementation Rules (《中華人民共和國專利法實施細則》) promulgated by the State Council, the State Intellectual Property Office of the PRC (which has been renamed as National Intellectual Property Administration) is responsible for administering patents in the PRC. The patent administration departments of provincial or autonomous regions or municipal governments are responsible for administering patents within their respective jurisdictions. The Patent Law of the PRC and its implementation rules provide for three types of patents, “**invention**”, “**utility model**” and “**design**”. Invention patents are valid for twenty years, while design patents and utility model patents are valid for ten years, from the date of application. The Chinese patent system adopts a “**first come, first file**” principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who files the application first. To be patentable, invention or utility models must meet three criteria: novelty, inventiveness and practicability. Except under certain specific circumstances provided by law, any third-party user must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of the patent rights.

REGULATIONS RELATING TO HAZARDOUS CHEMICALS

Regulation on Safety Administration of Hazardous Chemicals (《危險化學品安全管理條例》, the “**Hazardous Chemicals Regulation**”) was promulgated by the State Council on 7 December 2013. The Hazardous Chemicals Regulation provides regulatory requirements on the safe production, storage, use, operation and transportation of hazardous chemicals. The PRC government exerts strict control over, and adopts an examination and approval system of, the manufacture and storage of hazardous chemicals.

An enterprise that stores and uses hazardous chemicals is required to appoint a qualified institution to conduct safety evaluation of its safety production conditions once every three years and to prepare the safety evaluation report accordingly. Such report shall set out the rectification measures and plans for problem solution as to the safety production. The safety evaluation report and the implementation of the rectification measure shall be filed with the safety supervision regulatory authority.

The Regulation on the Administration of Precursor Chemicals (《易製毒化學品管理條例》), promulgated on 6 February 2016 and amended on 18 September 2018, stipulates and regulates the production, operation, purchase, transportation, import and export of precursor chemicals. The classified administration and licensing system have been applied on the production, operation, purchase, transportation, import and export of precursor chemicals. No individual is allowed to purchase any precursor chemicals in category I or II. An enterprise shall obtain the purchase license in advance for purchasing the precursor chemicals in category I and shall report the variety and quantity in demand to the public security bureau of the local people's government at the county level for filing in advance for purchasing the precursor chemicals in category II and III.

REGULATION ON PATHOGENIC MICROORGANISM LABORATORIES

According to the Regulations on Administration of Bio-safety in Pathogenic Microorganism Laboratories (《病原微生物實驗室生物安全管理條例》), promulgated on 19 March 2018, the pathogenic microorganism laboratory is classified into four levels, namely bio-safety level 1, 2, 3 and 4 in terms of the national standard on biosafety of the laboratory. A laboratory of bio-safety level 1 or 2 shall not conduct laboratory activities related to highly pathogenic microorganisms. The construction, alteration or extension of a laboratory of bio-safety level 1 or 2 shall be reported for the record to competent health authorities. The establisher of a laboratory shall develop a scientific and strict management system, regularly inspect the implementation of the regulations on bio-safety, and regularly inspect, maintain and update the facilities, equipment and materials in the laboratory, to ensure its compliance with the national standards. Currently, we only have one pathogenic microorganism laboratory of bio-safety level 2.

REGULATION ON RADIATION SAFETY

According to the Regulations on the Safety and Protection of Radioisotopes and Radiation Devices (《放射性同位素與射線裝置安全和防護條例》), which was effective on 1 December 2005 and was amended on 29 July 2014 and 2 March 2019, in accordance with the degree of potential harm of radioactive sources and radiation devices to human health and environment, radioactive sources may be divided into Class I, Class II, Class III, Class IV and Class V; radiation devices may be divided into Class I, Class II and Class III. An entity producing, selling or using radioisotopes or radiation devices shall apply, in advance, for a license to the competent department of specified conditions. An entity producing, selling or using radioisotopes or radiation devices shall provide the education and training on safety and protection knowledge for its personnel engaged in relevant works, make assessment, and conduct personal dose monitoring and occupational health examination of its personnel engaged in relevant works; shall conduct annual assessment of the status of safety and protection of its radioisotopes or radiation devices.

REGULATION ON LABORATORY ANIMALS

According to the Regulations on the Administration of Laboratory Animals (《實驗動物管理條例》), which was effective on 14 November 1988 and newly amended on 1 March 2017, enterprise that are engaged in feeding and breeding laboratory animals shall, in accordance with relevant standards, conduct regular quality monitoring on laboratory animals. Feeding and breeding rooms and laboratories for laboratory animals shall be built in different areas and each shall be kept in strict isolation. Laboratory animals that are newly introduced shall be subject to quarantine inspection in isolation. The laboratory animals are categorized into four classes, the first being ordinary animals, the second, clean animals, the third, animals carrying no specific pathogens and the fourth, animals carrying no bacteria. Enterprises that are engaged in working with laboratory animals shall regularly organize physical check-ups for personnel who are in direct contact with the laboratory animals. According to the Notice on Issuance of “the Administrative Measures for Laboratory Animals License (Trial)” (《關於發佈〈實驗動物許可證管理辦法(試行)〉的通知》), Laboratory Animals License includes Laboratory Animals Production License and Laboratory Animals Using License. Organizations and individuals engaging in breed conservation, breeding, production, supplying, transportation or related commercial operation of laboratory animals and related products shall obtain Laboratory Animals Production License, while organizations and individuals using laboratory animals and related products in scientific research and experiments shall obtain Laboratory Animals Using License. Our Shanghai Laboratory has obtained a Laboratory Animals Using License.

REGULATIONS RELATING TO IMPORT AND EXPORT

Import and Export of Goods

According to the Administrative Provisions on the Registration of Customs Declaration Entities of the PRC (《中華人民共和國海關報關單位註冊登記管理規定》), promulgated on 29 May 2018, import and export of goods shall be declared by the consignor or consignee itself, or by a customs declaration enterprise entrusted by the consignor or consignee and duly registered with the customs authority. Consignors and consignees of imported and exported goods shall go through customs declaration entity registration formalities with the competent customs departments in accordance with the applicable provisions. After completion of the registration formalities with the customs, consignors and consignees of the imported and exported goods may handle their own customs declarations at customs ports or localities where customs supervisory affairs are concentrated within the customs territory of the PRC.

Import and Export of Special Articles

According to the Administrative Provisions on the Sanitation and Quarantine of Entry/Exit Special Articles (《出入境特殊物品衛生檢疫管理規定》), which became effective as at 1 March 2015 and was last amended on 23 November 2018, import or export of special medical articles, including biological products, microbes and blood must be inspected by the relevant inspection and quarantine authorities.

LAWS AND REGULATIONS RELATING TO FOREIGN EXCHANGE

General Administration of Foreign Exchange

Foreign currency exchange in PRC is primarily governed by the Foreign Exchange Control Regulations of the PRC (《中華人民共和國外匯管理條例》) (the “**Foreign Exchange Administration Rules**”), promulgated by the State Council on 29 January 1996 and last amended on 5 August 2008, and various regulations issued by SAFE and other relevant PRC government authorities. Under the Foreign Exchange Administration Rules, Renminbi is freely convertible into other currencies for routine current account items, including distribution of dividends, payment of interest, trade and service-related foreign exchange transactions. The conversion of Renminbi into other currencies for most capital account items, such as direct equity investment, overseas loan, and repatriation of investment, however, is still regulated. Payments for transactions that take place within the PRC must be made in Renminbi. Unless otherwise approved, PRC companies may repatriate foreign currency payments received from abroad or retain the same abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks under the current account items subject to a cap set by SAFE or its local office. Foreign exchange proceeds under the current accounts may be either retained or sold to a financial institution engaging in settlement and sale of foreign exchange pursuant to relevant rules and regulations of the State. For foreign exchange proceeds under the capital accounts, approval from SAFE is required for its retention or sale to a financial institution engaging in settlement and sale of foreign exchange, except where such approval is not required under the relevant rules and regulations of the PRC.

Pursuant to the Notice of SAFE on Further Improving and Adjusting Foreign Exchange Administration Policies for Direct Investment (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》) (the “**SAFE Notice No. 59**”) promulgated by SAFE on 19 November 2012 and further amended on 4 May 2015 and 10 October 2018 and 30 December 2019, respectively, approval is not required for the opening of an account entry in foreign exchange accounts under direct investment, for domestic transfer of the foreign exchange under direct investment. The SAFE Notice No. 59 also simplified the capital verification and confirmation formalities for foreign invested entities, the foreign exchange registration formalities required for the foreign investors to acquire the equities and foreign exchange registration formalities required for the foreign investors to acquire the equities of Chinese party; and further improve the administration on exchange settlement of foreign exchange capital of foreign invested entities.

SAFE Circular 13 cancels the administrative approvals of foreign exchange registration of direct domestic investment and direct overseas investment. In addition, it simplifies the procedure of registration of foreign exchange and investors shall register with banks to have the registration of foreign exchange with respect to direct domestic investment and direct overseas investment.

The Notice of SAFE on Reforming the Management Approach regarding the Settlement of Foreign Capital of Foreign-invested Enterprise (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the “**SAFE Notice No. 19**”) was promulgated on 30 March 2015 and became effective on 1 June 2015 and was partially abolished on 30 December 2019. According to the SAFE Notice No. 19, a foreign-invested enterprise may, in response to its actual business

needs, settle with a bank the portion of the foreign exchange capital in its capital account for which the relevant foreign exchange bureau has confirmed monetary contribution rights and interests (or for which the bank has registered the account-crediting of monetary contribution). For the time being, foreign-invested enterprises are allowed to settle 100% of their foreign exchange capitals on a discretionary basis; a foreign-invested enterprise shall truthfully use its capital for its own operational purposes within its scope of business; where an ordinary foreign-invested enterprise makes domestic equity investment with the amount of foreign exchanges settled, the invested enterprise shall first go through domestic re-investment registration and open a corresponding Account for Foreign Exchange Settlement Pending Payment with the foreign exchange bureau (bank) at the place of registration. The Notice of SAFE on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the “**SAFE Notice No. 16**”) was promulgated and became effective on 9 June 2016. According to the SAFE Notice No. 16, enterprises registered in PRC may also convert their foreign debts from foreign currency into Renminbi on self-discretionary basis. The SAFE Notice No. 16 provides an integrated standard for conversion of foreign exchange under capital account items (including but not limited to foreign currency capital and foreign debts) on self-discretionary basis, which applies to all enterprises registered in the PRC. The SAFE Notice No. 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope and may not be used for investments in securities or other investment with the exception of bank financial products that can guarantee the principal within the PRC unless otherwise specifically provided. Besides, the converted Renminbi shall not be used to make loans for related enterprises unless it is within the business scope or to build or to purchase any real estate that is not for the enterprise own use with the exception for the real estate enterprise.

On 26 January 2017, SAFE promulgated the Notice on Further Improving Reform of Foreign Exchange Administration and Optimizing Genuineness and Compliance Verification (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) (the “**SAFE Notice No. 3**”), which stipulates several capital control measures with respect to the outbound remittance of profits from domestic entities to offshore entities, including (i) under the principle of genuine transaction, banks shall check board resolutions regarding profit distribution, the original version of tax filing records and audited financial statements; and (ii) domestic entities shall cover losses in the previous years prior to remittance of profits. Moreover, pursuant to the SAFE Notice No. 3, domestic entities shall make detailed explanations of the sources of capital and utilization arrangements, and provide board resolutions, contracts and other proof when completing the registration procedures in connection with an outbound investment.

LAWS AND REGULATIONS RELATING TO OFFSHORE INVESTMENTS

On 21 October 2005, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Raising Funds through Overseas Special Purpose Vehicle and Investing Back in China by Domestic Residents (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), which became effective on 1 November 2005 (the “**Circular No. 75**”). The Circular No. 75 requires PRC domestic resident natural persons to register or file with the local SAFE branch in the following circumstances: (i) before establishing or controlling

any company outside the PRC for the purpose of capital financing, (ii) after contributing their assets or shares of a domestic enterprise into overseas special purpose vehicles, or raising funds overseas after such contributions, and (iii) after any major change in the share capital of the special purpose vehicle without any round-trip investment being made. On 4 July 2014, SAFE promulgated the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular No. 37**”), for the purpose of simplifying the approval process, and for the promotion of the cross-border investment. The Circular No. 37 supersedes the Circular No. 75 and revises the regulations on the relevant matters involving foreign exchange registration for round-trip investment. Under the Circular No. 37, and other relevant foreign exchange regulations, PRC residents who make, or have previously made, prior to the implementation of these foreign exchange regulations, direct or indirect investments in offshore companies will be required to register those investments. In the event the change of basic information of the registered offshore special purpose vehicle such as the PRC resident individual shareholder, name, operation term, etc., or if there is a capital increase, decrease, equity transfer or swap, merge, spin-off or other amendment of the material items, the domestic resident shall complete the change of foreign exchange registration formality for offshore investment. In addition, according to the Operation Guidance for the Issues Concerning Foreign Exchange Administration over Round-trip Investment (《返程投資外匯管理所涉業務操作指引》) which is, the procedural guideline as attached to the Circular No. 37, the principle of review has been changed to “the domestic individual resident only needs to register the Special Purpose Vehicle (the “**SPV**”) directly established or controlled (first level)”.

Under the relevant rules, failure to comply with the registration procedures set forth in the Circular No. 37 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the payment of dividends and other distributions to its offshore parent or affiliate, and may be also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who hold any shares in the company from time to time are required to register with the SAFE in connection with their investments in the company.

LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

The principal laws and regulations regulating the distribution of dividends by foreign-invested enterprises in the PRC include the PRC Company Law and the Wholly Foreign-owned Enterprise Law and its implementation regulations promulgated in 1990 and subsequently amended in 2001 and 2014, the Equity Joint Venture Law of the PRC (《中華人民共和國中外合資經營企業法》) promulgated in 1979 and last amended in 2016 and its implementation regulations promulgated in 1983 and last amended in 2019, and the Cooperative Joint Venture Law of the PRC (《中華人民共和國中外合作經營企業法》) promulgated in 1988 and last amended in 2017 and its implementation regulations promulgated in 1995 and last amended in 2017 which have been abolished by the Foreign Investment Law since 1 January 2020. Under the current regulatory regime in the PRC, foreign-invested enterprises or other PRC companies are required to set aside as statutory reserve funds (法定公積金) at least 10% of its after-tax profit, until the cumulative amount of such reserves reaches 50% of its registered capital unless the

provisions of laws regarding foreign investment otherwise provided. A PRC company shall not distribute any profits until any losses from prior fiscal years have been offset. Profits retained from prior fiscal years may be distributed together with distributable profits from the current fiscal year.

LAWS AND REGULATIONS RELATING TO EMPLOYMENT AND SOCIAL WELFARE

Labor Protection

The main PRC employment laws and regulations include the Labor Law of the PRC (《中華人民共和國勞動法》) (the “**Labor Law**”), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) (the “**Labor Contract Law**”) and the Implementing Regulations of the Employment Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》).

The Labor Contract Law was promulgated on 29 June 2007, revised on 28 December 2012 and came into force on 1 July 2013. This law governs the establishment of employment relationships between employers and employees, and the execution, performance, termination of, and the amendment to, labor contracts. The Labor Contract Law is primarily aimed at regulating employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labor contracts. Pursuant to the Labor Contract Law, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or institutions and the laborers. Enterprises and institutions are forbidden to force laborers to work beyond the time limit and employers shall pay laborers for overtime work in accordance with national regulations. In addition, labor wages shall not be lower than local standards on minimum wages and shall be paid to laborers in a timely manner. Moreover, according to the Labor Contract Law: (i) employees must comply with regulations in the labor contracts concerning commercial confidentiality and non-competition; (ii) employees may terminate their labor contracts with their employers if their employers fail to make social insurance contributions in accordance with the law; and (iii) enterprises and institutions shall establish and improve their system of workplace safety and sanitation, strictly abide by state rules and standards on workplace safety, educate laborers in labor safety and sanitation in the PRC.

The Labor Contract Law imposes more stringent requirements on labor dispatch. According to the Labor Contract Law, (i) it is strongly emphasized that dispatched contract workers shall be entitled to equal pay for equal work as an employee of an employer; (ii) dispatched contract workers may only be engaged to perform temporary, auxiliary or substitute works; and (iii) an employer shall strictly control the number of dispatched contract workers so that they do not exceed certain percentage of total number of employees and the specific percentage shall be prescribed by the Ministry of Human Resources and Social Security. Under the law, “temporary work” means a position with a term of less than six months; “auxiliary work” means a non-core business position that provides services for the core business of the employer; and “substitute work” means a position that can be temporarily replaced with other workers for the period that a regular employee is away from work for vacation, study or for other reasons. According to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) promulgated by the Ministry of Human Resources and Social Security on 24 January 2014, which became effective on 1 March 2014, (i) the number of dispatched contract workers hired by an employer should not exceed 10% of the total number of its employees (including both directly hired employees and dispatched

contract workers); and (ii) in the case that the number of dispatched contract workers exceeds 10% of the total number of its employees at the time when the Interim Provisions on Labor Dispatch became effective, the employer must formulate a plan to reduce the number of its dispatched contract workers to comply with the aforesaid cap requirement prior to 1 March 2016. In addition, such plan shall be filed with the local administrative authority of human resources and social security. The employer may also not hire any new dispatched contract worker before the number of its dispatched contract workers is reduced to below 10% of the total number of its employees. In case of violation, the labor administrative department shall order rectification within a specified period of time; if the situation is not rectified within the specified period, a fine from RMB5,000 to RMB10,000 for each person shall be imposed, and the labor dispatching service provider's business license shall be revoked. If a placed worker suffers any harm or loss caused by the receiving entity, the labor dispatching service provider and the employer shall be jointly and severally liable for damages.

Social Insurance and Housing Fund

As required under the Regulation of Insurance for Labor Injury (《工傷保險條例》) implemented on 1 January 2004 and amended in 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》) implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Basic Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》) issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》) promulgated on 14 December 1998, the Unemployment Insurance Measures (《失業保險條例》) promulgated on 22 January 1999 and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) implemented on 1 July 2011 and amended on 29 December 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. These payments are made to local administrative authorities and any employer that fails to contribute may be fined and ordered to make up within a prescribed time limit.

In accordance with the Regulations on the Management of Housing Funds (《住房公積金管理條例》) which was promulgated by the State Council in 1999 and amended in 2002 and 2019, enterprises must register at the competent managing center for housing funds and complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Enterprises are also required to pay and deposit housing funds on behalf of their employees in full and in a timely manner.

According to the Institutional Reform Plan of the State Council (《國務院機構改革方案》) and the Reform Plan on the National and Local Taxation Collection and Management System (《國稅地稅徵管體制改革方案》) released by the Central Committee of the Communist Party of China on 20 July 2018, the tax authority takes the responsibility of calculating and collecting social insurance premiums from 1 January 2019.

Protection and Control of Occupational Diseases

According to the Prevention and Control of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》), promulgated on 29 December 2018, the protection and control of occupational diseases shall follow the principle of “**focusing on prevention and combining prevention with control**”. An employer shall: (i) establish and improve the responsibility management system of occupational disease prevention and treatment, strengthen the administration of, and improve the capability of, occupational disease prevention and treatment, and bear responsibility for the harm of occupational diseases caused by it; (ii) contribute to occupational injury insurance; (iii) provide facilities for the effective prevention and protection of occupational diseases, and provide materials to employees for personal use against occupational diseases; (iv) provide alarm equipment, allocate on-spot emergency treatment materials, washing equipment, emergency safety exits and necessary safety zones for work places where acute occupational injuries are likely to take place due to poisonous and harmful elements therein; and (v) inform the employees of, and specify in the labor contracts with the employees the potential harm of, occupational disease as well as the consequences thereof, and the prevention and protection measures and treatment against occupational diseases when signing the labor contracts with employees.

The Occupational Diseases Classified Catalog (《職業病分類和目錄》), promulgated on 23 December 2013, classifies the occupational diseases into 10 categories. The Occupational Diseases Classified Catalog is subject to review and update by the relevant administrative authority from time to time.

LAWS AND REGULATIONS RELATING TO TAX

Enterprise Income Tax

On 16 March 2007, the National People’s Congress promulgated the Law of the PRC on Enterprise Income Tax (《中華人民共和國企業所得稅法》) which was amended on 24 February 2017 and 29 December 2018, and on 6 December 2007, the State Council enacted The Regulations for the Implementation of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (collectively, the “**EIT Law**”) which was amended on 23 April 2019. The EIT Law came into effect on 1 January 2008. According to the EIT Law, taxpayers consist of resident enterprises and non-resident enterprises. Resident enterprises are defined as enterprises that are established in China in accordance with PRC laws, or that are established in accordance with the laws of foreign countries but whose actual or de facto control is administered from within the PRC. Non-resident enterprises are defined as enterprises that are set up in accordance with the laws of foreign countries and whose actual administration is conducted outside the PRC, but have established institutions or premises in the PRC, or have no such established institutions or premises but have income generated from inside the PRC. Under the EIT Law and relevant implementing regulations, a uniform corporate income tax rate of 25% is applicable. However, non-resident enterprises’ enterprise income tax is set at the rate of 10% for their income sourced from inside the PRC. Enterprises that are recognized as high and new technology enterprises in accordance with the Notice of the Ministry of Science, the Ministry of Finance (the “**MOP**”) and the SAT on Amending and Issuing the Administrative Measures for the Determination of High and New Tech Enterprises

(《科技部、財政部、國家稅務總局關於修訂印發〈高新技術企業認定管理辦法〉的通知》) are entitled to enjoy the preferential enterprise income tax rate of 15%. The validity period of the high and new technology enterprise qualification shall be three years from the date of issuance of the certificate of high and new technology enterprise. The enterprise can re-apply for such recognition as a high and new technology enterprise before or after the previous certificate expires.

The Notice Regarding the Determination of Chinese-Controlled Offshore Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies (《關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》) promulgated by the SAT on 22 April 2009 and amended on 29 December 2017 sets out the standards and procedures for determining whether the “de facto management body” of an enterprise registered outside of the PRC and controlled by PRC enterprises or PRC enterprise groups is located within the PRC.

The EIT Law provide that an income tax rate of 10% will normally be applicable to dividends payable to investors that are “**non-resident enterprises**”, and gains derived by such investors, which (a) do not have an establishment or place of business in the PRC or (b) have an establishment or place of business in the PRC, but the relevant income is not effectively connected with the establishment or place of business to the extent such dividends and gains are derived from sources within the PRC. Such income tax on the dividends may be reduced pursuant to a tax treaty between China and the jurisdictions in which our non-PRC shareholders reside. Pursuant to an Arrangement Between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion With Respect to Tax on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) (the “**Double Tax Avoidance Arrangement**”), and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the 10% withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5% upon receiving approval from in-charge tax authority. However, based on the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) (the “**Notice No. 81**”) issued on 20 February 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. In addition, the Announcement of the SAT on Issues concerning “Beneficial Owners” in Tax Treaties (《國家稅務總局關於稅收協定中“受益所有人”有關問題的公告》) promulgated on 3 February 2018 regulates the relevant elements to be considered with respect to determining the status of “beneficial owner”.

According to the EIT Law, the EIT tax rate of a high and new technology enterprise is 15%. Pursuant to the Administrative Measures for the Recognition of High and New Technology Enterprises (《高新技術企業認定管理辦法》), became effective on 1 January 2008 and amended on 29 January 2016, the certificate of a high and new technology enterprise is valid for three years. An enterprise shall, after being accredited as a high-tech enterprise, fill out and submit the statements on annual conditions concerning the intellectual property rights, scientific and technical personnel, expenses on research and development and operating income for the previous year on

the “website for the administration of accreditation of high-tech enterprises”. Besides, when any high-tech enterprise has changed its name or has undergone any major change concerning the accreditation conditions (such as a division, merger, reorganization or change of business), it shall report the change to the accreditation institution within three months upon occurrence of the change. If the high-tech enterprise is qualified upon review by the accreditation institution, it continues to have the qualification as a high-tech enterprise, and in case of change in the name, a new accreditation certificate will be issued with the number and term of validity remaining the same as the previous certificate; otherwise, the qualification as a high-tech enterprise shall be canceled as at the year of change in the name or any other condition.

Value Added Tax

The Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on 19 November 2017. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例實施細則》) were promulgated by the Ministry of Finance and the SAT on 15 December 2008 which were subsequently amended on 28 October 2011 and came into effect on 1 November 2011 (collectively, the “**VAT Law**”). According to the VAT Law, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, and the importation of goods within the territory of the PRC must pay value-added tax. For general VAT taxpayers selling services or intangible assets other than those specifically listed in the VAT Law, the value-added tax rate is 6%.

Dividend Withholding Tax

The EIT Law provides that since 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-PRC resident investors who do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC.

Pursuant to the Double Tax Avoidance Arrangement, and other applicable PRC laws, if a Hong Kong resident enterprise is determined by the competent PRC tax authority to have satisfied the relevant conditions and requirements under such Double Tax Avoidance Arrangement and other applicable laws, the withholding tax on the dividends the Hong Kong resident enterprise receives from a PRC resident enterprise may be reduced to 5%. However, based on the Notice No. 81, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment.

DIRECTORS AND MANAGEMENT

DIRECTORS

Our board of directors is responsible and has general powers for the management and conduct of our business. The table below shows certain information in respect of the members of our board.

The members of the Board as at the date of this Offering Circular are as follows:

Name	Age	Position
MAO Chen Cheney (毛晨)	59	Chairman, chief executive officer and executive director
WU Ying (吳鷹)	57	Executive director and executive vice president
HUA Fengmao (華風茂)	52	Executive director and chief financial officer
REN Delin (任德林)	61	Executive director and president
SUN Yanyan (孫妍妍)	33	Non-executive director
FU Lei (傅磊)	58	Independent non-executive director
LI Xiangrong (李向榮)	47	Independent non-executive director
WANG Haiguang (王海光)	58	Independent non-executive director

Executive Directors

Mr. MAO Chen Cheney (毛晨), aged 59, is the chairman, chief executive officer and an executive director of the Company, mainly responsible for the overall strategic planning and business development of the Group. Mr. Mao has served as the chief executive director of Viva Biotech Shanghai since joining our Group in August 2008 and currently serves as the chief executive officer of all our subsidiaries, except Viva Incubator Shanghai, where he serves as the chairman of the board of directors. Mr. Mao has over 20 years of experience in the CRO industry.

Mr. Mao obtained his bachelor's degree in radiochemistry and master's degree in physical chemistry from Fudan University. He obtained his Ph.D. degree in biochemistry from Cornell University. Mr. Mao was selected to participate in the "The Thousand Talent Plan" initiated by Shanghai government in August 2012 and the PRC central government in March 2013, whose purpose is to attract overseas top talent to China. Mr. Mao has published about 45 research papers on topics including structure-based drug design.

Mr. WU Ying (吳鷹), aged 57, is an executive director and the executive vice president of our Company, mainly responsible for the daily operation of Group and customer relations. Mr. Wu has approximately ten years of experience in the CRO industry. Mr. Wu joined our Group in

August 2008 as a vice president of Viva Biotech Shanghai and currently serves as the chief operating officer and general manager of Viva Biotech Shanghai. From 1982 to 2008, Mr. Wu worked at Shanghai Teachers College for Vocational Studies. Mr. Wu also serves as a director of Viva Biotech HK, executive director of Jiaying Viva, executive director and general manager of Viva Incubator Shanghai and Sichuan Viva. Mr. Wu obtained his bachelor's degree in mathematics from Shanghai Normal University and master's degree in business administration from Hong Kong International Business College.

Mr. HUA Fengmao (華風茂), aged 52, is an executive director and the chief financial officer of our Company, mainly responsible for the overall finance management and capital investment of our Group. Mr. Hua has approximately 20 years of experience in the investment banking industry. Mr. Hua previously worked at a number of investment banking firms where he was mainly responsible for corporate finance, public offerings, reorganization, mergers and acquisitions as well as other financial consulting work.

Mr. Hua obtained his bachelor's degree in English from Shanghai International Studies University and master's degree in business administration from the International University of Japan. Mr. Hua is a responsible officer for Type 9 regulated activities under the SFO.

Mr. REN Delin (任德林), aged 61, is an executive director and the president of our Company, mainly responsible for the overall management of our CRO business. Mr. Ren has approximately ten years of experience in the CRO industry. Mr. Ren served as the vice president of the department of biology of Viva Biotech Shanghai from May 2009 to August 2017, and has been serving as the general manager of Viva Biotech Shanghai since August 2017. Prior to joining our Company, Mr. Ren worked at Warner-Lambert Pharmaceuticals LLC and Pfizer Inc.

Mr. Ren obtained his bachelor's degree in veterinary medicine from Shanxi Agricultural University and his master's degree in microbiology from Beijing Agricultural University. Mr. Ren obtained his Ph.D. degree in animal science from Michigan State University. Mr. Ren has published about ten research papers on topics including adipogenesis and fat-cell function in obesity and diabetes, among others. Mr. Ren was selected to participate in the "Shanghai Thousand Talent Plan" in August 2015.

Non-executive Directors

Ms. SUN Yanyan (孫妍妍), aged 33, is an investment director of Fenghong Investment Management (Shanghai) Limited (風鴻投資管理(上海)有限公司, "**Fenghong Investment**"), an investment management company, mainly responsible for investment management in the healthcare industry. Prior to joining Fenghong Investment, Ms. SUN has over five years of experiences working in the medical equipment industry with experience in corporate finance, investor relations and marketing. Ms. SUN obtained her Ph.D. degree from Fudan University in July 2014 and her bachelor of science in biology from Nanchang University in July 2009.

Independent Non-executive Directors

Mr. FU Lei (傅磊), aged 58, is an independent non-executive director. Mr. Fu has been a professor of medical chemistry in the School of Pharmacy of Shanghai Jiao Tong University since 2006. Mr. Fu was a lecturer at Fudan University and an invited scientist at Free University from September 1990 to August 1993. From November 1998, Mr. Fu served as a principal investigator of Pharmacyclics, Inc., a U.S. company focusing on developing and commercializing small-molecule medicines for the treatment of cancers and immune-mediated diseases. Mr. Fu obtained his bachelor's degree in radiochemistry from Fudan University and Ph.D. degree in chemistry from Stanford University.

Ms. LI Xiangrong (李向榮), aged 47, is an independent non-executive director. Ms. Li obtained her bachelor's degree in international accounting jointly awarded by the Shanghai University of Finance and Shanghai International Studies Institute (now known as Shanghai International Studies University). Ms. Li worked with Unilever from 1993 to 2010, including serving as the financial controller for the greater China region from 2007 to 2010. Ms. Li served as the chief financial officer of Hengdeli Holdings Ltd (HK.3389) from 2010 to August 2014. Ms. Li served as the chief financial officer of Homeinns Hotel Group (previously listed on NASDAQ with stock ticker HMIN) from August 2014 to April 2016. Ms. Li has been serving as the deputy general manager and financial controller of Beijing Tourist Hotel (Group) Co., Ltd. (北京首旅酒店(集團)股份有限公司) (600258) since April 2016.

She obtained a master's degree in executive management business administration from China Europe International Business School and is now a senior member of The Association of Chartered Certified Accountants and a member of The Chinese Institute of Certified Public Accountants.

Mr. WANG Haiguang (王海光), aged 58, joined as an independent non-executive director on 14 April 2019. Mr. Wang obtained his bachelor's degree in philosophy from Hangzhou University (now merged into Zhejiang University). From May 1997 to June 2006, Mr. Wang served as the executive president, primarily responsible for day-to-day operations of the company, at Nandu Group Holding Co., Ltd. (南都集團控股有限公司). Mr. Wang has been serving as the chairman of the board of directors of Zhejiang Nandu Power Source Co., Ltd. (浙江南都電源動力股份有限公司, stock code: 300068), Narada Hotel Group, Zhejiang World Trade Center Co., Ltd. (浙江世界貿易中心有限公司), the vice executive president and director of Shanghai Nandu Group Co., Ltd. (上海南都集團有限公司) since June 2006, as well as the chairman of the board of directors of Zhejiang Vanke Nandu Real Estate Co., Ltd. (浙江萬科南都房地產有限公司) since October 2006.

Mr. Wang currently serves as the deputy chairman of The Listed Company Association of Zhejiang and The Zhejiang Province Real Estate Industry Association.

SENIOR MANAGEMENT

Our senior management team consists of seven members. The table below sets forth information regarding our senior management:

Name	Age	Position
MAO Chen Cheney (毛晨)	59	Chief executive officer
REN Delin (任德林)	61	President
HUA Fengmao (華風茂)	52	Chief financial officer
WU Ying (吳鷹)	57	Executive vice president
YE Zhixiong (葉志雄)	60	Chief scientific officer
WANG Jie (王傑)	55	Vice president of the department of biology
LIU Rongqiang (劉容強)	55	Vice president of the department of chemistry
Cheng Xueheng (程學恒)	65	Chief technology officer
Xu David Daqiang (許大強)	56	Chief business officer

Mr. MAO Chen Cheney (毛晨). See “— *Executive Directors*” for Mr. Mao’s experience.

Mr. REN Delin (任德林). See “— *Executive Directors*” for Mr. Ren’s experience.

Mr. HUA Fengmao (華風茂). See “— *Executive Directors*” for Mr. Hua’s experience.

Mr. WU Ying (吳鷹). See “— *Executive Directors*” for Mr. Wu’s experience.

Mr. YE Zhixiong (葉志雄), aged 60, is the chief scientific officer of our Company, mainly responsible for research and development related matters. Mr. Ye served as the vice president of the Department of Chemistry in Viva Biotech Shanghai from September 2009 to 1 July 2017. Prior to joining our Group, Mr. Ye worked as a senior research fellow at Merck & Company, Inc. (NYSE: MRK), an American pharmaceutical company. During Mr. Ye’s employment with Merck & Company, Inc., he participated and directed drug research and development projects targeting diabetes-, obesity- and endocrine-related diseases.

Mr. Ye obtained his bachelor’s degree in chemistry from Fudan University and master’s degree in chemistry from the Montana State University. Mr. Ye obtained his Ph.D. degree in chemistry from the University of Minnesota. Mr. Ye was selected to participate in the “Shanghai Thousand Talent Plan” in August 2016, an initiative of Chinese government to attract skilled and talented artists, scientists, engineers and academics back to China.

Mr. WANG Jie (王傑), aged 55, is the vice president of the department of biology of our Company, mainly responsible for bioassay development and platform management in drug discovery. Mr. Wang joined our Group in January 2018 and has been serving as the vice president of the department of biology of Viva Biotech Shanghai since then, primarily responsible for bioassay development and platform management in drug discovery. Mr. Wang has over 15 years of research experience on islet cell biology and diabetes. Prior to joining our Group, Mr. Wang has worked in University of Chicago, the Ohio State University, and Lilly China Research and Development Co., Ltd.

Mr. Wang obtained a bachelor's degree in animal science and a master's degree in animal physiological and biochemical from Henan Agricultural University. He obtained a certificate of completion of the Ph.D. course in animal genetic engineering at China Agricultural University. Mr. Wang received his Ph.D. degree in physiological medical sciences from Japan Gunma University. Mr. Wang has published over 20 research papers on topics including metabolic, beta-cell proinsulin structural biological processes, diabetes-related gene mutations and pathogenesis, development of new drugs for treatment of diabetes, among others.

Mr. LIU Rongqiang (劉容強), aged 55, is the vice president of the department of chemistry of our Company, primarily responsible for the management of our department of chemistry. Mr. Liu joined our Group in March 2018 and has since been serving as the vice president of the department of chemistry of Viva Biotech Shanghai and the site head of Jiaying Viva. From May 2001 to May 2008, Mr. Liu was a senior researcher at Pharmacopeia, Inc., a U.S. biopharmaceutical company which engages in the drug discovery and development and Mr. Liu's research primarily concerned about inflammatory diseases, central nervous system and oncology. From August 2008 to August 2012, Mr. Liu served as a senior director in Shanghai ChemPartner Co., Ltd., a CRO based in China, mainly responsible for providing chemistry support for a number of pharmaceutical companies. From September 2012 to November 2016, he served as a director of external medicinal chemistry at Merk, Sharp & Dohme Co., a leading pharmaceutical company. From December 2016 to February 2018, he served as the executive director of medicinal chemistry at Shanghai Bioduro Co., Ltd., a company engaging in the provision of contract research services for drug research and development, and was responsible for the overall management and operation of the chemistry division.

Mr. Liu obtained a bachelor's degree in chemistry and a master's degree in organic chemistry from Nankai University. He obtained a Ph.D. degree in science from the University of Lausanne. Mr. Liu has published about 15 research papers on topics including anemia and anti-tumor kinase inhibitors.

Mr. CHENG Xueheng (程學恒), aged 65, is our chief technology officer, primarily responsible for overseeing our drug discovery technology platforms. Mr. Cheng joined us in September 2009. Prior to joining us, Mr. Cheng served as vice president and chief scientist officer at Excel Research from August 2008 to August 2009. From June 1995 to August 2008, he served as senior group leader of high throughput mass spectrometry laboratory at Abbott Laboratories. Mr. Cheng served as a senior scientist at Pacific Northwest National Laboratory in the U.S. from November 1992 to June 1995. Mr. Cheng worked as a research associate at the University of Maryland from September 1991 to October 1992. From September 1989 to September 1991, Mr.

Cheng worked as a research associate at Harvard University. Mr. Cheng obtained his bachelor's degree in chemistry from Peking University in 1982 and Ph.D. degree in organic chemistry from Harvard University in 1989.

Mr. XU David Daqiang (許大強), aged 56, is our chief business officer, primarily responsible for overseeing our EFS business model. Mr. Xu joined us in 2019. Prior to joining us, Mr. Xu was the vice president in charge of the pharmaceutical business unit at Zhejiang Jiuzhou Pharmaceuticals Co. Ltd. (浙江九洲藥業股份有限公司) in 2018. From 2014 to 2017, he worked at Purdue Pharmaceuticals, LP, where he was the head of marketing for in-line products and head of new product planning for the pipeline products. From 2010 to 2014, Mr. Xu served as executive director and head of specialty product franchise at Sandoz Inc., a division of Novartis group. From 2008 to 2010, Mr. Xu served as the head of the chemical and analytical R&D unit at Suzhou Novartis Pharmaceutical Technology and as a general manager responsible for the operation of the unit. He also served at various positions at Novartis Pharmaceuticals Corp. (U.S.) from 1993 to 2008 in both research and development functions and commercial functions, with his last position being the associate director on the Femara brand team at Novartis Oncology Business Unit. Mr. Xu obtained his bachelor's degree in chemistry from Peking University in 1985 and Ph.D. degree in chemistry from University of California, Los Angeles, in 1991. He also obtained an MBA degree from the Wharton School of Business at University of Pennsylvania in 2001.

PRINCIPAL SHAREHOLDERS

As at the date of this Offering Circular, the following persons beneficially owned more than 5% of our outstanding shares and underlying shares, as recorded in the register maintained by us pursuant to Section 352 of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (“SFO”).

Name of interested party	Capacity/Nature of interest	Total number of Shares	Approximate percentage of the issued share capital of our Company
Mao Chen Cheney ⁽¹⁾	Beneficial owner	215,617,551	11.27%
	Trustee	200,000,000	10.46%
	Beneficiary of a trust (other than a discretionary interest)	66,425,976	3.47%
Mao Jun ⁽²⁾	Beneficiary of a trust (other than a discretionary interest)	415,364,950	21.72%
Wu John Jiong ⁽³⁾	Interest in controlled corporation	234,262,092	12.25%
Hua Fengmao ⁽⁴⁾	Interest in controlled corporation	123,857,056	6.48%
	Beneficiary of a trust (other than a discretionary interest)	8,399,308	0.44%
	Beneficial owner	4,044,555	0.21%

Notes:

- (1) Mr. Mao 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. Also Mr. Mao is the investment manager of the Min Zhou 2018 Family Trust and the manager of MZFT, LLC who exercises the voting rights of the Shares directly held by MZFT, LLC. Mr. Mao is also a beneficiary of Min Zhou 2018 Family Trust.
- (2) Each of Mao and Sons, and 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). 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 as settlor and protector. Ms. Mao is also a beneficiary of the relevant family trusts. Therefore, Ms. Mao is deemed to be interested in the shares directly held by each of Mao and Sons, Zhang and Sons, JL and JSW Holding Limited, MENGL Holding Limited, TIANL Holding Limited and VVBI Limited.
- (3) Mr. John Wu Jiong holds 100.00% equity interest in each of Fenghe Harvest and Wu and Sons. In addition, Mr. John Wu Jiong holds 45.00% equity interest in FengHe Canary. Therefore, Mr. John Wu Jiong is deemed to be interested in the shares directly held by Fenghe Harvest, Wu and Sons and FengHe Canary.
- (4) Mr. Hua holds 100.00% equity interest in China Finance Strategies. Therefore, Mr. Hua is deemed to be interested in the shares directly held by China Finance Strategies.

RELATED PARTY TRANSACTIONS

The following discussion describes certain material related party transactions between us or our consolidated subsidiaries and our directors, executive officers and principal shareholders and, in each case, the companies with whom they are affiliated. Each of our related party transactions was entered into in the ordinary course of business, on fair and reasonable commercial terms, in our interests and the interests of our shareholders.

The tables below sets forth our related party transactions for the years and periods indicated.

	Year ended 31 December				Six months ended 30 June		
	2017	2018	2019		2019	2020	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>U.S.\$'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>U.S.\$'000</i>
				<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Provision of research and development services	10,170	6,804	7,008	992	3,994	3,273	463
Interest income arising from related parties loans	178	—	—	—	—	—	—
Interest expense arising from related parties loans	677	414	—	—	—	—	—
Trade receivables from related parties	12,316	1,921	1,987	281	1,987	220	31
Compensation of key management personnel	2,442	11,144	17,279	2,446	7,104	6,961	985

TERMS AND CONDITIONS OF THE BONDS

The following, subject to amendment and save for the paragraphs in italics, are the Terms and Conditions of the Bonds, substantially as they will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the U.S.\$280,000,000 aggregate principal amount of 1.00 per cent. guaranteed convertible bonds due 2025 (the “**Bonds**”, which term shall include, unless the context requires otherwise, any further bonds issued in accordance with Condition 16 (*Further Issues*) and consolidated and forming a single series therewith) of Viva Biotech Investment Management Limited (the “**Issuer**”) was authorised by written resolutions of the Directors of the Issuer dated 17 December 2020 and the guarantee of the Bonds and the right of conversion into Shares (as defined in Condition 6(a)(v) (*Meaning of “Shares”*)) were authorised by minutes to a meeting of the Board of Directors of Viva Biotech Holdings (维亚生物科技控股集团) (the “**Guarantor**”) on 17 December 2020. The Bonds are constituted by a trust deed (as amended and/or supplemented from time to time, the “**Trust Deed**”) dated 30 December 2020 (the “**Issue Date**”) made between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the “**Trustee**”, which expression shall include all persons for the time acting as trustee or trustees under the Trust Deed) as trustee for the holders (as defined below) of the Bonds. These terms and conditions (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Issuer has entered into a paying, conversion and transfer agency agreement dated 30 December 2020 (as amended and/or supplemented from time to time, the “**Agency Agreement**”) relating to the Bonds made between the Issuer, the Guarantor, the Trustee, The Bank of New York Mellon, London Branch as principal paying and conversion agent (the “**Principal Agent**”), The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the “**Registrar**”) and transfer agent (the “**Transfer Agent**”), and the other paying, conversion and transfer agents appointed therein (each a “**Paying Agent**”, “**Conversion Agent**”, “**Transfer Agent**” and together with the Registrar and the Principal Agent, the “**Agents**”). References to the “**Principal Agent**”, “**Registrar**”, “**Transfer Agent**” and “**Agents**” below are references to the principal agent, registrar, transfer agent and agents for the time being for the Bonds. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed.

Copies of the Trust Deed and the Agency Agreement are available for inspection at all reasonable times during usual business hours (being between 9:00 a.m. and 3:00 p.m. on a business day) at the principal office for the time being of the Trustee (being at the Issue Date at One Canada Square, London E14 5AL, United Kingdom) and at the specified offices for the time being of the Principal Agent, following prior written request and proof of holding to the satisfaction of the Trustee or, as the case may be, the Principal Agent. The Bondholders (as defined below) are entitled to the benefit of and are bound by all provisions of the Trust Deed and are deemed to have notice of (i) all the provisions of the Trust Deed and (ii) the provisions of the Agency Agreement applicable to them.

1 Status and Guarantee

- (a) *Status:* The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds and of the Guarantor under the Guarantee (as defined below) shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4(a) (*Negative Pledge*), at all times rank at least equally with all of their respective other present and future unsecured and unsubordinated obligations.
- (b) *Guarantee:* The due payment of all sums expressed to be payable by the Issuer under the Trust Deed and the Bonds has been unconditionally and irrevocably guaranteed by the Guarantor. The obligations of the Guarantor in that respect (the “**Guarantee**”) are contained in the Trust Deed.

2 Form, Denomination and Title

- (a) *Form and Denomination:* The Bonds are issued in registered form in the denomination of U.S.\$200,000 each and integral multiples of U.S.\$100,000 in excess thereof (each an “**Authorised Denomination**”) without coupons attached. A bond certificate (each a “**Certificate**”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders (the “**Register**”) which the Issuer will procure to be kept by the Registrar.

*Upon issue, the Bonds will be represented by a global certificate (the “**Global Certificate**”) deposited with a common depositary for, and representing Bonds registered in the name of a nominee of, Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream**”). When the Bonds are represented by a Global Certificate, the Conditions are modified by certain provisions contained in the Global Certificate. See “The Global Certificate”.*

- (b) *Title:* Title to the Bonds passes only by transfer and registration in the Register as described in Condition 3 (*Transfer of Bonds; Issue of Certificates*). The holder of any Bond will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing (other than the endorsed form of transfer) on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, “**Bondholder**” and (in relation to a Bond) “**holder**” means the person in whose name a Bond is registered (or in the case of a joint holding, the first named thereof).

3 Transfers of Bonds; Issue of Certificates

- (a) *Register:* The Issuer will cause the Register to be kept at the specified office of the Registrar outside the United Kingdom and in accordance with the terms of the Agency Agreement on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.
- (b) *Transfer:* Subject to Conditions 3(e) (*Closed Periods*) and 3(f) (*Regulations*) and the terms of the Agency Agreement, a Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of either the Registrar or any of the Transfer Agents together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Bond may not be transferred unless the principal amount of the Bond transferred and (where not all of the Bonds held by the holder are being transferred) the principal amount of the balance of the Bonds not so transferred, is an Authorised Denomination. Where not all Bonds represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Bonds will be issued to the transferor. No transfer of a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

- (c) *Delivery of New Certificates:* Each new Certificate to be issued upon a transfer or (if applicable) conversion of Bonds will, within seven business days of receipt by the Registrar or, as the case may be, any other relevant Agent of the original Certificate and the form of transfer duly completed and signed and provision of any other evidence required by the Registrar or the relevant Agent as contemplated in Condition 3(b) (*Transfer*), be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder and at the Issuer's expense) to the address specified in the form of transfer.

Except in the limited circumstances described in the Global Certificate (see "The Global Certificate"), owners of interests in the Bonds will not be entitled to receive physical delivery of definitive Certificates.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred, converted or redeemed, a new Certificate in respect of the Bonds not so transferred, converted or redeemed will, within seven business days of delivery of the original Certificate to the Registrar or other relevant Agent and provision of any other evidence required by the Registrar or the relevant Agent as contemplated in Condition 3(b) (*Transfer*), be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted or redeemed (but free of charge to the holder and at the Issuer's or the Guarantor's expense) to the address of such holder appearing on the Register.

For the purposes of this Condition 3 (*Transfers of Bonds; Issue of Certificates*) and Condition 6 (*Conversion*), “**business day**” shall mean a day other than a Saturday or Sunday on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent with whom a Certificate is deposited in connection with a transfer or conversion, is located.

- (d) *Formalities Free of Charge:* Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any of the Agents, but (i) upon payment (or the giving of such indemnity and/or security and/or prefunding as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer and (ii) the Registrar or the relevant Transfer Agent (as the case may be) being satisfied in its absolute discretion with the documents of title and/or identity of the person making the application and (iii) subject to Condition 3(f) (*Regulations*).
- (e) *Closed Periods:* No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the dates for payment of any principal pursuant to these Conditions; (ii) after a Conversion Notice (as defined in Condition 6(b) (*Conversion Procedure*)) has been delivered with respect to a Bond; (iii) after a Relevant Event Redemption Notice (as defined in Condition 8(e) (*Redemption for Delisting or Change of Control*)) has been deposited in respect of such Bond pursuant to Condition 8(e) (*Redemption for Delisting or Change of Control*) or after a put notice has been deposited in respect of such Bond pursuant to Condition 8(d) (*Redemption at the option of the Bondholders*); (iv) during the period of seven days ending on (and including) any date of redemption pursuant to Conditions 8(b) (*Redemption for Taxation Reasons*) and 8(c) (*Redemption at the Option of the Issuer*); and (v) during the period of seven days ending on (and including) any Interest Record Date (as defined in Condition 7(a) (*Principal and interest*)). Each such period is a “**Closed Period**”.

- (f) *Regulations:* All transfers of Bonds and entries on the Register will be made subject to the detailed regulations concerning transfer of Bonds, initial form of which is scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, and may be changed by the Registrar with the prior written approval of the Trustee. A copy of the current regulations will be made available at the specified office of the Registrar to any Bondholder following prior written request and proof of holding to the satisfaction of the Registrar.

4 Covenants

- (a) *Negative Pledge:* So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and the Issuer and the Guarantor shall procure that none of their respective Subsidiaries will, create or permit to subsist any Encumbrance upon the whole or any part of their respective present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or to secure any guarantee of or indemnity in respect of any Relevant Indebtedness unless, at the same time or prior thereto the Bonds are secured (i) equally and rateably therewith or (ii) by such other security, guarantee, indemnity or other arrangement as either (A) the Trustee in its absolute discretion shall deem to be not materially less beneficial to the interests of the Bondholders or (B) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.
- (b) *Notification to NDRC:* The Guarantor undertakes that it will, (i) within the prescribed time period, file or cause to be filed with the National Development and Reform Commission of the PRC or its local counterparts (the “**NDRC**”) the requisite information and documents in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015] 2044號)) issued by the NDRC and effective as of 14 September 2015 (the “**NDRC Post-issue Filing**”) and (ii) comply with all applicable PRC laws, rules and regulations in connection with the Bonds (including, but not limited to, any rules issued by the NDRC from time to time).
- (c) *Notification of Completion of NDRC Post-issue Filing:* The Issuer shall (and the Guarantor shall procure that the Issuer will) within ten Registration Business Days after submission of the NDRC Post-issue Filing, provide the Trustee with (i) a certificate (substantially in the form scheduled to the Trust Deed) in English signed by an Authorised Signatory of the Issuer confirming (A) the completion of the NDRC Post-issue Filing and (B) no Relevant Event, Event of Default or Potential Event of Default has occurred; (ii) copies of the relevant documents evidencing the NDRC Post-issue Filing (if any), each certified in English by an Authorised Signatory of the Issuer as a true and complete copy of the original; and (iii) an English translation of each confirmation, certificate or other document as is referred to in (ii) above of this

Condition 4(c) (*Notification of Completion of NDRC Post-issue Filing*) translated by a professional translation service provider (and the Trustee may rely conclusively without liability to any Bondholder or any other person on any such translation) (the items specified in (i), (ii) and (iii) of this Condition 4(c) (*Notification of Completion of NDRC Post-issue Filing*) together, the “**Registration Documents**”). In addition, the Issuer shall, within five Registration Business Days after the documents comprising the Registration Documents are delivered to the Trustee, give notice to the Bondholders (in accordance with Condition 17 (*Notices*)) confirming the completion of the NDRC Post-issue Filing.

The Trustee shall have no obligation to monitor or ensure that the NDRC Post-issue Filing is made as required by Condition 4(c) (*Notification of Completion of NDRC Post-issue Filing*) or to assist with the NDRC Post-issue Filing or to verify the accuracy, validity and/or genuineness of any Registration Documents or any translation or certification thereof or to give notice to the Bondholders confirming the completion of the NDRC Post-issue Filing, and shall not be liable to Bondholders or any other person for any of the foregoing and for not doing so.

In these Conditions:

- (i) “**Encumbrance**” means any mortgage, charge, pledge, lien or other encumbrance or security interest securing any obligation of any person or any other arrangement with similar economic effect;
- (ii) “**PRC**” means the People’s Republic of China and, for the purposes of these Conditions, except where the context requires, does not include Hong Kong Special Administrative Region of the People’s Republic of China, Macau Special Administrative Region of the People’s Republic of China and Taiwan;
- (iii) “**Potential Event of Default**” means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10 (*Events of Default*) become an Event of Default;
- (iv) “**Registration Business Day**” means a day, other than a Saturday, Sunday or public holiday, on which commercial banks are generally open for business in Beijing, PRC;
- (v) “**Relevant Indebtedness**” means any future or present indebtedness outside the PRC in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depositary receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are capable of being, quoted, listed, ordinarily dealt in or traded on any

stock exchange or over the counter or on any other securities market (whether or not initially distributed by way of private placement) (for the avoidance of doubt, excluding loans); and

- (vi) any reference to a “**subsidiary**” or “**Subsidiary**” of any person is to any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees or equivalent body of such company or other business entity or any company or other business entity which at any time has its accounts consolidated with those of that person or which, under the laws, regulations or generally accepted accounting principles from time to time of the British Virgin Islands, the Cayman Islands, the PRC or Hong Kong, should have its accounts consolidated with those of that person.

5 Interest

The Bonds bear interest from and including 30 December 2020 at the rate of 1.00 per cent. per annum payable semi-annually in arrear in equal instalments of U.S.\$500 per Calculation Amount (as defined below) on 30 June and 30 December in each year (each an “**Interest Payment Date**”), beginning on 30 June 2021.

Each Bond will cease to bear interest (a) (subject to Condition 6(b)(iv) (*Interest Accrual*)) where the Conversion Right attached to it shall have been exercised by a Bondholder, from and including the Interest Payment Date immediately preceding the relevant Conversion Date (as defined below), or if none, the Issue Date (subject in any case as provided in Condition 6(b)(iv) (*Interest Accrual*)) or (b) where such Bond is redeemed or repaid pursuant to Condition 8 (*Redemption, Purchase and Cancellation*) or Condition 10 (*Events of Default*), from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of principal or premium (if any) is improperly withheld or refused. In such event, it will continue to bear interest at 5.00 per cent. per annum (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder, and (ii) the day seven days after the Trustee or the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

Interest in respect of any Bond shall be calculated per U.S.\$100,000 in principal amount of the Bonds (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the relevant annual rate of interest, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for a period of less than a complete Interest

Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of twelve months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

6 Conversion

(a) Conversion Right

- (i) *Conversion Period*: Subject as hereinafter provided, Bondholders have the right to convert their Bonds into Shares (as defined in Condition 6(a)(v) (*Meaning of “Shares”*)) at any time during the Conversion Period referred to below.

The right of a Bondholder to convert any Bond into Shares is called the “**Conversion Right**”. Subject to and upon compliance with, the provisions of this Condition 6 (*Conversion*), the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on or after 9 February 2021 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the 10th day prior to the Maturity Date (as defined in Condition 8(a) (*Maturity*)) (both days inclusive) (but, except as provided in Condition 6(a)(iv) (*Revival and/or survival after Default*) and Condition 10 (*Events of Default*), in no event thereafter) or, if such Bond shall have been called for redemption by the Issuer before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than 15 days (both days inclusive and in the place aforesaid) prior to the date fixed for redemption thereof or if notice requiring redemption has been given by the holder of such Bond pursuant to Condition 8(d) (*Redemption at the option of the Bondholders*) or Condition 8(e) (*Redemption for Delisting or Change of Control*) then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice (the “**Conversion Period**”).

Notwithstanding the foregoing, if the Conversion Date in respect of a Bond would otherwise fall during a period in which the register of shareholders of the Guarantor is closed generally or for the purpose of establishing entitlement to any distribution or other rights attaching to the Shares (a “**Book Closure Period**”), such Conversion Date shall be postponed to the first Stock Exchange Business Day (as defined in Condition 6(b)(i) (*Conversion Notice*)) following the expiry of such Book Closure Period.

If the Conversion Date in respect of the exercise of any Conversion Right is postponed as a result of the foregoing provision to a date that falls after the expiry of the Conversion Period or after the relevant redemption date, such Conversion Date shall be deemed to be the final day of such Conversion Period or the relevant redemption date, as the case may be.

The number of Shares to be issued on conversion of a Bond will be determined by dividing the principal amount of the Bond to be converted (translated into Hong Kong dollars at the fixed rate of HK\$7.7519 = U.S.\$1.00 (the “**Fixed Exchange Rate**”) by the Conversion Price in effect on the Conversion Date (both as hereinafter defined). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted by such holder rounded down to the nearest whole number of shares.

- (ii) *Fractions of Shares:* Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 17 December 2020 which reduces the number of Shares outstanding, the Issuer (failing which, the Guarantor) will upon conversion of Bonds pay in cash in U.S. dollars of a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6(a)(i) (*Conversion Period*), as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds U.S.\$10. Any such sum shall be paid not later than five Stock Exchange Business Days (as defined in Condition 6(b)(i) (*Conversion Notice*)) after the relevant Conversion Date by transfer to a U.S. dollar account maintained by the payee in accordance with instructions given by the relevant Bondholder in the Conversion Notice.
- (iii) *Conversion Price:* The price at which Shares will be issued upon conversion (the “**Conversion Price**”) will initially be HK\$11.6370 per Share, but will be subject to adjustment in the manner provided in Condition 6(c) (*Adjustments to Conversion Price*) and Condition 6(d) (*Adjustment upon Change of Control*).

- (iv) *Revival and/or survival after Default*: Notwithstanding the provisions of Condition 6(a)(i) (*Conversion Period*), if (A) the Issuer or the Guarantor shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof, (B) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10 (*Events of Default*), or (C) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(a) (*Maturity*) or the applicable date for redemption in accordance with Condition 8(d) (*Redemption at the option of the Bondholders*) and Condition 8(e) (*Redemption for Delisting or Change of Control*), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and notwithstanding the provisions of Condition 6(a)(i) (*Conversion Period*), any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined below) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.
- (v) *Meaning of “Shares”*: As used in these Conditions, the expression “**Shares**” means ordinary shares of par value U.S.\$0.000025 each of the Guarantor or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Guarantor.

(b) Conversion Procedure

- (i) *Conversion Notice*: To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense from 9:00 a.m. to 3:00 p.m. on any business day at the specified office of any Conversion Agent a notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and confirmation that any amounts required to be paid by the Bondholder under Condition 6(b)(ii) (*Stamp Duty etc.*) have been so paid or if notice requiring redemption has been given by the holder of such Bond pursuant to Condition 8(d) (*Redemption at the option of the Bondholders*) or Condition 8(e) (*Redemption for Delisting or Change of Control*) then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice. Conversion

Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Conversion Agent to whom the relevant Conversion Notice is delivered is located.

The conversion date in respect of a Bond (the “**Conversion Date**”) must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6(a)(iii) (*Revival and/or survival after Default*) and Condition 10 (*Events of Default*)) and will be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, the date of making any payment or giving any indemnity under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice deposited outside the hours specified above or on a day which is not a business day at the place of the specified office of the relevant Conversion Agent shall for all purposes be deemed to have been deposited with that Conversion Agent during the hours specified above on the next business day following such day. Any Bondholder who deposits a Conversion Notice during a Closed Period will not be permitted to convert the Bonds into Shares (as specified in the Conversion Notice) until the next business day after the end of the Closed Period, which (if all other conditions to the exchange have been fulfilled) will be the Conversion Date for such Bonds notwithstanding that such date may fall outside the Conversion Period. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Issuer consents in writing to such withdrawal. “**Stock Exchange Business Day**” means any day (other than a Saturday or Sunday) on which The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) or the Alternative Stock Exchange (as defined in Condition 6(c) (*Adjustments to Conversion Price*) below), as the case may be, is open for securities dealing.

- (ii) *Stamp Duty etc.*: A Bondholder delivering a Certificate in respect of a Bond for conversion must pay directly to the relevant authorities any taxes and capital, stamp, issue, documentary and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in the British Virgin Islands, the Cayman Islands and Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Issuer and the Guarantor in respect of the allotment and issue of Shares and listing of the Shares on the Hong Kong Stock Exchange or the Alternative Stock Exchange on conversion) (the “**Taxes**”) and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion. The Issuer (failing which, the Guarantor) will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder must declare in the relevant Conversion Notice that any amounts payable to the relevant tax authorities pursuant to this Condition 6(b)(ii) (*Stamp Duty etc.*) have been paid. Neither the Trustee nor any Agent is under any

obligation to determine whether a Bondholder is liable to pay or has paid any Taxes including capital, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Condition 6(b)(ii) (*Stamp Duty etc.*).

- (iii) *Registration*: As soon as practicable, and in any event not later than five Stock Exchange Business Days after the Conversion Date, the Guarantor will, in the case of Bonds converted on exercise of the Conversion Right and in respect of which a duly completed Conversion Notice and the relevant Certificate have been delivered and amounts payable by the relevant Bondholder as required by Conditions 6(b)(i) (*Conversion Notice*) and 6(b)(ii) (*Stamp Duty etc.*) have been paid, register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Guarantor's share register and will, if the Bondholder has also requested in the Conversion Notice and to the extent permitted under applicable law and the rules and procedures of the Central Clearing and Settlement System of Hong Kong (the "CCASS") effective from time to time, take all necessary action to procure that Shares are delivered through the CCASS for so long as the Shares are listed on the Hong Kong Stock Exchange; or will make such certificate or certificates available for collection at the office of the Guarantor's share registrar in Hong Kong (currently Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong) and notified to Bondholders in accordance with Condition 17 (*Notices*) or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single share certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

If the Conversion Date in relation to any Bond shall be on or after the record date for any issue, distribution, grant, offer or other event that gives rise to the adjustment of the Conversion Price pursuant to Condition 6(c) (*Adjustments to Conversion Price*) but before the relevant adjustment becomes effective under the relevant Condition, upon the relevant adjustment becoming effective the Guarantor shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares as is, together with Shares to be issued on conversion of the Bonds, equal to the number

of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective on or immediately after the relevant record date.

The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Guarantor's register of members (the "**Registration Date**").

The Shares issued upon exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Shares in issue on the relevant Registration Date except for any right excluded by mandatory provisions of applicable law and except that such Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record or other due date for the establishment of entitlement for which falls prior to the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in this sub-paragraph (iii) prior to the time such retroactive adjustment shall have become effective), the Guarantor will calculate and pay to the converting Bondholder or his designee an amount in U.S. dollars (the "**Equivalent Amount**") converted at the Prevailing Rate (as defined below) equal to the Fair Market Value (as defined below) of such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by transfer to a U.S. dollar account maintained by the payee in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

- (iv) *Interest Accrual*: If any notice requiring the redemption of any Bonds is given pursuant to Condition 8(b) (*Redemption for Taxation Reasons*) or Condition 8(c) (*Redemption at the Option of the Issuer*) on or after the 15th Hong Kong business day prior to a record date which has occurred since the last Interest Payment Date (or in the case of the first Interest Period, since the Issue Date) in respect of any dividend or distribution payable in respect of the Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall (subject as hereinafter provided) accrue on Bonds in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following

such record date in each case from and including the preceding Interest Payment Date (or, if such Conversion Date falls before the first Interest Payment Date, from, and including, the Issue Date) to, but excluding, such Conversion Date; provided that no such interest shall accrue on any Bond in the event that the Shares issued on conversion thereof shall carry an entitlement to receive such dividend or distribution or in the event the Bond carries an entitlement to receive an Equivalent Amount. Any such interest shall be paid not later than 14 days after the relevant Conversion Date by transfer to a U.S. dollar account maintained by the payee in accordance with instructions given by the relevant Bondholder in the Conversion Notice.

(c) Adjustments to Conversion Price

Upon the occurrence of any of the following events described below, the Conversion Price will be adjusted as follows:

- (1) *Consolidation, Subdivision, Redesignation or Reclassification:* If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision, redesignation or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(2) *Capitalisation of Profits or Reserves:*

- (i) If and whenever the Guarantor shall issue any Shares credited as fully paid to the holders of Shares (the “**Shareholders**”) by way of capitalisation of profits or reserves (including Shares paid up out of distributable profits or reserves and/or share premium account) (except any Scrip Dividend) and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate nominal amount of the issued Shares immediately before such issue; and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares, or if a record date is fixed therefor, immediately after such record date.

- (ii) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price on the date of announcement of the terms of the issue of such Shares multiplied by the number of such Shares issued exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such Scrip Dividend;
- B is the aggregate number of Shares which the Relevant Cash Dividend would purchase at such Current Market Price; and
- C is the aggregate number of Shares issued pursuant to such Scrip Dividend.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(3) *Distributions:*

- (i) If and whenever the Guarantor shall pay or make any Distribution to Shareholders (except to the extent that the Conversion Price falls to be adjusted under Condition 6(c)(2) (*Capitalisation of Profits or Reserves*) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such Distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the date on which the Distribution is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the Distribution in Hong Kong dollars attributable to one Share.

Such adjustment shall become effective on the date that such Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

- (4) *Rights Issues of Shares or Options over Shares:* If and whenever the Guarantor shall issue Shares to all or substantially all Shareholders as a class by way of rights, or shall issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares or any securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Shares (or shall grant any such rights in respect of existing securities so issued), in each case at less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate consideration (if any) receivable for the Shares issued by way of rights, or for the securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Shares deliverable on the exercise thereof would purchase at such Current Market Price per Share; and
- C is the aggregate number of Shares to be issued or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be.

- (5) *Rights Issues of Other Securities:* If and whenever the Guarantor shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares) to all or substantially all Shareholders as a class, by way of rights, or the grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

where:

- A is the Current Market Price of one Share on the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants as the case may be.

- (6) *Issues at less than Current Market Price:* If and whenever the Guarantor shall issue (otherwise than as mentioned in Condition 6(c)(4) (*Rights Issues of Shares or Options over Shares*) above) any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or issue or grant (otherwise than as mentioned in Condition 6(c)(4) (*Rights Issues of Shares or Options over Shares*) above) options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at a price per Share which is less than 95 per cent. of the Current Market Price on the date of the first public announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{C}$$

where:

- A is the aggregate number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of such options, warrants or other rights to subscribe for or purchase or otherwise acquire any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares or, as the case may be, for the Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Share; and
- C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue or grant by the Guarantor of options, warrants or other rights to subscribe or purchase or otherwise acquire Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price (if applicable) on the date of issue or grant of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

- (7) *Other Issues at less than Current Market Price:* If and whenever the Guarantor or any of its Subsidiaries (otherwise than as mentioned in Conditions 6(c)(4) (*Rights Issues of Shares or Options over Shares*), 6(c)(5) (*Rights Issues of Other Securities*) or 6(c)(6) (*Issues at less than Current Market Price*)), or (at the direction or request of or pursuant to any arrangements with the Guarantor or any of its Subsidiaries) any other company, person or entity shall issue any securities (other than the Bonds, which term shall for this purpose exclude any further bonds issued pursuant to Condition 16 (*Further Issues*)) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Shares to be issued by the Guarantor upon conversion, exchange or

subscription at a consideration per Share which is less than 95 per cent. of the Current Market Price per Share on the date of the first public announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the aggregate number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Guarantor for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate on the issue date of such securities.

Such adjustment shall become effective on the date of issue of such securities or, as the case may be, the grant of such rights.

- (8) *Modification of Rights of Conversion etc.*: If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6(c)(7) (*Other Issues at less than Current Market Price*) above (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than 95 per cent. of the Current Market Price on the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which such modification is publicly announced; and

B is the difference between the Fair Market Value of the modification on a per Share basis on the date of such announcement and the consideration received for the modification on a per Share basis of such modification.

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

- (9) *Other Offers to Shareholders:* If and whenever the Guarantor or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Guarantor or any Subsidiary) any other company, person or entity issues, sells or distributes any securities in connection with which an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Conditions 6(c)(2) (*Capitalisations of Profits or Reserves*), 6(c)(3) (*Distributions*), 6(c)(4) (*Rights Issues of Shares or Options over Shares*), 6(c)(5) (*Rights Issues of Other Securities*) or 6(c)(6) (*Issues at less than Current Market Price*) or 6(c)(7) (*Other Issues at less than Current Market Price*), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue, sale or distribution by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Share on the date on which such issue, sale or distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or distribution of the securities.

- (10) *Other events:* If the Guarantor determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this Condition 6(c) (*Adjustments to Conversion Price*) (even if the relevant circumstance is specifically excluded from the operation of Conditions 6(c)(1)

(*Consolidation, Subdivision, Redesignation or Reclassification*) to 6(c)(9) (*Other Offers to Shareholders*) (inclusive)), the Issuer or the Guarantor shall at its own expense request an Independent Investment Bank to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination PROVIDED THAT where the circumstances giving rise to any adjustment pursuant to this Condition 6(c) (*Adjustments to Conversion Price*) have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6(c) (*Adjustments to Conversion Price*) as may be advised by an Independent Investment Bank to be in its opinion appropriate to give the intended result.

For the purposes of these Conditions:

“**Alternative Stock Exchange**” means at any time, in the case of the Shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in.

“**Closing Price**” for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day.

“**Current Market Price**” means, in respect of a Share on a particular date, the average of the Closing Prices of one Share for the 20 consecutive Trading Days ending on and including (i) the Trading Day immediately preceding such date or (ii) if the relevant announcement was made after the close of trading on such date (being a Trading Date), such date of announcement; provided that if at any time during such 20 Trading Day period the Shares shall have been quoted ex-dividend (or ex-any other entitlement) and during some other part of that period the Shares shall have been quoted cum-dividend (or cum-any other entitlement) then:

- (a) if the Shares to be issued or transferred and delivered do not rank for the dividend (or entitlement) in question, the Closing Price on the dates on which the Shares shall have been based on a price cum-dividend (or cum-any other

entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Share; or

- (b) if the Shares to be issued or transferred and delivered rank for the dividend (or entitlement) in question, the Closing Price on the dates on which the Shares shall have been based on a price ex-dividend (or ex-any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by the Fair Market Value of any such dividend or entitlement per Share;

and provided that:

- A. if on each of the said 20 Trading Days the Shares have been quoted a price cum-dividend (or cum-any other entitlement) in respect of a dividend (or other entitlement) which has been declared or announced but the Shares to be issued or transferred and delivered do not rank for that dividend (or other entitlement), the Closing Price on each of such dates shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such dividend or entitlement per Share in any such case determined on a gross basis and disregarding any withholding or deduction required to be made on account of tax, and disregarding any associated tax credit;
- B. if the Closing Price of a Share is not available on one or more of the said 20 Trading Days (disregarding for this purpose the proviso to the definition of Closing Price), then the average of such Closing Prices which are available in that 20 Trading Day period shall be used (subject to a minimum of two such prices) and if only one, or no, such Closing Price is available in the relevant period the Current Market Price shall be determined by an Independent Investment Bank; and
- C. in making any calculation or determination of Current Market Price in relation to an issue of Shares, other securities or options, rights or warrants for shares or other securities which are issued offered, allotted, appropriated, modified or granted in connection (partly or fully) with any merger or acquisition, each reference above to 20 consecutive Trading Days shall be to 30 consecutive Trading Days.

In making any calculation or determination of Current Market Price, such adjustments (if any) shall be made as an Independent Investment Bank considers appropriate to reflect any consolidation or sub-division of the Shares or any issue of Shares by way of capitalisation of profits or reserves, or any like or similar event;

“**Distribution**” means (i) any distribution of assets in specie by the Guarantor for any financial period whenever paid or made and however described (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully paid) by way of capitalisation of reserves, but excludes a Scrip Dividend adjusted for under Condition 6(c)(2)(ii) (*Capitalisation of Profits or Reserves*)); and (ii) any cash dividend or distribution (including, without limitation, the relevant cash amount of a Scrip Dividend) of any kind by the Guarantor for any financial period (whenever paid and however described) translated into Hong Kong dollars at (A) the exchange rate between Renminbi and Hong Kong dollars expressed to be used in respect of such cash dividend or distribution (where applicable) or (B) in all other cases, the Prevailing Rate as at the date such distribution under (i) and/or (ii) of this definition is announced. In making any such calculation, such adjustments (if any) shall be made as an Independent Investment Bank may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event or (c) the modification of any rights to dividends of Shares.

“**Fair Market Value**” means, with respect to any asset, security, option, warrant or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend determined as at the date of announcement of such dividend (in which case no determination by an Independent Investment Bank would be required); (ii) the fair market value of any other cash amount shall be equal to such cash amount (in which case no determination by an Independent Investment Bank would be required); and (iii) where securities are or will be publicly traded in a market of adequate liquidity (as determined by such Independent Investment Bank) the fair market value of such securities shall equal the arithmetic mean of the daily closing prices of such securities during the period of five Trading Days commencing on the first such Trading Day (or, if later, the first such Trading Day such securities are publicly traded) or such shorter period as such securities are publicly traded.

“Independent Investment Bank” means an independent investment bank of international repute (acting as an expert) selected by the Issuer or the Guarantor at its cost, and notified in writing to the Trustee and the Principal Agent. If the Issuer or Guarantor fails to select an Independent Investment Bank when required by these Conditions, the Trustee may in its absolute discretion (but shall not be obliged to), select the Independent Investment Bank.

“Prevailing Rate” means, in respect of any currency on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12:00 noon (Hong Kong time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12:00 noon (Hong Kong time) on the immediately preceding day on which such rate can be so determined.

“Relevant Cash Dividend” means the aggregate cash dividend or distribution declared by the Guarantor, including any cash dividend in respect of which there is any Scrip Dividend (which, for the avoidance of doubt, shall exclude a purchase or redemption of Shares, but include the Relevant Cash Dividend component of a Scrip Dividend).

“Relevant Page” means the relevant Bloomberg BFIX page (or its successor page) or, if there is no such page, on the relevant Reuters page or such other information service provider that displays the relevant information.

“Scrip Dividend” means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received (and for the avoidance of doubt, to the extent that an adjustment is made under Condition 6(c)(3) (*Distributions*) in respect of the Relevant Cash Dividend, no adjustment is to be made for the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or part thereof for which an adjustment is already made under Condition 6(c)(2)(ii) (*Capitalisation of Profits or Reserves*)).

“Trading Day” means a day when the Hong Kong Stock Exchange or, as the case may be an Alternative Stock Exchange is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have been dealing days when ascertaining any period of dealing days.

On any adjustment, the relevant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest one Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion

Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given by the Issuer to Bondholders, the Trustee and the Principal Agent in accordance with Condition 17 (*Notices*) as soon as practicable after the determination thereof.

If any doubt shall arise as to whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Guarantor and an Independent Investment Bank, a written opinion of such Independent Investment Bank in respect thereof shall be conclusive and binding on the Issuer, the Guarantor, the Bondholders and the Trustee, save in the case of manifest error. Notwithstanding the foregoing, the per Share value of any such adjustment shall not exceed the per Share value of the dilution in the Shareholders' interest in the Guarantor's equity caused by such events or circumstances

The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value or Shares would be required to be issued in any other circumstances not permitted by applicable laws then in force in the British Virgin Islands, the Cayman Islands and Hong Kong.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Investment Bank, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Investment Bank to be in its opinion appropriate in order to give such intended result.

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation, subdivision or reclassification of the Shares as referred to in Condition 6(c)(1) (*Consolidation, Subdivision or Reclassification*) above or where there has been a proven manifest error in the calculation of the Conversion Price.

Neither the Trustee nor the Agents shall be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or any calculation (or verification thereof) in connection with the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by them to do so. All adjustments to the

Conversion Price under Condition 6(c) (*Adjustments to Conversion Price*) shall be determined by the Issuer and Guarantor, and neither the Trustee nor the Agents shall be responsible for verifying such determinations.

(d) Adjustment upon Change of Control

If a Change of Control (as defined in Condition 8(j) (*Definitions*)) shall occur, the Issuer shall give notice of that fact to the Bondholders (the “**Change of Control Notice**”) in accordance with Condition 17 (*Notices*) within seven days after it becomes aware of such Change of Control. Following the giving of a Change of Control Notice, upon any exercise of Conversion Rights such that the relevant Conversion Date falls within 30 days following a Change of Control, or, if later, 30 days following the date on which the Change of Control Notice is given to Bondholders (such period, the “**Change of Control Conversion Period**”), the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \frac{\text{OCP}}{1 + (\text{CP} \times c/t)}$$

where:

“**NCP**” means the new Conversion Price after adjustment.

“**OCP**” means the Conversion Price in effect on the relevant Conversion Date in respect of any conversion to which this Condition 6(d) (*Adjustment upon Change of Control*) is applicable.

“**CP**” means 35.0 per cent. expressed as a fraction.

“**c**” means the number of days from and including the date the Change of Control occurs to but excluding the Maturity Date.

“**t**” means the number of days from and including the Issue Date to but excluding the Maturity Date, provided that the Conversion Price shall not be reduced pursuant to this Condition 6(d) (*Adjustment upon Change of Control*) below the level permitted by applicable laws and regulations from time to time (if any).

If the last day of a Change of Control Conversion Period shall fall during a Closed Period, the Change of Control Conversion Period shall be extended such that its last day will be the 15th day following the last day of the Closed Period.

(e) Undertakings

The Guarantor has undertaken in the Trust Deed, *inter alia*, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders or the approval of the Trustee:

- (i) it will use its best endeavours (A) to maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, and (B) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the Hong Kong Stock Exchange, and if the Guarantor is unable to obtain or maintain such listing or if the maintenance of such listing is unduly onerous, to use its best endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as the Guarantor may from time to time select and notify to the Trustee and will forthwith give notice to the Bondholders in accordance with Condition 17 (*Notices*) of the listing or delisting of the Shares (as a class) by any of such stock exchanges;
- (ii) it will pay the expenses of the issue of, and all expenses of obtaining listing for, Shares arising on conversion of the Bonds (save for any Taxes specified in Condition 6(b)(ii) (*Stamp Duty etc.*) as payable by any Bondholder);
- (iii) it will not make any reduction of its ordinary share capital or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund except, in each case, where the reduction is permitted by applicable law and results in (or would, but for the provision of these Conditions relating to rounding or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is otherwise taken into account for the purposes of determining whether such an adjustment should be made (and for the avoidance of doubt, shall not restrict the Guarantor from repurchasing any Shares on the Hong Kong Stock Exchange in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and applicable law);
- (iv) it will comply with any law, rule, regulation, judgment, order, authorisation or decree of any government, governmental or regulatory body or court, domestic or foreign having jurisdiction over the Company or any Subsidiary or any of their respective assets and properties; and

- (v) it will use its best endeavours to list and thereafter maintain the listing of the Bonds on the Hong Kong Stock Exchange and if the Issuer is unable to maintain such listing or if the maintenance of such listing is unduly onerous, to use its best endeavours to obtain and maintain a listing on another internationally recognised stock exchange and will forthwith give notice to the Bondholders and the Trustee in accordance with Condition 17 (*Notices*) below of the listing or delisting of the Bonds by any such stock exchange.

In the Trust Deed, the Guarantor has also undertaken with the Trustee that so long as any Bond remains outstanding:

- (I) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued ordinary share capital the full number of Shares liable to be issued on conversion of the Bonds from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Bonds will be duly and validly issued as fully-paid; and
- (II) it will not make any offer, issue or distribute or take any action the effect of which would be to reduce the Conversion Price below the par value of the Shares of the Guarantor,

provided always that the Guarantor shall not be prohibited from purchasing its Shares to the full extent permitted by law.

The Issuer and the Guarantor have also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

(f) Notice of Change in Conversion Price

The Issuer shall give notice to the Bondholders, the Trustee and the Principal Agent in accordance with Condition 17 (*Notices*) of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

7 Payments

- (a) *Principal and interest:* Payment of principal, Early Redemption Amount, premium (if any) and interest due other than on an Interest Payment Date will be made by transfer to the registered account of the Bondholder. Such payment will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

Interest on Bonds due on an Interest Payment Date will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the fifteenth day before the due date for the payment of interest (the “**Interest Record Date**”). Payments of interest on each Bond will be made by transfer to the registered account of the Bondholder.

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, such payments will be made to the holder of appearing in the register of holders of the Bonds maintained by the Registrar at the close of the business day (being for this purpose a day on which Euroclear and Clearstream are open for business) before the relevant due date.

- (b) *Registered Accounts:* For the purposes of this Condition 7 (*Payments*), a Bondholder’s registered account means the U.S. dollar account maintained by or on behalf of it, details of which appear on the Register at the close of business on the business day (as defined below) prior to the due date for payment, and a Bondholder’s registered address means its address appearing on the Register at that time.
- (c) *Fiscal Laws:* All payments in respect of the Bonds are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*) and (ii) if applicable, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the “**Code**”) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Bondholders in respect of such payments.
- (d) *Payment Initiation:* Payment instructions (for value on the due date or, if that is not a business day (as defined below), for value on the first following day which is a business day) will be initiated and on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.
- (e) *Delay In Payment:* Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so).

- (f) *Business Day*: In this Condition 7 (*Payments*), “**business day**” means a day other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong and the city in which the specified office of the Principal Agent is located and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.
- (g) *Rounding*: When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded up to the nearest unit.

8 Redemption, Purchase and Cancellation

- (a) *Maturity*: Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at 105.23 per cent. of its principal amount together with accrued and unpaid interest thereon on 30 December 2025 (the “**Maturity Date**”). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8(b) (*Redemption for Taxation Reasons*) or 8(c) (*Redemption at the Option of the Issuer*) below (but without prejudice to Condition 10 (*Events of Default*)).
- (b) *Redemption for Taxation Reasons*
- (i) The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Bondholders in accordance with Condition 17 (*Notices*) (which notice shall be irrevocable) and in writing to the Trustee and the Principal Agent at their Early Redemption Amount, together with interest accrued but unpaid to but excluding such date if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (A) the Issuer (or if the Guarantee was called, the Guarantor) has or will become obliged to pay Additional Tax Amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the British Virgin Islands, the Cayman Islands or the PRC or, in each case, any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 17 December 2020, and (B) such obligation cannot be avoided by the Issuer (or as the case may be, the Guarantor) taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer (or as the case may be, the Guarantor) would be obliged to pay such Additional Tax Amounts were a payment in respect of the Bonds then due. Prior to the publication of any Tax Redemption Notice pursuant to this paragraph, the

Issuer (or as the case may be, the Guarantor) shall deliver to the Trustee (I) certificate signed by an Authorised Signatory of the Issuer (or as the case may be, the Guarantor) stating that the obligation referred to in (A) of this Condition 8(b)(i) (*Redemption for Taxation Reasons*) above cannot be avoided by the Issuer (or as the case may be, the Guarantor) taking reasonable measures available to it and (II) an Opinion of Counsel or an opinion of independent tax advisors of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective). The Trustee shall be entitled to rely upon and accept such certificate and opinion (without further investigation or enquiry) as sufficient evidence thereof in which event the same shall be conclusive and binding on the Bondholders. Upon the expiry of the Tax Redemption Notice, the Issuer will be bound to redeem the Bonds at their Early Redemption Amount, together with interest accrued but unpaid to but excluding the tax redemption date, provided that redemption under this Condition 8(b)(i) (*Redemption for Taxation Reasons*) may not occur within seven days of the end of a Closed Period, but otherwise may occur when the Conversion Right is expressed in these Conditions to be exercisable.

- (ii) If the Issuer gives a Tax Redemption Notice pursuant to Condition 8(b)(i) (*Redemption for Taxation Reasons*), each Bondholder will have the right to elect that its Bond(s) shall not be redeemed and that the provisions of Condition 9 (*Taxation*) shall not apply in respect of any payment of principal, Early Redemption Amount, premium (if any) or interest to be made in respect of such Bond(s) whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 (*Taxation*) and payment of all amounts shall be made subject to the deduction or withholding of any tax required to be deducted or withheld. To exercise a right pursuant to this Condition 8(b)(ii) (*Redemption for Taxation Reasons*), the holder of the relevant Bond must complete, sign and deposit during normal business hours (being between 9:00 a.m. and 3:00 p.m.) at the specified office of any Paying Agent a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent (the “**Tax Option Exercise Notice**”) together with the Certificate evidencing the Bonds on or before the day falling 10 days prior to the date fixed by the Issuer for the redemption of the Bonds pursuant to this Condition 8(b) (*Redemption for Taxation Reasons*). A Tax Option Redemption Notice, once delivered, shall be irrevocable and may not be withdrawn without the Issuer’s consent.

For the purpose of these Conditions:

“Opinion of Counsel” means an opinion in writing signed by legal counsel of recognised international standing who may be counsel to the Issuer or the Trustee, as the case may be, and who shall be acceptable to the Trustee, and such opinion shall be in form and substance satisfactory to the Trustee.

(c) *Redemption at the Option of the Issuer*

On giving not less than 30 nor more than 60 days’ notice to the Bondholders and in writing to the Trustee and the Principal Agent (which notice will be irrevocable), the Issuer:

- (i) may at any time on or after 9 January 2024 and prior to the Maturity Date redeem in whole, but not in part, the Bonds for the time being outstanding at the Early Redemption Amount, together with interest accrued but unpaid to but excluding the date fixed for redemption, provided that the Closing Price of the Shares (derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange and translated into U.S. dollars at the Prevailing Rate) for each of 20 out of 30 consecutive Trading Days, the last of which occurs not more than five Trading Days prior to the date upon which notice of such redemption, is published was at least 130 per cent. of the applicable Early Redemption Amount for each Bond divided by the Conversion Ratio (as defined below) then applicable; or
- (ii) may at any time prior to the Maturity Date redeem in whole, but not in part, the Bonds for the time being outstanding at their Early Redemption Amount, together with interest accrued but unpaid to but excluding the date fixed for redemption provided that prior to the date of such notice at least 90 per cent. in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

If there shall occur an event giving rise to a change in the Conversion Price during any such 30 Trading Day period, appropriate adjustments for the relevant days shall be made, as determined by an Independent Investment Bank, for the purpose of calculating the Closing Price for such days. Neither the Trustee nor the Agents shall be responsible for verifying, or otherwise liable for, such determinations or calculation of the Closing Price or for making or verifying any calculation, certification, advice or opinion in connection with such determinations or calculation.

“Conversion Ratio” is equal to the principal amount of each Bond divided by the Conversion Price (translated into U.S. dollars at the Fixed Exchange Rate) then in effect immediately prior to the date upon which notice of such redemption is given.

- (d) *Redemption at the option of the Bondholders:* The Issuer will, at the option of the holder of any Bond redeem all or some only of such holder's Bonds on 30 December 2023 (the "**Put Option Date**") at 103.08 per cent. of its principal amount, together with interest accrued but unpaid to but excluding such date. To exercise such option, the holder must deposit during normal business hours (being between 9:00 a.m. and 3:00 p.m.) at the specified office of any Paying Agent a duly completed and signed put notice in the form for the time being current, obtainable from the specified office of any Paying Agent, together with the Certificate evidencing the Bonds to be redeemed not more than 60 days and not less than 30 days prior to the Put Option Date.

A put notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Issuer consents to such withdrawal) and the Issuer shall redeem the Bonds the subject of the put notices delivered as aforesaid on the Put Option Date.

- (e) *Redemption for Delisting or Change of Control:* Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder's option, to require the Issuer to redeem all or some only of such holder's Bonds on the Relevant Event Redemption Date at their Early Redemption Amount, together with interest accrued but unpaid to but excluding the date fixed for redemption. To exercise such right, the holder of the relevant Bond must deposit during normal business hours (being between 9:00 a.m. and 3:00 p.m.) at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent, specifying the number of Bonds to be redeemed and the Relevant Event that has occurred ("**Relevant Event Redemption Notice**"), together with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 17 (*Notices*). The "**Relevant Event Redemption Date**" shall be the fourteenth day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and may not be withdrawn without the Issuer's consent and the Issuer shall redeem the Bonds the subject of the Relevant Event Redemption Notice as aforesaid on the Relevant Event Redemption Date. The Issuer shall give notice to Bondholders in accordance with Condition 17 (*Notices*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 8(e) (*Redemption for Delisting or Change of Control*) and shall give brief details of the Relevant Event.

None of the Trustee or the Agents shall be required to monitor or take any steps to ascertain whether a Relevant Event or any event which could lead to a Relevant Event has occurred or may occur and each of them shall be entitled to assume that no such event has occurred until it has received written notice to the contrary from the Issuer. The Trustee and the Agents shall not be required to take any steps to ascertain whether any condition for the exercise of the rights in accordance with Condition 8(e) has occurred. None of the Trustee or the Agents shall be responsible for determining or verifying whether a Bond is to be accepted for redemption under this Condition 8(e) (*Redemption for Delisting or Change of Control*) and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so. None of the Trustee or the Agents shall be under any duty to determine, calculate or verify the redemption amount payable under this Condition 8(e) (*Redemption for Delisting or Change of Control*) and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

A “**Relevant Event**” occurs:

- (i) when the Shares cease to be listed or admitted to trading or suspended for trading for a period equal to or exceeding 30 consecutive Trading Days on the Hong Kong Stock Exchange or, if applicable, the Alternative Stock Exchange (a “**Delisting**”);
or
 - (ii) when there is a Change of Control.
- (f) *Purchase:* Each of the Issuer, the Guarantor and any of their respective Subsidiaries may, subject to applicable laws and regulations, at any time and from time to time purchase Bonds at any price in the open market or otherwise.
- (g) *Cancellation:* All Bonds which are redeemed, converted or purchased by the Issuer, the Guarantor or any of their respective Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.
- (h) *Redemption Notices:* All notices to Bondholders given by or on behalf of the Issuer pursuant to this Condition 8 (*Redemption, Purchase and Cancellation*) will specify (i) the Conversion Price as at the date of the relevant notice, (ii) the Conversion Period, (iii) the Closing Price of the Shares as at the latest practicable date prior to the publication of the notice, (iv) the Early Redemption Amount and accrued interest payable (if any), (v) the date for redemption, (vi) the manner in which redemption will be effected and (vii) the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

If more than one notice of redemption is given (being a notice given by either the Issuer or a Bondholder pursuant to this Condition 8 (*Redemption, Purchase and Cancellation*)), the first in time shall prevail. Neither the Trustee nor the Agents shall be responsible for calculating or verifying any calculations of any amounts payable under this Condition 8 (*Redemption, Purchase and Cancellation*).

(i) *Early Redemption Amount*

The “**Early Redemption Amount**” of a Bond, for each U.S.\$200,000 principal amount of the Bonds, is the amount determined to represent for the Bondholder on the relevant date for determination of the Early Redemption Amount (the “**Determination Date**”) a gross yield of 2.00 per cent. per annum calculated on a semi-annual basis. The applicable Early Redemption Amount for each U.S.\$200,000 principal amount of Bonds is calculated in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is a Semi-annual Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Semi-annual Date):

Early Redemption Amount = Previous Redemption Amount $\times (1 + r/2)^{d/p}$ — AI, where

Previous Redemption Amount = the Early Redemption Amount for each U.S.\$200,000 principal amount on the Semi-annual Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to the first Interest Payment Date, U.S.\$200,000):

	Early Redemption Amount
	<i>(U.S.\$)</i>
Semi-annual Date	
30 June 2021.....	201,000.00
30 December 2021	202,010.00
30 June 2022.....	203,030.10
30 December 2022	204,060.40
30 June 2023.....	205,101.01
30 December 2023	206,152.02
30 June 2024.....	207,213.54
30 December 2024	208,285.67
30 June 2025.....	209,368.53

r = 2.00 per cent. expressed as a fraction.

d = number of days from and including the immediately preceding Semi-annual Date (or if the Bonds are to be redeemed on or before the first Interest Payment Date, from and including the Issue Date) to, but excluding, the date fixed for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

p = 180.

AI = the accrued interest on the principal amount of U.S.\$200,000 of a Bond determined in accordance with and pursuant to Condition 5 (*Interest*) from and including the immediately preceding Interest Payment Date (or if the Determination Date is before the first Interest Payment Date, from and including the Issue Date) to but excluding the Determination Date.

(j) *Definitions*

For the purposes of this Condition 8 (*Redemption, Purchase and Cancellation*):

“**Change of Control**” means the occurrence of one or more of the following events:

- (a) the Permitted Shareholders cease to hold (directly or indirectly, and which ownership shall include, for the avoidance of doubt, any Shares loaned pursuant to the securities lending agreement dated 17 December 2020 entered into between J.P. Morgan Securities plc and Chencheney Limited) in aggregate at least 30 per cent. of the shares of the Guarantor;
- (b) any person or persons, acting together, (other than the Permitted Shareholders) acquires Control of the Guarantor;
- (c) any person or persons, acting together, (other than the Permitted Shareholders) hold more shares of the Guarantor than the Permitted Shareholders; or
- (d) the Guarantor consolidates with or merges into or sells or transfers all or substantially all of the Guarantor’s assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring Control over the Guarantor or the successor entity;

“**Control**” means (a) the acquisition or control of more than 50 per cent. of the Voting Rights of the issued share capital of the Guarantor, or (b) the right to appoint and/or remove all or the majority of the members of the Guarantor’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise;

“Permitted Shareholders” means the aggregate shareholding of Mr. Mao Chen Cheney, Ms. Mao Jun and:

- (a) any heir, estate, lineal descendant (or spouse thereof), spouse or parent of Mr. Mao Chen Cheney and Ms. Mao Jun; or
- (b) any trust, corporation, partnership or other entity, of which the direct or indirect beneficiaries, equity holders, partners or owners are Mr. Mao Chen Cheney, Ms. Mao Jun and/or such other Persons referred to in paragraph (a) above;

a **“Person”** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the (i) the Guarantor’s board of directors or any other governing board or (ii) the Guarantor’s wholly owned direct or indirect subsidiaries; and

“Voting Rights” means the right generally to vote at a general meeting of shareholders of the Guarantor (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency).

None of the Trustee or the Agents shall be responsible for determining or verifying whether a Bond is to be accepted for redemption under this Condition 8 (*Redemption, Purchase and Cancellation*) and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so. Neither the Trustee nor the Agents shall be under any duty to determine, calculate or verify the redemption amount payable under this Condition 8 (*Redemption, Purchase and Cancellation*) and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

9 Taxation

All payments made by or on behalf of the Issuer (or, as the case may be, the Guarantor) under or in respect of the Bonds (or under the Guarantee), the Trust Deed or the Agency Agreement will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the British Virgin Islands, the Cayman Islands or the PRC or, in each case, any authority thereof or therein having power to tax, unless such deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law.

Where such withholding or deduction is made by the Issuer (or, as the case may be, the Guarantor) by or within the PRC up to and including the aggregate rate applicable on 17 December 2020 (the “**Applicable Rate**”), the Issuer (or failing which, the Guarantor) will increase the amounts paid by it to the extent required, so that the net amount received by Bondholders equals the amounts which would otherwise have been receivable by them had no such withholding or deduction been required.

If the Issuer (or, as the case may be, the Guarantor) is required to make a deduction or withholding (a) in respect of PRC tax in excess of the Applicable Rate, or (b) by or within the British Virgin Islands or the Cayman Islands, the Issuer (or failing which, the Guarantor) will pay such additional amounts (the “**Additional Tax Amounts**”) as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such Additional Tax Amount shall be payable in respect of any Bond:

- (i) *Other connection:* to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands, the Cayman Islands or the PRC otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond; or
- (ii) *Presentation more than 30 days after the relevant date:* (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such Additional Tax Amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days.

For the purposes hereof, “**relevant date**” means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and payment made.

References in these Conditions to principal, premium (if any) and interest shall be deemed also to refer to any additional amounts which may be payable under this Condition 9 (*Taxation*) or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 9 (*Taxation*) or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Bondholder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or

information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), interest or other amount under or in respect of the Bonds without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

10 Events of Default

If any of the following events (each an “**Event of Default**”) occurs, the Trustee at its sole discretion may, and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount of the Bonds then outstanding, or if so directed by an Extraordinary Resolution, shall (subject in either case to being indemnified and/or secured and/or prefunded by the holders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall immediately become due and repayable the Early Redemption Amount, together with accrued interest (if any) to (but excluding) the date of payment (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6 (*Conversion*)) if:

- (a) *Non-Payment of principal or premium*: a default in the payment of any principal or premium due in respect of the Bonds occurs;
- (b) *Non-Payment of interest*: the Issuer or the Guarantor fails to pay any interest on any of the Bonds when due and such failure continues for a period of seven days;
- (c) *Breach of Other Obligations*: the Issuer or the Guarantor does not perform or comply with one or more of its other obligations in the Bonds, the Trust Deed or the Agency Agreement which default is in the opinion of the Trustee incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not remedied within 20 days after written notice of such default shall have been given to the Issuer by the Trustee;
- (d) *Failure to deliver Shares*: the Guarantor fails to deliver any Shares as and when the Shares are required to be delivered following conversion of Bonds;
- (e) *Insolvency*: the Issuer, the Guarantor or any of their respective Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a substantial part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a substantial part of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, the Guarantor or any of their respective Subsidiaries; an administrator or liquidator of the Issuer, the Guarantor or any

of their respective Subsidiaries or the whole or any part of the assets and turnover of the Issuer, the Guarantor or any of their respective Subsidiaries is appointed (or application for any such appointment is made);

- (f) *Cross-Default*: (i) any other present or future indebtedness (whether actual or contingent) of the Issuer, the Guarantor or any of its respective Subsidiaries; for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Issuer, the Guarantor or any of its respective Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 10(f) (*Cross-Default*) have occurred equals or exceeds U.S.\$20,000,000 or its equivalent in any other currency on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantees or indemnity;
- (g) *Enforcement Proceedings*: a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenue of the Issuer, the Guarantor or any of their respective Subsidiaries;
- (h) *Winding-up*: an order is made or an effective resolution passed for the liquidation, winding-up or dissolution, judicial management or administration of the Issuer, the Guarantor or any of their respective Subsidiaries (except for a members' voluntary solvent winding up of such Subsidiary), or the Issuer, the Guarantor or any of their respective Subsidiaries ceases or threatens to cease to carry on all or a substantial part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of a Subsidiary of the Issuer or the Guarantor, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer, the Guarantor or another of their respective Subsidiaries;
- (i) *Security Enforced*: an encumbrancer or a secured party takes possession or an administrative or other receiver or an administrator or other similar officer is appointed of the whole or a material part of the property, assets or revenue of the Issuer, the Guarantor or any of their respective Subsidiaries (as the case may be);

- (j) *Nationalisation*: (i) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a any part of the assets of the Issuer, the Guarantor or any of their respective Subsidiaries or (ii) the Issuer, the Guarantor or any of its respective Subsidiaries is prevented from exercising normal control over all or a material part of its property, assets and revenue;
- (k) *Authorisation and Consents*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer or the Guarantor lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds, the Trust Deed and the Agency Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds, the Trust Deed and the Agency Agreement admissible in evidence in the courts of the British Virgin Islands, Hong Kong or the Cayman Islands is not taken, fulfilled or done;
- (l) *Guarantee*: the Guarantee is not (or is claimed in writing by the Guarantor not to be) in full force or effect;
- (m) *Guarantor Shareholder*: the Issuer ceases to be a Subsidiary of the Guarantor or the Guarantor ceases to have Control of the Issuer;
- (n) *Illegality*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed; or
- (o) *Analogous Events*: any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of Conditions 10(e) (*Insolvency*), 10(g) (*Enforcement Proceedings*), 10(h) (*Winding-up*) and 10(i) (*Security Enforced*) above,

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and the Trustee and the Agents need not do anything to ascertain whether an Event of Default has occurred or is continuing and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so, and unless the Trustee or any Agent has received written notice from the Issuer or the Guarantor to the contrary, the Trustee and each Agent shall assume that the same are being duly performed.

11 Consolidation, Amalgamation or Merger

So long as any of the Bonds remain outstanding, neither the Issuer nor the Guarantor will consolidate with, merge or amalgamate into or transfer its assets substantially as an entirety to any corporation or convey or transfer its properties and assets substantially as an entirety to any person (the consummation of any such event, a “**Merger**”), unless:

- (a) the corporation formed by such Merger or the person that acquired such properties and assets shall expressly assume, by a supplemental trust deed, all obligations of the Issuer or the Guarantor, as the case may be, under the Trust Deed and the performance of every covenant and agreement applicable to it contained therein;
- (b) in the case of a Merger of the Guarantor, the Guarantee provided for in Condition 1(b) (*Guarantee*) has been granted by the Guarantor to the corporation formed by such Merger;
- (c) immediately after giving effect to any such Merger, no Event of Default, and no event which, after notice or lapse of time or both, may become an Event of Default shall have occurred or be continuing or would result therefrom; and
- (d) the corporation formed by such Merger, or the person that acquired such properties and assets, shall expressly agree, among other things, to indemnify each holder of a Bond against any tax, assessment or governmental charge payable by withholding or deduction thereafter imposed on such holder solely as a consequence of such Merger with respect to the payment of principal and interest on the Bonds),

and such Merger shall not be effective until each of the Issuer and the Guarantor has delivered to the Trustee an officer’s certificate signed by an Authorised Signatory of the Issuer or the Guarantor, as the case may be, stating that all requirements relating to such Merger have been complied with and that such Merger is authorised and permitted under the Trust Deed. The Trustee shall be entitled to rely conclusively on and shall be protected and shall incur no liability to any Bondholder or any other person for or in respect of any action taken, omitted or suffered in reliance upon such officer’s certificate.

12 Prescription

Claims in respect of amounts due in respect of the Bonds will become prescribed and become void unless made within 10 years (in the case of principal) and five years (in the case of interest) from the relevant date (as defined in Condition 9 (*Taxation*)) in respect thereof.

13 Enforcement

At any time after the Bonds have become due and repayable, the Trustee may, at its discretion and without further notice, take such actions and/or steps and/or institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed, but it will not be bound to take any such actions and/or steps and/or to institute any such proceedings unless (a) it shall have been so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Bondholder will be entitled to proceed directly against the Issuer and/or the Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

14 Meetings of Bondholders, Modification and Waiver

- (a) *Meetings:* The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the due date for any payment in respect of the Bonds or the dates on which interest is payable in respect of the Bonds, (ii) to reduce or cancel the amount of principal, any premium or interest or Equivalent Amount payable in respect of the Bonds or changing the method of calculation of interest, (iii) to change the currency of payment of the Bonds, (iv) to modify (except by a unilateral and unconditional reduction in the Conversion Price) or cancel the Conversion Rights, or (v) to modify or cancel the Guarantee or (vi) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 75 per cent., or at any adjourned such meeting not less than 33 per cent., in aggregate principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution duly passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. The Trust Deed provides that (A) a written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding or (B)

consents given by way of electronic consent through the relevant clearing system(s) (in a form satisfactory to the Trustee) by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of the Bonds outstanding, shall, in any such case, be as valid and effective as a duly passed Extraordinary Resolution.

- (b) *Modification and Waiver:* The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or to comply with any mandatory provision of law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach by the Issuer or the Guarantor, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer, failing whom the Guarantor, to the Bondholders as soon as practicable thereafter in accordance with Condition 17 (*Notices*).
- (c) *Directions from Bondholders:* None of the Trustee or any Agent shall be liable to any Bondholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions of the Bondholders. The Trustee shall be entitled to rely on any direction, request or resolution of Bondholders given by holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions from the Bondholders by way of an Extraordinary Resolution, and the Trustee is not responsible for any loss or liability incurred by any person as a result of any delay in it exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions or in the event that no such directions are received. The Trustee shall not be under any obligation to monitor compliance with the provisions of the Trust Deed or these Conditions.
- (d) *Certificates/Reports:* The Trustee may rely without liability to Bondholders, the Issuer, the Guarantor or any other person on any report, confirmation, certificate or information from or any advice or opinion of any accountants, auditors, lawyers, valuers, auctioneers, surveyors, brokers, financial advisers, financial institution or any other expert, whether or not obtained by or addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person in any other manner) by reference to a

monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation, certificate, information, advice or opinion, in which event such report, confirmation, certificate, information, advice or opinion shall be binding on the Issuer, the Guarantor and the Bondholders.

15 Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

16 Further Issues

The Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date, the issue price, the first payment of interest on them, the first date on which Conversion Rights may be exercised and the timing for the making of the NDRC Post-issue Filing) and so that such further issue shall be consolidated and form a single series with the Bonds. Such further bonds may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed.

17 Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the Register maintained by the Registrar or published in a leading newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal). Any such notice shall be deemed to have been given on the later of the date(s) of such publication(s) and the second day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled account holders in substitution for notification as required by the Conditions.

18 Agents

The names of the initial Agents and the Registrar and their specified offices are set out below. The Issuer and the Guarantor reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (a) a Principal Agent and (b) a Registrar which will maintain the Register outside the United Kingdom. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Issuer to the Bondholders and in any event not less than 45 days' notice will be given.

19 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification, on an after tax basis, of the Trustee and for its relief from responsibility, including without limitation provisions relieving it from taking actions or proceedings to enforce repayment unless indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related (directly or indirectly) to the Issuer or the Guarantor without accounting for any profit.

In addition, nothing in these Conditions, including any restriction on commencing proceedings, shall in any way restrict or limit any rights of the Trustee or any Agent, or any of its directors, officers, employees or agents, to claim from or to otherwise take any action against the Issuer or the Guarantor, in respect of any costs, charges, fees, expenses, indemnity payments or liabilities incurred and payable by the Issuer and/or the Guarantor to such party pursuant to or in connection with the Trust Deed, the Agency Agreement, the Deed of Guarantee and/or the Bonds.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless a Responsible Officer of the Trustee has express notice in writing to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed.

None of the Trustee or any of the Agents shall have any obligation to monitor or take any steps to ascertain whether an Event of Default, a Potential Event of Default, a Relevant Event or any other event or circumstances has occurred or to monitor compliance by the Issuer or the Guarantor with the provisions of the Trust Deed, the Agency Agreement, the Deed of Guarantee or these Conditions and shall not be liable to the Issuer, the Guarantor, the Bondholders or any other person for not doing so.

Each Bondholder shall be solely responsible for making and continuing to make its own independent appraisal of and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer or the Guarantor, and the Trustee shall not at any time have any responsibility for the same and no Bondholder shall rely on the Trustee in respect thereof.

20 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999 except to the extent expressly provided for and shall be without prejudice to the rights of the Bondholders as contemplated in Condition 13 (*Enforcement*).

21 Governing Law and Submission to Jurisdiction

The Bonds, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England and in relation thereto has appointed Cogency Global (UK) Limited at 6 Lloyds Avenue, Unit 4CL, London EC3N 3AX.

TAXATION

The following summary of certain Cayman Islands, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of Bonds is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisors concerning the tax consequences of the purchase, ownership and disposition of Bonds, including such possible consequences under the laws of their country of citizenship, residence or domicile.

CAYMAN ISLANDS

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under the laws of the Cayman Islands, payments of interest, principal or redemption premium on the Bonds will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest, principal or redemption premium to any holder of the Bonds, as the case may be, nor will gains derived from the disposal of the Bonds be subject to Cayman Islands tax. The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty.

No stamp duty is payable in respect of the issue of the Bonds. An instrument of transfer in respect of a Security is stampable if executed in or brought into the Cayman Islands.

Pursuant to section 6 of the Tax Concessions Act (2018 Revision) of the Cayman Island, we may obtain an undertaking from the Financial Secretary of the Cayman Islands:

- that no law which is hereafter enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to us or our operations; and
- in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable, (i) on or in respect of our shares, debentures or other obligations, or (ii) by way of the withholding, in whole or part, of any relevant payment as defined in Section 6(3) of the Tax Concessions Act (2018 Revision).

HONG KONG

Withholding Tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest on the Bonds or in respect of any capital gains arising from the sale of the Bonds.

Profits Tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Interest on the Bonds may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Bonds is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Bonds is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of that trade, profession or business;
- (iii) interest on the Bonds is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong (the “IRO”)) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (iv) interest on the Bonds is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Bonds will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Bonds will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Bonds will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Bonds are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

Stamp Duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

PRC

Taxation on Interests and Capital Gains

Under the EIT Law and implementation regulations issued by the State Council, PRC income tax at the rate of 10% must be withheld from interest paid to investors that are “non-resident enterprises” and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business if we are deemed to be a PRC “resident enterprise” and the distribution is deemed as PRC-source income. In the case of “non-resident individual” investors, the PRC income tax on interest may be imposed and withheld at a rate of 20%. Any gain realized on the transfer of the Bonds by “non-resident enterprise” investors would be subject to a 10% PRC income tax, or 20% PRC income tax for “non-resident individual” investors, if such gain is regarded as income derived from sources within the PRC in the case that we are treated as a PRC “resident enterprise”. Any PRC tax liability described above may be reduced to the extent provided under applicable tax treaties. As advised by JunHe LLP, our PRC legal advisors, there is uncertainty as to whether we will be treated as a PRC “resident enterprise” for the purpose of the EIT Law. If we are treated as a PRC “resident enterprise,” the payments of interest we make in respect of the Bonds, and the gain any investor may realize from the transfer of the Bonds, may be treated as income derived from sources within the PRC and may be subject to PRC tax (including withholding tax in the case of interest payments), as described in “Risk Factors — Risks Relating to doing business in China — Under China’s Enterprise Income Tax Law, we may be classified as a “resident enterprise” of China. This classification could result in unfavorable tax consequences to us, our non-PRC shareholders and our non-PRC holders of the convertible bonds”.

VAT

On 23 March 2016, the MOF and the SAT issued the Circular of Taxation on Full Launch of the Pilot Scheme on Levying Value-Added Tax in Place of Business Tax (《關於全面推開營業稅改徵增值稅試點的通知》), or Circular 36, which confirms that since 1 May 2016, the income derived from the provision of financial services which attracted business tax has been entirely replaced by, and subject to, VAT.

According to Circular 36, the entities and individuals providing the services within China shall be subject to VAT. The services are treated as being provided within China where either the service provider or the service recipient is located in the PRC. The services subject to VAT include the provision of financial services such as the provision of loans. It is further clarified under Circular 36 that the “loans” refers to the activity of lending capital for another’s use and receiving the interest income thereon. Based on the definition of “loans” under Circular 36, the PRC Bondholders are likely to be treated as the holders of the Bonds located within China providing loans to us, which thus shall be regarded as providing financial services subject to VAT. Thus, the PRC Bondholders shall be subject to VAT under Circular 36 when receiving the interest payments under the Bonds.

In general, while still subject to the competent tax authority’s further clarification or interpretation, the provision of loans and the income therefrom will not be subject to VAT in the PRC *provided* that both the Bondholders and us are not within the PRC and the Bonds are not issued within the PRC. However, due to the lack of explicit tax rules, the risk may not be entirely ruled out that holders of the Bonds might be deemed to be providing financial services to us within the PRC and consequently, the amount of interest payable by us to any non-PRC resident holders may be subject to withholding VAT tax at the rate of 6% plus related surcharges.

Where a non-PRC resident individual resells the Bonds, VAT may be exempted according to Circular 36 if the resale of Bonds is treated as resale of financial products. Where a non PRC-resident enterprise holder resells the Bonds to an entity or individual located outside of the PRC, since neither the service provider nor the service recipient is located in the PRC, Circular 36 should not apply. However, where a non PRC-resident enterprise holder resells the Bonds, there is uncertainty as to the applicability of VAT if the buyer of Bonds is located inside the PRC.

The above statement may be subject to further change upon the issuance of clarification rules and/or different interpretation by the competent tax authority. There is uncertainty as to the application of Circular 36.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Bonds is maintained outside the PRC) of a Security.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with the Joint Lead Managers dated 17 December 2020 (the “**Subscription Agreement**”), pursuant to which and subject to certain conditions contained therein, the Issuer has agreed to sell to the Joint Lead Managers, and each of the Joint Lead Managers has agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Bonds set forth opposite its name below:

	Principal amount of the Bonds to be subscribed
	<i>(U.S.\$)</i>
J.P. Morgan Securities plc	196,000,000
Credit Suisse (Hong Kong) Limited	56,000,000
China International Capital Corporation Hong Kong Securities Limited	14,000,000
The Hongkong and Shanghai Banking Corporation Limited	14,000,000
Total	280,000,000

The Subscription Agreement provides that the Issuer (failing whom the Guarantor) will jointly and severally indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

Each of the Issuer and the Guarantor has undertaken with the Joint Lead Managers in the Subscription Agreement that neither the Issuer, the Guarantor nor any person acting on its or their behalf will (a) issue, offer, sell, contract to sell, pledge, encumber or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Shares or securities of the same class as the Bonds or the Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Bonds, the Shares or securities of the same class as the Bonds, the Shares or other instruments representing interests in the Bonds, the Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, in any such case without the prior written consent of the Joint Lead Managers between the date of the Subscription Agreement and the date which is 90 days after the Closing Date (both dates inclusive); except for (i) the Bonds and the New Shares, (ii) any Shares issued pursuant to conversion under the Existing Bonds, (iii) any Shares or options granted or issued pursuant to the Share Option Schemes and the Share Award Scheme, (iv) Shares issued by the Guarantor pursuant to the exercise of options granted under the pre-IPO share incentive schemes which are beneficially owned by employees other than directors and senior management of the Guarantor, (v) Shares disposed of in accordance with any order made by a court of competent jurisdiction, and (vi) Shares disposed of arising by operation of or required by law.

Mao Chen Cheney, being a shareholder of the Company (collectively, the “**Shareholders**”), has executed a shareholder lock-up undertaking dated 17 December 2020 (the “**Undertaking**”), undertaking in favour of the Joint Lead Managers that, for a period commencing from the date of the Undertaking until 90 days from the Closing Date, without the prior written approval of the Joint Lead Managers, he will not, and shall procure that Concord Trust Company LLC, any of his nominees or any other person acting on his behalf will not, (a) issue, offer, sell, contract to sell, pledge, encumber or otherwise dispose of or grant options, issue warrants or offer rights entitling persons to subscribe or purchase any interest in any Lock-up Shares or securities of the same class as the Lock-up Shares or any securities convertible into, exchangeable for or which carry rights to subscribe or purchase the Lock-up Shares or securities of the same class as the Lock-up Shares or other instruments representing interests in the Lock-up Shares or other securities of the same class as them, (b) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of the ownership of the Lock-up Shares, (c) enter into any transaction with the same economic effect as, or which is designed to, or which may reasonably be expected to result in, or agree to do, any of the foregoing, whether any such transaction of the kind described in (a), (b) or (c) is to be settled by delivery of the Lock-up Shares or other securities, in cash or otherwise or (d) announce or otherwise make public an intention to do any of the foregoing, except for: (i) Shares disposed of in accordance with any order made by a court of competent jurisdiction; (ii) Shares disposed of arising by operation of or required by law; (iii) Shares disposed of following the death of Mao Chen Cheney; (iv) the 118,000,000 Relevant Shares which are subject to the securities lending agreements entered into between J.P. Morgan Securities plc with each of Chencheney Ltd, Wu and Sons Limited, and Fenghe Harvest Ltd, each dated 17 December 2020; and (v) Shares transferred to (A) the Immediate Family Members of Mao Chen Cheney, (B) any companies or entities wholly-owned by Mao Chen Cheney and/or his Immediate Family Members, and (C) a trust for tax planning purposes or to a trustee, executor, or other fiduciary for the benefit of Mao Chen Cheney and/or his Immediate Family Members for bona fide estate planning purposes, provided, that in each case, such transfer shall be effected in compliance with all applicable laws. For the purposes of this paragraph, “Immediate Family Members” means spouse and children and “**Lock-up Shares**” means the 482,043,527 Shares held by the Shareholder directly or indirectly (including under any trusts and/or companies controlled by it and any nominee arrangements), representing 25.19 per cent. of the existing issued share capital of the Guarantor as at the date of the Undertaking.

In connection with the proposed issue of the Bonds, J.P. Morgan Securities plc (the “**Borrower**”) as borrower has entered into securities lending agreements with each of Chencheney Ltd, Wu and Sons Limited and Fenghe Harvest Ltd, as Shareholders of the Company (collectively, the “**Lenders**”), each dated 17 December 2020 (collectively, the “**Securities Lending Agreements**”), to allow the Lenders to provide securities lending to the Borrower, in respect of 118,000,000 Shares upon and subject to the terms and conditions stated in the Securities Lending Agreements.

The Joint Lead Managers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities (“**Banking Services or Transactions**”). The Joint Lead Managers and their affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with the Issuer and the Guarantor for which they have received, or will receive, fees and expenses.

In connection with the offering of the Bonds, the Joint Lead Managers and/or their affiliates, or affiliates of the Issuer or the Guarantor, may purchase Bonds for their own account and enter into transactions, including (i) credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Bonds and/or the Shares or (ii) equity derivatives and stock loan transactions relating to the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. Such entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering of the Bonds. Accordingly, references herein to the offering of the Bonds should be read as including any offering of the Bonds to the Joint Lead Managers and/or their affiliates, or affiliates of the Issuer or the Guarantor as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Bonds may be impacted.

Furthermore, it is possible that a significant proportion of the Bonds may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in the Bonds may be constrained. The Issuer, the Guarantor and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Bonds amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

In the ordinary course of their various business activities, the Joint Lead Managers and their affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve the securities and instruments of the Issuer and/or the Guarantor, including the Bonds and could adversely affect the trading price and liquidity of the Bonds. The Joint Lead Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Bonds or other financial instruments of the Issuer or the Guarantor, and may recommend to their clients that they acquire long and/or short positions in the Bonds or other financial instruments of the Issuer or the Guarantor.

Selling Restrictions

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Issuer, the Guarantor or the Joint Lead Managers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds, or possession or distribution of this

Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Bonds or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, the Bonds may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds may be distributed or published, by the Issuer, the Guarantor or the Joint Lead Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Issuer, the Guarantor or the Joint Lead Managers.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and any of the Joint Lead Managers or any of their affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such Joint Lead Managers or such affiliate on behalf of the Issuer and the Guarantor in such jurisdiction.

United States

The Bonds, the Guarantee and the New Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds and the Guarantee are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds and the Guarantee, an offer or sale of the Bonds or the Guarantee within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Hong Kong

Each of the Joint Lead Managers has represented and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the “SFO”) and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with

respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

United Kingdom

Each of the Joint Lead Managers has represented and agreed that:

- (a) (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell the Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the Issuer or the Guarantor;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA and UK Retail Investors

Each of the Joint Lead Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Offering Circular in relation thereto to any retail investor in the European Economic Area and in the UK. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

- (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or
- (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No.25 of 1948, as amended, the “**Financial Instruments and Exchange Act**”). Accordingly, each of the Joint Lead Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any

Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

The PRC

Each of the Joint Lead Managers has represented and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by applicable laws of the People's Republic of China.

Singapore

Each of the Joint Lead Managers has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each of the Joint Lead Managers has represented and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275 (1A) or Section 276(4)(i)(B) of the SFA;
- (ii) where no consideration is or will be given for the transfer;
- (iii) where the transfer is by operation of law;
- (iv) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

The Cayman Islands

Each of the Joint Lead Managers has represented and agreed that no invitation whether directly or indirectly may be made to the public in the Cayman Islands to subscribe for the Bonds unless the issuer is listed on the Cayman Islands Stock Exchange.

British Virgin Islands

No invitation whether directly or indirectly may be made to the public in the British Virgin Islands to subscribe for the Bonds.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the Terms and Conditions. Terms defined in the Terms and Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

MEETINGS

For the purposes of any meeting of Bondholders, the registered holder of the Bonds represented by the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each U.S.\$100,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in the Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on confirmation of entitlement and appropriate proof of his identity and interest.

CANCELLATION

Cancellation of any Bond by the Issuer following its redemption, conversion or purchase by the Issuer, the Guarantor and their respective Subsidiaries will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

TRUSTEE'S POWERS

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obliged to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

CONVERSION

Subject to the requirements of Euroclear and Clearstream or any other clearing system (an “**Alternative Clearing System**”) as shall have been selected by the Issuer and approved by the Trustee, the Principal Agent and the Registrar on behalf of which the Bonds evidenced by the Global Certificate may be held, the Conversion Rights attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation thereof to, or to the order of the Principal Agent of one or more Conversion Notices (as defined in the Terms and Conditions) duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Principal Agent together with the relevant Conversion Notice(s) shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

PAYMENT

So long as the Bonds are represented by the Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of the Bonds from the Issue Date at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by the Global Certificate.

Payments of principal, premium and interest in respect of Bonds represented by the Global Certificate will be made without presentation or, if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose. Such payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment, where “**Clearing System Business Day**” means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

CALCULATION OF INTEREST

So long as the Bonds are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, the Issuer has promised, *inter alia*, to pay interest in respect of such Bonds from the Issue Date in arrear at the rates, on the dates for payment, and in accordance with the method of calculation provided for in the Terms and Conditions, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by such Global Certificate.

NOTICES

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions.

BONDHOLDER’S REDEMPTION

The Bondholder’s redemption options in Condition 8(d) (*Redemption at the option of the Bondholders*) and Condition 8(e) (*Redemption for Delisting or Change of Control*) of the Terms and Conditions may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions.

REDEMPTION AT THE OPTION OF THE ISSUER

The options of the Issuer provided for in Condition 8(c) (*Redemption at the Option of the Issuer*) and Condition 8(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions shall be exercised by the Issuer giving notice to the Trustee and the Bondholders within the time limits set out in and containing the information required by the Terms and Conditions.

BONDHOLDER'S TAX OPTION

The option of Bondholders not to have the Bonds redeemed as provided in Condition 8(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions shall be exercised by depositing at the specified office of any Paying Agent a duly completed and signed notice of election, in the form for the time being current, obtainable from the specified office of any Paying Agent within the time limits set out in the Terms and Conditions.

EXCHANGE OF BONDS REPRESENTED BY GLOBAL CERTIFICATES

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if either Euroclear or Clearstream or any other clearing system as shall have been selected by the Issuer and approved by the Trustee, the Principal Agent and the Registrar (on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. In such circumstances, the Issuer will at its own expense cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the Global Certificate is issued must provide the Registrar with a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

TRANSFERS

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream (or such Alternative Clearing System) and their respective direct and indirect participants.

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for us by Sidley Austin as to matters of English and Hong Kong law, JunHe LLP as to matters of PRC law and Maples and Calder (Hong Kong) LLP as to matters of Cayman Islands law.

Certain legal matters will be passed upon for the Joint Lead Managers by Linklaters as to matters of English law and Commerce & Finance Law Offices as to matters of PRC law.

INDEPENDENT AUDITORS

The consolidated audited financial statements of the Guarantor as at 31 December 2017 and 2018 and for the years ended 31 December 2017, 2018 and 2019 included in this Offering Circular have been audited by Deloitte Touche Tohmatsu, independent certified public accountants, Hong Kong, as stated in their reports appearing herein. The consolidated audited financial statement of the Guarantor as at 31 December 2019 and the unaudited but reviewed condensed consolidated financial statements of the Guarantor as at and for the six months ended 30 June 2020 have been prepared and reviewed by Ernst & Young, independent certified public accountants, Hong Kong. Such unaudited condensed consolidated financial information is not audited and accordingly the degree of reliance on such information should be restricted in light of the limited nature of the review procedure applied.

GENERAL INFORMATION

LEGAL ENTITY IDENTIFIER

The Legal Entity Identifier (LEI) of the Issuer is 549300VUSXNS8AW4T635.

AUTHORISATIONS

Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorizations in connection with the issue and performance of the Bonds. The issue of the Bonds have been authorized by (i) the board resolutions of the Issuer dated 17 December 2020, and (ii) the board resolutions of the Guarantor dated 17 December 2020.

LITIGATION

Except as disclosed in this Offering Circular, there are no legal or arbitration proceedings against or affecting us, any of our subsidiaries or any of our assets, nor are we aware of any pending or threatened proceedings, which are or might be material in the context of this issue of the Bonds.

NO MATERIAL ADVERSE CHANGE

There has been no adverse change or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) of our general affairs since 30 June 2020 that is material in the context of the issue of the Bonds.

DOCUMENTS AVAILABLE

For so long as any of the Bonds is outstanding, copies of the Trust Deed and the Agency Agreement may be inspected by Bondholders free of charge at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m.) on any weekday (except public holidays) at the principal office of the Trustee (being at the date of this Offering Circular at One Canada Square, London E14 5AL, United Kingdom) following prior written request and proof of holding and identity to the satisfaction of the Trustee.

For so long as any of the Bonds is outstanding, copies of the accountants' reports and/or our published financial statements, if any, including the accountants' report set out in the section entitled "*Index to Consolidated Financial Statements*" in this Offering Circular, may be inspected at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m.) on any weekday (except public holidays) at the principal office of the Issuer following prior written request and proof of holding to the satisfaction of the Issuer.

AUTHORIZED SHARES

As of the date of this Offering Circular, our authorized share capital is US\$100,000 divided into 4,000,000,000 ordinary shares of US\$0.000025 each.

CLEARING SYSTEMS AND SETTLEMENT

The Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream. Certain trading information with respect to the Bonds is set forth below:

	<u>ISIN</u>	<u>Common Code</u>
Bonds	XS2248816493	224881649

Only Bonds evidenced by a Global Certificate have been accepted for clearance through Euroclear and Clearstream.

LISTING OF THE BONDS

Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only as described in this Offering Circular. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the correctness of any statements made on opinions or reports contained in this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

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Page references included in the unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 and the audited consolidated financial statements as at and for the years ended 31 December 2017, 2018 and 2019 refer to pages in such unaudited condensed consolidated interim financial information or audited consolidated financial statements as appeared in our interim report for the six months ended 30 June 2020, our annual report for the year ended 31 December 2019 and our prospectus for the years ended 2017 and 2018, as the case may be. The independent review report issued by our auditor dated 31 August 2020 and reproduced herein was not for the purpose of this offering.

Independent Review Report



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TO THE BOARD OF DIRECTORS OF VIVA BIOTECH HOLDINGS

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 37 to 75, which comprises the condensed consolidated statement of financial position of Viva Biotech Holdings (the “**Company**”) and its subsidiaries (the “**Group**”) as at June 30, 2020 and the related condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 *Interim Financial Reporting* (“**IAS 34**”) issued by the International Accounting Standards Board (“**IASB**”). The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF 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 of interim financial information 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.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young
Certified Public Accountants
Hong Kong

August 31, 2020

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended June 30, 2020

	Notes	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	3	197,557	142,341
Cost of services		(97,439)	(70,450)
Gross profit		100,118	71,891
Other income and gains	4	27,190	34,208
Selling and distribution expenses		(1,951)	(1,837)
Administrative expenses		(37,048)	(22,359)
Research and development expenses		(22,324)	(15,616)
Listing expenses		–	(17,909)
Fair value gain on financial assets at fair value through profit or loss (“FVTPL”)	15	66,658	48,168
Impairment losses on financial assets, net		(434)	(1,324)
Other expenses		(161)	(13)
Finance costs	5	(38,594)	(872)
Share of losses of:			
A joint venture		(321)	(909)
An associate		–	(34)
PROFIT BEFORE FAIR VALUE LOSS ON FINANCIAL LIABILITIES AT FVTPL AND TAX		93,133	93,394
Fair value loss on financial liabilities at FVTPL	18	(615,526)	(34,238)
(LOSS)/PROFIT BEFORE TAX	6	(522,393)	59,156
Income tax expense	7	(7,879)	(12,660)
(LOSS)/PROFIT FOR THE PERIOD		(530,272)	46,496
		RMB	RMB
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	8		
Basic		(0.38)	0.04
Diluted		(0.38)	0.03

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2020

	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
(LOSS)/PROFIT FOR THE PERIOD	(530,272)	46,496
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	–
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	7,150	–
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD	(523,122)	46,496
Attributable to:		
Owners of the parent	(523,122)	46,496

Interim Condensed Consolidated Statement of Financial Position

June 30, 2020

	Notes	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	163,904	106,348
Right-of-use assets	10	151,053	50,638
Interests in a joint venture		3,907	4,228
Financial assets at FVTPL	15	760,123	622,854
Contract assets		10,728	5,405
Rental deposits and prepayments		27,002	11,097
Deferred tax assets		7,185	3,789
Total non-current assets		1,123,902	804,359
CURRENT ASSETS			
Inventories		9,669	8,530
Trade receivables	11	69,642	57,505
Contract costs		6,341	5,612
Prepayments, other receivables and other assets	12	44,005	83,151
Financial assets at FVTPL	15	95,652	29,629
Restricted bank balances		71,614	5,908
Cash and cash equivalents		1,521,285	904,091
Time deposits with original maturity of over three months		355,933	–
Total current assets		2,174,141	1,094,426
CURRENT LIABILITIES			
Trade payables	13	6,281	7,552
Other payables and accruals	14	89,085	28,394
Derivative financial instruments		503	–
Interest-bearing bank borrowings		15,902	525
Contract liabilities		1,816	635
Lease liabilities		10,924	24,458
Income tax payable		9,651	11,399
Total current liabilities		134,162	72,963
NET CURRENT ASSETS		2,039,979	1,021,463
TOTAL ASSETS LESS CURRENT LIABILITIES		3,163,881	1,825,822

Interim Condensed Consolidated Statement of Financial Position

June 30, 2020

	<i>Notes</i>	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		1,067	1,340
Convertible bonds – debt component	18	537,634	–
Convertible bonds – embedded derivative instruments	18	687,043	–
Deferred income		20,294	15,844
Lease liabilities		9,185	23,084
Deferred tax liabilities		9,910	8,160
Total non-current liabilities		1,265,133	48,428
Net Assets		1,898,748	1,777,394
EQUITY			
Equity attributable to owners of the parent			
Share capital	16	283	261
Other reserves		1,898,465	1,777,133
Total Equity		1,898,748	1,777,394

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended June 30, 2020

	Share capital RMB'000	Share premium RMB'000	Exchange fluctuation reserve RMB'000	Share option reserve RMB'000	Statutory reserves RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2020 (audited)	261	1,298,673	231	28,815	25,263	424,151	1,777,394
Loss for the period	–	–	–	–	–	(530,272)	(530,272)
Other comprehensive income for the period:							
Exchange differences on translation of foreign operations	–	–	7,150	–	–	–	7,150
Total comprehensive income for the period	–	–	7,150	–	–	(530,272)	(523,122)
Final 2019 dividend declared	–	(23,037)	–	–	–	–	(23,037)
Equity-settled share option arrangements	–	–	–	2,360	–	–	2,360
Exercise of share options	6	32,104	–	–	–	–	32,110
Conversion of convertible bonds	17	646,607	–	–	–	–	646,624
Repurchase of ordinary shares	(1)	(13,580)	–	–	–	–	(13,581)
At June 30, 2020 (unaudited)	283	1,940,767	7,381	31,175	25,263	(106,121)	1,898,748
At January 1, 2019 (audited)	164	47,251	–	20,485	16,207	167,335	251,442
Profit and total comprehensive income for the period	–	–	–	–	–	46,496	46,496
Equity-settled share option arrangements	–	–	–	4,323	–	–	4,323
Capitalization Issue	17	(17)	–	–	–	–	–
Dividend declared	–	(120,747)	–	–	–	–	(120,747)
Automatic conversion of Series B Preferred Shares upon Global Offering	11	246,888	–	–	–	–	246,899
Shares issued upon Global Offering and over-allotment	60	1,339,920	–	–	–	–	1,339,980
Share issue expenses	–	(80,687)	–	–	–	–	(80,687)
Exercise of share options	15	5,648	–	–	–	–	5,663
At June 30, 2019 (unaudited)	267	1,438,256	–	24,808	16,207	213,831	1,693,369

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	(522,393)	59,156
Adjustments for:		
Finance costs	38,594	872
Share of losses of a joint venture and an associate	321	943
Interest income	(7,851)	(6,995)
Loss on disposal of items of property, plant and equipment	155	13
Fair value gains, net:		
Derivative financial instruments	(1,421)	–
Financial assets at FVTPL	(66,658)	(48,168)
Fair value loss on financial liabilities at FVTPL	615,526	34,238
Foreign exchange gain	(7,462)	(1,032)
Income from government grants and subsidies related to assets	(510)	(1,194)
Revenue from service-for-equity (“SFE”)	(28,756)	(24,340)
Equity-settled share option expense	2,360	4,323
Gain on deemed disposal of interests in associates	–	(9,892)
Gain on repurchase of convertible bonds	(4,447)	–
Transaction cost of convertible bonds	5,068	–
Depreciation of property, plant and equipment	12,399	6,492
Depreciation of right-of-use assets	9,145	6,759
Impairment losses under expected credit model, net of reversal	434	1,324
Gain on disposal of right-of-use assets	(1,145)	–
	43,359	22,499
Increase in inventories	(1,139)	(299)
Increase in contract costs	(636)	(3,516)
(Increase)/decrease in trade receivables	(8,587)	3,859
(Increase)/decrease in other receivables	(167)	2,544
Decrease in trade payables	(1,271)	(843)
Decrease in other payables	(3,833)	(723)
Decrease in deferred revenue	(240)	–
Increase in contract liabilities	1,181	620
Cash generated from operations	28,667	24,141
Income tax paid	(7,731)	(11,566)
Net cash flows from operating activities	20,936	12,575

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	5,790	6,919
Purchases of items of property, plant and equipment	(49,114)	(15,635)
Proceeds from disposal of items of property, plant and equipment	32	8
Increase in rental deposit	(4,722)	(3,131)
Purchases of time deposit over three months	(353,975)	–
Receipt of government grants and subsidies related to assets	5,200	2,500
Placement of restricted bank deposits	(65,624)	(2,506)
Withdraw in restricted bank deposits	–	4,652
Capital injection of investment in joint ventures	–	(3,500)
Capital injection of investment in associates	–	(3)
Payments for acquisition of a subsidiary	(55,805)	–
Prepayments for potential acquisition of non-current assets	(30,000)	–
Purchase of financial assets at FVTPL	(2,710,867)	(52,981)
Proceeds from disposal of financial assets at FVTPL	2,605,867	–
Receipt of investment income from derivative financial instruments	1,924	–
Net cash flows from investing activities	(651,294)	(63,677)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank borrowings	(259)	(245)
Interest paid	(218)	(61)
Issue costs paid	–	(69,706)
Proceeds from bank borrowings	15,363	–
Proceeds from third party	–	10,631
Repayment of third party	–	(10,631)
Principal portion of lease payments	(21,672)	(3,150)
Proceeds from issue of ordinary shares	–	1,339,980
Proceeds from exercise share option	32,110	5,663
Payment for repurchase of shares	(13,581)	–
Dividend paid	–	(128,686)
Proceeds from the issue of convertible bonds	1,261,148	–
Transaction cost of convertible bonds	(5,156)	–
Payment for repurchase of convertible bonds	(27,398)	–
Net cash flows from financing activities	1,240,337	1,143,795

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended June 30, 2020

	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at beginning of period	904,091	155,554
Effect of foreign exchange rate changes, net	7,215	1,032
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,521,285	1,249,279

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

1. CORPORATE INFORMATION AND BASIS OF PREPARATION AND PRESENTATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.1 Corporate information

Viva Biotech Holdings (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability on August 27, 2008, and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) since May 9, 2019 (the “**Listing Date**”). The address of the registered office and the principal place of business of the Company is PO Box 309, Ugland House, Grand Cayman, KYI-1104, Cayman Islands and Room 1901, 19/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong respectively.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) is principally engaged in providing the structure-based drug discovery services to biotechnology and pharmaceutical customers worldwide for their pre-clinical stage innovative drug development.

1.2 Basis of preparation

The interim condensed consolidated financial information for the six months ended June 30, 2020 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended December 31, 2019.

The functional currency of the Company is Renminbi (“**RMB**”), which is the same as the presentation currency of the condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

2. CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2019, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IAS 39 and IFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to IFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to IFRS 1 and IAS 8	<i>Definition of Material</i>

The nature and impact of the revised IFRSs are described below:

- (a) Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after January 1, 2020. Upon the initial application, the 100% equity acquisition of the target company which was completed on March 9, 2020 was identified as asset acquisition.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

2. CHANGES IN ACCOUNTING POLICIES (continued)

- (b) Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendments to IFRS16 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, no monthly lease payments for the leases of the Group's office buildings 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 amendments did not have any impact on the financial position and performance of the Group.

- (d) Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

3. REVENUE AND OPERATING SEGMENT INFORMATION

Disaggregation of revenue

The following amounts represent revenue arising from providing research services under the three charge methods to third parties and investees of the Group. The investees of the Group include the associate, the joint venture and companies that the Group has investments in (carry in the condensed consolidated financial statements as financial assets at FVTPL).

	For the six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from services to non-investees:		
– 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:		
– FTE	13,924	12,330
– FFS	867	270
– SFE	28,756	24,340
	43,547	36,940
	197,557	142,341

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

Timing of revenue recognition

The following amounts represent revenue arising from providing research services over time and at a point in time:

Over time

	For the six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from FTE	132,026	92,111
Revenue from SFE	28,756	24,340
	160,782	116,451

At a point in time

	For the six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from FFS	36,775	25,890

For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) reviews the overall results and financial position of the Group as a whole prepared based on the same accounting policies. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is present.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

3. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

Geographical Information

The Group's operation and non-current assets, excluding financial assets at FVTPL, contract assets and deferred tax assets, are mainly located in the People's Republic of China (the "PRC"). An analysis of the Group's revenue from external customers, analyzed by their respective country/region of operation, is detailed below:

	For the six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
– United States of America	164,636	119,545
– PRC	26,989	22,135
– Europe	2,281	391
– Other Countries and Regions	3,651	270
	197,557	142,341

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group during the reporting period is follows:

	For the six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Customer A	–	17,541

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

4. OTHER INCOME AND GAINS

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest income		
– banks	7,748	6,919
– imputed interest income on rental deposits	103	76
Government grants and subsidies	3,567	1,718
Net foreign exchange gain	8,710	15,552
Gain on deemed disposal of interests in an associate	–	9,892
Gain on repurchase of convertible bonds (Note 18)	4,447	–
Gain on derivative financial instruments	1,421	–
Gain on disposal of right-of-use assets	1,145	–
Others	49	51
	27,190	34,208

5. FINANCE COSTS

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Interest on convertible bonds	37,785	–
Interest on lease liabilities	731	811
Interest on bank loans	78	61
	38,594	872

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

6. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging:

	For the six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	12,492	7,461
Depreciation of right-of-use assets	9,145	6,759
	21,637	14,220
Less: capitalized in contract costs	(532)	(969)
	21,105	13,251
Staff cost (including directors' emoluments):		
– Salaries and other benefits	77,215	54,914
– Retirement benefit scheme contributions	6,931	8,112
– Share-based payment expenses	2,360	4,323
	86,506	67,349
Less: capitalized in contract costs	(2,721)	(4,235)
	83,785	63,114
Auditors' remuneration	800	900
Lease payment in respect of short-term leases	1,376	1,534
Cost of inventories recognized as expenses	18,608	12,232

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

7. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The income tax expense of the Group for the period is analyzed as follows:

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Current tax:	5,983	8,823
Deferred tax:	1,896	3,837
	7,879	12,660

Pursuant to the relevant rules and regulations of the Cayman, the Company and the subsidiaries of the Group incorporated therein are not subject to any income tax in the Cayman.

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the period, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime. The first Hong Kong Dollars (“HK\$”) 2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The provision for Mainland China corporate income tax is based on the statutory rate of 25% of the assessable profits of certain Mainland China subsidiaries of the Group as determined in accordance with the Mainland China Corporate Income Tax Law which was approved and became effective on January 1, 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Viva Biotech (Shanghai) Ltd. (“Viva Biotech Shanghai”) renewed its “High and New Technology Enterprise” qualification in 2019 and is entitled to the preferential tax rate of 15% from 2019 to 2021.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic (loss)/earnings per share amount is based on the (loss)/profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares in issue during the six months ended June 30, 2020 and 2019.

The weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share for the six months ended June 30, 2019 has been retrospectively adjusted for the effect of the Share Split and the Capitalization Issue.

The diluted loss per share for the period ended June 30, 2020 did not assume conversion of the convertible bonds nor the exercise of Post-IPO Share Incentive Schemes as their inclusion would be anti-dilutive.

The calculations of the basic and diluted (loss)/earnings per share are based on:

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
(Loss)/earnings:		
(Loss)/profit attributable to equity holders of the parent, used in the basic and diluted (loss)/earnings per share	(530,272)	46,496

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

	Number of shares	
	For the six months ended June 30,	
	2020 (Unaudited)	2019 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic (loss)/earnings per share calculation	1,407,166,209	1,211,632,627
Effect of dilutive potential ordinary shares:		
Pre-IPO Share Incentive Schemes of the Company	–	119,303,404
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,407,166,209	1,330,936,031

9. DIVIDENDS

	For the six months ended June 30,	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Final declared – HK\$0.015 (2018: Nil) per ordinary shares (Note i)	23,037	–
Special dividend declared and paid	–	120,747

Notes:

- (i) On June 10, 2020, a final dividend of HK\$0.015 per ordinary share (in an aggregate amount of RMB23,037,000) was declared to shareholders of the Company whose names appeared on the Register of Members on June 19, 2020. The final dividend was paid on July 10, 2020.
- (ii) On August 31, 2020, an interim dividend of HK\$0.017 per ordinary share was declared to shareholders of the Company whose names appeared on the Register of Members on September 17, 2020.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended June 30, 2020, the Group mainly acquired property, plant and equipment and right-of-use assets of approximately RMB70,235,000 and RMB125,010,000, respectively (six months ended June 30, 2019: RMB15,136,000 and RMB41,346,000 respectively), which including that: On March 9, 2020, Viva Biotech Shanghai acquired a 100% interest in Shanghai Shenyu Wires Co., Ltd. from two third-party individual owners at the consideration of RMB120,000,000, for the purpose to acquire property, plant and equipment and right-of-use assets of approximately RMB16,912,000 and RMB112,345,000, respectively. The newly acquired property, plant and equipment and right-of-use assets will be used for the expansion of research and development capacity and working area.

11. TRADE RECEIVABLES

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Trade receivables		
– related parties (Note 20)	220	1,987
– third parties	71,613	57,275
Allowance for impairment loss	(2,191)	(1,757)
	69,642	57,505

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Within 3 months	55,716	41,967
3 months to 1 year	10,393	12,145
1-2 years	3,533	3,393
	69,642	57,505

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

12. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Other receivables		
– refundable deposits for potential acquisitions	30,000	70,000
– others	4,281	6,734
	34,281	76,734
Prepayments	2,312	1,302
Prepaid expenses	1,561	1,343
Value added tax recoverable	5,851	3,772
	9,724	6,417
Prepayments, other receivables and other assets	44,005	83,151

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

13. TRADE PAYABLES

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Trade payables – third parties	6,281	7,552

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Within 3 months	5,891	5,349
3 months to 1 year	91	1,188
1-2 years	299	1,015
	6,281	7,552

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

14. OTHER PAYABLES AND ACCRUALS

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Other payables – third parties	37,380	7,400
Accrued listing expenses and issue costs	251	251
Salary and bonus payables	20,824	20,052
Other taxes payable	578	691
Dividends payable	22,872	–
Interest payable	7,180	–
	89,085	28,394

15. FINANCIAL ASSETS AT FVTPL

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Unlisted investments at FVTPL	760,123	647,271
Financial products	95,652	5,212
	855,775	652,483
Analyzed for reporting purposes as:		
Current assets	95,652	29,629
Non-current assets	760,123	622,854
	855,775	652,483

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

15. FINANCIAL ASSETS AT FVTPL (continued)

At June 30, 2020, the financial products classified as financial assets at FVTPL represented unguaranteed financial products issued by banks, with no fixed maturity period and expected return rate from 3.60% to 3.75% per annum (at December 31, 2019: 2.9% per annum).

The movements in the carrying value of unlisted investments at FVTPL for the reporting period are as follows:

	<i>RMB'000</i>
At January 1, 2019 (Audited)	204,740
Acquired	52,981
Recognized from SFE revenue	19,692
Recognized from deemed disposal of an associate	12,533
Gain on fair value change	48,168
At June 30, 2019 (Unaudited)	338,114
At December 31, 2019 (Audited)	647,271
Acquired	54,988
Recognized from SFE revenue	23,384
Gain on fair value change	54,676
Disposal	(24,472)
Exchange adjustment	4,276
At June 30, 2020 (Unaudited)	760,123

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

15. FINANCIAL ASSETS AT FVTPL (continued)

The movements in the carrying value of the financial products of FVTPL for the reporting period are as follows:

	<i>RMB'000</i>
At January 1 and June 30, 2019	–
At December 31, 2019 (Audited)	5,212
Acquired	2,659,853
Gain on fair value change	11,982
Disposal	(2,581,395)
At June 30, 2020 (Unaudited)	95,652

16. SHARE CAPITAL

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Issued and fully paid:		
1,686,833,314 shares of US\$0.000025 each (December 31, 2019: 1,561,818,398 shares of US\$0.000025 each)	283	261

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

16. SHARE CAPITAL (continued)

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital RMB'000
At January 1, 2020 (audited)	1,561,818,398	261
Repurchased and cancelled of US\$0.000025 each	(3,652,500)	(1)
Exercise of share options of US\$0.000025 each (<i>Note 17</i>)	31,270,209	6
Conversion of convertible bonds of US\$0.000025 each (<i>Note 18</i>)	97,397,207	17
At June 30, 2020 (Unaudited)	1,686,833,314	283

17. SHARE OPTION SCHEMES

Details of the outstanding share options during the period are as follows:

Grant date	Number of options	Expiry date	Exercise price per share
January 2, 2018	1,125,000	January 1, 2028	US\$0.54
January 2, 2018	12,065,000	January 1, 2022	US\$0.54
June 21, 2018	500,000	June 20, 2022	US\$1.90

The Company's Pre-IPO Share Option Schemes (the "Pre-IPO Schemes") were adopted pursuant to resolutions passed on January 2, 2018 and June 21, 2018, respectively, for the primary purpose of providing incentives to the eligible employees of the Group.

The number of options and exercise price per share for the options granted on January 2, 2018 and June 21, 2018 represented the unadjusted number of options and exercise price before considering the Share Split and Capitalization Issue.

Grant date	Number of options	Expiry date	Exercise price per share
May 21, 2020	16,990,000	May 20, 2025	US\$0.98

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

17. SHARE OPTION SCHEMES (continued)

The Company's Post-IPO Share Option Scheme (the "Post-IPO Scheme") was adopted pursuant to the resolutions passed on May 21, 2020, for the primary purpose of providing incentives to the eligible employees of the Group. Under the Post-IPO Scheme, 16,990,000 share options were granted during the period (2019: Nil).

The Group recognized the total expense of RMB2,360,000 for the six months ended June 30, 2020 in relation to share options granted by the Company (six months ended June 30, 2019: RMB4,323,000).

The following share options were outstanding during the period:

	For the six months ended June 30,			
	2020		2019	
	Weighted average exercise price <i>US\$ per share</i>	Number of options	Weighted average exercise price <i>US\$ per share</i>	Number of options
At January 1	0.13	59,121,313	0.26	33,885,000
Share Split and Capitalization				
Issue	–	–	0.08	114,839,968
Granted during the period	0.98	16,990,000	–	–
Forfeited during the period	0.98	(60,000)	–	–
Exercised during the period	0.14	(31,270,209)	0.01	(88,901,398)
At June 30	0.45	44,781,104	0.13	59,823,570

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

17. SHARE OPTION SCHEMES (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

At June 30, 2020 Number of options (Note)	Exercise price US\$ per share (Note)	Exercise period
4,285,967	0.12	January 1, 2020 ~ January 1, 2028
23,565,137	0.12	January 1, 2020 ~ January 1, 2022
16,930,000	0.98	May 21, 2021 ~ May 20, 2025
44,781,104		
At June 30, 2019 Number of options (Note)	Exercise price US\$ per share (Note)	Exercise period
2,194,555	0.43	May 9, 2019 ~ June 20, 2020
4,937,748	0.12	January 1, 2020 ~ January 1, 2028
52,691,267	0.12	January 1, 2020 ~ January 1, 2022
59,823,570		

Note: The number of options and exercise price per share represented the adjusted number of options and exercise price after considering the Share Split and Capitalization Issue.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

17. SHARE OPTION SCHEMES (continued)

The fair value of equity-settled share options granted during the period was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	For the six months ended June 30, 2020
Dividend yield (%)	0.26
Expected volatility (%)	38.10
Risk-free interest rate (%)	0.36
Expected life of options (year)	5.00
Weighted average share price (HK\$ per share)	2.38

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of comparable listed companies in the same industry.

At the end of reporting period, the Company had 44,781,104 share options outstanding under the Schemes. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 44,781,104 additional ordinary shares of the Company, an additional share capital of approximately US\$1,000 and a share premium of approximately US\$20,049,000 (before issue expenses).

18. CONVERTIBLE BONDS

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 in an aggregate principal amount of US\$180,000,000, which was guaranteed by the Company.

The conversion period is on or after March 23, 2020 up to the close of business on the 10th day prior to February 11, 2025 (the “**maturity date**”) and the price of ordinary shares of the Company to be issued in exercise of the right of conversion is initially HK\$5.7456 per share. The conversion price would be subjected to adjustment for, among other things, consolidation, subdivision, redesignation or reclassification of shares, capitalization of profits or reserves, distributions, rights issues of shares or options over shares, rights issues of other securities, issues at less than current market price, modification of rights of conversion, other offers to shareholders.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

18. CONVERTIBLE BONDS (continued)

In addition to the conversion price adjustment situation mentioned above, on February 11, 2021 and February 11, 2022 (the “reset date”), the conversion price shall be adjusted by the arithmetic average of the volume weighted average prices of the shares on each trading day for the period of 20 consecutive trading days ending on the trading day immediately prior to the relevant reset date. Any such adjustment to the conversion price shall be limited such that the adjusted conversion price in no event shall be less than HK\$4.56.

On the maturity date, Viva Incubator HK would redeem all unconverted bonds from bondholders at the price of 108.21% of its principal amount, together with accrued and unpaid interest thereon.

On February 11, 2023, the bondholders would have the right to ask Viva Incubator HK to redeem all or some of bonds at 104.73% of its principal amount, together with interest accrued but unpaid to (but excluding) such date.

On giving not less than 30 nor more than 60 days’ notice to the bondholders, the trustee and the principal agent (which notice will be irrevocable), Viva Incubator HK may at any time prior to the maturity date redeem in whole, but not in part, the bonds for the time being outstanding at their early redemption amount, together with interest accrued but unpaid to (but excluding) the date fixed for redemption provided that prior to the date of such notice at least 90% in principal amount of the bonds originally issued has already been converted, redeemed or purchased and cancelled.

The convertible bonds comprise two components:

- (a) was initially measured at fair value amounting to US\$129,863,000 (equivalent to RMB919,365,000). It is subsequently measured at amortized cost using the effective interest method after considering the effect of the transaction costs.
- (b) Derivative component comprises conversion options and early redemption options (not closely related to the debt component), which were initially measured at fair value amounting to US\$50,137,000 (equivalent to RMB354,945,000) and subsequently measured at fair value with changes in fair value recognized in profit or loss.

The total transaction costs of US\$2,588,000 (equivalent to RMB18,284,000) that are related to the issue of the convertible bonds were allocated to the debt and derivative components in proportion to their respective fair values.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

18. CONVERTIBLE BONDS (continued)

The total transaction costs relating to the derivative component were charged to profit or loss during the period. Transaction costs relating to the debt component were included in the carrying amount of the debt portion and amortized over the period of the convertible bonds using the effective interest method.

	Debt Component <i>RMB'000</i>	Embedded derivative components <i>RMB'000</i>	Total <i>RMB'000</i>
Issue of convertible bonds	919,365	354,945	1,274,310
Transaction costs	(13,216)	(5,068)	(18,284)
Transaction costs charged into profit or loss immediately	–	5,068	5,068
Exchange adjustments	1,217	(5,158)	(3,941)
Interest charged	26,289	–	26,289
Repurchase (<i>Note i</i>)	(22,981)	(8,874)	(31,855)
Conversion (<i>Note ii</i>)	(373,040)	(269,396)	(642,436)
Loss arising on changes of fair value	–	615,526	615,526
At June 30, 2020	537,634	687,043	1,224,677

Notes:

- (i) On April 16, 2020, an aggregate principal amount of US\$4,500,000 convertible bonds were repurchased by Viva Incubator HK at a total consideration of US\$3,870,000 (equivalent to RMB31,855,000), with a gain on repurchase of convertible bonds of US\$630,000 (equivalent to RMB4,447,000) recognized.
- (ii) Up to June 30, 2020, an aggregate principal amount of US\$72,000,000 convertible bonds were converted into 97,397,207 ordinary shares.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

19. CAPITAL COMMITMENTS

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

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Commitment for:		
the acquisition of property, plant and equipment	323,900	343,789
the unlisted equity investments at FVTPL	58,760	11,214
	382,660	355,003

20. RELATED PARTY TRANSACTIONS

(1) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the periods presented in the condensed consolidated financial statements.

Company	Relationship
Jiaxing Tekeluo Biotech Co., Ltd.	Associate
Jiaxing Youbo Biotech Co., Ltd.	Joint Venture
QureBio Limited (<i>Note</i>)	Associate

Note: Since March 14, 2019, QureBio Limited is no longer a related party of the Group.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

20. RELATED PARTY TRANSACTIONS (continued)

(2) Transactions with related parties

Provision of research and development services

	For the six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Jiaxing Tekeluo Biotech Co., Ltd.	482	1,274
Jiaxing Youbo Biotech Co., Ltd.	2,791	2,066
QureBio Limited	–	654
	3,273	3,994

(3) Related party balances

	June 30, 2020	December 31, 2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables from related parties		
Jiaxing Tekeluo Biotech Co., Ltd.	135	174
Jiaxing Youbo Biotech Co., Ltd.	85	1,813
	220	1,987

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

20. RELATED PARTY TRANSACTIONS (continued)

(4) Compensation of key management personnel of the Group

	For the six months ended June 30,	
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)
Director fee	821	252
Salaries and other benefits	5,781	4,375
Performance-based bonus	66	234
Retirement benefits scheme contributions	25	45
Share-based compensation	268	2,198
	6,961	7,104

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follow:

	Carrying amounts		Fair values	
	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)	At June 30, 2020 RMB'000 (Unaudited)	At December 31, 2019 RMB'000 (Audited)
Financial assets				
Cash and cash equivalents	1,521,285	904,091	1,521,285	904,091
Restricted bank balances	71,614	5,908	71,614	5,908
Trade receivables	69,642	57,505	69,642	57,505
Time deposits with original maturity of over three months	355,933	—	355,933	—
Prepayments, other receivables and other assets	31,469	72,061	31,469	72,061
Rental deposits	7,566	2,844	7,566	2,844
Financial assets at fair value through profit or loss	855,775	652,483	855,775	652,483
Financial liabilities				
Derivative financial instruments	503	—	503	—
Trade payables	6,281	7,552	6,281	7,552
Other payables and accruals	66,407	6,507	66,407	6,507
Interest-bearing bank borrowings	16,969	1,865	16,969	1,865
Lease liabilities	20,109	47,542	20,109	47,542
Convertible bonds				
– debt component	537,634	—	537,634	—
Convertible bonds – embedded derivative instruments	687,043	—	687,043	—

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The Group's financial assets and financial liabilities at FVTPL which are measured at fair value (details refer to Notes 15 and 18) at June 30, 2020 and December 31, 2019 are grouped under Level 2 and Level 3 hierarchy. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular the valuation techniques and inputs used).

Financial instruments

	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets			
Financial products	Discounted cash flow method	N/A	N/A
Unlisted investment at FVTPL	Most recent transaction price	N/A	N/A
	Comparable company method	The ratio of P/R&D	The higher the ratio of P/R&D, the higher the valuation.
	Backsolve from most recent transaction price	IPO probability	The higher the probability, the higher the valuation.
	Discounted cash flow method	Conversion probability	The higher the probability, the higher the valuation.
Financial liabilities			
Derivative financial instruments	Discounted cash flow method	N/A	N/A
Convertible bonds – embedded derivative components	Binominal option pricing model	Expected volatility	The higher the expected volatility, the higher the valuation.
		Risk-free rate	The lower risk-free rate, the higher the valuation.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

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

Assets measured at fair value:

As at June 30, 2020

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Financial products	–	95,652	–	95,652
Unlisted investment at FVTPL	–	113,305	646,818	760,123
	–	208,957	646,818	855,775

As at December 31, 2019

	Fair value measurement using			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(Audited)	(Audited)	(Audited)	(Audited)
Financial products	–	5,212	–	5,212
Unlisted investment at FVTPL	–	334,529	312,742	647,271
	–	339,741	312,742	652,483

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at June 30, 2020

	Fair value measurement using			Total <i>RMB'000</i> (Unaudited)
	Quoted prices in active markets (Level 1) <i>RMB'000</i> (Unaudited)	Significant observable inputs (Level 2) <i>RMB'000</i> (Unaudited)	Significant unobservable inputs (Level 3) <i>RMB'000</i> (Unaudited)	
Derivative financial instruments	–	503	–	503
Convertible bonds – embedded derivative component	–	–	687,043	687,043
	–	503	687,043	687,546

The Group did not have any financial liabilities measured at fair value as at December 31, 2019.

Notes to the Interim Condensed Consolidated Financial Information

June 30, 2020

22. SUBSEQUENT EVENTS

Except as disclosed elsewhere of the consolidated financial information, the Group has the following significant events subsequent to June 30, 2020:

- a. On 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 RMB392,370,000 and obtained the internet auction confirmation on the same day. The Company expects that the acquisition of the property will provide operating space to meet the Group's business growth and development in the coming years.
- b. On July 10, 2020, an aggregate of 130,000,000 placing shares were placed at the placing price of HK\$8.15 per placing share, representing 7.07% of the issued share capital of the Company as enlarged by the allotment and issued of the placing shares immediately upon completion of the placing. The net proceeds from the placing, after deduction of the placing commission and other related expenses, amounted to approximately HK\$1,050,730,000 (equivalent to RMB948,263,000).
- c. On August 8, 2020, Viva Biotech Shanghai entered into the share purchase agreement pursuant to which Viva Biotech Shanghai agreed to acquire 80% of the equity interest in Zhejiang Langhua Pharmaceutical Co., Ltd., at the consideration of RMB2,560,000,000, which will be satisfied by cash.

Independent Auditor's Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF VIVA BIOTECH HOLDINGS

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Viva Biotech Holdings (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 81 to 184, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Fair value measurement for unlisted investments	
<p>The Group made unlisted investments in a wide variety of companies. Those investments are accounted for as financial assets at fair value through profit or loss (“FVTPL”) for the year ended December 31, 2019 in accordance with IFRS 9 “Financial Instruments”. At December 31, 2019, as disclosed in Note 18, the fair value of these investments is RMB647,271,000.</p> <p>The determination of the fair value of these unlisted investments involves significant estimates made by management as disclosed in Note 4. Therefore, we identify the fair value measurement for these investments as a key audit matter.</p>	<p>Our procedures in relation to the fair value measurement for unlisted investments included:</p> <ul style="list-style-type: none"> • Understanding the key controls over the fair value measurements and evaluating the design and implementation of these controls; • Evaluating the objectivity, independence and competence of the external appraisers assisting the management in assessing the fair value and assessing the methodology adopted in the determination of fair value of certain investments; • Enquiring the management for an understanding and assessing the methodology adopted by the management in the determination of fair value of those remaining investments that no external appraisers are involved; • Evaluating the reasonableness in the key inputs in the valuation models by checking to the supporting document; • Involving our internal valuation specialists in certain investments in level 3 in challenging the valuation model and inputs used by the fair value determination; and • Evaluating the disclosures of the fair value measurement in Note 34 to the consolidated financial statements with the requirement of IFRSs.

Independent Auditor's Report

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the company.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chan Men.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
March 30, 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
Revenue	5	323,057	210,033
Cost of services		(167,184)	(104,576)
Gross profit		155,873	105,457
Other income	6	20,870	4,671
Other gains and losses	7	44,420	31,047
Research and development expenses		(44,954)	(25,251)
Selling and marketing expenses		(3,571)	(3,925)
Administrative expenses		(51,215)	(25,576)
Listing expenses		(17,909)	(24,274)
Fair value gain on financial assets at fair value through profit or loss ("FVTPL")	18	217,630	68,286
Impairment losses under expected credit model, net of reversal		(1,812)	(113)
Share of loss of associates	16	(34)	(1,748)
Share of loss of joint ventures	17	(1,874)	(1,498)
Finance costs	8	(2,261)	(557)
Profit before fair value loss on financial liabilities at FVTPL and tax		315,163	126,519
Fair value loss on financial liabilities at FVTPL	30	(34,238)	(20,658)
Profit before tax	9	280,925	105,861
Income tax expense	10	(15,053)	(15,311)
Profit for the year		265,872	90,550
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		231	—
Other comprehensive income for the year		231	—
Total comprehensive income for the year		266,103	90,550
		RMB	RMB
Earnings per share	12		
— Basic		0.19	0.08
— Diluted		0.18	0.08

Consolidated Statement of Financial Position

At December 31, 2019

	Notes	2019 RMB'000	2018 RMB'000
Non-Current Assets			
Property, plant and equipment	14	106,348	66,899
Right-of-use assets	15	50,638	–
Interests in associates	16	–	2,675
Interests in joint ventures	17	4,228	2,602
Financial assets at FVTPL	18	622,854	204,740
Contract assets		5,405	3,368
Rental deposits and prepayments		11,097	6,872
Deferred tax assets	19	3,789	1,013
		804,359	288,169
Current Assets			
Inventories	20	8,530	4,900
Contract costs	21	5,612	4,261
Trade and other receivables	22	140,656	68,410
Financial assets at FVTPL	18	29,629	–
Restricted bank balances	24	5,908	8,045
Bank balances and cash	24	904,091	155,554
		1,094,426	241,170
Current Liabilities			
Trade and other payables	25	35,946	25,578
Contract liabilities	26	635	1,483
Income tax payables		11,399	14,904
Bank borrowings	27	525	497
Lease liabilities	29	24,458	–
		72,963	42,462
Net Current Assets		1,021,463	198,708
Total Assets Less Current Liabilities		1,825,822	486,877

Consolidated Statement of Financial Position

At December 31, 2019

	<i>Notes</i>	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Non-Current Liabilities			
Bank borrowings	27	1,340	1,865
Deferred income	28	15,844	9,849
Lease liabilities	29	23,084	–
Financial liabilities at FVTPL	30	–	220,600
Deferred tax liabilities	19	8,160	3,121
		48,428	235,435
Net Assets		1,777,394	251,442
Capital and Reserves			
Share capital	31	261	164
Reserves		1,777,133	251,278
Total Equity		1,777,394	251,442

The consolidated financial statements on page 81 to 184 were approved and authorized for issue by the directors of the Company on March 30, 2020 and are signed on its behalf by:

Mao Chen Cheney
Director

Hua Fengmao
Director

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019

	Share capital RMB'000	Share premium RMB'000	Statutory reserve RMB'000 (Note)	Share option reserve RMB'000	Other reserve RMB'000	Foreign currency transaction reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At January 1, 2018	120	13,590	9,744	11,883	33,705	–	83,720	152,762
Adoption of IFRS 9	–	–	–	–	–	–	(472)	(472)
Adjusted balance at January 1, 2018	120	13,590	9,744	11,883	33,705	–	83,248	152,290
Profit and total comprehensive income for the year	–	–	–	–	–	–	90,550	90,550
Recognition of equity-settled share based payment (Note 32)	–	–	–	8,602	–	–	–	8,602
Transferred to statutory reserve	–	–	6,463	–	–	–	(6,463)	–
Issue of ordinary shares	44	33,661	–	–	(33,705)	–	–	–
At December 31, 2018	164	47,251	16,207	20,485	–	–	167,335	251,442
Profit for the year	–	–	–	–	–	–	265,872	265,872
Other comprehensive income for the year	–	–	–	–	–	231	–	231
Total comprehensive income for the year	–	–	–	–	–	231	265,872	266,103
Recognition of equity-settled share-based payment (Note 32)	–	–	–	8,330	–	–	–	8,330
Issue of shares pursuant to Capitalization Issue (Note 31 (iii))	17	(17)	–	–	–	–	–	–
Transfer to statutory reserve	–	–	9,056	–	–	–	(9,056)	–
Dividends recognized as distribution (Note 13)	–	(127,896)	–	–	–	–	–	(127,896)
Automatic conversion of Series B Preferred Shares upon Global Offering (Note 30)	11	246,888	–	–	–	–	–	246,899
Shares issued upon Global Offering and over-allotment (Note 31 (iv) and (v))	60	1,339,920	–	–	–	–	–	1,339,980
Transaction costs attributable to issue of new shares	–	(80,687)	–	–	–	–	–	(80,687)
Exercise of share options (Note 32)	15	5,648	–	–	–	–	–	5,663
Repurchase of ordinary shares (Note 31 (vi))	(6)	(132,434)	–	–	–	–	–	(132,440)
At December 31, 2019	261	1,298,673	25,263	28,815	–	231	424,151	1,777,394

Note: In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), they are required to transfer 10% of the profit after taxation to the statutory reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional paid-in capital of the subsidiaries.

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	Note	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES			
Profit before tax		280,925	105,861
Adjustments for :			
Interest on bank borrowings		288	143
Interest on loans from related parties		–	414
Interest on lease liabilities		1,973	–
Interest income from banks		(14,904)	(861)
Interest income from rental deposit		(182)	–
Foreign exchange gain		(7,716)	(4,605)
Depreciation of property, plant and equipment		16,463	9,548
Depreciation of right-of-use assets		17,581	–
Impairment losses under expected credit model, net of reversal		1,812	113
Loss (gain) on disposal of property, plant and equipment		31	(5)
Gain on lease modification		(3)	–
Income from government grants and subsidies related to assets		(1,705)	(915)
Share-based payment expenses		8,330	8,602
Fair value gain on financial assets at FVTPL		(217,630)	(68,286)
Gain on deemed disposal of interests in a joint venture		–	(11,355)
Gain on deemed disposal of interests in associates		(11,684)	–
Gain on disposal of interests in a joint venture		–	(960)
Gain on disposal of interests in an associate		–	(4,047)
Fair value loss on financial liabilities at FVTPL		34,238	20,658
Share of loss of joint ventures		1,874	1,498
Share of loss of associates		34	1,748
Revenue from service-for-equity	42(b)(1)	(43,662)	(20,400)
Operating cash flows before movements in working capital		66,063	37,151
Increase in inventories		(3,630)	(1,577)
Increase in contract costs		(1,318)	(396)
Increase in trade and other receivables		(10,949)	(29,105)
Increase in trade and other payables		13,093	10,796
Increase in rental deposits		(104)	(650)
(Decrease) increase in contract liabilities		(848)	391
Cash generated from operations		62,307	16,610
Income taxes paid		(16,295)	(4,500)
NET CASH FROM OPERATING ACTIVITIES		46,012	12,110

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES		
Interest received	14,904	964
Proceeds from disposal of property, plant and equipment	49	65
Purchases of property, plant and equipment	(56,188)	(46,903)
Payment for acquisition of a land use right	(5,639)	–
Rental deposits paid	(257)	–
Proceeds from disposal of investments in financial assets at amortized cost	–	3,500
Government grants and subsidies received related to assets	7,700	477
Placement of restricted bank deposits	(2,515)	–
Withdraw in restricted bank deposits	4,652	–
Proceeds from disposal of interest in a joint venture	–	960
Proceeds from disposal of interest in an associate	–	7,000
Repayment from a related party	–	2,002
Capital injection of investment in joint ventures	(3,500)	(4,100)
Capital injection of investment in associates	(3)	(2,100)
Payments for potential acquisitions	(70,000)	–
Purchase of financial assets at FVTPL	(1,798,414)	(94,899)
Proceeds from disposal of financial assets at FVTPL	1,619,156	63,085
NET CASH USED IN INVESTING ACTIVITIES	(290,055)	(69,949)
FINANCING ACTIVITIES		
Repayment of bank borrowings	(10,496)	(471)
Repayment to related parties	–	(14,922)
Interest paid	(288)	(557)
Issue costs paid	(76,174)	(4,513)
Proceeds from bank borrowings	9,999	–
Proceeds from third party	10,631	–
Repayment of third party	(10,631)	–
Repayment of lease liabilities	(15,545)	–
Proceeds from issue of ordinary shares	1,311,794	–
Proceeds from exercise of over-allotment option	28,186	–
Proceeds from exercise share option	5,663	–
Payment for repurchase of shares	(132,440)	–
Cash dividend paid	(135,835)	–
Proceeds from the issue of the Company's convertible redeemable preferred shares	–	199,942
NET CASH FROM FINANCING ACTIVITIES	984,864	179,479

Consolidated Statement of Cash Flows

For the year ended December 31, 2019

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
NET INCREASE IN BANK AND BANK BALANCES	740,821	121,640
BANK AND BANK BALANCES AT BEGINNING OF YEAR	155,554	29,766
Effect of foreign exchange rate changes	7,716	4,148
BANK AND BANK BALANCES AT END OF YEAR	904,091	155,554

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

1. GENERAL

Viva Biotech Holdings (the “**Company**”) was incorporated in the Cayman Islands as an exempted company with limited liability on August 27, 2008 and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on May 9, 2019 (the “**Listing Date**”). The addresses of the registered office and the principal place of business of the Company are disclosed in the “Corporate Information” section to the annual report. At the date of this report, the ultimate controlling party of the Company is Mr. Mao Chen Cheney.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in providing the structure-based drug discovery services to biotechnology and pharmaceutical customers worldwide for their pre-clinical stage innovative drug development.

The consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“**IFRSs**”)

New and amendments to IFRSs that mandatorily effective for the current year

The Group have applied the new and amendments to IFRSs issued by the ISAB for the first time in the current year.

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 *Leases* (“**IAS 17**”), and the related interpretations.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendments to IFRSs that mandatorily effective for the current year (continued)

IFRS 16 Leases (continued)

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognized at the date of initial application, January 1, 2019. As at January 1, 2019, the Group recognized additional lease liabilities and right-of-use asset at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying IFRS 16. C8(b)(ii) transaction. Any difference at the date of initial application is recognized in the opening retained earnings and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognize right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendments to IFRSs that mandatorily effective for the current year (continued)

IFRS 16 Leases (continued)

As a lessee (continued)

- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the People’s Republic of China (the “PRC”) was determined on a portfolio basis.

When recognizing the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee’s incremental borrowing rates applied is 5.23%.

	At January 1, 2019 RMB’000
Operating lease commitments disclosed at December 31, 2018	19,412
Lease liabilities discounted at relevant incremental borrowing rates	16,664
Less: practical expedient – leases with lease term ending within 12 months from the date of initial application	1,487
Lease liabilities at January 1, 2019	15,177
Analyzed as	
Current	4,643
Non-current	10,534
	15,177

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendments to IFRSs that mandatorily effective for the current year (continued)

IFRS 16 Leases (continued)

As a lessee (continued)

The carrying amount of right-of-use assets for own used as at January 1, 2019 comprises the following:

	Notes	Right-of-use assets RMB'000
Right-of-use assets relating to operating leases recognized upon application of IFRS 16		15,177
Reclassified from operating lease prepayments	(a)	1,009
Adjustments on rental deposits at January 1, 2019	(b)	202
Total		16,388
By class:		
Land and buildings		16,388

Notes:

- (a) Operating lease prepayments were classified as trade and other receivables at December 31, 2018. Upon application of IFRS 16, such prepayments amounting to RMB1,009,000 are reclassified to right-of-use assets.
- (b) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB202,000 was adjusted to refundable rental deposits paid and right-of-use assets.

There is no impact of transition to IFRS 16 on retained earnings at January 1, 2019.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendments to IFRSs that mandatorily effective for the current year (continued)

IFRS 16 Leases (continued)

As a lessee (continued)

Impact on the consolidated statement of financial position

The following adjustments were made to the amounts recognized in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at December 31, 2018 RMB'000	Adjustments RMB'000	Carrying amounts under IFRS 16 at January 1, 2019 RMB'000
Non-current Assets			
Right-of-use assets	–	16,388	16,388
Rental deposits and prepayments	6,872	(202)	6,670
Current Assets			
Trade and other receivables	68,410	(1,009)	67,401
Current Liabilities			
Lease liabilities	–	4,643	4,643
Non-current Liabilities			
Lease liabilities	–	10,534	10,534

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”) (continued)

New and amendments to IFRSs in issue but not yet effective

The 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 3	Definition of a Business ²
Amendments to IFRS10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁵
Amendments to IAS 1 and IAS 8	Definition of Material ⁴
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after January 1, 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after January 1, 2020

⁵ Effective for annual periods beginning on or after January 1, 2022

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after January 1, 2020.

The directors of the Company anticipate that the application of the new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Consolidated Financial Statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “*Share-based Payment*”, leasing transactions that are accounted for in accordance with IFRS 16 (since January 1, 2019) or IAS 17 (before application of IFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 “*Inventories*” or value in use in IAS 36 “*Impairment of Assets*”.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The 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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investment in a subsidiary

Investment in a subsidiary is stated in the statement of financial position of the Company at cost less any identified impairment loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognized in profit or loss. When the Group retains an interest in the former associate or a joint venture and the retained interest is a financial asset within the scope of IFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

The Group recognizes 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 customers.

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 recognized 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 entity’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group primarily earns revenue by providing discovery services to its customers under three charge methods: 1) Full-time-equivalent, or FTE method; 2) Fee-for-service, or FFS method; or 3) Service-for-equity, or SFE method.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Under the FTE method, the Group provides its customer with a project team of employees dedicated to the customer's studies for a specific period of time and charges the customer at a fixed rate per employee. The customer therefore simultaneously receives and consumes benefits provided by the Group's performances. In addition, FTE contracts require customer's confirmation on the FTE billable amounts, which are calculated based on number of the Group's employees assigned to the project and the time that the Group's employees had worked under the project, and also specify that the Group has an enforceable right to payment for the FTE billable amounts. Therefore, under the FTE method, the Group has a right to consideration from its customer in an amount that corresponds directly with the value to the customers of the Group's performance completed to date (i.e. FTE billable amounts). Under such arrangement, IFRS 15 provides a practical expedient whereby the Group may recognize revenue based on the amount it has a right to invoice to the customer. The Group elected to use the practical expedient and therefore recognized the FTE services revenue when it has right to invoice the customer, usually in the form of a monthly statement, and the customers confirmed the acceptance of the invoice or after the end of a confirmation period.

For the research services provided under FFS method, the contracts usually have multiple deliverable units, which are generally in the form of technical laboratory reports and/or samples, each with individual selling price specified within the contract. The total contract price is the aggregation of the individual selling prices of the deliverable units. The Group identifies each deliverable unit as a separate performance obligation, and recognizes FFS revenue of contractual elements at the point in time upon finalization, delivery and acceptance of the deliverable units or after the end of a confirmation period. Generally, the Group's research contracts include payment schedules which require payments once milestones are reached. For partial research contracts, upfront fees are required at the beginning of the contracts.

For the research services provided under SFE method, the Group provides its customer with a project team of employees dedicated to the customer's studies for a specific period of time at a pre-agreed fixed rate per employee in a way that is similar to the FTE method, with the difference that the Group is entitled to receive the equity interests of the customer instead of a cash consideration for the service provided. The Group and the customer would agree on a total FTE service value that the Group would provide to the customer using the pre-agreed FTE rate, and upon reaching pre-set milestones of FTE service value, the customers would transfer certain number of their equity interests to the Group. The Group measures the progress of performance on the basis of FTE service value transferred to the customers to date relative to the remaining total FTE service value. The progress of performance corresponds directly to the number of customer's equity interest that the Group is entitled to receive. The Group then recognizes revenue by measuring the fair value of these customer's equity interest and at the same time recognizes a corresponding contract assets. Upon Group's cumulative FTE service value to the customers reach a pre-set milestone, the Group would receive the entitled equity interests, the corresponding contract assets are then subsequently transferred to financial assets at FVTPL, with any subsequent gains or losses arising on re-measurement being recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Some of the service contracts contain variable consideration in the form of bonus payment (usually in the form of a milestone bonus when the service provided to the customer has reached into a certain stage or delivered a certain result). The Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration, to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

The Group incurs costs to fulfill a contract in its business. The Group first assesses whether these contract costs qualify for recognition as an asset in terms of other relevant IFRSs, failing which it recognizes an asset for these costs only if they meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) the costs are expected to be recovered.

The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is also subject to impairment review.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Definition of a lease (upon application of IFRS 16 in accordance with transitions in Note 2)

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.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed under the terms and conditions of the contract are subsequently changed.

The Group as a lease (upon application of IFRS 16 in accordance with transitions in Note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Non-lease components are separated from lease component on the basis of their relative stand-alone prices.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lease (upon application of IFRS 16 in accordance with transitions in Note 2) (continued)

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group are reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* (“**IFRS 9**”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lease (upon application of IFRS 16 in accordance with transitions in Note 2) (continued)

Lease liabilities

At the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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, initially measured using the index or rate as at the commencement date;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease terms has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lease (upon application of IFRS 16 in accordance with transitions in Note 2) (continued)

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognized at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of foreign currency translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specially, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants (continued)

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. Payments to such retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions (continued)

Share options granted to employees (continued)

The fair value of the equity-settled share-based payments are determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimates of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share option reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When the share options are exercised, the amount previously recognized in share option reserve will continue to be held in share option reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will continue to be held in share option reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognizes the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognized due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognized on the date of remeasurement or modification.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax are recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost less any recognized impairment loss. Costs include any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management and for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Depreciation of these assets on the same basis as other property assets commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of IFRS 16) or "prepaid lease payments" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognized so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Impairment on property, plant and equipment, right-of-use assets and contract costs

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on property, plant and equipment, right-of-use assets and contract costs (continued)

The recoverable amount of property, plant and equipment, right-of-use assets and contract costs are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Before the Group recognizes an impairment loss for assets capitalized as contract costs under IFRS 15, the Group assesses and recognizes any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit or a group of cash-generating units) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a first-in, first-out method. Net realizable value represents the contracted selling price less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income (“**FVTOCI**”):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortized cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “Fair value gain on financial assets at fair value through profit or loss” line item.

Impairment of financial assets and other items subject to impairment assessment under IFRS 9

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade receivables, other receivables, rental deposits, restricted bank balances, bank balances and cash) and other items (contract assets) which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“**12m ECL**”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables and contract assets. The ECL on trade receivable are assessed individually for debtors credit-impaired and/or collectively using a provision matrix with appropriate groupings. The provision matrix is based on the Group’s historical default rates, adjusted for factors that are specific to the debtors, general economic conditions and assess of both current as well as the forecast direction of the condition at reporting date, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

i. Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

i. Significant increase in credit risk (continued)

Despite the afore-going, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

ii. Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

iii. Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

iv. Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over five years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

v. Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognized through a loss allowance account.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under IFRS 9 (continued)

vi. Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Because the Group's convertible redeemable preferred shares contained multiple embedded derivatives, the convertible redeemable preferred shares are designated as at FVTPL. Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities and is included in the "Fair value loss on financial liabilities at FVTPL" line item.

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability. Fair value is determined in the manner described in Note 30.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Financial liabilities at amortized cost

Other financial liabilities including bank borrowings, amounts due to subsidiaries and trade and other payables are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumption are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if revision affects both current and future periods.

Critical Judgments in applying accounting policies

The following is the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical Judgments in applying accounting policies (continued)

Judgments in determining the timing of satisfaction of performance obligations

Note 3 describes the revenue recognition basis to each of the Group's revenue stream. The recognition of each of the Group's revenue stream requires judgement by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgement, the directors of the Company have considered the detailed criteria for recognition of revenue set out in IFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers.

For the services under FTE method, the directors of the Company have assessed that the customers simultaneously receive and consume benefit provided by the Group's performances and the Group has an enforceable right to payment for performances completed to date. Therefore, the directors of the Company have satisfied that the performance obligation on FTE services is satisfied over time and recognized FTE revenue over the service period.

For the services under FFS method, the directors of the Company have assessed that the Group has a present right to payment from the customers for the services performed at a point in time upon finalization, delivery and acceptance of the deliverable units. Therefore, the directors of the Company have satisfied that the performance obligation of FFS is satisfied at a point in time and recognized FFS revenue at a point in time.

For the services under SFE method, the directors of the Company have assessed that the customers simultaneously receive and consume benefits provided by the Group's performances. Therefore, the directors of the Company have satisfied that the performance obligation on SFE services is satisfied over time and recognized SFE revenue over the service period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical Judgments in applying accounting policies (continued)

Judgements in determining the significant influence or joint control in investments

Where the Group holds less than 20% of ownership interests in investees but the Group has the power to exercise significant influence, such investments are treated as investments in associates.

Where the Group holds less than 50% of ownership interests in investees but the Group has the power to exercise joint control, such investments are treated as investments in joint ventures.

Where the Group holds more than 20% of ownership interests in an investee but the Group does not have the power to exercise significant influence, joint control or control, such investment is treated as financial assets at FVTPL.

Details of the basis of such management judgement are set out in Note 16 and Note 17.

Key sources of estimation uncertainty

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

Useful lives and estimated impairment on property, plant and equipment

The 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 Group will increase the depreciation charge where useful lives are less than 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 Group regularly reviews whether there are any indications of impairment and recognizes an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The 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.

At December 31, 2019, the carrying amount of property, plant and equipment (without impairment loss recognized) was approximately RMB106,348,000 (2018: RMB66,899,000).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Provision of ECL for trade receivables

Trade receivables with significant balances and credit-impaired are assessed for ECL individually. In addition, the Group uses provision matrix to calculate ECL 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 Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable 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 provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 22 and Note 23.

At December 31, 2019, the amount of provision of ECL for trade receivables was approximately RMB1,757,000 (2018: RMB893,000).

Fair value of financial assets at FVTPL

The fair value of financial assets at FVTPL that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Further details are included in Note 34.

At December 31, 2019, the fair value of financial assets at FVTPL was approximately RMB652,483,000 (2018: RMB204,740,000).

Should any of the estimates and assumptions changed, it may lead to a material change in the respective fair value of these financial assets.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue

The following amounts represent revenue arising from providing research services under the three charge methods to third parties and investees of the Group. The investees of the Group includes associates, joint ventures and companies that the Group has investments in (carry in the consolidated financial statements as financial assets at FVTPL).

	2019 RMB'000	2018 RMB'000
Revenue from services to non-investees:		
– FTE	181,009	117,358
– FFS	64,548	37,317
	245,557	154,675
Revenue from services to investees:		
– FTE	31,902	33,593
– FFS	1,936	1,365
– SFE	43,662	20,400
	77,500	55,358
	323,057	210,033

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. REVENUE AND SEGMENT INFORMATION (continued)

Timing of revenue recognition

The following amounts represent revenue arising from providing research services over time and at a point in time:

Over time

	2019 RMB'000	2018 RMB'000
Revenue from FTE	212,911	150,951
Revenue from SFE	43,662	20,400
	256,573	171,351

At a point in time

	2019 RMB'000	2018 RMB'000
Revenue from FFS	66,484	38,682

Unsatisfied performance obligations

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) for the revenue from SFE at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Revenue from SFE	71,170	22,034

Management expects that the majority of the transaction price allocated to the unsatisfied performance obligations at each reporting date during the reporting period will be recognized as revenue within two years from the relevant reporting date.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

5. REVENUE AND SEGMENT INFORMATION (continued)

Unsatisfied performance obligations (continued)

Under FTE charge method, revenue is recognized at the amount to which the Group has the right to invoice for services performed, therefore, under practical expedients allowed by IFRS 15, the Group does not disclose the value of unsatisfied performance obligations under FTE charge method. Under FFS charge method, contracts are generally within an original expected length of one year or less, therefore, the practical expedients is also applied.

Segment information

For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) reviews the overall results and financial position of the Group as a whole prepared based on the same accounting policies as set out in Note 3. Accordingly, the Group has only one reportable segment and no further analysis of this single segment is present.

Geographical Information

Substantially all of the Group's operations and non-current assets are located in the PRC. An analysis of the Group's revenue from external customers, analyzed by their respective country/region of operation, is detailed below:

	2019 RMB'000	2018 RMB'000
Revenue		
– USA (United States of America)	243,592	160,723
– PRC	74,477	48,223
– Europe	1,802	676
– Rest of the world	3,186	411
	323,057	210,033

Information about major customers

No customer contributed over 10% of the total revenue of the group during the reporting period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

6. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Interest income		
– banks	14,904	861
– imputed interest income on rental deposits	182	–
	15,086	861
Government grants and subsidies related to		
– Income (Note i)	4,079	2,895
– Assets (Note ii)	1,705	915
	20,870	4,671

Notes:

- (i) The government grants related to income that are unconditional and received as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they received.
- (ii) The Group has received certain government grants related to assets to invest in laboratory equipment and plant. The grants related to assets were recognized in profit or loss over the remaining useful lives of the relevant assets upon the Group complied with the conditions attached to the grants and the government acknowledged acceptance. Details of these grants related to assets are set out in Note 28.

7. OTHER GAINS AND LOSSES

	2019 RMB'000	2018 RMB'000
Net foreign exchange gain	32,736	14,632
(Loss) gain on disposal of property, plant and equipment	(31)	5
Gain on deemed disposal of interests in associates (Note 16 (iii) and (iv))	11,684	–
Gain on deemed disposal of interests in a joint venture	–	11,355
Gain on disposal of interests in an associate	–	4,047
Gain on disposal of interests in a joint venture	–	960
Others	31	48
	44,420	31,047

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

8. FINANCE COSTS

	2019 RMB'000	2018 RMB'000
Interest expenses on		
– bank borrowings	288	143
– loans from related parties (<i>Note 39 (2)(ii)</i>)	–	414
Interest on lease liabilities	1,973	–
	2,261	557

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2019 RMB'000	2018 RMB'000
Depreciation of property, plant and equipment	16,496	9,954
Depreciation of right-of-use assets	17,581	–
Less: capitalized in contract costs	(439)	(406)
	33,638	9,548
Staff cost (including directors' emoluments):		
– Salaries and other benefits	126,503	73,652
– Retirement benefits scheme contributions	16,898	10,677
– Share-based payment expenses	8,330	8,602
	151,731	92,931
Less: capitalized in contract costs	(2,275)	(1,889)
	149,456	91,042
Auditors' remuneration	4,227	2,638
Minimum operating lease payment in respect of rented premises	–	8,662
Cost of inventories recognized as expense	33,701	24,791

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

10. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax:		
– PRC Enterprise Income Tax (“EIT”)	10,543	11,659
– Hong Kong	1,942	–
Under provision in prior years:		
– Hong Kong	305	–
	12,790	11,659
Deferred tax:		
– Current year	2,263	3,652
	15,053	15,311

The Company is tax exempt under the laws of the Cayman Islands.

On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first Hong Kong Dollars (“**HK\$**”) 2,000,000 of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the reporting period unless subject to tax exemption set out below.

Viva Biotech (Shanghai) Ltd. (“**Viva Biotech Shanghai**”) has renewed its “High and New Technology Enterprise” accreditation in November 2016. 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. As of the date of the issuance of these consolidated financial statements, the renewal of the accreditation is in process and management of the Group expects the renewal will be completed before May 31, 2020. As such, the estimated EIT rate of Viva Biotech Shanghai for the reporting period is 15%.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

10. INCOME TAX EXPENSE (continued)

Pursuant to Caishui [2018] circular No. 99, Viva Biotech Shanghai and Jiaying Viva Biotech Limited (“**Jiaying Viva**”) enjoy super deduction of 175% on qualifying research and development expenditures for the year ended December 31, 2019 (2018: 175%).

The income tax expense over the reporting period can be reconciled to profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 RMB'000	2018 RMB'000
Profit before tax	280,925	105,861
Tax at the applicable tax rate of 25%	70,231	26,465
Tax effect of expenses not deductible for tax purpose	18,820	17,747
Tax effect of income not taxable for tax purpose	(61,867)	(17,084)
Effect of intergroup transaction	–	1,537
Effect of research and development expenses that are additionally deducted	(3,061)	(1,866)
Under provision in prior years	305	–
Income tax at concessionary rate	(10,234)	(7,436)
Effect of different tax rates of subsidiaries operating in other jurisdiction	859	(4,052)
Income tax expense	15,053	15,311

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

11. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, is as follows:

	Director's fee RMB'000	Salaries and other benefits RMB'000	Performance based bonus (Note viii) RMB'000	Retirement benefits scheme contributions RMB'000	Share-based compensation RMB'000	Total RMB'000
For the year ended December 31, 2019						
<i>Chief Executive Officer and executive director:</i>						
Mr. Mao Chen Cheney (Note i)	95	954	–	–	317	1,366
<i>Executive directors:</i>						
Mr. Wu Ying (Note ii)	95	591	66	49	630	1,431
Mr. Ren Delin (Note iii)	95	1,432	19	–	762	2,308
Mr. Hua Fengmao (Note iv)	95	931	–	–	1,389	2,415
<i>Non-executive directors:</i>						
Mr. John Wu Jiong (Note v)	95	–	–	–	–	95
Ms. Mao Jun (Note vi)	95	–	–	–	–	95
<i>Independent directors:</i>						
Mr. Fu Lei (Note vii)	95	–	–	–	–	95
Ms. Wang Haiguang (Note vii)	95	–	–	–	–	95
Ms. Li Xiangrong (Note vii)	95	–	–	–	–	95
	855	3,908	85	49	3,098	7,995
For the year ended December 31, 2018						
<i>Chief Executive Officer and executive director:</i>						
Mr. Mao Chen Cheney	–	752	–	–	316	1,068
<i>Executive directors:</i>						
Mr. Wu Ying	–	412	26	46	627	1,111
Mr. Ren Delin	–	1,209	–	–	757	1,966
Mr. Hua Fengmao	–	–	–	–	1,498	1,498
<i>Non-executive directors:</i>						
Mr. John Wu Jiong	–	–	–	–	–	–
Ms. Mao Jun	–	–	–	–	–	–
	–	2,373	26	46	3,198	5,643

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

11. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (continued)

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' and independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Notes:

- (i) Mr. Mao Chen Cheney was appointed as a director of the Company on July 3, 2018. Mr. Mao Chen Cheney is also the Chief Executive Officer of the Company since 2009 and his emoluments disclosed above included those for services rendered by him as the Chief Executive Officer.
- (ii) Mr. Wu Ying was appointed as a director of the Company on September 7, 2009.
- (iii) Mr. Ren Delin was appointed as a director of the Company on July 3, 2018.
- (iv) Mr. Hua Fengmao was appointed as a director and the Chief Financial Officer of the Company on July 3, 2018.
- (v) Mr. John Wu Jiong was appointed as a director of the Company on July 3, 2018 and resigned on March 30, 2020.
- (vi) Ms. Mao Jun was appointed as a director of the Company on July 3, 2018.
- (vii) Mr. Fu Lei, Ms. Wang Haiguang and Ms. Li Xiangrong were appointed as independent directors of the Company on April 14, 2019.
- (viii) The performance-based bonus is discretionary based on the Group's financial results.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

Chief executive officer and executive directors of the Company were granted share options in respect of their services to the Group under the Pre-IPO Share Incentive Schemes of the Company. Details of the Pre-IPO Share Incentive Schemes are set out in Note 32.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

11. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (continued)

Five highest paid individuals

The five highest paid employees of the Group during the year included two directors (2018: two directors). Details of the remuneration for the year of the remaining three (2018: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
– salaries and other benefits	5,360	3,030
– performance-based bonus	496	–
– share-based compensation	634	1,009
	6,490	4,039

The emoluments of the five highest paid employees (including the directors) were within the following bands:

	2019 No. of employees	2018 No. of employees
HK\$1,000,001 to HK\$1,500,000	–	2
HK\$1,500,001 to HK\$2,000,000	–	2
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	3	–
	5	5

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the company is based on the following data:

	2019	2018
Earnings (RMB'000):		
Earnings for the purpose of calculating basic and diluted earnings per share	265,872	90,550
Number of shares ('000):		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,400,446	1,083,749
Effect of dilutive potential ordinary shares:		
Pre-IPO Share Incentive Schemes of the Company	84,496	106,825
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,484,942	1,190,574

The computation of basic earnings per share for year ended December 31, 2019 is based on weighted average number of shares assumed to be in issue after taking into account the retrospective adjustment of the Share Split and the Capitalization Issue. The computation of basic earnings per share for the year ended December 31, 2018 is based on weighted average number of shares assumed to be in issue after taking into account the retrospective adjustment of the Share Split and the Capitalization Issue and the 71,917,810 subscription shares subscribed in 2018 as disclosed in Note 31.

The computation of diluted earnings per share for the years ended December 31, 2019 and 2018 is based on weighted average number of shares assumed to be in issue after taking into account of the Pre-IPO Share Incentive Schemes of the Company and the retrospective adjustment of the Share Split and the Capitalization Issue and the 71,917,810 subscription shares subscribed in 2018 as disclosed in Note 31. The diluted earnings per share did not assume conversion of the Series B Preferred Shares as their inclusion would be anti-dilutive for the years ended December 31, 2019 and 2018, nor the exercise of certain options granted under the Pre-IPO Share Incentive Schemes as the exercise price of those options was higher than the average fair value for shares of the Company during the year ended December 31, 2018.

The computation of diluted earnings per share in current year does not assume the exercise of the Company's over-allotment options granted pursuant to the listing of the Company's shares on the Stock Exchange as the exercise price of the options was higher than the average market price for the shares during the outstanding period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

13. DIVIDENDS

On April 13, 2019, a special dividend of RMB120,747,000 was declared and subsequently paid to ordinary shareholders listed on the register of members on March 24, 2019, being the date one month prior to the commencement of the international offering and the Hong Kong public offering of the Company (together the “**Global Offering**”).

On August 27, 2019, an interim dividend of HK\$0.005 per share (in an aggregate amount of RMB7,149,000) was declared to shareholders of the Company whose names appeared on the Register of Members on September 13, 2019.

Subsequent to the end of the reporting period, a final dividend in respect of the year ended December 31, 2019 of HK\$0.015 per ordinary share (in an aggregate amount of approximately RMB21,249,000 based on the total issued shares of the Company as of the date of the approval of these consolidated financial statements), has been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

No dividend was paid or declared by the Company during the year ended December 31, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Transportation equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Construction in progress ("CIP") <i>RMB'000</i>	Total <i>RMB'000</i>
COST						
At January 1, 2018	6,804	40,975	1,608	8,569	564	58,520
Additions	11,114	23,369	–	1,508	6,522	42,513
Transfer	–	1,311	–	3,429	(4,740)	–
Disposals	–	(1,222)	–	–	–	(1,222)
At December 31, 2018	17,918	64,433	1,608	13,506	2,346	99,811
Additions	–	38,800	804	16	16,405	56,025
Transfer	–	1,321	–	5,451	(6,772)	–
Disposals	–	(776)	(465)	–	–	(1,241)
At December 31, 2019	17,918	103,778	1,947	18,973	11,979	154,595
DEPRECIATION						
At January 1, 2018	(861)	(20,332)	(977)	(1,950)	–	(24,120)
Provided for the year	(455)	(6,854)	(140)	(2,505)	–	(9,954)
Eliminated on disposals	–	1,162	–	–	–	1,162
At December 31, 2018	(1,316)	(26,024)	(1,117)	(4,455)	–	(32,912)
Provided for the year	(851)	(11,851)	(328)	(3,466)	–	(16,496)
Eliminated on disposals	–	719	442	–	–	1,161
At December 31, 2019	(2,167)	(37,156)	(1,003)	(7,921)	–	(48,247)
CARRYING VALUES						
At December 31, 2018	16,602	38,409	491	9,051	2,346	66,899
At December 31, 2019	15,751	66,622	944	11,052	11,979	106,348

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

14. PROPERTY, PLANT AND EQUIPMENT (continued)

The above items of property, plant and equipment except for CIP are depreciated on a straightline basis after taking into account of the residual value as follows:

Leasehold land and building	4.75% per annum
Furniture, fixtures and equipment	8%-32% per annum
Transportation equipment	19% per annum
Leasehold improvements	the shorter of the lease term or 6 years

At December 31, 2019, the building with a carrying amount of approximately RMB5,296,000 (2018: RMB5,620,000) was pledged to secure borrowings of the Group (see Note 27).

15. RIGHT-OF-USE ASSETS

	Leasehold lands <i>RMB'000</i>	Buildings <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2019			
Carrying amount	–	16,388	16,388
At December 31, 2019			
Carrying amount	5,545	45,093	50,638
For the year ended December 31, 2019			
Depreciation charge	(94)	(17,487)	(17,581)
Expense relating to short-term leases with leases terms end within 12 months of the date of initial application of IFRS 16			2,699
Total cash outflow for leases (<i>Note i</i>)			23,883
Additions to right-of-use assets (<i>Note ii</i>)			52,028

Notes:

- (i) Amount includes payments of principal and interest portion of lease liabilities, short-term leases, and payments of lease payments on or before lease commencement date (including leasehold lands). These amounts could be presented in operating, investing or financing cash flows.
- (ii) Amount includes right-of-use assets resulting from lease modification and payments for leasehold lands and buildings.

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15. RIGHT-OF-USE ASSETS (continued)

For both years, the Group leases various offices and leasehold lands for its operations. Lease contracts are entered into for fixed term of 2 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for staff apartment. At December 31, 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expenses disclosed above.

Restrictions or covenants on leases

In addition, lease liabilities of RMB47,542,000 are recognized with related right-of-use assets of RMB50,638,000 at December 31, 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

16. INTERESTS IN ASSOCIATES/SHARE OF LOSS OF ASSOCIATES

	2019 RMB'000	2018 RMB'000
Cost of investment in associates, unlisted	540	4,640
Share of post-acquisition losses	(540)	(1,965)
	—	2,675

No associate was individually material to the Group for the years ended December 31, 2019 and 2018.

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16. INTERESTS IN ASSOCIATES/SHARE OF LOSS OF ASSOCIATES (continued)

At December 31, 2019 and 2018, the Group had interests in the following associates established and operated in the PRC and USA:

Name of associates	Fully paid capital/ registered capital	Proportion of ownership interest held by the Group		Principal activities	Notes
		At December 31, 2019	2018		
Jiaxing Tekeluo Biotech Co., Ltd. ("Jiaxing Tekeluo") (嘉興特科羅生物科技有限公司)	RMB2,188,000	8.84%	9.31%	Pharmaceutical research and development	(i)
Shanghai Yinlaiteng Medical Research Ltd. ("Yinlaiteng") (上海英萊騰醫藥研究有限公司)	RMB5,000,000	–	20%	Pharmaceutical research and development	(ii)
QureBio Limited ("QureBio") (啓愈生物技術(上海)有限公司).	RMB35,393,000	–	14%	Pharmaceutical research and development	(iii)
VersaChem, Inc. ("VersaChem")	USD2,500	–	N/A	Pharmaceutical research and development	(iv)

Notes:

- (i) The Group was able to exercise significant influence over Jiaxing Tekeluo since the inception of this investment in 2016 because it had the power to appoint one out of three directors under the Articles of Association of that company. In October 2018 and March 2019, the ownership interest held by the Group in Jiaxing Tekeluo was diluted by the investments from new investors, respectively. The Group is still able to exercise significant influence since the Group has the power to appoint one out of five directors.
- (ii) Pursuant to the resolution date July 18, 2019, Yinglaiteng was voluntarily dissolved in August 2019.
- (iii) The Group is able to exercise significant influence over QureBio since the inception of this investment in 2017 because it has the power to appoint one out of three directors under the Articles of Association of that company and held 28% equity interest. Pursuant to an equity transfer agreement and a supplemental transfer agreement dated August 13, 2018 and September 21, 2018, respectively, Viva Biotech Shanghai has disposed 14% equity interest in QureBio to an independent third party at a consideration of RMB7,000,000. In March 2019, the ownership interest held by the Group in QureBio was diluted to 10.992% by the investments from new investors and the Group relinquished its right to appoint director in the board of directors of QureBio. Therefore, the Group was no longer able to exercise significant influence on QureBio and the investment in QureBio is subsequently classified as investment in unlisted equity instrument at FVTPL. The Group recognized a gain on the deemed disposal of interests in associates of RMB9,892,000 (Note 7).
- (iv) The Group was able to exercise significant influence over VersaChem since the inception of this investment in May 2019 because it had the power to appoint one out of three directors under the Articles of Association of that company. In November, 2019, after mutual agreement between the Group and VersaChem for the consideration of future financing, the Group relinquished its right to appoint director in the board of directors after an amendment to the Articles of Association of VersaChem, afterwards the Group was no longer able to exercise significant influence over VersaChem. The Group recognized a gain on the deemed disposal of associates of RMB1,792,000 (Note 7), and the investment in VersaChem was subsequently classified as investment in unlisted equity instrument and accounted for as part of financial assets at FVTPL.

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16. INTERESTS IN ASSOCIATES/SHARE OF LOSS OF ASSOCIATES (continued)

The movements in the carrying value of the interests in associates for the reporting period are as follows:

	Jiaxing Tekeluo <i>RMB'000</i>	Yinlaiteng <i>RMB'000</i>	QureBio <i>RMB'000</i>	VersaChem <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2018	50	–	5,226	–	5,276
Capital injection	–	600	1,500	–	2,100
Partial disposal of an associate	–	–	(2,953)	–	(2,953)
Share of loss for the year	(50)	(600)	(1,098)	–	(1,748)
At December 31, 2018	–	–	2,675	–	2,675
Capital injection	–	–	–	3	3
Deemed disposal of associates	–	–	(2,641)	(3)	(2,644)
Share of loss for the year	–	–	(34)	–	(34)
At December 31, 2019	–	–	–	–	–

Information of unrecognized share of loss of associates:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
The unrecognized share of loss of associates for the year	(768)	(1,408)
Cumulative unrecognized share of loss of associates	(1,196)	(1,408)

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17. INTERESTS IN JOINT VENTURES/SHARE OF LOSS OF JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Cost of investment in joint ventures, unlisted	7,000	3,500
Share of post-acquisition losses	(2,772)	(898)
	4,228	2,602

No joint venture was individually material to the Group for the years ended December 31, 2019 and 2018.

At December 31, 2019 and 2018, the Group had interests in the following joint ventures established and operated in the PRC:

Name of joint ventures	Fully paid capital/ registered capital RMB'000	Proportion of ownership interest held by the Group At December 31,		Principal activities	Notes
		2019	2018		
Sichuan Haoyisheng Viva Biotech Co., Ltd. (“Sichuan Haoyisheng”) (四川好醫生維亞生物科技股份有限公司)	10,000	–	–	Pharmaceutical research and development	(i)
Weimou Biotech (Shanghai) Ltd. (“Weimou Biotech”) (維眸生物科技(上海)有限公司)	16,478	–	–	Pharmaceutical research and development	(ii)
Jiaxing Youbo Biotech Co., Ltd. (“Jiaxing Youbo”) (嘉興優博生物技術有限公司)	7,000	30%	30%	Pharmaceutical research and development	(iii)

Notes:

- (i) Pursuant to an equity transfer agreement dated October 22, 2018, Viva Incubator Shanghai has disposed its entire equity interest in Sichuan Haoyisheng to an independent third party at a consideration of RMB960,000. The disposal was completed on November 2, 2018.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

17. INTERESTS IN JOINT VENTURES/SHARE OF LOSS OF JOINT VENTURES (continued)

Notes: (continued)

- (ii) On January 8, 2018, after mutual agreement between the Group and joint venture partners, the Group relinquished its right to appoint director in the board of directors after an amendment to the Articles of Association of Weimou Biotech, afterwards the Group was no longer able to exercise joint control over Weimou Biotech and the equity interest was diluted to 11.75% by the new investment from other investors. The Group recognized a gain on the deemed disposal of a joint venture of RMB11,355,000 in 2018 (Note 7), and the investment in Weimou Biotech was subsequently classified as investment in unlisted equity investment at FVTPL.
- (iii) According to the Articles of Association of Jiaxing Youbo, the resolution of relevant activities and variable return of Jiaxing Youbo shall be passed by more than two-thirds of the votes of directors. The Group has the power to appoint one out of three directors therein. As such, the shareholders of Jiaxing Youbo contractually agree to share the control of Jiaxing Youbo. Therefore Jiaxing Youbo is a joint venture of the Group.

The Group injected RMB3,500,000 and RMB3,500,000 to Jiaxing Youbo in 2018 and 2019, respectively. At December 31, 2019, the equity interest in Jiaxing Youbo held by the Group was still 30% as agreed in Articles of Association of Jiaxing Youbo.

The movements in the carrying value of the interest in joint ventures for the reporting period are as follows:

	Sichuan Haoyisheng <i>RMB'000</i>	Weimou Biotech <i>RMB'000</i>	Jiaxing Youbo <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2018	–	1,234	–	1,234
Capital injection	600	–	3,500	4,100
Share of loss for the year	(600)	–	(898)	(1,498)
Deemed disposal of a joint venture	–	(1,234)	–	(1,234)
At December 31, 2018	–	–	2,602	2,602
Capital injection	–	–	3,500	3,500
Share of loss for the year	–	–	(1,874)	(1,874)
At December 31, 2019	–	–	4,228	4,228

There were no unrecognized share of loss of joint ventures for the reporting period and cumulatively.

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18. FINANCIAL ASSETS AT FVTPL

	2019 RMB'000	2018 RMB'000
Unlisted investments at FVTPL	647,271	204,740
Financial products (<i>Note</i>)	5,212	–
	652,483	204,740
Analyzed for reporting purposes as:		
Current assets	29,629	–
Non-current assets	622,854	204,740
	652,483	204,740

The movements in the carrying value of the financial assets (excluding financial products) of FVTPL for the reporting period are as follows:

	RMB'000
At January 1, 2018	71,059
Acquired	95,166
Recognized from SFE revenue	20,725
Recognized from deemed disposal of a joint venture	12,589
Gain on fair value change	68,286
Disposal	(63,085)
At December 31, 2018	204,740
Acquired	192,487
Recognized from SFE revenue	41,625
Recognized from deemed disposal of an associate	14,328
Gain on fair value change	212,700
Disposal	(18,326)
Exchange adjustment	(283)
At December 31, 2019	647,271

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18. FINANCIAL ASSETS AT FVTPL (continued)

The movements in the carrying value of the financial products of FVTPL for the reporting period are as follows:

	<i>RMB'000</i>
At January 1, 2019	–
Acquired	1,601,953
Gain on fair value change	4,930
Disposal	(1,601,671)
At December 31, 2019	5,212

Note: At December 31, 2019, the financial products classified as financial assets at FVTPL represented unguaranteed financial products issued by a bank, with no fixed maturity period and expected return rate at 2.9% per annum.

19. DEFERRED TAX ASSETS/LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Deferred tax assets	3,789	1,013
Deferred tax liabilities	(8,160)	(3,121)
	(4,371)	(2,108)

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

19. DEFERRED TAX ASSETS/LIABILITIES (continued)

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the reporting period:

	Impairment losses under ECL RMB'000	Deferred income RMB'000	Tax losses RMB'000	Accrued payroll RMB'000	Share of loss of associates and joint ventures RMB'000	Accelerated tax depreciation RMB'000	Fair value change of financial assets at FVTPL RMB'000	Total RMB'000
At January 1, 2018	167	1,610	1	940	1,100	(1,869)	(405)	1,544
(Charged) credited to profit or loss	(33)	(70)	981	(180)	(557)	(2,684)	(1,109)	(3,652)
At December 31, 2018	134	1,540	982	760	543	(4,553)	(1,514)	(2,108)
Credited (charged) to profit or loss	130	1,296	3,271	1,651	137	(4,036)	(4,712)	(2,263)
At December 31, 2019	264	2,836	4,253	2,411	680	(8,589)	(6,226)	(4,371)

At December 31, 2019, the Group has unused tax losses of RMB19,792,000 (2018: RMB3,927,000), available for offset against future profits, which had been fully recognized in deferred tax assets as at the end of the reporting period.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. At December 31, 2019, deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to RMB225,499,000 (2018: RMB144,463,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

20. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw material and consumables	8,530	4,900

21. CONTRACT COSTS

	2019 RMB'000	2018 RMB'000
Costs to fulfill contracts	5,612	4,261

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22. TRADE AND OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables		
– related parties (<i>Note 39 (3)</i>)	1,987	1,921
– third parties	57,275	50,433
Loss allowance for trade receivables	(1,757)	(893)
	57,505	51,461
Other receivables		
– payments for potential acquisitions (<i>Note</i>)	70,000	–
– others	6,734	2,112
	76,734	2,112
Deferred issue costs	–	6,724
Prepayments	1,302	525
Prepaid expenses	1,343	2,908
Value added tax recoverable	3,772	4,680
	6,417	14,837
Total trade and other receivables	140,656	68,410

Note: On November 18, 2019, Viva Biotech Shanghai entered into cooperation intention agreement with vendors, whereby Viva Biotech Shanghai conditionally agreed to acquire 100% equity interest of the target company from the vendors at the consideration of RMB120,000,000. On November 25, 2019, the intention payment of RMB50,000,000 was paid to the vendors in accordance with the terms of the cooperation intention agreement. Please refer to Note 43 (a) regarding the subsequent actions on this acquisition.

On December 15, 2019, Viva Biotech Shanghai entered into potential strategic investment and cooperation agreement with shareholders of Zhejiang Langhua Pharmaceutical Co., Ltd. On December 30, 2019, an intention payment of RMB20,000,000 was paid to an escrow account in accordance with the terms of the cooperation intention agreement.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

22. TRADE AND OTHER RECEIVABLES (continued)

At January 1, 2018, trade receivables from contracts with customers amounted to RMB28,082,000.

The Group allows a credit period of 90 days in 2019 (2018: 30 to 90 days) to its customers. The following is an aged analysis of trade receivables (net of allowance for credit losses) presented based on the invoice dates, at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Within 3 months	41,967	46,580
3 months to 1 year	12,145	4,810
1 to 2 years	3,393	71
	57,505	51,461

At December 31, 2019, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB15,538,000 (2018: RMB13,693,000) which are past due at the reporting date. Out of the past due balances, RMB8,015,000 has been past due 90 days or more and is considered as recoverable based on historical receivable experience on the past due status of these customers and no evidence indicating that these customers were in a significant financial difficulty.

The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in Note 23.

Trade and other receivables that are denominated in currencies other than functional currency of the respective group entities are set out below:

	2019 RMB'000	2018 RMB'000
US\$	26,233	26,047

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23. OVERVIEW OF THE GROUP'S EXPOSURE TO CREDIT RISK

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial loss to the Group. The Group's credit risk exposures are primarily attributable to trade receivables, contract assets, restricted bank balances, bank balances, other receivables and rental deposits.

Trade receivables and contract assets arising from contracts with customers

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit term granted to customers are reviewed regularly. The majority of the Group's trade receivables have no history of defaulting on repayments.

In order to minimize credit risk, the Group has tasked its finance team to develop and maintain the Group's credit risk grading to categorize exposures according to their degree of risk of default. Management uses publicly available information and the Group's own historical repayment records to rate its major customers and other debtors. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group performs impairment assessment under ECL model upon application of IFRS 9 on trade balances individually and/or based on provision matrix. As part of the Group's impairment assessment, the Group uses provision matrix to assess the impairment for its customers because these customers consist of a large number of customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The provision matrix are based on internal credit ratings as groupings of various debtors that have similar loss patterns.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

Restricted bank balances/bank balances

The Group expects that there is no significant credit risk associated with restricted bank balances and cash deposits at banks since they are substantially deposits 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.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

23. OVERVIEW OF THE GROUP'S EXPOSURE TO CREDIT RISK (continued)

Other receivables and rental deposits

For other receivables and rental deposits, the directors of the Company make periodic individual assessment on the recoverability of other receivables and rental deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there are no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12m ECL. For the year ended December 31, 2019 and 2018, the Group assessed the ECL for other receivables and rental deposits were insignificant and thus no loss allowance was recognized.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL – not credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – not credit-impaired	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

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23. OVERVIEW OF THE GROUP'S EXPOSURE TO CREDIT RISK (continued)

Other receivables and rental deposits (continued)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:

				2019 Gross carrying amount RMB'000	2018 Gross carrying amount RMB'000
	Notes	Internal credit rating	12-month or lifetime ECL		
Financial assets at amortized costs					
Restricted bank balances	24	Low risk	12-month ECL	5,908	8,045
Bank balances and cash	24	Low risk	12-month ECL	904,091	155,554
Other receivables	22	Low risk	12-month ECL	76,734	2,112
Rental deposits		Low risk	12-month ECL	2,844	2,484
Trade receivables	22	Note (i)	Lifetime ECL (not credit-impaired)	59,262	52,354
Other item					
Contract assets		Note (ii)	Lifetime ECL	5,405	3,368

Notes:

- (i) For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit loss on these items by using a provision matrix, grouped by internal credit rating.
- (ii) The Group considers the impairment allowance for contract assets is not significant to the Group based on the provision matrix.

As part of the Group's credit risk management, trade receivables have been grouped based on systematic internal credit rating with reference to matrix of factors including the customer's nature, ageing analysis, recent financial performance of the customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. When assessing the internal credit ratings of the customers, the rank and size of customers, the financial performance are considered. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at December 31, 2018 and 2019 within lifetime ECL (not credit-impaired).

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23. OVERVIEW OF THE GROUP'S EXPOSURE TO CREDIT RISK (continued)

Gross carrying amount

Internal credit rating	2019		2018	
	Average loss rate	Trade receivables RMB'000	Average loss rate	Trade receivables RMB'000
Customer Group A: low risk	0.26%	25,980	0.32%	35,720
Customer Group B: watch list	5.08%	33,282	4.68%	16,634
		59,262		52,354

During the year ended December 31, 2019, the Group provided RMB928,000 (2018: RMB113,000) impairment allowance for trade receivables based on the provision matrix and RMB884,000 (2018: Nil) impairment allowance for credit impaired debtors, respectively.

The following table shows the movement in lifetime ECL that has been recognized for trade receivables under the simplified approach:

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
At January 1, 2018	(780)	(336)	(1,116)
– Impairment losses recognized	(113)	–	(113)
– Write-offs	–	336	336
At December 31, 2018	(893)	–	(893)
– Transfer to credit-impaired	64	(64)	–
– Impairment losses recognized	(928)	(884)	(1,812)
– Write-offs	–	948	948
At December 31, 2019	(1,757)	–	(1,757)

The Group writes off a trade receivable when there is information indicating that debtors is in severe financial difficulty and there is no realistic prospect of recovery.

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24. RESTRICTED BANK BALANCES/BANK BALANCES AND CASH

Restricted bank balances

At December 31, 2019, the restricted bank balances of RMB5,908,000 (2018: RMB8,045,000), represented government grants and subsidies received by the Group and are restricted for use till the Group complied with the conditions attached to the grants and the government acknowledged acceptance. Corresponding liabilities are recorded in deferred income. The restricted bank balances carried at a fixed interest rate of 0.30% per annum.

Bank balances and cash

Bank balances held by the Group carried interest at prevailing market interest rates which ranged from 0.3% to 2.7% per annum at December 31, 2019 (2018: 0.3% to 3.5%).

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:

	2019 RMB'000	2018 RMB'000
US\$	769,123	147,828
HK\$	21,332	67

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25. TRADE AND OTHER PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables – third parties	7,552	4,685
Other payables – third parties	7,400	3,124
Accrued listing expenses and issue costs	251	11,516
Salary and bonus payables	20,052	5,902
Other taxes payable	691	351
	35,946	25,578

Payment terms with suppliers are mainly on credit within 30 days from the time when the goods and/or services are received from the suppliers. The following is an age analysis of trade payables presented based on the date of receipts of goods/services by the Group, at the end of each reporting period:

	2019 RMB'000	2018 RMB'000
Within 3 months	5,349	3,398
Over 3 months but within 1 year	1,188	697
Over 1 year	1,015	590
	7,552	4,685

Trade and other payables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	2019 RMB'000	2018 RMB'000
US\$	1,267	337
HK\$	303	–

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26. CONTRACT LIABILITIES

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Amounts received in advance of delivery of research and development services	635	1,483

As at January 1, 2018, contract liabilities amounted to RMB1,092,000.

Revenue of RMB1,399,000 was recognized during the year ended December 31, 2019 (2018: RMB1,092,000) that was included in the contract liabilities at the beginning of the relevant years.

27. BANK BORROWINGS

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Secured bank borrowings were repayable:		
Within one year	525	497
Over one year but not exceeding two years	554	525
Over two years but not exceeding five years	786	1,340
	1,865	2,362
Less: Amounts due within one year shown under current liabilities	525	497
	1,340	1,865

The bank borrowings 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 at December 31, 2019 (2018: 5.39%).

Details of the assets of the Group at December 31, 2019 and 2018 that have been pledged as collateral to secure the bank borrowings of the Group are set out in Note 14.

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28. DEFERRED INCOME

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Income related government grants	240	240
Assets related government grants	15,604	9,609
	15,844	9,849
Less: current portion	—	—
Non-current portion	15,844	9,849

Movement of income related government grants:

	<i>RMB'000</i>
At January 1, 2018, December 31, 2018 and December 31, 2019	240

Movement of assets related government grants:

	<i>RMB'000</i>
At January 1, 2018	10,047
Government grants received	477
Credited to profit or loss	(915)
At December 31, 2018	9,609
Government grants received	7,700
Credited to profit or loss	(1,705)
At December 31, 2019	15,604

During the year ended December 31, 2019, the Group received government grants of RMB7,700,000 (2018: RMB477,000) for its investment in laboratory plant and equipment, and other scientific research projects.

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29. LEASE LIABILITIES

	2019 RMB'000
Lease liabilities payable:	
Within one year	24,458
Over one year but not exceeding two years	19,172
Over two years but not exceeding five years	3,912
	47,542
Less: Amount due for settlement with 12 months shown under current liabilities	(24,458)
Amount due for settlement after 12 months shown under non-current liabilities	23,084

30. FINANCIAL LIABILITIES AT FVTPL

On June 21, 2018, the Company issued 16,233,532 Series B redeemable convertible preferred shares at a par value of US\$0.0001 each (the “**Series B Preferred Shares**”) for a total consideration of US\$30,900,000 (equivalent to approximately RMB199,942,000).

On April 14, 2019, each Series B Preferred Share of a par value of US\$0.0001 was subdivided into 4 shares of a par value of US\$0.000025 each.

All the Series B Preferred Shares were automatically converted to ordinary shares upon the Global Offering on May 9, 2019. The difference between the par value and the offer price of HK\$4.41 per share of the Global Offering is accounted for under the share premium.

Presentation and classification

The Company have designated the Series B Preferred Shares as whole as financial liabilities carried at FVTPL. The change in fair value of the Series B Preferred Shares is charged to profit or loss except for the portion attributable to credit risk change of the Series B Preferred Shares that shall be charged to other comprehensive income, if any. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities and is included in fair value loss on financial liabilities at FVTPL line item. Management of the Group considered that there is no credit risk of the financial liability drives the change of the fair value of the financial liabilities.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

30. FINANCIAL LIABILITIES AT FVTPL (continued)

Presentation and classification (continued)

The fair value of the Series B Preferred Shares at the end of each reporting period is as follows:

	<i>RMB'000</i>
At January 1, 2018	–
Issuance of Series B Preferred Shares	199,942
Change in fair value	20,658
At December 31, 2018	220,600
Change in fair value	34,238
Distribution to the Series B Preferred Shares	(7,939)
Automatic conversion to ordinary shares upon the Global Offering	(246,899)
At December 31, 2019	–

31. SHARE CAPITAL

	Authorized number of shares	US\$
Ordinary shares		
At January 1, 2018, of US\$0.0001 each	500,000,000	50,000
Reclassification and re-designation on issuance of Series B Preferred Shares, of US\$0.0001 each	(16,233,532)	(1,623)
At December 31, 2018 of US\$0.0001 each	483,766,468	48,377
Share Split (<i>Note ii</i>), of US\$0.000025 each	1,451,299,404	–
Automatic conversion of Series B Preferred Shares of US\$0.000025 each upon Global Offering	64,934,128	1,623
At December 31, 2019, of US\$0.000025 each	2,000,000,000	50,000

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

31. SHARE CAPITAL (continued)

	Issued and fully paid number of shares	US\$	Shown in the consolidated statement of financial position as RMB'000
Ordinary shares			
At January 1, 2018 of US\$0.0001 each	175,000,000	17,500	120
Ordinary shares issued (<i>Note i</i>), of US\$0.0001 each	71,917,810	7,200	44
At December 31, 2018 of US\$0.0001 each	246,917,810	24,700	164
Share Split, of US\$0.000025 each	740,753,430	—	—
Automatic conversion of Series B Preferred Shares upon Global Offering (<i>Note 30</i>), of US\$0.000025 each	64,934,128	1,623	11
Shares issued pursuant to Capitalization Issue (<i>Note iii</i>), of US\$0.000025 each	102,394,632	2,560	17
Shares issued upon Global Offering (<i>Note iv</i>), of US\$0.000025 each	345,000,000	8,625	59
Exercise of over-allotment option (<i>Note v</i>), of US\$0.000025 each	7,281,000	182	1
Exercise of share options (<i>Note 32</i>), of US\$0.000025 each	88,901,398	2,222	15
Repurchase of ordinary shares, of US\$0.000025 each (<i>Note vi</i>)	(34,364,000)	(859)	(6)
At December 31, 2019, of US\$0.000025 each	1,561,818,398	39,053	261

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

31. SHARE CAPITAL (continued)

Notes:

- (i) Pursuant to the resolution of shareholders' meeting dated April 12, 2015, the existing ordinary shareholders would subscribe 71,917,810 ordinary shares of the Company at a price of US\$0.0765 per share with a total cash consideration of US\$5,500,000 (equivalent to RMB33,705,000). This capital contribution obligation was satisfied by the ordinary shareholders through payment on behalf of the Company for the redemption of the Series A1 Preferred Shares of the Company on April 25, 2015. On March 28, 2018, the Company issued the 71,917,810 ordinary shares to the relevant shareholders.
- (ii) Pursuant to a shareholders' resolution passed on April 14, 2019, the authorized share capital of the Company was split on a 1-to-4 basis and as a result, the par value was changed from US\$0.0001 per each share to US\$0.000025 per each share and the authorized share capital of US\$50,000 of the Company was divided into (1) 1,935,065,872 ordinary shares of US\$0.000025 per each share; and (2) 64,934,128 Series B Preferred Shares which were subsequently converted into the same amount of ordinary shares of US\$0.000025 per each upon Global Offering (the "**Share Split**").
- (iii) Pursuant to a shareholders' resolution passed on April 14, 2019, a total of 102,394,632 shares credited as fully paid at par were allotted and issued on the Listing Date to both ordinary and preferred shareholders on the register of members of the Company at the close of business on the business day preceding the Listing Date, in proportion to their respective shareholdings in the Company by way of capitalization of the sum of US\$2,559.87. The shares allotted and issued pursuant to this resolution (the "**Capitalization Issue**") rank pari passu in all respects with the then existing issued shares of the Company.
- (iv) On May 9, 2019, the Company issued a total of 345,000,000 ordinary shares of US\$0.000025 each at the price of HK\$4.41 per share by means of Global Offering.
- (v) On June 4, 2019, the Company issued a total of 7,281,000 ordinary shares of US\$0.000025 each at the price of HK\$4.41 per share by means of partially exercise of the over-allotment option relating to the Global Offering.
- (vi) Pursuant to the board resolution passed on July 11, 2019, the Company announced to exercise its powers under the repurchase mandate to repurchase shares of the Company pursuant to the written resolutions passed on April 14, 2019 by the then shareholders of the Company. A total of 34,364,000 shares were repurchased and cancelled at a total consideration of HK\$147,994,000 (equivalent to approximately RMB132,440,000) for the year ended December 31, 2019.

Notes to the Consolidated Financial Statements

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32. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option schemes of the Company

The Company's Pre-IPO Share Incentive Schemes (the "Schemes") were adopted pursuant to resolutions passed on August 1, 2009, January 2, 2018 and June 21, 2018, respectively, for the primary purpose of providing incentives to directors of the Company and eligible employees of the Group. Under the Schemes, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company, to subscribe for shares in the Company.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Details of specific categories of options granted are as follows:

Grant date	Number of options	Expiry date	Exercise price per share	Notes
August 1, 2009	788,500	June 22, 2018 ~ July 27, 2019	US\$0.20	(i) (iii) (iv)
August 3, 2010	4,040,000	June 30, 2019 ~ April 14, 2020	US\$0.05	(i)
June 15, 2011	14,400,000	June 22, 2018 ~ June 26, 2021	US\$0.05	(i) (iii)
January 2, 2018	1,125,000	January 1, 2028	US\$0.54	(i)
January 2, 2018	12,065,000	January 1, 2022	US\$0.54	(ii)
June 21, 2018	500,000	June 20, 2022	US\$1.90	(v)

Notes:

- (i) 40%, 20%, 20% and 20% of the total number of the options granted shall vest on the second, third, fourth and fifth anniversary of grant date, respectively.
- (ii) 100% of the total number of the options granted shall vest on the second anniversary of grant date.
- (iii) Pursuant to a board resolution dated January 1, 2018, the expiry dates of 454,500 and 2,800,000 of options granted on August 1, 2009 and June 15, 2011, respectively, were extended to June 30, 2019. There was no significant change in the fair value of the option before and after the modification in connection with the extension of such expiry date.
- (iv) The number and the exercise price per share for the options granted on August 1, 2009 represented the unadjusted number and price before the share split incurred on January 26, 2010.
- (v) 100% of the total number of the options granted shall vest upon the completion of the IPO.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

32. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option schemes of the Company (continued)

The following table discloses details of the movements of the outstanding options granted under the Schemes during the reporting period:

Option type	Outstanding at January 1, 2019	Share split	Capitalization issue	Granted during year	Exercised during year	Forfeited during year	Outstanding at December 31, 2019
Category 1: Chief Executives and Directors:							
August 1, 2009	2,665,000	7,995,000	1,036,976	-	(11,696,976)	-	-
June 15, 2011	7,000,000	21,000,000	2,723,765	-	(30,723,765)	-	-
January 2, 2018	4,593,000	13,779,000	1,787,180	-	-	-	20,159,180
June 21, 2018	500,000	1,500,000	194,555	-	-	-	2,194,555
Total Chief Executives and Directors	14,758,000	44,274,000	5,742,476	-	(42,420,741)	-	22,353,735
Category 2: Employees							
August 1, 2009	3,530,000	10,590,000	1,373,548	-	(15,493,548)	-	-
August 3, 2010	2,260,000	6,780,000	879,387	-	(9,919,387)	-	-
June 15, 2011	4,800,000	14,400,000	1,867,722	-	(21,067,722)	-	-
January 2, 2018	8,537,000	25,611,000	3,321,835	-	-	(702,257)	36,767,578
Total employees	19,127,000	57,381,000	7,442,492	-	(46,480,657)	(702,257)	36,767,578
Total	33,885,000	101,655,000	13,184,968	-	(88,901,398)	(702,257)	59,121,313
Exercisable at the end of the year	20,255,000						2,194,555
Weighted average exercise price	US\$0.26	N/A	N/A	N/A	US\$0.01	US\$0.12	US\$0.13

Notes to the Consolidated Financial Statements

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32. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option schemes of the Company (continued)

Option type	Outstanding at January 1, 2018	Granted during year	Exercised during year	Forfeited during year	Outstanding at December 31, 2018
Category 1: Chief Executives and Directors:					
August 1, 2009	2,665,000	–	–	–	2,665,000
June 15, 2011	7,000,000	–	–	–	7,000,000
January 2, 2018	–	4,593,000	–	–	4,593,000
June 21, 2018	–	500,000	–	–	500,000
Total Chief Executives and Directors	9,665,000	5,093,000	–	–	14,758,000
Category 2: Employees					
August 1, 2009	3,530,000	–	–	–	3,530,000
August 3, 2010	2,260,000	–	–	–	2,260,000
June 15, 2011	4,800,000	–	–	–	4,800,000
January 2, 2018	–	8,597,000	–	(60,000)	8,537,000
Total employees	10,590,000	8,597,000	–	(60,000)	19,127,000
Total	20,255,000	13,690,000	–	(60,000)	33,885,000
Exercisable at the end of the year	20,255,000				20,255,000
Weighted average exercise price	US\$0.04	US\$0.59	N/A	US\$0.54	US\$0.26

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32. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Equity-settled share option schemes of the Company (continued)

These fair values of the options granted were determined using the binomial pricing model. These fair values and corresponding inputs into the model were as follows:

	August 1, 2009 (Note vi)	April 3, 2010	June 15, 2011	January 2, 2018	June 21, 2018
Grant date option fair value per share	US\$0.15	US\$0.01	US\$0.01	US\$0.19 ~ US\$0.28	US\$0.14
Grant date share price	US\$0.24	US\$0.02	US\$0.03	US\$0.58	US\$1.10
Exercise price	US\$0.20	US\$0.05	US\$0.05	US\$0.54	US\$1.90
Expected volatility	56.8% ~ 57.6%	52% ~ 54%	46.1% ~ 47.7%	35.8% ~ 38.5%	35.4%
Expected life	9 ~ 10 years	9 ~ 10 years	7 ~ 10 years	4 ~ 10 years	4 years
Risk-free rate	3.37% ~ 3.48%	3.64% ~ 3.87%	2.49% ~ 3.15%	2.14% ~ 2.46%	2.71%
Expected dividend yield	0%	0%	0%	0%	0%

Note:

- (vi) The option fair value, share price and the exercise price per share for the options granted on August 1, 2009 represented the unadjusted option fair value, share price and exercise price before considering the share split incurred on January 26, 2010.

Expected volatility was determined by using the historical volatility of the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The Group recognized the total expense of RMB8,330,000 for the year ended December 31, 2019, in relation to share options granted by the Company (2018: RMB8,602,000).

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the reporting period.

The capital structure of the Group consists of net debts, which includes bank borrowings (net of bank balances and cash) and equity attributable to owners of the Company (comprising share capital and reserves).

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues share and buy-backs as well as the issue of new debts or the redemption of existing debts.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Financial assets		
Financial assets at amortized cost	1,039,565	215,186
Financial assets at FVTPL	652,483	204,740
	1,692,048	419,926
Financial liabilities		
Financial liabilities at amortized cost	15,924	20,922
Financial liabilities at FVTPL	—	220,600
	15,924	241,522

Notes to the Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include financial assets at FVTPL, trade and other receivables, restricted bank balances, bank balances and cash, trade and other payables, bank borrowings and financial liabilities at FVTPL. Details of the financial assets and liabilities are disclosed in respective notes. The risks associated with these financial assets and liabilities and the policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk, interest rate risk and other price risk.

(i) *Currency risk*

Certain group entities have foreign currency sales, purchases and bank balances which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

	2019 RMB'000	2018 RMB'000
Assets:		
US\$	849,903	173,875
HK\$	21,332	66
Liabilities:		
US\$	1,267	337
HK\$	303	—

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(i) *Currency risk (continued)*

Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US\$ and HK\$, the foreign currency with which the Group may have a material exposure. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rate. A negative number below indicates a decrease in profit where RMB strengthens 5% against US\$ and HK\$. For a 5% weakening of RMB against US\$ and HK\$, there would be an equal and opposite impact on profit.

	2019 RMB'000	2018 RMB'000
Impact on profit or loss after tax		
US\$	(42,090)	(7,979)
HK\$	(1,051)	–

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Interest rate risk

The Group was exposed to fair value interest rate risk in relation to financial liabilities at FVTPL. The Group is also exposed to cash flow interest rate risk in relation to variable rate bank balances and bank borrowings. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Bank balances and bank borrowings are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances and bank borrowings are insignificant.

(iii) Other price risk

The Group is also exposed to other price risk through financial assets at FVTPL.

Sensitivity analysis

The sensitivity analyzes below have been determined based on the exposure to equity price risk at the reporting date for financial assets at FVTPL.

If the prices of the equity investments held by the Group had been changed based on the 5% higher/lower, post-tax profit for the year ended December 31, 2019 would increase/decrease by RMB31,953,000 (2018: increase/decrease by RMB9,833,000) as a result of the changes in fair value of financial assets at FVTPL.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

At December 31, 2019, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognized financial assets measured at amortized cost as stated in the consolidated statements of financial position.

Note 23 details the Group's maximum exposure to credit risk and the measurement bases used to determine expected credit losses since January 1, 2019.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

34. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average interest rate	On demand or less than 1 year <i>RMB'000</i>	1 to 5 years <i>RMB'000</i>	Total undiscounted cash flows <i>RMB'000</i>	Carrying Amount <i>RMB'000</i>
At December 31, 2019					
Trade and other payables	N/A	14,059	–	14,059	14,059
Bank borrowings – variable interest rate	5.39%	612	1,429	2,041	1,865
Lease liabilities	5.23%	26,080	23,789	49,869	47,542
Total		40,751	25,218	65,969	63,466
At December 31, 2018					
Trade and other payables	N/A	18,560	–	18,560	18,560
Bank borrowings – variable interest rate	5.39%	612	2,041	2,653	2,362
Financial liabilities at FVTPL	11%	–	243,929	243,929	220,600
Total		19,172	245,970	265,142	241,522

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For the year ended December 31, 2019

34. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) *Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*

The Group's financial assets and financial liabilities at FVTPL which are measured at fair value (details refer to Notes 18 and 30) at December 31, 2019 and 2018 are grouped under Level 2 and Level 3 hierarchy. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Financial assets	Fair value at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	2019 RMB'000	2018 RMB'000				
Financial product	5,212	–	Level 2	Discounted cash flow method	N/A	N/A
Unlisted investment at FVTPL	334,529	109,065	Level 2	Most recent transaction price	N/A	N/A
	73,111	32,203	Level 3	Comparable Company method	The ratio of P/R&D	The higher the ratio of P/R&D, the higher the valuation
	224,548	63,472	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation
	15,083	–	Level 3	Discounted cash flow method	Conversion Probability	The higher the probability, the higher the valuation
	652,483	204,740				

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

34. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

(ii) Reconciliation of Level 3 fair value measurements

Details of reconciliation of financial assets at FVTPL measured at Level 3 fair value measurement are set out as below:

	Total <i>RMB'000</i>
At January 1, 2018	65,295
Acquired	10,596
Recognized from SFE revenue	20,725
Recognized from deemed disposal of a joint venture	12,589
Gain on fair value change	64,273
Disposal	(63,085)
Transfer from level 2	10,570
Transfer to level 2	(25,288)
At December 31, 2018	95,675
Acquired	74,662
Recognized from SFE revenue	21,514
Recognized from deemed disposal of a joint venture	14,328
Gain on fair value change	49,851
Exchange adjustment	179
Disposal	(10,000)
Transfer from level 2	92,206
Transfer to level 2	(25,673)
At December 31, 2019	312,742

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34. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

(ii) *Reconciliation of Level 3 fair value measurements (continued)*

Details of reconciliation of financial liabilities at FVTPL measured at Level 3 fair value measurement are set out in Note 30.

Of the total gains or losses for the year ended December 31, 2019 included in profit or loss, RMB49,851,000 (2018: RMB36,399,000) was unrealized fair value gains related to financial assets at FVTPL held at December 31, 2019. Fair value gains or losses on financial assets at FVTPL are included in “Fair value gain on financial assets at FVTPL”.

Of the total gains or losses for the year ended December 31, 2019 included in profit or loss, RMB Nil (2018: RMB20,658,000) was unrealized fair value loss related to financial liabilities at FVTPL held at December 31, 2019. Fair value gains or losses on financial liabilities at FVTPL are included in “Fair value loss on financial liabilities at FVTPL”.

(iii) *Fair value of financial assets and financial liabilities that are not measured at fair value*

The directors of the Company consider that the carrying amount of the Group’s financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

Notes to the Consolidated Financial Statements

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35. OPERATING LEASES

The Group as lessee

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 <i>RMB'000</i>
Within one year	7,245
In the second to fourth year inclusive	12,167
	<hr/> 19,412

36. RETIREMENT BENEFITS PLANS

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total expense recognized in profit or loss of RMB16,791,000 (2018: RMB10,672,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans.

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For the year ended December 31, 2019

37. CAPITAL COMMITMENTS

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

	2019 RMB'000	2018 RMB'000
Commitments for the acquisition of property, plant and equipment	355,003	346,262

38. CONTINGENT LIABILITIES

At the end of each reporting period, the Group had no significant contingent liability.

39. RELATED PARTY DISCLOSURES

(1) Names and relationships with related parties

The following companies are significant related parties of the Group that had transactions and/or balances with the Group during the periods presented in the consolidated financial statements.

Company	Relationship
Jiaxing Tekeluo Biotech Co., Ltd.	Associate
Jiaxing Youbo Biotech Co., Ltd.	Joint Venture
QureBio Limited (<i>Note a</i>)	Associate
Shanghai Daidai (Hong Kong) Limited	Entity wholly owned by Ms. Mao Jun (<i>Note b</i>)
JMCR Partners Limited	Entity wholly owned by Ms. Mao Jun

Notes:

- (a) Since March 14, 2019, QureBio Limited is no longer a related party of the Group.
- (b) Ms. Mao Jun is the non-executive director of the Company.

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For the year ended December 31, 2019

39. RELATED PARTY DISCLOSURES (continued)

(2) Transactions with related parties

i. Provision of research and development services

	2019 RMB'000	2018 RMB'000
Jiaxing Youbo Biotech Co., Ltd.	4,097	2,191
Jiaxing Tekeluo Biotech Co., Ltd.	2,257	1,118
QureBio Limited	654	3,495
	7,008	6,804

ii. Interest expenses arising from related parties' loans

	2019 RMB'000	2018 RMB'000
Shanghai Daidai (Hong Kong) Limited	—	42
JMCR Partners Limited	—	372
	—	414

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

39. RELATED PARTY DISCLOSURES (continued)

(3) Related parties balances

	2019 RMB'000	2018 RMB'000
Trade receivables from related parties		
Jiaxing Tekeluo Biotech Co., Ltd.	174	326
Jiaxing Youbo Biotech Co., Ltd.	1,813	882
QureBio Limited	–	713
	1,987	1,921

(4) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management of the Group during the year ended December 31, 2019 and 2018 were as follows:

	2019 RMB'000	2018 RMB'000
Director fee	855	–
Salaries and other benefits	11,444	6,679
Performance-based bonus	648	48
Retirement benefits scheme contributions	86	78
Share-based compensation	4,246	4,339
	17,279	11,144

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

40. PARTICULARS OF SUBSIDIARIES

As of December 31, 2019 and 2018, the Company has 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 Company		Principal activities	Notes
			At December 31, 2019	2018		
<i>Directly held:</i>						
Viva Biotech Limited ("Viva Biotech HK")	Hong Kong, June 17, 2008	US\$2,000,000	100%	100%	Investment holding	(a)
<i>Indirectly held:</i>						
Viva Biotech Shanghai (維亞生物科技(上海)有限公司)	PRC, August 14, 2008	US\$25,000,000	100%	100%	Primarily providing research services	(b)
Jiaxing Viva (嘉興維亞生物科技有限公司)	PRC, March 19, 2014	RMB30,000,000	100%	100%	Primarily providing research services	(c)
Shanghai Benyuan Entrepreneurship Incubator Management Limited ("Viva Incubator Shanghai") (上海本苑創業孵化器管理有限公司)	PRC, December 7, 2015	RMB20,000,000	100%	100%	Business incubator	(c)
Viva Incubator Investment Management Limited ("Viva Incubator HK")	Hong Kong, March 20, 2017	US\$5,000,000	100%	100%	Investment holding	(b)
Sichuan Viva Benyuan Biotech Limited ("Sichuan Viva") (四川維亞本苑生物科技有限公司)	PRC, October 30, 2018	US\$30,000,000	100%	100%	Business incubator	(b)
Shenzhen Viva Biotech Limited ("Shenzhen Viva") (深圳維亞生物科技有限公司)	PRC, October 21, 2019	RMB10,000,000	100%	N/A	Business incubator	(c) (d)

Notes:

- (a) Viva Biotech HK is directly held by the Company.
- (b) Viva Biotech Shanghai, Sichuan Viva and Viva Incubator HK are indirectly held by the Company through Viva Biotech HK.
- (c) These companies are indirectly held by the Company through Viva Biotech Shanghai.
- (d) On October 21, 2019, Shenzhen Viva was established with a register capital of RMB10,000,000.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2019 RMB'000	2018 RMB'000
Non-Current Assets		
Investment in subsidiaries	62,514	54,184
Amount due from a subsidiary	–	139,676
Financial assets at FVTPL	77,005	53,861
	139,519	247,721
Current Assets		
Amounts due from subsidiaries	375,867	28,009
Deferred issue costs and other receivables	1	6,744
Bank balances and cash	851,131	81,332
	1,226,999	116,085
Current Liabilities		
Accrued listing expenses and issue costs	251	11,516
Income tax payables	1,907	1,602
Trade and other payables	2,709	–
Amounts due to subsidiaries	47,143	72,643
	52,010	85,761
Net Current Assets	1,174,989	30,324
Total Assets Less Current Liabilities	1,314,508	278,045
Non-Current Liabilities		
Financial liabilities at FVTPL	–	220,600
Deferred tax liabilities	244	1,020
	244	221,620
Net Assets	1,314,264	56,425
Capital and Reserves		
Share capital	261	164
Reserves	1,314,003	56,261
Total Equity	1,314,264	56,425

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

41. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

The reserves movement of the Company is as follows:

	Share premium <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Other reserve <i>RMB'000</i>	(Accumulated losses) retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
At January 1, 2018	13,590	11,883	33,705	(14,790)	44,388
Profit and total comprehensive income for the year	–	–	–	3,315	3,315
Recognition of equity-settled share-based payment	–	8,602	–	–	8,602
Issue of ordinary shares	33,661	–	(33,705)	–	(44)
At December 31, 2018	47,251	20,485	–	(11,475)	56,261
Loss and total comprehensive expense for the year	–	–	–	(2,010)	(2,010)
Recognition of equity-settled share based payment	–	8,330	–	–	8,330
Issue of shares pursuant to Capitalization Issue	(17)	–	–	–	(17)
Dividends recognized as distribution	(127,896)	–	–	–	(127,896)
Automatic conversion of Series B Preferred Shares upon Global Offering	246,888	–	–	–	246,888
Shares issued upon Global Offering and Over-allotment	1,339,920	–	–	–	1,339,920
Transaction costs attributable to issue of new shares	(80,687)	–	–	–	(80,687)
Exercise of share options	5,648	–	–	–	5,648
Repurchase shares of the Company	(132,434)	–	–	–	(132,434)
At December 31, 2019	1,298,673	28,815	–	(13,485)	1,314,003

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

42. NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(a) Reconciliation of liabilities arising from financing activities

The table below details changes in the 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 Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Lease liabilities RMB'000	Loans from related parties (non-trade) RMB'000	Financial liabilities At FVTPL RMB'000	Payable for listing expenses and issue costs RMB'000	Cash Dividends RMB'000	Total RMB'000
At January 1, 2018	2,833	–	12,112	–	–	–	14,945
Financing cash flow (Note i)	(614)	–	(15,336)	199,942	(4,513)	–	179,479
Operating cash flow (Note ii)	–	–	–	–	(14,969)	–	(14,969)
Listing expenses	–	–	–	–	24,274	–	24,274
Deferred issue costs	–	–	–	–	6,724	–	6,724
Acquisition of financial assets at FVTPL	–	–	3,267	–	–	–	3,267
Fair value loss on financial liability at FVTPL	–	–	–	20,658	–	–	20,658
Interest on borrowings	143	–	414	–	–	–	557
Exchange gain	–	–	(457)	–	–	–	(457)
At December 31, 2018	2,362	–	–	220,600	11,516	–	234,478
Adjustment upon application of IFRS 16	–	15,177	–	–	–	–	15,177
At January 1, 2019	2,362	15,177	–	220,600	11,516	–	249,655
Financing cash flow (Note i)	(785)	(15,545)	–	–	(76,174)	(135,835)	(228,339)
Operating cash flow (Note ii)	–	–	–	–	(27,839)	–	(27,839)
Listing expenses	–	–	–	–	17,909	–	17,909
Deferred issue costs	–	–	–	–	73,963	–	73,963
Converting preferred shares into ordinary shares	–	–	–	(246,899)	–	–	(246,899)
New leases entered	–	45,937	–	–	–	–	45,937
Finance cost	–	1,973	–	–	–	–	1,973
Dividend recognized as Distribution	–	–	–	(7,939)	–	135,835	127,896
Fair value loss on financial liability at FVTPL	–	–	–	34,238	–	–	34,238
Interest on borrowings	288	–	–	–	–	–	288
Exchange loss	–	–	–	–	876	–	876
At December 31, 2019	1,865	47,542	–	–	251	–	49,658

Notes:

- (i) The financing cash flows represent 1) the repayment of bank borrowings and interest paid, 2) the repayment of lease liabilities, 3) the repayment to related parties, 4) the proceeds from the issue of the Company's convertible redeemable preferred shares, 5) the payment of the issue costs that are attributable to proposed issue of new shares, and 6) the payment of cash dividends.
- (ii) The operating cash flow represents the payment of the listing expenses charged to profit or loss.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2019

42. NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

(b) Major non-cash transactions

- (1) During the reporting period, the Group provides research services under SFE method to its customer in exchange for equity interests of the customer.
- (2) During the year ended December 31, 2019, the Group entered into new lease agreements for the use of offices for 2 to 3 years. On the dates of lease commencement, the Group recognized RMB46,192,000 of right-of-use assets and RMB45,937,000 lease liabilities.

43. SUBSEQUENT EVENTS

Except as disclosed elsewhere of the consolidated financial information, the Group has following significant events subsequent to December 31, 2019:

- a. Pursuant to the written board resolutions passed on January 21, 2020, the Company announced Viva Biotech Shanghai entered into the equity transfer agreement with the vendors, whereby Viva Biotech Shanghai conditionally agreed to acquire 100% equity interest of the target company from the vendors at the consideration of RMB120,000,000. The transaction was completed on March 9, 2020.
- b. On February 11, 2020, Viva Incubator HK issued US\$180,000,000 2.50 per cent convertible bonds due 2025 and guaranteed by the Company.
- c. The outbreak of the 2019 Novel Coronavirus (“COVID-19”) epidemic in the PRC and the subsequent mandatory quarantine measures imposed by the PRC government as well as the travel restrictions imposed by other countries in early 2020 has impact on the business and operations of the Group as majority of the Group’s operations are located in the PRC. As required by the local government offices in which the Group’s operate, entities including the Group were not allowed to resume operations until mid-February 2020 in an effort to contain the spread of the epidemic. Pending on the further development and spread of COVID-19 epidemic, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group. However, the extent of which could not be estimated as of the date of the approval of these consolidated financial statements. The Group will closely monitor the development of the COVID-19 epidemic and continue to assess its impact on the Group’s operating activities and financial position.

The following is the text of a report received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF VIVA BIOTECH HOLDINGS AND CHINA INTERNATIONAL CAPITAL CORPORATION HONG KONG SECURITIES LIMITED

Introduction

We report on the historical financial information of Viva Biotech Holdings (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages I-1 to I-89, which comprises the consolidated statements of financial position of the Group at December 31, 2016, 2017 and 2018, the statements of financial position of the Company at December 31, 2016, 2017 and 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended December 31, 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated April 25, 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 1.2 to the Historical Financial Information, and for such internal control as the directors of the Company 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 (the "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 preparation set out in

Note 1.2 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 of the Company, 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 Group's and the Company's financial position at December 31, 2016, 2017 and 2018 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 1.2 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 I-3 have been made.

Dividends

We refer to Note 13 to the Historical Financial Information which states that no dividends was declared or paid by the Company during the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

April 25, 2019

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**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 Group for the Track Record Period, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board (the "IASB") and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("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

	NOTES	Year ended December 31,		
		2016 RMB'000	2017 RMB'000	2018 RMB'000
Revenue	5	96,492	148,245	210,033
Cost of services		(42,349)	(62,056)	(104,576)
Gross profit		54,143	86,189	105,457
Other income	6	7,088	6,412	4,671
Other gains and losses	7	1,808	18,953	30,934
Research and development expenses		(16,794)	(17,253)	(25,251)
Selling and marketing expenses		(1,392)	(2,017)	(3,925)
Administrative expenses		(12,827)	(15,228)	(25,576)
Listing expenses		—	—	(24,274)
Fair value gain on financial assets at fair value through profit or loss ("FVTPL")	17	—	14,720	68,286
Share of loss of associates	15	(1,351)	(2,418)	(1,748)
Share of loss of joint ventures	16	(2,052)	(1,694)	(1,498)
Finance cost	8	(203)	(853)	(557)
Profit before fair value loss on financial liabilities at FVTPL and tax		28,420	86,811	126,519
Fair value loss on financial liabilities at FVTPL	30	—	—	(20,658)
Profit before tax	9	28,420	86,811	105,861
Income tax expense	10	(3,947)	(10,551)	(15,311)
Profit and total comprehensive income for the year		<u>24,473</u>	<u>76,260</u>	<u>90,550</u>
Earnings per share	12	RMB	RMB	RMB
—Basic		<u>0.02</u>	<u>0.07</u>	<u>0.08</u>
—Diluted		<u>0.02</u>	<u>0.07</u>	<u>0.08</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	At December 31,		
		2016 RMB'000	2017 RMB'000	2018 RMB'000
Non-Current Assets				
Property, plant and equipment	14	21,343	34,400	66,899
Interests in associates	15	7,189	5,276	2,675
Interests in joint ventures	16	2,928	1,234	2,602
Financial assets at FVTPL	17	2,005	71,059	204,740
Contract assets		—	3,693	3,368
Rental deposits and prepayments		1,792	1,832	6,872
Deferred tax assets	18	1,400	1,461	1,013
		<u>36,657</u>	<u>118,955</u>	<u>288,169</u>
Current Assets				
Inventories	20	1,013	3,323	4,900
Contract costs	21	6,265	3,459	4,261
Trade and other receivables	22	24,064	36,875	68,410
Loans to a related party	39(b)	20,397	2,002	—
Restricted bank balances	24	—	8,022	8,045
Cash and cash equivalents	24	13,425	29,766	155,554
		<u>65,164</u>	<u>83,447</u>	<u>241,170</u>
Current Liabilities				
Trade and other payables	25	10,932	15,571	25,578
Contract liabilities	26	729	1,092	1,483
Income tax payables		3,786	7,745	14,904
Loans from related parties	39(b)	—	12,112	—
Bank borrowings	27	447	471	497
Obligations under a finance lease	28	226	—	—
Deferred income	29	200	—	—
		<u>16,320</u>	<u>36,991</u>	<u>42,462</u>
Net Current Assets		<u>48,844</u>	<u>46,456</u>	<u>198,708</u>
Total Assets Less Current Liabilities		<u>85,501</u>	<u>165,411</u>	<u>486,877</u>
Non-Current Liabilities				
Bank borrowings	27	2,833	2,362	1,865
Deferred income	29	6,166	10,287	9,849
Financial liabilities at FVTPL	30	—	—	220,600
Deferred tax liabilities	18	—	—	3,121
		<u>8,999</u>	<u>12,649</u>	<u>235,435</u>
Net Assets		<u>76,502</u>	<u>152,762</u>	<u>251,442</u>
Capital and Reserves				
Share capital	31	120	120	164
Reserves		<u>76,382</u>	<u>152,642</u>	<u>251,278</u>
Total Equity		<u>76,502</u>	<u>152,762</u>	<u>251,442</u>

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

	NOTES	At December 31,		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
Non-Current Assets				
Investment in a subsidiary	19	45,582	45,582	54,184
Amount due from a subsidiary	39	—	—	139,676
Financial assets at FVTPL	17	—	25,346	53,861
		<u>45,582</u>	<u>70,928</u>	<u>247,721</u>
Current Assets				
Amounts due from subsidiaries	39	129	1	28,009
Deferred issue costs and other receivables	22	—	—	6,744
Cash and cash equivalents		—	197	81,332
		<u>129</u>	<u>198</u>	<u>116,085</u>
Current Liabilities				
Accrued listing expenses and issue costs	25	—	—	11,516
Income tax payables		—	—	1,602
Amounts due to subsidiaries	39	1,266	26,618	72,643
		<u>1,266</u>	<u>26,618</u>	<u>85,761</u>
Net Current (Liabilities) Assets		<u>(1,137)</u>	<u>(26,420)</u>	<u>30,324</u>
Total Assets Less Current Liabilities		<u>44,445</u>	<u>44,508</u>	<u>278,045</u>
Non-Current Liabilities				
Financial liabilities at FVTPL	30	—	—	220,600
Deferred tax liabilities	18	—	—	1,020
		<u>—</u>	<u>—</u>	<u>221,620</u>
Net Assets		<u>44,445</u>	<u>44,508</u>	<u>56,425</u>
Capital and Reserves				
Share capital	31	120	120	164
Reserves	41	44,325	44,388	56,261
Total Equity		<u>44,445</u>	<u>44,508</u>	<u>56,425</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve	Share option reserve	Other reserve	(Accumulated losses) retained earnings	Total
	RMB'000	RMB'000	RMB'000 (Note i)	RMB'000	RMB'000 (Note iii)	RMB'000	RMB'000
At January 1, 2016	120	13,590	833	11,867	33,705	(8,102)	52,013
Profit and total comprehensive income for the year	—	—	—	—	—	24,473	24,473
Recognition of equity-settled share-based payment (Note 32)	—	—	—	16	—	—	16
Transferred to statutory reserve	—	—	2,672	—	—	(2,672)	—
At December 31, 2016	120	13,590	3,505	11,883	33,705	13,699	76,502
Profit and total comprehensive income for the year	—	—	—	—	—	76,260	76,260
Transferred to statutory reserve	—	—	6,239	—	—	(6,239)	—
At December 31, 2017	120	13,590	9,744	11,883	33,705	83,720	152,762
Adoption of IFRS 9 (Note ii)	—	—	—	—	—	(472)	(472)
Adjusted balance at January 1, 2018 ...	120	13,590	9,744	11,883	33,705	83,248	152,290
Profit and total comprehensive income for the year	—	—	—	—	—	90,550	90,550
Recognition of equity-settled share-based payment (Note 32)	—	—	—	8,602	—	—	8,602
Transferred to statutory reserve	—	—	6,463	—	—	(6,463)	—
Issue of ordinary shares (Note iii)	44	33,661	—	—	(33,705)	—	—
At December 31, 2018	164	47,251	16,207	20,485	—	167,335	251,442

Notes:

- (i) In accordance with the Articles of Association of all subsidiaries established in the People's Republic of China (the "PRC"), they are required to transfer 10% of the profit after taxation to the statutory reserve until the reserve reaches 50% of the registered capital. Transfer to this reserve must be made before distributing dividends to equity holders. The statutory reserve can be used to make up for previous years' losses, expand the existing operations or convert into additional paid-in capital of the subsidiaries.
- (ii) Upon the adoption of IFRS 9 "Financial Instruments" on January 1, 2018, an accumulated impact of RMB472,000 was recorded as an adjustment to the retained earnings at January 1, 2018, which represented the impairment loss allowance, net of deferred tax impact. Details of the adjustment are set out in Note 2.
- (iii) Pursuant to the resolution of shareholders' meeting dated April 12, 2015, the Company's existing ordinary shareholders subscribed 71,917,810 ordinary shares of the Company ("Subscription Shares") at a price of US\$0.0765 per share with a total cash consideration of US\$5,500,000 (equivalent to RMB33,705,000). The subscription money was intended to be used as payment for the redemption of the Series A1 Preferred Shares of the Company on April 25, 2015. Therefore, instead of receiving the cash from the capital contribution from the shareholders, the shareholders offered to settle the payment for the redemption of the redeemable preferred shares on behalf of the Company. Such amount was recognized in "other reserve" before the shares were issued by the Company on March 28, 2018. Upon the issue of these shares, the amount previously recognized in the "other reserve" is subsequently reclassified as share capital and share premium, respectively.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	NOTE	Year ended December 31,		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
OPERATING ACTIVITIES				
Profit before tax		28,420	86,811	105,861
Adjustments for:				
Interest on bank borrowings		189	168	143
Interest on loans from related parties		—	677	414
Interest on a finance lease		14	8	—
Interest income from banks		(76)	(496)	(861)
Interest income from a related party		(1,068)	(178)	—
Foreign exchange (gain) loss		(624)	314	(4,605)
Depreciation of property, plant and equipment		3,782	5,501	9,548
Impairment (reversed) losses recognized on financial assets measured at amortized cost		(36)	118	113
(Gain) loss on disposal of property, plant and equipment		(162)	52	(5)
Income from government grants and subsidies related to assets		(608)	(919)	(915)
Share-based payment expenses		16	—	8,602
Fair value gain on financial assets at FVTPL		—	(14,720)	(68,286)
Gain on deemed disposal of interests in a joint venture		—	—	(11,355)
Gain on deemed disposal of interests in an associate		—	(20,351)	—
Gain on disposal of interests in a joint venture		—	—	(960)
Gain on disposal of interests in an associate		—	—	(4,047)
Fair value loss on financial liabilities at FVTPL		—	—	20,658
Share of loss of joint ventures		2,052	1,694	1,498
Share of loss of associates		1,351	2,418	1,748
Revenue from service-for-equity	42(b)	(2,005)	(16,621)	(20,400)
Operating cash flows before movements in working capital		31,245	44,476	37,151
Increase in inventories		(441)	(2,310)	(1,577)
(Increase) decrease in contract costs		(1,240)	3,119	(396)
Increase in trade and other receivables		(7,394)	(9,304)	(29,105)
Increase in trade and other payables		1,190	1,640	10,796
Increase in rental deposits		(805)	(40)	(650)
Increase in contract liabilities		630	363	391
Increase (decrease) in deferred income		100	(3,400)	—
Cash generated from operations		23,285	34,544	16,610
Income taxes paid		(2,167)	(6,653)	(4,500)
NET CASH FROM OPERATING ACTIVITIES		21,118	27,891	12,110

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	NOTES	Year ended December 31,		
		2016	2017	2018
		RMB'000	RMB'000	RMB'000
INVESTING ACTIVITIES				
Interest received		76	348	964
Proceeds from disposal of property, plant and equipment		588	—	65
Purchases of property, plant and equipment		(7,341)	(18,923)	(46,903)
Purchases of investments in financial assets at amortized cost		—	(44,300)	—
Proceeds from disposal of investments in financial assets at amortized cost		—	40,800	3,500
Government grants and subsidies received related to assets		608	240	477
Proceeds from disposal of interest in a joint venture		—	—	960
Proceeds from disposal of interest in an associate		—	—	7,000
Repayment from a related party		—	18,573	2,002
Acquisition of investment in joint ventures		(4,980)	—	(4,100)
Acquisition of investment in associates		(8,540)	(5,500)	(2,100)
Purchase of financial assets at FVTPL	42(b)	—	(1,000)	(94,899)
Proceed from disposal of financial assets at FVTPL		—	—	63,085
NET CASH USED IN INVESTING ACTIVITIES		(19,589)	(9,762)	(69,949)
FINANCING ACTIVITIES				
Repayment of bank borrowings		(423)	(447)	(471)
Repayment to related parties		—	—	(14,922)
Interest paid		(189)	(168)	(557)
Issue costs paid		—	—	(4,513)
Finance lease charges paid		(14)	(8)	—
Repayment of obligations under a finance lease		(115)	(226)	—
Proceeds from the issue of the Company's convertible redeemable preferred shares		—	—	199,942
NET CASH FROM (USED IN) FINANCING ACTIVITIES	42(a)	(741)	(849)	179,479
NET INCREASE IN CASH AND CASH EQUIVALENTS		788	17,280	121,640
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		12,013	13,425	29,766
Effect of foreign exchange rate changes		624	(939)	4,148
CASH AND CASH EQUIVALENTS AT END OF YEAR		13,425	29,766	155,554

NOTES TO HISTORICAL FINANCIAL INFORMATION**1. GENERAL INFORMATION, BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION****1.1 General Information**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on August 27, 2008. The address of the registered office and the principal place of business of the Company are set out in the section headed "Corporate Information" to the Prospectus. At the date of this report, the ultimate controlling party of the Company is Mr. Mao Chen Cheney.

The Company is an investment holding company. The Group is principally engaged in providing the structure-based drug discovery services to biotechnology and pharmaceutical customers worldwide for their pre-clinical stage innovative drug development.

1.2 Basis of preparation of the Historical Financial Information

The formation of the Group is as follows:

On June 17, 2008, Viva Biotech Limited ("Viva Biotech HK") was incorporated in Hong Kong with an issued share capital of US Dollar ("US\$") 2,000,000. On August 14, 2008, Viva Biotech HK established Viva Biotech (Shanghai) Ltd. ("Viva Biotech Shanghai") in the PRC with a paid-in capital of US\$25,000,000. On November 20, 2008, the Company acquired Viva Biotech HK and Viva Biotech Shanghai by the allotment of 9,999,999 shares of the Company to the original shareholders of Viva Biotech HK. Since then, the Company became the holding company of the Group.

On September 26, 2008, the Company incorporated Viva Biotech (USA) Inc. ("Viva Biotech USA") in the United States of America (the "USA") with an issued share capital of US\$1,000, which was dissolved voluntarily in August 2015.

On March 19, 2014, Viva Biotech Shanghai established Jiaxing Viva Biotech Limited ("Jiaxing Viva") in the PRC with a paid-in capital of RMB30,000,000.

On December 7, 2015, Viva Biotech Shanghai established Shanghai Benyuan Entrepreneurship Incubator Management Limited ("Viva Incubator Shanghai") in the PRC with a paid-in capital of RMB10,000,000.

On March 20, 2017, Viva Incubator Shanghai incorporated Viva Incubator Investment Management Limited ("Viva Incubator HK") in Hong Kong with an issued share capital of US\$5,000,000. On August 2, 2017, Viva Incubator Shanghai transferred the entire equity interest of Viva Incubator HK to Viva Biotech Shanghai at nil consideration. Pursuant to a share transfer agreement dated August 30, 2018, Viva Biotech Shanghai shall transfer the entire equity interest of Viva Incubator HK to Viva Biotech HK at a consideration of US\$2,700,000. Such transfer was completed on October 22, 2018.

On October 30, 2018, Viva Biotech HK established Sichuan Viva Benyuan Biotech Limited ("Sichuan Viva") in the PRC with a paid-in capital of US\$30,000,000.

The Historical Financial Information has been prepared based on the accounting policies set out in Note 3 which conform with IFRSs issued by the IASB. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and complied with the Hong Kong Companies Ordinance.

1. GENERAL INFORMATION, BASIS OF PREPARATION OF THE HISTORICAL FINANCIAL INFORMATION (Continued)

1.2 Basis of preparation of the Historical Financial Information (Continued)

The functional currency of the Company is RMB, which is the same as the presentation currency of the Historical Financial Information.

No audited statutory financial statements of the Company were prepared since its date of incorporation as it is incorporated in a jurisdiction where there is no statutory audit requirements.

2. APPLICATION OF NEW AND REVISED IFRSs

For the purpose of preparing the Historical Financial Information for the Track Record Period, the Group has consistently applied International Accounting Standards ("IASs"), IFRSs, amendments and the related Interpretations ("IFRICs") (herein collectively referred to as the "IFRSs") (including IFRS 15 "Revenue from Contracts with Customers"), which are effective for the accounting periods beginning on January 1, 2018 throughout the Track Record Period except that the Group adopted IFRS 9 "Financial Instruments" on January 1, 2018. The accounting policies for financial instruments which conform with IFRS 9 that are applicable from January 1, 2018 onwards and IAS 39 "Financial Instruments" which are applicable for each of the two years ended December 31, 2017, are set out in Note 3 below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognized at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized at January 1, 2018. The difference between carrying amounts at December 31, 2017 and the carrying amounts at January 1, 2018 are recognized in the opening retained earnings, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information was prepared under IAS 39.

The table below illustrates the classification and measurement of financial assets and financial liabilities under IFRS 9 and IAS 39 at the date of initial application on January 1, 2018.

	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount under IAS 39 RMB'000	Additional loss allowance recognized under IFRS 9 RMB'000	New carrying amount under IFRS 9 RMB'000
Debt/equity investment	Financial assets at FVTPL	Financial assets at FVTPL	71,059	—	71,059
Trade and other receivables	Loans and receivables	Financial assets at amortized cost	32,491	(555)	31,936
Loans to a related party (Note 39(b))	Loans and receivables	Financial assets at amortized cost	2,002	—	2,002
Restricted bank balances (Note 24)	Loans and receivables	Financial assets at amortized cost	8,022	—	8,022
Cash and cash equivalents (Note 24)	Loans and receivables	Financial assets at amortized cost	29,766	—	29,766
Trade and other payables	Financial liabilities at amortized cost	Financial liabilities at amortized cost	(8,400)	—	(8,400)
Loans from related parties (Note 39(b))	Financial liabilities at amortized cost	Financial liabilities at amortized cost	(12,112)	—	(12,112)
Bank borrowings (Note 27)	Financial liabilities at amortized cost	Financial liabilities at amortized cost	(2,833)	—	(2,833)

2. APPLICATION OF NEW AND REVISED IFRSs (Continued)

The additional impairment loss allowance upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset.

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL or measured at amortized cost under IAS 39 that were subject to reclassification, or which the Group has elected to reclassify upon the application of IFRS 9.

The table below shows the amount of adjustment for each financial statement line item of the Group affected by the application of IFRS 9.

Impact on assets and equity as at January 1, 2018:

	As previously reported	IFRS 9 adjustment	As restated
	RMB'000	RMB'000	RMB'000
Trade and other receivables	32,491	(555)	31,936
Deferred tax assets	1,461	83	1,544
Total effect on net assets		(472)	
Reserves	152,642	(472)	152,170
Total effect on equity		(472)	

New and amendments to IFRSs in issue but not yet effective

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

IFRS 16	Leases ¹
IFRS 17	Insurance Contracts ³
IFRIC 23	Uncertainty over Income Tax Treatments ¹
Amendments to IFRS 3	Definition of a Business ⁴
Amendments to IFRS 9	Prepayment Features with Negative Compensation 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 and IAS 8	Definition of Material ⁵
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement ¹
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures ¹
Amendments to IFRSs	Annual Improvements to IFRSs 2015-2017 Cycle ¹

1 Effective for annual periods beginning on or after January 1, 2019

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, 2021

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020

5 Effective for annual periods beginning on or after January 1, 2020

Except as disclosed below, the directors of the Company anticipate that application of other new and amendments to IFRSs will have no material impact to the Group's financial performance and consolidated financial positions and/or on the disclosures in future consolidated financial statements.

2. APPLICATION OF NEW AND REVISED IFRSs (Continued)***New and amendments to IFRSs in issue but not yet effective (Continued)******IFRS 16 Leases***

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 "Leases" and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, IFRS 16 requires sales and leaseback transactions to be determined based on the requirements of IFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. IFRS 16 also includes requirements relating to sublease and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Furthermore, extensive disclosures are required by IFRS 16.

At December 31, 2018, the Group has non-cancellable operating lease commitments of RMB19,412,000 as disclosed in Note 36. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognize a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB2,482,000 at December 31, 2018 as rights under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments resulting to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortized cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

Furthermore, the application of new requirements under IFRS 16 would result in changes in measurement, presentation and disclosure as indicated above. The management of the Group assessed that such changes would increase the consolidated assets and consolidated liabilities of the Group, but would not result in a significant impact on the financial performance of the Group upon adoption of IFRS 16.

2. APPLICATION OF NEW AND REVISED IFRSs (Continued)***New and amendments to IFRSs in issue but not yet effective (Continued)******IFRS 16 Leases (Continued)***

The Group elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 “Determining whether an Arrangement contains a Lease”, which already existed prior to the date of initial application. The Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment). The Group also used hindsight in determining the lease term if the contract contains options to extend or terminate the lease. Furthermore, the Group also elected the practical expedient not to apply for leases for which the lease term ends within 12 months at the date of initial application. Therefore, the Group didn’t reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elected the modified retrospective approach for the application of IFRS 16 as lessee and recognized the cumulative effect of initial application to opening accumulated losses without restating comparative information.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 “Share-based Payment”, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 “Inventories” or value in use in IAS 36 “Impairment of Assets”.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The 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 listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investment in a subsidiary

Investment in a subsidiary is stated in the statement of financial position of the Company at cost less any identified impairment loss.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in the Historical Financial Information using the equity method of accounting. Appropriate adjustments have been made to conform the associates' or joint ventures' accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statements of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Investments in associates and joint ventures (Continued)

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 28 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or a joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39 or IFRS 9, where applicable. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Historical Financial Information only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Revenue recognition (Continued)

- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group recognizes 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 customers.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

- the customer simultaneously receives and consumes the benefits provided by the entity’s performance as the entity performs;
- the Group’s performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the asset.

A contract asset represents the Group’s right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. In contrast, a receivable represents the Group’s unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group’s obligation to transfer services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group primarily earns revenue by providing discovery services to its customers under three charge methods: 1) Full-time-equivalent, or FTE method; 2) Fee-for-service, or FFS method; or 3) Service-for-equity, or SFE method.

Under the FTE method, the Group provides its customer with a project team of employees dedicated to the customer’s studies for a specific period of time and charges the customer at a fixed rate per employee. The customer therefore simultaneously receives and consumes benefits provided by the Group’s performances. In addition, FTE contracts require customer’s confirmation on the FTE billable amounts, which are calculated based on number of the Group’s employees assigned to the project and the time that the Group’s employees had worked under the project, and also specify that the Group has an enforceable right to payment for the FTE billable amounts. Therefore, under the FTE method, the Group has a right to consideration from its customer in an amount that corresponds directly with the value to the customers of the Group’s performance completed to date (i.e. FTE billable amounts). Under such arrangement, IFRS 15 provides a practical expedient whereby the Group

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Revenue recognition (Continued)

may recognize revenue based on the amount it has a right to invoice to the customer. The Group elected to use the practical expedient and therefore recognized the FTE services revenue when it has right to invoice the customer, usually in the form of a monthly statement, and the customers confirmed the acceptance of the invoice or after the end of a confirmation period.

For the research services provided under FFS method, the contracts usually have multiple deliverable units, which are generally in the form of technical laboratory reports and/or samples, each with individual selling price specified within the contract. The total contract price is the aggregation of the individual selling prices of the deliverable units. The Group identifies each deliverable unit as a separate performance obligation, and recognizes FFS revenue of contractual elements at the point in time upon finalization, delivery and acceptance of the deliverable units or after the end of a confirmation period.

For the research services provided under SFE method, the Group provides its customer with a project team of employees dedicated to the customer's studies for a specific period of time at a pre-agreed fixed rate per employee in a way that is similar to the FTE method, with the difference that the Group is entitled to receive the equity interests of the customer instead of a cash consideration for the service provided. The Group and the customer would agree on a total FTE service value that the Group would provide to the customer using the pre-agreed FTE rate, and upon reaching pre-set milestones of FTE service value, the customers would transfer certain number of their equity interests to the Group. The Group measures the progress of performance on the basis of FTE service value transferred to the customers to date relative to the remaining total FTE service value. The progress of performance corresponds directly to the number of customer's equity interest that the Group is entitled to receive. The Group then recognizes revenue by measuring the fair value of these customer's equity interest and at the same time recognizes a corresponding contract assets. Upon Group's cumulative FTE service value to the customers reach a pre-set milestone, the Group would receive the entitled equity interests, the corresponding contract assets are then subsequently transferred to financial assets at FVTPL, with any subsequent gains or losses arising on remeasurement being recognized in profit or loss.

Some of the service contracts contain variable consideration in the form of bonus payment (usually in the form of a milestone bonus when the service provided to the customer has reached into a certain stage or delivered a certain result). The Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration, to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Revenue recognition (Continued)

The Group incurs costs to fulfill a contract under FFS method. The Group first assesses whether these contract costs qualify for recognition as an asset in terms of other relevant IFRSs, failing which it recognizes an asset for these costs only if they meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;
- (b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- (c) the costs are expected to be recovered.

The asset so recognized is subsequently amortized to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is also subject to impairment review.

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the gross carrying amount and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statements of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the term of the relevant lease.

Leasehold land and building

When the Group makes payments for a property interest which include both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognized in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate. Specially, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are designated as grants related to assets and recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets; while the government grants whose primary condition is to compensate for research projects or other than purchase, construct or otherwise acquire long-term assets are designated as grants related to income. Some of the grants related to income have future related costs expected to be incurred, and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to income are recognized as deferred income in the consolidated statements of financial position and transferred to profit or loss when related costs are subsequently incurred and the Group received government acknowledge of compliance.

Other 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 Group with no future related costs are recognized in profit or loss in the period in which they become receivable.

Retirement benefit costs

The Group participates in state-managed retirement benefit schemes, which are defined contribution schemes, pursuant to which the Group pays a fixed percentage of its qualifying staff's wages as contributions to the plans. Payments to such retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Short-term employee benefits

Short-term employee benefits are recognized at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognized as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognized for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Equity-settled share-based payment transactions*Share options granted to employees*

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments are determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share option reserve). At the end of each reporting period, the Group revises its estimates of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimates, with a corresponding adjustment to the share option reserve.

When the share options are exercised, the amount previously recognized in share option reserve will continue to be held in share option reserve. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share option reserve will continue to be held in share option reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Taxation (Continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognized in profit or loss.

Property, plant and equipment

Property, plant and equipment other than construction in progress, are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Property, plant and equipment (Continued)

the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Research and development expenditure

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

Impairment on tangible assets and contract costs

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets and contract costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Before the Group recognizes an impairment loss for assets capitalized as contract costs under IFRS 15, the Group assesses and recognizes any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalized as contract costs is recognized to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognized as expenses. The assets capitalized as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Impairment on tangible assets and contract costs (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a first-in, first-out method. Net realizable value represents the contracted selling price less all estimated costs of completion and costs necessary to make the sale.

Financial instruments (before the adoption of IFRS 9 on January 1, 2018)

Financial assets and financial liabilities are recognized in the consolidated statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following specified categories: financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade day basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid and points or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest basis.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (before the adoption of IFRS 9 on January 1, 2018) (Continued)

Financial assets (Continued)*Financial assets at FVTPL (Continued)*

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss is included in the "Fair value gain on financial assets at fair value through profit or loss" line item. Fair value is determined in the manner described in Note 34.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loans to a related party, restricted bank balances and cash and cash equivalents) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (before the adoption of IFRS 9 on January 1, 2018) (Continued)

Financial assets (Continued)*Impairment of financial assets (Continued)*

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group are recognized at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (before the adoption of IFRS 9 on January 1, 2018) (Continued)

Financial liabilities and equity instruments (Continued)

Financial liabilities at FVTPL (Continued)

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities and is included in the "Fair value loss on financial liabilities at FVTPL" line item.

Financial liabilities at amortized cost

Financial liabilities at amortized cost including bank borrowings, trade and other payables and loans from related parties are subsequently measured at amortized cost, using the effective interest method.

Derecognition

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

The Group derecognizes a financial liability when, and only when, the Group's obligations are discharged, canceled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Financial instruments (under IFRS 9)

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Financial instruments (under IFRS 9) (Continued)

recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

The effective interest method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets*Classification and subsequent measurement of financial assets*

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

Amortized cost and interest income

Interest income is recognized using the effective interest method for financial assets measured subsequently at amortized cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Financial instruments (under IFRS 9) (Continued)**Financial assets (Continued)***Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the "Fair value gain on financial assets at fair value through profit or loss" line item.

Impairment of financial assets

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade receivables, loans to a related party, amounts due from subsidiaries, restricted bank balances, cash and cash equivalents) and contract assets. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognizes lifetime ECL for trade receivables. The ECL on these financial assets are assessed collectively using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes lifetime ECL. The assessment of whether lifetime ECL should be recognized is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the 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. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Financial instruments (under IFRS 9) (Continued)**Financial assets (Continued)***Significant increase in credit risk (Continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Financial instruments (under IFRS 9) (Continued)**Financial assets (Continued)***Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- a) significant financial difficulty of the issuer or the borrower;
- b) a breach of contract, such as a default or past due event;
- c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over five years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognized in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis to cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are assessed as a separate group. Loans to related parties are assessed for ECL on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Financial instruments (under IFRS 9) (Continued)**Financial assets (Continued)***Measurement and recognition of ECL (Continued)*

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities and equity instruments*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortized cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is designated as at FVTPL.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)Financial instruments (under IFRS 9) (Continued)**Financial liabilities and equity instruments (Continued)***Financial liabilities at FVTPL (Continued)*

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Because the Group's convertible redeemable preferred shares contained multiple embedded derivatives, the convertible redeemable preferred shares are designated as at FVTPL. Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities and is included in the "Fair value loss on financial liabilities at FVTPL" line item.

However, for financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability. Fair value is determined in the manner described in Note 30.

Financial liabilities at amortized cost

Other financial liabilities including bank borrowings, loans from related parties, amounts due to subsidiaries and trade and other payables are subsequently measured at amortized cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumption are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if revision affects both current and future periods.

Critical Judgments in applying accounting policies

The following is the critical judgments, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the Historical Financial Information.

Judgments in determining the timing of satisfaction of performance obligations

Note 3 describes the revenue recognition basis to each of the Group's revenue stream. The recognition of each of the Group's revenue stream requires judgement by the directors of the Company in determining the timing of satisfaction of performance obligations.

In making their judgement, the directors of the Company have considered the detailed criteria for recognition of revenue set out in IFRS 15 and in particular, whether the Group has satisfied all the performance obligations over time or at a point in time with reference to the detailed terms of transaction as stipulated in the contracts entered into with its customers.

For the services under FTE method, the directors of the Company have assessed that the customers simultaneously receive and consume benefit provided by the Group's performances and the Group has an enforceable right to payment for performances completed to date. Therefore, the directors of the Company have satisfied that the performance obligation on FTE services is satisfied over time and recognized FTE revenue over the service period.

For the services under FFS method, the directors of the Company have assessed that the Group has a present right to payment from the customers for the services performed at a point in time upon finalization, delivery and acceptance of the deliverable units. Therefore, the directors of the Company have satisfied that the performance obligation of FFS is satisfied at a point in time and recognized FFS revenue at a point in time.

For the services under SFE method, the directors of the Company have assessed that the customers simultaneously receive and consume benefits provided by the Group's performances. Therefore, the directors of the Company have satisfied that the performance obligation on SFE services is satisfied over time and recognized SFE revenue over the service period.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)Critical Judgments in applying accounting policies (Continued)**Judgements in determining the significant influence or joint control in investments**

Where the Group holds less than 20% of ownership interests in investees but the Group has the power to exercise significant influence, such investments are treated as investments in associates. Details of the basis of such management judgement are set out in Note 15.

Where the Group holds less than 50% of ownership interests in investees but the Group has the power to exercise joint control, such investments are treated as investments in joint ventures. Details of the basis of such management judgement are set out in Note 16.

Where the Group holds more than 20% of ownership interests in an investee but the Group does not have the power to exercise significant influence, joint control or control, such investment is treated as financial assets at FVTPL. Details of the basis of such management judgement are set out in Note 17.

Key sources of estimation uncertainty

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

Useful lives and estimated impairment on property, plant and equipment

The 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 Group will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

The Group regularly reviews whether there are any indications of impairment and recognizes an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The 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.

At December 31, 2016, 2017 and 2018, the carrying amount of property, plant and equipment (without impairment loss recognized) was RMB21,343,000, RMB34,400,000 and RMB66,899,000, respectively.

Estimated loss allowance of debt instruments measured at amortized cost

Management estimates the amount of loss allowance for ECL on debt instruments that are measured at amortized cost based on the credit risk of the respective financial instrument. The loss allowance amount is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows after taking into consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. When the actual future cash flows are different

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)Key sources of estimation uncertainty (Continued)**Estimated loss allowance of debt instruments measured at amortized cost (Continued)**

from expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

Impairment loss on contract costs

The Group assesses periodically if contract costs may be impaired based on an assessment of the recoverability of the contract costs. The amount of the impairment loss is measured as the difference between the carrying amount of the contract costs and the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates (less the costs that relate directly to providing those goods or services and that have not been recognized as expenses). Where the remaining amount of consideration are less than expected, or being revised downward due to changes in facts and circumstances, a material impairment loss on contract costs may arise.

At December 31, 2016, 2017 and 2018, the carrying amount of contract costs was approximately RMB6,265,000, RMB3,459,000 and RMB4,261,000, respectively (without impairment of contract costs).

Fair value of financial instruments at FVTPL

The fair value of financial assets at FVTPL that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Further details are included in Note 34.

The financial liabilities at FVTPL represented the convertible redeemable preferred shares issued by the Company, which are not traded in an active market and of which the respective fair value is determined by using valuation techniques. The Group applied the discounted cash flow method to determine the underlying equity value of the Company and adopted the probability-weighted expected return method and the option-pricing method to determine the fair value of the convertible redeemable preferred shares. Key assumptions such as the timing of the liquidation, redemption or IPO event as well as the probability of the various scenarios were based on the Group's best estimates. Further details are included in Note 30.

Should any of the estimates and assumptions changed, it may lead to a material change in the respective fair value of these financial assets and liabilities.

5. REVENUE AND SEGMENT INFORMATION

Disaggregation of revenue

The following amounts represent revenue arising from providing research services under the three charge methods to third parties and investees of the Group. The investees of the Group includes associates, joint ventures and companies that the Group has equity investments in (carry in the Historical Financial Information as financial assets at FVTPL).

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Revenue from services to non-investees:			
—FTE	55,168	65,334	117,358
—FFS	26,289	56,119	37,317
	<u>81,457</u>	<u>121,453</u>	<u>154,675</u>
Revenue from services to investees:			
—FTE	9,809	6,979	33,593
—FFS	3,221	3,192	1,365
—SFE	2,005	16,621	20,400
	<u>15,035</u>	<u>26,792</u>	<u>55,358</u>
	<u>96,492</u>	<u>148,245</u>	<u>210,033</u>

Timing of revenue recognition

The following amounts represent revenue arising from providing research services over time and at a point in time:

Over time

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Revenue from FTE	64,977	72,313	150,951
Revenue from SFE	2,005	16,621	20,400
	<u>66,982</u>	<u>88,934</u>	<u>171,351</u>

At a point in time

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Revenue from FFS	<u>29,510</u>	<u>59,311</u>	<u>38,682</u>

Included in the revenue of year ended December 31, 2017 was a milestone bonus payment amounted to RMB14,247,000 of which performance obligations had already been satisfied.

5. REVENUE AND SEGMENT INFORMATION (Continued)**Unsatisfied performance obligations**

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) for the revenue from SFE at the end of the reporting period:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Revenue from SFE	—	27,975	22,034

Management expects that the majority of the transaction price allocated to the unsatisfied performance obligations at each reporting date during the Track Record Period will be recognized as revenue within two years from the relevant reporting date.

Under FTE charge method, revenue is recognized at the amount to which the Group has the right to invoice for services performed, therefore, under practical expedients allowed by IFRS 15, the Group does not disclose the value of unsatisfied performance obligations under FTE charge method. Similarly, under FFS charge method, contracts are generally within an original expected length of one year or less, therefore, the practical expedients is also applied.

For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer of the Group) reviews the overall results and financial position of the Group as a whole prepared based on the same accounting policies as set out in Note 3. Accordingly, the Group has only one reportable segment and no further analysis of this single segment is present.

Geographical Information

Substantially all of the Group's operations and non-current assets are located in the PRC. An analysis of the Group's revenue from external customers, analyzed by their respective country/region of operation, is detailed below:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Revenue			
—USA	74,680	128,393	160,723
—PRC	20,006	19,207	48,223
—Europe	1,306	431	676
—Rest of the world	500	214	411
	<u>96,492</u>	<u>148,245</u>	<u>210,033</u>

5. REVENUE AND SEGMENT INFORMATION (Continued)**Information about major customers**

Revenue from customers contributing over 10% of the total revenue of the Group during the Track Record Period is follows:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Customer A	11,185	34,147	N/A*

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the year concerned.

6. OTHER INCOME

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Interest income			
—banks	76	496	861
—related party (Note 39(a)(iii))	1,068	178	—
	1,144	674	861
Government grants and subsidies related to			
—Income (i)(a)	5,278	4,796	—
—Income (i)(b)	58	23	2,895
—Assets (ii)	608	919	915
	7,088	6,412	4,671

Notes:

- (i) a. The government grants related to income have been received to compensate for the expense of Group's research projects. Some of the grants related to income have future related costs expected to be incurred and require the Group to comply with conditions attached to the grants and the government to acknowledge the compliance of these conditions. These grants related to incomes were recognized in profit or loss when related costs are subsequently incurred and the Group received government acknowledge of compliance. Details of these grants related to income are set out in Note 29.
- b. Other 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 Group with no future related costs are recognized in profit or loss in the period in which they become receivable.
- (ii) The Group has received certain government grants related to assets to invest in laboratory equipment and plant. The grants related to assets were recognized in profit or loss over the useful lives of the relevant assets. Details of these grants related to assets are set out in Note 29.

7. OTHER GAINS AND LOSSES

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Net foreign exchange gain (loss)	1,277	(1,228)	14,632
Impairment losses (recognized) reversed on financial assets measured at amortized cost	36	(118)	(113)
Gain (loss) on disposal of property, plant and equipment	162	(52)	5
Gain on deemed disposal of interests in an associate	—	20,351	—
Gain on deemed disposal of interests in a joint venture	—	—	11,355
Gain on disposal of interests in an associate	—	—	4,047
Gain on disposal of interests in a joint venture	—	—	960
Others	333	—	48
	<u>1,808</u>	<u>18,953</u>	<u>30,934</u>

8. FINANCE COST

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Interest expenses on			
—bank borrowings	189	168	143
—loans from related parties (Note 39(a)(iii))	—	677	414
Interest on a finance lease	14	8	—
	<u>203</u>	<u>853</u>	<u>557</u>

9. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Depreciation for property, plant and equipment	4,108	5,814	9,954
Less: capitalized in contract costs	326	313	406
	<u>3,782</u>	<u>5,501</u>	<u>9,548</u>
Staff cost (including directors' emoluments):			
—Salaries and other benefits	29,072	39,349	73,652
—Retirement benefits scheme contributions	5,110	5,879	10,677
—Share-based payment expenses	16	—	8,602
	<u>34,198</u>	<u>45,228</u>	<u>92,931</u>
Less: capitalized in contract costs	3,185	1,853	1,889
	<u>31,013</u>	<u>43,375</u>	<u>91,042</u>
Auditors' remuneration	167	1,157	2,638
Minimum operating lease payment in respect of rented premises	5,639	8,117	8,662
Cost of inventories recognized as expense	<u>14,871</u>	<u>17,073</u>	<u>24,791</u>

10. INCOME TAX EXPENSE

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Current tax:			
—PRC Enterprise Income Tax ("EIT")	4,387	10,714	11,659
—Under (over) provision in prior years	92	(102)	—
	4,479	10,612	11,659
Deferred tax:			
—Current year	(532)	(61)	3,652
	3,947	10,551	15,311

Hong Kong Profits Tax for the Hong Kong subsidiaries is calculated at 16.5% of the estimated assessable profit for the period before April 1, 2018. On March 21, 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazette on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The two-tiered profits tax rates regime is applicable to the Group for its annual reporting periods ending on or after April 1, 2018.

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.

Viva Biotech Shanghai was accredited as a "High and New Technology Enterprise" in November 2013 which was subsequently renewed in November 2016, and therefore Viva Biotech Shanghai entitle to a preferential EIT rate of 15% for the Track Record Period. 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.

Pursuant to Caishui [2015] circular No. 119, Jiaying Viva enjoys super deduction of 150% on qualifying research and development expenditures throughout the Track Record Period. Viva Biotech Shanghai also enjoys super deduction of 150% on qualifying research and development expenditures for the year ended December 31, 2016. Beginning from January 1, 2017, Viva Biotech Shanghai enjoys additional super deduction of 175% on qualifying research and development expenditures pursuant to Caishui [2017] circular No. 34.

10. INCOME TAX EXPENSE (Continued)

The income tax expense over the Track Record Period can be reconciled to profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Profit before tax	28,420	86,811	105,861
Tax at the applicable tax rate of 25%	7,105	21,703	26,465
Tax effect of expenses not deductible for tax purpose	64	50	17,747
Tax effect of income not taxable for tax purpose	—	(3,291)	(17,084)
Effect of intergroup transaction	—	—	1,537
Effect of research and development expenses that are additionally deducted	(495)	(670)	(1,866)
Under (over) provision in prior years	92	(102)	—
Income tax at concessionary rate	(2,880)	(7,028)	(7,436)
Effect of different tax rates of subsidiaries operating in other jurisdiction	61	(111)	(4,052)
Income tax expense	<u>3,947</u>	<u>10,551</u>	<u>15,311</u>

11. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS

Details of the emoluments paid or payable to the directors and the Chief Executive Officer of the Company during the Track Record Period are as follows:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Chief Executive Officer and executive director:			
Mr. Mao Chen Cheney (Note i)			
—director's fee	—	—	—
—salaries and other benefits	240	405	752
—performance-based bonus (Note ii)	—	—	—
—retirement benefits scheme contributions	—	—	—
—share-based compensation	5	—	316
	<u>245</u>	<u>405</u>	<u>1,068</u>
Executive directors:			
Mr. Wu Ying (Note iii)			
—director's fee	—	—	—
—salaries and other benefits	203	316	412
—performance-based bonus (Note ii)	15	30	26
—retirement benefits scheme contributions	25	29	46
—share-based compensation	3	—	627
	<u>246</u>	<u>375</u>	<u>1,111</u>

11. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Mr. Ren Delin (Note iv)			
—director's fee	—	—	—
—salaries and other benefits	—	—	1,209
—performance-based bonus (Note ii)	—	—	—
—retirement benefits scheme contributions	—	—	—
—share-based compensation	—	—	757
	—	—	1,966
Mr. Hua Fengmao (Note v)			
—director's fee	—	—	—
—salaries and other benefits	—	—	—
—performance-based bonus (Note ii)	—	—	—
—retirement benefits scheme contributions	—	—	—
—share-based compensation	—	—	1,498
	—	—	1,498
Non-executive directors:			
Mr. John Wu Jiong (Note vi)			
—director's fee	—	—	—
—salaries and other benefits	—	—	—
—performance-based bonus (Note ii)	—	—	—
—retirement benefits scheme contributions	—	—	—
—share-based compensation	—	—	—
	—	—	—
Ms. Mao Jun (Note vii)			
—director's fee	—	—	—
—salaries and other benefits	—	—	—
—performance-based bonus (Note ii)	—	—	—
—retirement benefits scheme contributions	—	—	—
—share-based compensation	—	—	—
	—	—	—

The executive director's emoluments shown above were for his/her service in connection with the management of the affairs of the Company and the Group.

Notes:

- (i) Mr. Mao Chen Cheney was appointed as a director of the Company on July 3, 2018. Mr. Mao Chen Cheney is also the Chief Executive Officer of the Company since 2009 and his emoluments disclosed above included those for services rendered by him as the Chief Executive Officer.
- (ii) The performance-based bonus is discretionary based on the Group's financial results.
- (iii) Mr. Wu Ying was appointed as a director of the Company on September 7, 2009.
- (iv) Mr. Ren Delin was appointed as a director of the Company on July 3, 2018.
- (v) Mr. Hua Fengmao was appointed as a director and the Chief Financial Officer of the Company on July 3, 2018. Mr. Hua Fengmao held 14.29%, 14.29% and 11.43% common share in the Company through China Finance Strategies Investment DB Limited at December 31, 2016, 2017 and 2018, respectively.
- (vi) Mr. John Wu Jiong was appointed as a director of the Company on August 27, 2008, resigned on May 19, 2016 and reappointed as a director of the Company on July 3, 2018. Mr. John Wu Jiong held 14.29%, 14.29% and 22.86% common share in the Company through Fenghe Harvest Ltd. and Wu and Sons Limited at December 31, 2016, 2017 and 2018, respectively.

11. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST INDIVIDUALS' EMOLUMENTS (Continued)

- (vii) Ms. Mao Jun was appointed as a director of the Company on July 3, 2018. Ms. Mao Jun held 22.86%, 22.86% and 19.63% common share in the Company through Mao and Sons Limited and Zhang and Sons Limited at December 31, 2016, 2017 and 2018, respectively.

During the Track Record Period, no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company has waived any emoluments during the Track Record Period.

Chief executive officer and executive directors of the Company were granted share options in respect of their services to the Group under the Pre-IPO Share Incentive Schemes of the Company. Details of the Pre-IPO Share Incentive Schemes are set out in Note 32.

Five highest paid individuals

The five individuals with the highest emoluments in the Group included nil, nil and two directors of the Company for the years ended December 31, 2016, 2017 and 2018 respectively. Details of whose emoluments are set out in the disclosures above. The emoluments of the remaining highest paid individuals during the Track Record Period were as follows:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Employees			
—salaries and other benefits	1,840	2,229	3,030
—performance-based bonus	22	103	—
—retirement benefits scheme contributions	86	92	—
—share-based compensation	4	—	1,009
	<u>1,952</u>	<u>2,424</u>	<u>4,039</u>

The emoluments of the five highest paid employees (including the directors) were within the following bands:

	Year ended December 31,		
	2016	2017	2018
	No. of employees	No. of employees	No. of employees
Nil to Hong Kong Dollars ("HK\$") 1,000,000	5	5	—
HK\$1,000,001 to HK\$1,500,000	—	—	2
HK\$1,500,001 to HK\$2,000,000	—	—	2
HK\$2,000,001 to HK\$2,500,000	—	—	1
	<u>5</u>	<u>5</u>	<u>5</u>

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Year ended December 31,		
	2016	2017	2018
Earnings (RMB'000):			
Earnings for the purpose of calculating basic and diluted earnings per share	24,473	76,260	90,550
Number of shares ('000):			
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	1,083,749	1,083,749	1,083,749
Effect of dilutive potential ordinary shares:			
Pre-IPO Share Incentive Schemes of the Company	66,461	79,663	106,825
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,150,210</u>	<u>1,163,412</u>	<u>1,190,574</u>

The computation of basic earnings per share for the years ended December 31, 2016, 2017 and 2018 is based on weighted average number of shares assumed to be in issue after taking into account the retrospective adjustment of the Share Split and Capitalization Issue as disclosed in Note 43 and the 71,917,810 Subscription Shares subscribed in 2018.

The computation of diluted earnings per share for the years ended December 31, 2016, 2017 and 2018 is based on weighted average number of shares assumed to be in issue after taking into account of the Pre-IPO Share Incentive Schemes of the Company and the retrospective adjustment of the Share Split and the Capitalization Issue as disclosed in Note 43 and the 71,917,810 Subscription Shares subscribed in 2018. The diluted earnings per share for the year ended December 31, 2018 did not assume conversion of the Series B Preferred Shares as their inclusion would be anti-dilutive, nor the exercise of certain options granted under the Pre-IPO Share Incentive Schemes as the exercise price of those options was higher than the average fair value for shares of the Company during 2018.

13. DIVIDENDS

No dividend was paid or declared by the Company during the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building	Furniture, fixtures and equipment	Transportation equipment	Leasehold improvements	Construction in progress ("CIP")	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At January 1, 2016	6,804	23,981	1,528	401	2,186	34,900
Additions	—	4,236	200	—	2,905	7,341
Transfer	—	1,987	—	1,875	(3,862)	—
Disposals	—	(1,961)	(120)	—	—	(2,081)
At December 31, 2016 ...	6,804	28,243	1,608	2,276	1,229	40,160
Additions	—	6,955	—	55	11,913	18,923
Transfer	—	6,340	—	6,238	(12,578)	—
Disposals	—	(563)	—	—	—	(563)
At December 31, 2017 ...	6,804	40,975	1,608	8,569	564	58,520
Additions	11,114	23,369	—	1,508	6,522	42,513
Transfer	—	1,311	—	3,429	(4,740)	—
Disposals	—	(1,222)	—	—	—	(1,222)
At December 31, 2018 ...	17,918	64,433	1,608	13,506	2,346	99,811
DEPRECIATION AND IMPAIRMENT						
At January 1, 2016	(215)	(14,955)	(793)	(401)	—	(16,364)
Provided for the year	(323)	(3,321)	(154)	(310)	—	(4,108)
Eliminated on disposals	—	1,545	110	—	—	1,655
At December 31, 2016 ...	(538)	(16,731)	(837)	(711)	—	(18,817)
Provided for the year	(323)	(4,112)	(140)	(1,239)	—	(5,814)
Eliminated on disposals	—	511	—	—	—	511
At December 31, 2017 ...	(861)	(20,332)	(977)	(1,950)	—	(24,120)
Provided for the year	(455)	(6,854)	(140)	(2,505)	—	(9,954)
Eliminated on disposals	—	1,162	—	—	—	1,162
At December 31, 2018 ...	(1,316)	(26,024)	(1,117)	(4,455)	—	(32,912)
CARRYING VALUES						
At December 31, 2016 ...	6,266	11,512	771	1,565	1,229	21,343
At December 31, 2017 ...	5,943	20,643	631	6,619	564	34,400
At December 31, 2018 ...	16,602	38,409	491	9,051	2,346	66,899

The above items of property, plant and equipment except for CIP are depreciated on a straight-line basis after taking into account of the residual value as follows:

Leasehold land and building	4.75% per annum
Furniture, fixtures and equipment	8% - 32% per annum
Transportation equipment	19% per annum
Leasehold improvements	the shorter of the lease term or 6 years

At December 31, 2016, 2017 and 2018, the net book value of transportation equipment of RMB771,000, RMB631,000 and RMB491,000 included an amount of RMB284,000, Nil and Nil in respect of an asset held under finance lease (see Note 28).

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

At December 31, 2016, 2017 and 2018, the building with a carrying amount of approximately RMB6,266,000, RMB5,943,000 and RMB5,620,000, respectively, was pledged to secure borrowings of the Group (see Note 27).

15. INTERESTS IN ASSOCIATES/SHARE OF RESULTS OF ASSOCIATES

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Cost of investment in associates, unlisted	8,540	6,040	4,640
Share of post-acquisition losses	(1,351)	(764)	(1,965)
	<u>7,189</u>	<u>5,276</u>	<u>2,675</u>

No associate was individually material to the Group for the years ended December 31, 2016, 2017 and 2018.

At December 31, 2016, 2017 and 2018, the Group had interests in the following associates established and operate in the PRC:

Name of associates	Fully paid capital/ registered capital RMB'000	Proportion of ownership interest held by the Group			Principal activities	Notes
		At December 31,				
		2016	2017	2018		
Shanghai Epican Genetechnology Co., Ltd. ("Shanghai Epican") (上海 易畢恩基因科技有限公 司)	10,000	12.35%	—	—	Pharmaceutical research and development	(i)
Jiaxing Tekeluo Biotech Co., Ltd. ("Jiaxing Tekeluo") (嘉興特科羅生 物科技有限公司)	1,548	12.50%	12.50%	9.31%	Pharmaceutical research and development	(ii)
Shanghai Yinlaiteng Medical Research Ltd. ("Yinlaiteng") (上海英 萊騰醫藥研究有限公司) ..	5,000	20%	20%	20%	Pharmaceutical research and development	(iii)
QureBio Limited ("QureBio") (啓愈生物技 術(上海)有限公司)	25,000	—	28%	14%	Pharmaceutical research and development	(iv)

Notes:

- (i) The Group was able to exercise significant influence over Shanghai Epican since the inception of this investment up to December 15, 2017 because it has the power to appoint one out of five directors under the Articles of Association of that company. Pursuant to an agreement entered into between Viva Biotech Shanghai and a PRC individual nominated by Shanghai Epican on December 4, 2017, the Group's interests in the common shares of Shanghai Epican was transferred to that individual. Subsequently, an agreement entered into between the Company and Epican Technology Limited, which is the corporate shareholder of Shanghai Epican, on December 15, 2017, the Group obtained the interests in the preferred shares of Epican Technology Limited. Since December 15, 2017, the Group has no board seat in the board of directors and therefore is no longer able to exercise significant influence on Shanghai Epican and Epican Technology Limited. The Group recognized a fair value gain on deemed disposal of an associate upon the exchange of shares (Note 7), and the investment in Epican Technology Limited is subsequently classified as investment in unlisted equity instrument and accounted for as part of financial assets at FVTPL as disclosed in Note 17.
- (ii) The Group was able to exercise significant influence over Jiaxing Tekeluo since the inception of this investment in 2016 because it had the power to appoint one out of three directors under the Articles of Association of that company. In October 2018, the ownership interest held by the Group in Jiaxing Tekeluo was diluted by the investments from new investors. The Group is still able to exercise significant influence since the Group has the power to appoint one out of five directors.

15. INTERESTS IN ASSOCIATES/SHARE OF RESULTS OF ASSOCIATES (Continued)

- (iii) The interests in Yinlaiteng was acquired from Mr. Wu Ying on December 21, 2015 at no consideration given that the fair value of such interests was nil. Under the Articles of Association of Yinlaiteng, each share confers one vote, and the resolution of relevant activities and variable return shall be passed by more than 50% of the votes of shareholders. As such, the Group is able to exercise significant influence over Yinlaiteng since December 21, 2015.
- (iv) Pursuant to the Articles of Association of QureBio, the Group was entitled to subscribe for 28% interest in QureBio. The capital contribution was made in installments in 2016 and 2017. Pursuant to an equity transfer agreement and a supplemental transfer agreement dated August 13, 2018 and September 21, 2018, respectively, Viva Biotech Shanghai has disposed 14% equity interest in QureBio to an independent third party at a consideration of RMB7,000,000. The Group is able to exercise significant influence over QureBio since the inception of this investment in 2017 because it has the power to appoint one out of three directors under the Articles of Association of that company.

The movements in the carrying value of the interests in associates for the Track Record Period are as follows:

	Shanghai Epican RMB'000	Jiaxing Tekeluo RMB'000	Yinlaiteng RMB'000	QureBio RMB'000	Total RMB'000
At January 1, 2016	—	—	—	—	—
Capital injection	8,000	540	—	—	8,540
Share of loss for the year	(1,286)	(65)	—	—	(1,351)
At December 31, 2016	6,714	475	—	—	7,189
Capital injection	—	—	—	5,500	5,500
Share of loss for the year	(1,719)	(425)	—	(274)	(2,418)
Deemed disposal of an associate	(4,995)	—	—	—	(4,995)
At December 31, 2017	—	50	—	5,226	5,276
Capital injection	—	—	600	1,500	2,100
Disposal of an associate	—	—	—	(2,953)	(2,953)
Share of loss for the year	—	(50)	(600)	(1,098)	(1,748)
At December 31, 2018	—	—	—	2,675	2,675

Information of unrecognized share of loss of associates:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
The unrecognized share of loss of associates for the year	—	—	(1,408)
Cumulative unrecognized share of loss of associates	—	—	(1,408)

16. INTERESTS IN JOINT VENTURES/SHARE OF RESULTS OF JOINT VENTURES

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Cost of investment in joint ventures, unlisted	4,980	4,980	3,500
Share of post-acquisition losses	(2,052)	(3,746)	(898)
	2,928	1,234	2,602

No joint venture was individually material to the Group for the years ended December 31, 2016 and 2017 and 2018.

16. INTERESTS IN JOINT VENTURES/SHARE OF RESULTS OF JOINT VENTURES (Continued)

At December 31, 2016, 2017 and 2018, the Group had interests in the following joint ventures established and operate in the PRC:

Name of joint ventures	Fully paid capital/ registered capital RMB'000	Proportion of ownership interest held by the Group			Principal activities	Notes
		At December 31,				
		2016	2017	2018		
Sichuan Haoyisheng Viva Biotech Co., Ltd. (“Sichuan Haoyisheng”) (四川好醫生維亞生物科技有限公司)	10,000	49%	49%	—	Pharmaceutical research and development	(i)
Weimou Biotech (Shanghai) Ltd. (“Weimou Biotech”) (維眸生物科技(上海)有限公司)	10,000	15.67%	15.67%	—	Pharmaceutical research and development	(ii)
Jiaxing Youbo Biotech Co., Ltd. (“Jiaxing Youbo”) (嘉興優博生物技術有限公司)	7,000	—	—	30.00%	Pharmaceutical research and development	(iii)

Notes:

- (i) According to the Articles of Association of Sichuan Haoyisheng, the resolution of relevant activities and variable return shall be passed by more than two-thirds of the votes of directors. The Group was entitled to appoint two out of five directors, and the other shareholder was entitled to appoint three out of five directors therein. As such, the two shareholders contractually agreed to share the control of Sichuan Haoyisheng. Therefore Sichuan Haoyisheng was a joint venture of the Group. Pursuant to an equity transfer agreement dated October 22, 2018, Viva Incubator Shanghai has disposed its entire equity interest in Sichuan Haoyisheng to an independent third party at a consideration of RMB960,000. The disposal was completed on November 2, 2018.
- (ii) According to the Articles of Association of Weimou Biotech, the resolution of relevant activities and variable return of Weimou Biotech shall be passed by more than four-fifths of the votes of directors. The Group had the power to appoint two out of five directors therein. As such, the shareholders of Weimou Biotech contractually agreed to share the control of Weimou Biotech. Therefore Weimou Biotech was a joint ventures of the Group. On January 8, 2018, after mutual agreement between the Group and JV partners, the Group relinquished its right to appoint director in the board of directors after an amendment to the Articles of Association of Weimou Biotech, afterwards the Group was no longer able to exercise joint control over Weimou Biotech. The Group recognized a fair value gain on the deemed disposal of a joint venture (Note 7), and the investment in Weimou Biotech was subsequently classified as investment in unlisted equity instrument and accounted for as part of financial assets at FVTPL as disclosed in Note 17.
- (iii) According to the Articles of Association of Jiaxing Youbo, the resolution of relevant activities and variable return of Jiaxing Youbo shall be passed by more than two-thirds of the votes of directors. The Group has the power to appoint one out of three directors therein. As such, the shareholders of Jiaxing Youbo contractually agree to share the control of Jiaxing Youbo. Therefore Jiaxing Youbo is a joint venture of the Group.

The movements in the carrying value of the interest in joint ventures for the Track Record Period are as follows:

	Sichuan Haoyisheng RMB'000	Weimou Biotech RMB'000	Jiaxing Youbo RMB'000	Total RMB'000
At January 1, 2016	—	—	—	—
Capital injection	980	4,000	—	4,980
Share of loss for the year	(897)	(1,155)	—	(2,052)
At December 31, 2016	83	2,845	—	2,928
Share of loss for the year	(83)	(1,611)	—	(1,694)
At December 31, 2017	—	1,234	—	1,234
Capital injection	600	—	3,500	4,100
Share of loss for the year	(600)	—	(898)	(1,498)
Deemed disposal of a joint venture	—	(1,234)	—	(1,234)
At December 31, 2018	—	—	2,602	2,602

16. INTERESTS IN JOINT VENTURES/SHARE OF RESULTS OF JOINT VENTURES (Continued)

Information of unrecognized share of loss of a joint venture:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
The unrecognized share of loss of a joint venture for the year	—	(549)	—
Cumulative unrecognized share of loss of a joint venture	—	(549)	—

17. FINANCIAL ASSETS AT FVTPL**The Group**

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Unlisted investments designated as at FVTPL	2,005	71,059	—
Unlisted investments at FVTPL	—	—	204,740
	<u>2,005</u>	<u>71,059</u>	<u>204,740</u>

The Company

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Unlisted investments designated as at FVTPL	—	25,346	—
Unlisted investments at FVTPL	—	—	53,861
	<u>—</u>	<u>25,346</u>	<u>53,861</u>

During the years ended December 31, 2016 and 2017, the Group and the Company managed and evaluated the performance of the unlisted investment on a fair value basis in accordance with the Group's investment strategy, therefore, the unlisted debt/equity investments are designated as at FVTPL. Beginning on January 1, 2018, with the adoption of IFRS 9, the unlisted investments are mandatorily measured at FVTPL because the contractual terms of these financial assets do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

17. FINANCIAL ASSETS AT FVTPL (Continued)

The movements in the carrying value of the financial assets at FVTPL for the Track Record Period are as follows:

	Flash Therapeutics, LLC	Digma Therapeutics, Inc.	Tabomedex Biosciences, Inc.	Arthrosci Therapeutics, Inc.	Bonti, Inc.	Epican Technology Limited	Liangzhun (Shanghai) Industrial Limited	Weinou Biotech	Anji Pharmaceuticals Inc.	Weiqing Biotech (Shanghai) Ltd.	QunAks Corporation	AmacaThera, Inc.	VersaPenics, Inc.	Clues Therapeutics Inc.	Total
	RMB'000	RMB'000	RMB'000	RMB'000 (Note ii)	RMB'000 (Note iii)	RMB'000 (Note iv)	RMB'000	RMB'000	RMB'000 (Note v)	RMB'000 (Note vi)	RMB'000 (Note vii)	RMB'000 (Note vii)	RMB'000	RMB'000 (Note viii)	RMB'000
At January 1, 2016	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Recognized from SFE revenue (Note i)	2,005	—	—	—	—	—	—	—	—	—	—	—	—	—	2,005
At December 31, 2016	2,005	—	—	—	—	—	—	—	—	—	—	—	—	—	2,005
Acquired	—	—	—	1,711	10,349	—	4,000	—	—	—	—	—	—	—	16,060
Recognized from SFE revenue (Note i)	6,780	2,588	3,560	—	—	—	—	—	—	—	—	—	—	—	12,928
Recognized from deemed disposal of an associate (Note 15 (i))	—	—	—	—	—	25,346	—	—	—	—	—	—	—	—	25,346
Gain (loss) on fair value change	5,427	1,620	(102)	4,053	2,103	—	1,619	—	—	—	—	—	—	—	14,720
At December 31, 2017	14,212	4,208	3,438	5,764	12,452	25,346	5,619	—	—	—	—	—	—	—	71,059
Acquired	—	—	—	41,564	3,267	—	2,000	—	5,329	11,074	3,440	5,202	20,901	2,389	95,166
Recognized from SFE revenue (Note i)	6,879	11,851	1,995	—	—	—	—	—	—	—	—	—	—	—	20,725
Recognized from deemed disposal of a joint venture (Note 16 (ii))	—	—	—	—	—	—	—	12,589	—	—	—	—	—	—	12,589
Gain (loss) on fair value change	412	(2,189)	382	4,422	28,177	15,961	(70)	709	20,891	—	(8)	(54)	(311)	(36)	68,286
Disposal	—	(3,170)	—	—	(43,896)	(16,019)	—	—	—	—	—	—	—	—	(63,085)
At December 31, 2018	21,503	10,700	5,835	51,750	—	25,288	7,549	13,298	26,220	11,074	3,432	5,148	20,590	2,353	204,740

17. FINANCIAL ASSETS AT FVTPL (Continued)**The Company**

	Epican Technology Limited	Anji Pharmaceuticals Inc.	Clues	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016 and 2017	—	—	—	—
Recognized from deemed disposal of an associate	25,346	—	—	25,346
At December 31, 2017	25,346	—	—	25,346
Acquired	—	5,329	2,389	7,718
Gain (loss) on fair value change	15,961	20,891	(36)	36,816
Disposal	(16,019)	—	—	(16,019)
At December 31, 2018	25,288	26,220	2,353	53,861

18. DEFERRED TAX ASSETS/LIABILITIES**The Group**

For the purpose of presentation in the consolidated statements of financial position, certain deferred tax assets and liabilities have been offset. The following is a summary of the deferred tax balances for financial reporting purposes:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Deferred tax assets	1,400	1,461	1,013
Deferred tax liabilities	—	—	(3,121)
	1,400	1,461	(2,108)

The following are the major deferred tax assets (liabilities) recognized and movements thereon during the Track Record Period:

	Impairment losses on financial assets at amortized cost	Deferred income	Tax losses	Accrued payroll	Share of loss of associates and joint ventures	Accelerated tax depreciation	Fair value change of financial assets at FVTPL	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2016	71	1,014	13	596	—	(826)	—	868
(Charged) credited to profit or loss	(5)	12	150	81	722	(428)	—	532
At December 31, 2016 ...	66	1,026	163	677	722	(1,254)	—	1,400
Credited (charged) to profit or loss	18	584	(162)	263	378	(615)	(405)	61
At December 31, 2017 ...	84	1,610	1	940	1,100	(1,869)	(405)	1,461
Adoption of IFRS 9	83	—	—	—	—	—	—	83
Adjusted balance at January 1, 2018	167	1,610	1	940	1,100	(1,869)	(405)	1,544
(Charged) credited to profit or loss	(33)	(70)	981	(180)	(557)	(2,684)	(1,109)	(3,652)
At December 31, 2018 ...	134	1,540	982	760	543	(4,553)	(1,514)	(2,108)

18. DEFERRED TAX ASSETS/LIABILITIES (Continued)**The Group (Continued)**

At December 31, 2016, 2017 and 2018 the Group had unused tax losses of RMB913,000, RMB5,000 and RMB3,927,000, respectively, available to offset against future profits, which had been fully recognized in deferred tax assets as at the end of each reporting period.

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from January 1, 2008 onwards. At December 31, 2016, 2017 and 2018, deferred taxation has not been provided for in the Historical Financial Information in respect of temporary differences attributable to retained earnings of the PRC subsidiaries amounting to RMB31,549,000, RMB87,694,000 and RMB144,463,000 respectively as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

The Company

	Fair value change on financial assets at FVTPL RMB'000
At January 1, 2016, 2017 and 2018	—
Charged to profit or loss	(1,020)
At December 31, 2018	(1,020)

19. INVESTMENT IN SUBSIDIARIES**The Company**

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost (Note i)	34,330	34,330	34,330
Deemed capital contribution to subsidiaries (Note ii)	11,252	11,252	19,854
	<u>45,582</u>	<u>45,582</u>	<u>54,184</u>

Notes:

- (i) The amount represents (i) initial costs of investment amounted to US\$2,000,000 (equivalent to RMB13,658,000) in Viva Biotech HK, which was equal to the net asset value of Viva Biotech HK at the time of interspersing the Company on top of Viva Biotech HK, and (ii) additional US\$3,000,000 (equivalent to RMB20,672,000) capital injection contributed in 2009.
- (ii) The amount represents the equity-settled share-based compensation in respect of the shares and share options granted by the Company to certain employees of the subsidiaries for employees' service rendered to the subsidiaries under the Company's Pre-IPO Share Incentive Schemes as disclosed in Note 32. Since the subsidiaries have no obligation to reimburse such expense, the amounts are treated as deemed capital contribution by the Company to the subsidiaries and included in the Company's cost of investments in subsidiaries.

20. INVENTORIES

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Raw material and consumables	1,013	3,323	4,900

21. CONTRACT COSTS

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Costs to fulfil contracts	6,265	3,459	4,261

22. TRADE AND OTHER RECEIVABLES**The Group**

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Trade receivables			
—related parties	6,767	12,316	1,921
—third parties	13,413	16,882	50,433
Loss allowance for trade receivables	(443)	(561)	(893)
	19,737	28,637	51,461
Other receivables			
—related parties	1,098	78	—
—third parties	882	1,007	2,112
	1,980	1,085	2,112
Deferred issue costs	—	—	6,724
Prepayments	517	375	525
Financial assets at amortized cost (Note)	—	3,500	—
Prepaid expenses	1,405	1,968	2,908
Interest receivable	—	126	—
Value added tax recoverable	425	1,184	4,680
	2,347	7,153	14,837
Total trade and other receivables	24,064	36,875	68,410

Note: At December 31, 2017, financial assets at amortized cost represented investments in guaranteed financial products issued by a bank, which carried interest at 3.75% per annum and with a maturity period within one year.

Details of the trade and other receivables due from related parties are set out in Note 39(b).

At January 1, 2016, trade receivables from contracts with customers amounted to RMB13,626,000.

The Group allows a credit period ranging from 30 to 90 days to its customers. The following is an age analysis of trade receivables (net of allowance for doubtful debts) presented based on the invoice dates, at the end of each reporting period:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within 3 months	15,167	19,787	46,580
3 months to 1 year	791	3,093	4,810
1-2 years	3,672	2,091	71
Over 2 years	107	3,666	—
	19,737	28,637	51,461

22. TRADE AND OTHER RECEIVABLES (Continued)**The Group (Continued)**

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit term granted to customers are reviewed regularly. The majority of the Group's trade receivables have no history of defaulting on repayments.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB7,672,000 and RMB14,862,000 at December 31, 2016 and 2017, respectively, which are past due at the reporting date for which the Group has not provided for impairment loss and RMB13,693,000 at December 31, 2018 which are past due but not impaired. The Group does not hold any collateral over these balances.

Overdue analysis of trade receivables which are past due but not impaired as at December 31, 2016 and 2017 is as follows:

	At December 31,	
	2016	2017
	RMB'000	RMB'000
Overdue by:		
Within 3 months	3,748	6,278
3 months to 1 year	145	2,827
1-2 years	3,672	2,091
Over 2 years	107	3,666
	<u>7,672</u>	<u>14,862</u>

Movement of allowance for doubtful debts on trade receivables for the years ended December 31, 2016 and 2017:

	At December 31,	
	2016	2017
	RMB'000	RMB'000
Opening balance	(479)	(443)
Provided for the year	—	(118)
Reversed for the year	36	—
Closing balance	<u>(443)</u>	<u>(561)</u>

Included in the allowance for doubtful debts are individually impaired trade receivables.

The Group determines the allowance for impaired debts based on the evaluation of collectability and aging analysis of the receivables and on management's judgement including the assessment of change in credit quality and the past collection history of each customer.

22. TRADE AND OTHER RECEIVABLES (Continued)**The Group (Continued)**

Movement in lifetime ECL that has been recognized for trade receivables in accordance with the simplified approach set out in IFRS 9 for the year ended December 31, 2018:

	Lifetime ECL (non credit- impaired)	Lifetime ECL (credit- impaired)	Total
	RMB'000	RMB'000	RMB'000
At December 31, 2017 under IAS 39	—	(561)	(561)
Adjustment upon application of IFRS 9	(34)	(521)	(555)
At January 1, 2018—after adjustment	(34)	(1,082)	(1,116)
Changes due to financial instruments recognized at January 1:			
—Impairment losses recognized	(698)	—	(698)
—Impairment losses reversed	—	585	585
—Write-offs	—	336	336
At December 31, 2018	<u>(732)</u>	<u>(161)</u>	<u>(893)</u>

Trade and other receivables that are denominated in currencies other than functional currency of the respective group entities are set out below:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
US\$	<u>9,656</u>	<u>14,440</u>	<u>26,047</u>

The Company

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Deferred issue costs	—	—	6,724
Other receivables	—	—	20
	<u>—</u>	<u>—</u>	<u>6,744</u>

23. OVERVIEW OF THE GROUP'S EXPOSURE TO CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. At the end of each reporting period, the Group's maximum exposure to credit risk which cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognized financial assets as stated in the consolidated statements of the financial position.

In order to minimize credit risk, the Group has tasked its finance team to develop and maintain the Group's credit risk grading to categorize exposures according to their degree of risk of default. Management uses publicly available information and the Group's own historical repayment records to rate its major customers and other debtors. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

23. OVERVIEW OF THE GROUP'S EXPOSURE TO CREDIT RISK (Continued)

The Group's internal credit risk grading assessment comprises the following categories:

<u>Internal credit rating</u>	<u>Description</u>	<u>Trade receivables/contract assets</u>	<u>Other financial assets</u>
Low risk	The counterparty has a low risk of default and does not have any past due amounts	Lifetime ECL-no credit-impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL-not credit-impaired	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL-not credit-impaired	Lifetime ECL-not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL- credit-impaired	Lifetime ECL-credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items by using a provision matrix, estimated based on the financial quality of debtors and historical credit loss experience based on the past due status of the debtors, adjusted as appropriate to reflect current conditions and estimates of future economic conditions. The following table details the risk profile of trade receivables:

At December 31, 2018

	<u>Trade receivables—day past due</u>			<u>Total</u>
	<u>Not past due</u>	<u>Within 3 months</u>	<u>Over 3 months</u>	
	<u>(not credit impaired)</u>			
Weighted average expected credit loss rate	1.23%	2.41%	5.03%*	1.71%
Total gross carrying amount (RMB'000)	38,237	10,914	3,203	52,354
Lifetime ECL (RMB'000)	(469)	(263)	(161)	(893)
	<u>37,768</u>	<u>10,651</u>	<u>3,042</u>	<u>51,461</u>

* These financial assets were over 3-month past due but not credit impaired given that no historical credit loss experience on the past due status of these customers and no evidence indicating that these customers were in a significant financial difficulty.

For the purposes of impairment assessment, other receivables and other current assets are considered to have low credit risk as the counterparties to these financial assets have a high credit rating. Accordingly, for the purpose of impairment assessment for these financial assets, the loss allowance is measured at an amount equal to 12m ECL. In determining the ECL for other receivables and other current assets, the directors of the Company have taken into account the historical default experience and the future prospects of the industries and/or considering various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of

23. OVERVIEW OF THE GROUP'S EXPOSURE TO CREDIT RISK (Continued)

each of the other receivables and other current assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The directors of the Company considered that the 12m ECL allowance is insignificant at January 1, 2018 and December 31, 2018.

Note 34 details the Group's credit risk management policies.

24. RESTRICTED BANK BALANCES/CASH AND CASH EQUIVALENTS**Restricted bank balances**

At December 31, 2017 and 2018, the restricted bank balances of RMB8,022,000 and RMB8,045,000, respectively, represented a government grant and subsidy received by the Group in 2017 as an award for the "Viva Incubator", a research project, which is restricted for use till the Group complied with the conditions attached to the grants and the government acknowledged acceptance. A corresponding liability is recorded in deferred income. The restricted bank balances carried at a fixed interest rate of 0.30% per annum.

Cash and cash equivalents

Cash and cash equivalents comprised bank balances and cash held by the Group and the Company. Bank balances carried interest at prevailing market interest rates which ranged from 0.30% to 0.35%, 0.3% to 3.5% and 0.3% to 3.5% per annum at December 31, 2016, 2017 and 2018, respectively.

Cash and cash equivalents and restricted bank deposits that are denominated in currencies other than the functional currency of the respective group entities are set out below:

The Group

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
US\$	7,034	24,040	147,828
HK\$	—	—	67

The Company

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
US\$	—	197	81,266
HK\$	—	—	67

25. TRADE AND OTHER PAYABLES**The Group**

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Trade payables			
—third parties	1,575	3,767	4,685
Other payables			
—related parties	3,000	547	—
—third parties	1,483	4,458	3,124
	4,483	5,005	3,124
Accrued listing expenses and issue costs	—	—	11,516
Salary and bonus payables	4,679	6,580	5,902
Other taxes payable	195	219	351
	10,932	15,571	25,578

Details of the other payables due to related parties are set out in Note 39(b).

Payment terms with suppliers are mainly on credit within 30 days from the time when the goods and/or services are received from the suppliers. The following is an age analysis of trade payables presented based on the date of receipts of goods/services by the Group, at the end of each reporting period:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within 3 months	1,575	2,011	3,398
Over 3 months but within 1 year	—	1,607	697
Over 1 year	—	149	590
	1,575	3,767	4,685

Trade and other payables that are denominated in currencies other than the functional currency of the respective group entities are set out below:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
US\$	—	1,245	337

The Company

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Accrued listing expenses and issue costs	—	—	11,516

26. CONTRACT LIABILITIES

	At January 1,	At December 31,		
	2016	2016	2017	2018
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts received in advance of delivery of research and development services	99	729	1,092	1,483

Revenue of RMB99,000, RMB729,000 and RMB1,092,000 was recognized during the years ended December 31, 2016, 2017 and 2018 that was included in the contract liabilities at the beginning of the relevant years respectively.

27. BANK BORROWINGS

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Secured bank borrowings were repayable:			
Within one year	447	471	497
Over one year but not exceeding two years	471	497	525
Over two years but not exceeding five years	1,576	1,663	1,340
Over five years	786	202	—
	3,280	2,833	2,362
Less: Amounts due within one year shown under current liabilities	447	471	497
	2,833	2,362	1,865

The bank borrowings 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%, 5.39% and 5.39% per annum at December 31, 2016, 2017 and 2018, respectively.

Details of the assets of the Group at December 31, 2016, 2017 and 2018 that have been pledged as collateral to secure the bank borrowings of the Group are set out in Note 14.

28. OBLIGATIONS UNDER A FINANCE LEASE

During 2015, the Group acquired a transportation equipment under a finance lease with lease term of two years. Interest imputed in the finance lease at the lease inception date is at the rate of 4.75% per annum. The Group has option to purchase the equipment for a nominal amount at the end of the lease terms.

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Analyzed for the reporting purpose as:			
Current portion	226	—	—
Non-current portion	—	—	—
	226	—	—

28. OBLIGATIONS UNDER A FINANCE LEASE (Continued)

	Minimum lease payments			Present Value of Minimum Lease Payments		
	12/31/2016	12/31/2017	12/31/2018	12/31/2016	12/31/2017	12/31/2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Obligations under a finance lease payable						
Within one year	234	—	—	226	—	—
Over one year but no more than two years	—	—	—	—	—	—
	234	—	—	226	—	—
Less: future finance charges	8	—	—			
Present value of lease obligations	226	—	—			

29. DEFERRED INCOME

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Income related government grants	3,640	240	240
Assets related government grants	2,726	10,047	9,609
	6,366	10,287	9,849
Less: current portion	200	—	—
Non-current portion	6,166	10,287	9,849

Movement of income related government grants:

	RMB'000
At January 1, 2016	3,540
Government grants received	5,378
Credited to profit or loss	(5,278)
At December 31, 2016	3,640
Government grants received	1,396
Credited to profit or loss	(4,796)
At December 31, 2017 and December 31, 2018	240

Movement of assets related government grants:

	RMB'000
At January 1, 2016	2,726
Government grants received	608
Credited to profit or loss	(608)
At December 31, 2016	2,726
Government grants received	8,240
Credited to profit or loss	(919)
At December 31, 2017	10,047
Government grants received	477
Credited to profit or loss	(915)
At December 31, 2018	9,609

During the years ended December 31, 2016, 2017 and 2018, the Group received government grants of RMB5,986,000, RMB9,636,000 and RMB477,000, respectively for its investment in

29. DEFERRED INCOME (Continued)

laboratory plant and equipment, and other scientific researches. The grants related to income were recognized in profit or loss upon the Group complied with the conditions attached to the grants and the government acknowledged acceptance. The grants related to assets were recognized in profit or loss over the remaining useful lives of the relevant assets upon the Group complied with the conditions attached to the grants and the government acknowledged acceptance.

30. FINANCIAL LIABILITIES AT FVTPL

On June 21, 2018, the Company issued 16,233,532 Series B redeemable convertible preferred shares at a par value of US\$0.0001 each (the "Series B Preferred Shares") for a total consideration of US\$30,900,000 (equivalent to approximately RMB199,942,000).

The key terms of the Series B Preferred Shares are as follows:

Conversion Rights

Each holder of Series B Preferred Shares shall be entitled to exercise its right to convert its Series B Preferred Shares at any time after the issuance date into a certain number of fully paid and non-assessable ordinary shares at a ratio calculated by dividing the Series B issue price by the then applicable conversion price (the "Conversion Price"). The Conversion Price is initially equal to the Series B Preferred Shares issue price and is subject to adjustment from time to time for any split, subdivision, combination, reduction, reclassification or merger.

The Series B Preferred Shares will be automatically converted into ordinary shares at the then applicable conversion price upon the earlier of (i) the closing of a qualified initial public offering ("Qualified IPO"), or (ii) the date specified by written consent or agreement of majority holders of preferred shares.

Qualified IPO means an IPO in the stock exchange where the pre-IPO market value of the Group companies (based upon the price at which securities are offered in the IPO) is no less than US\$1.1 billion or its equivalent in another currency as estimated by a qualified investment bank by applying either the means of the valuation range obtained after the valuation or the average of the means of various valuation ranges obtained from different valuation methodologies.

Redemption Rights

In the event that (a) the Company fails to consummate a Qualified IPO on or prior to the second anniversary of the issuance of the Series B Preferred Shares; or (b) any warrantor materially breaches its or his representations, warranties, covenants or obligations (the "Redemption Events"), commencing from the business day immediately following the occurrence of any Redemption Event, at the written request of any holder of the Series B Preferred Shares, the Company shall redeem all or part of the outstanding issued Series B Preferred Shares.

The redemption price for each outstanding Series B Preferred Share redeemed shall be the amount equal to the Series B Preferred Shares issue price, plus an eleven percent (11%) compounded annual interest accrued thereon until the date when the redemption price is fully paid to the holder of such Series B Preferred Shares, and any declared but unpaid dividends thereon, and minus any paid dividends thereon (the "Redemption Price").

30. FINANCIAL LIABILITIES AT FVTPL (Continued)*Liquidation preference*

In the event of any liquidation event, such as (i) a liquidation, dissolution or winding up of the Group companies holding all or substantially all of the Company's assets, (ii) a merger or consolidation of the Company in which the Company is a party and its shareholders do not retain a majority of the voting power, directly or indirectly, in the surviving or acquiring entity, (iii) the exclusive licensing of substantially all of the Company's intellectual property, or (iv) the sale of all or substantially all the Company's assets, whether voluntary or involuntary, all assets and funds of such group companies legally available for distribution (after satisfaction of all creditors' claims and claims that may be preferred by law) shall be distributed as follows:

- (a) each holder of the Series B Preferred Shares shall be entitled to receive for each Series B Preferred Share held by such holder, on parity with each other and prior and in preference to any distribution of any of the assets or funds of the Company to the holders of any other class or series of shares by reason of their ownership of such shares, the amount equal to Series B Redemption Price (the "Series B Preference Amount"). If the assets and funds thus distributed among the holders of the Series B Preferred Shares shall be insufficient to permit the payment to such holders of the full Series B Preference Amount, then the entire assets and funds of the Company legally available for distribution shall be distributed ratably among the holders of the Series B Preferred Shares in proportion to the aggregate Series B Preference Amount each such holder is otherwise entitled to receive.
- (b) If there are any assets or funds remaining after the aggregate Series B Preference Amount have been distributed or paid in full to the applicable holders of the Series B Preferred Shares (a) above, the remaining assets and funds of the Company available for distribution shall be distributed ratably among all holders of the ordinary shares of the Company (the "Shares") according to the relative number of the Shares held by such holder (including Series B Preferred Shares on an as-converted basis).

Dividends

Subject to applicable laws, prior to the Qualified IPO, the Board of the Company shall declare and pay dividends in an aggregate amount not less than thirty percent (30%) of the Company's net income under a consolidated account basis each year. After the Qualified IPO, unless otherwise required by applicable laws and subject to the approval of the shareholders of the Company, the Board of the Company shall declare and pay dividends in an aggregate amount not more than thirty percent (30%) of the Company's distributable profits under a consolidated account basis each year, provided that the Company shall have sufficient working capital for business operations.

All shareholders of the Company shall be entitled to receive dividends declared by the Board in proportion to the number of ordinary shares held by them, with Series B Preferred Shares treated on an as-converted basis.

Voting Rights

Each holder of Series B Preferred Shares shall be entitled to votes equal to the number of votes attaching to the number of Shares to which such Series B Preferred Shares held by such holder could be converted then.

30. FINANCIAL LIABILITIES AT FVTPL (Continued)**Presentation and classification**

The Company have designated the Series B Preferred Shares as whole as financial liabilities carried at FVTPL. The change in fair value of the Series B Preferred Shares is charged to profit or loss except for the portion attributable to credit risk change of the Series B Preferred Shares that shall be charged to other comprehensive income, if any. The net gain or loss recognized in profit or loss includes any interest paid on the financial liabilities and is included in fair value loss on financial liabilities at FVTPL line item. Management of the Group considered that there is no credit risk of the financial liability drives the change of the fair value of the financial liabilities.

The fair value of the Series B Preferred Shares at the end of each reporting period is as follows:

	<u>RMB'000</u>
At January 1, 2016, December 31, 2016 and 2017	—
Issuance of Series B Preferred Shares	199,942
Change in fair value (Note)	20,658
At December 31, 2018	<u>220,600</u>

Note: Change in fair value presented in RMB includes effect of exchange on translation from US\$ balances.

The Company has used the probability-weighted expected return method and the option-pricing method to determine the underlying share value of the Company and adopted equity allocation model to determine the fair value of the Series B Preferred Shares at the end of each reporting period.

Key valuation assumptions used to determine the fair value of Series B Preferred Shares are as follows:

	<u>At December 31, 2018</u>
Fair value of ordinary shares of the Company	US\$1.46
Possibilities under liquidation scenario	15%
Possibilities under redemption scenario	20%
Possibilities under initial public offering scenario	65%
Risk-free interest rate	2.6%
Discount for lack of marketability	5%
Volatility	<u>33%</u>

31. SHARE CAPITAL

The Company was incorporated and registered as an exempted company in the Cayman Islands on August 27, 2008 with an authorized share capital of US\$50,000 divided into 50,000,000 shares of a par value of US\$0.001 each. On September 7, 2009, the Company increased its authorized share capital to US\$200,000 divided into 151,808,219 ordinary shares of a par value of US\$0.001 each and 48,191,781 redeemable preferred shares of a par value of US\$0.001 each. On January 26, 2010, the Company subdivided its authorized share capital, immediately following which the authorized share capital of the Company was US\$200,000 divided into 1,518,082,190 ordinary shares of a par value of US\$0.0001 each and 481,917,810 redeemable preferred shares of a par value of US\$0.0001 each.

On March 2, 2017, 481,917,810 authorized redeemable preferred shares of a par value of US\$0.0001 each and 1,018,082,190 authorized ordinary shares of a par value of US\$0.0001 each in the

31. SHARE CAPITAL (Continued)

capital of the Company were cancelled, and the amount of the authorized share capital of the Company was diminished by the amount of cancelled shares.

On June 21, 2018, the authorized share capital of the Company in the amount of US\$50,000 is divided into 483,766,468 ordinary shares of a par value of US\$0.0001 each and 16,233,532 Series B redeemable convertible preferred shares of a par value of US\$0.0001 each.

The share capital represents the issued share capital of the Company.

The details of the change of the Company's authorized and issued ordinary shares during the Track Record Period are set out as below:

	Authorized number of shares	US\$
Ordinary shares of US\$0.0001 each		
At January 1, 2016 and December 31, 2016	1,518,082,190	151,808
Decrease	(1,018,082,190)	(101,808)
At December 31, 2017	500,000,000	50,000
Reclassification and re-designation on issuance of Series B Preferred Shares (Note 30)	(16,233,532)	(1,623)
At December 31, 2018	483,766,468	48,377

	Issued and fully paid number of shares	US\$	Shown in the consolidated statements of financial position as RMB'000
Ordinary shares of US\$0.0001 each			
At January 1, 2016, December 31, 2016 and 2017	175,000,000	17,500	120
Ordinary shares issued (Note)	71,917,810	7,200	44
At December 31, 2018	246,917,810	24,700	164

Note: Pursuant to the resolution of shareholders' meeting dated April 12, 2015, the existing ordinary shareholders would subscribe 71,917,810 ordinary shares of the Company at a price of US\$0.0765 per share with a total cash consideration of US\$5,500,000. This capital contribution obligation was satisfied by the ordinary shareholders through payment on behalf of the Company for the redemption of the Series A1 Preferred Shares of the Company on April 25, 2015. On March 28, 2018, the Company issued the 71,917,810 ordinary shares to the relevant shareholders.

32. SHARE-BASED PAYMENT TRANSACTIONS**Equity-settled share option schemes of the Company**

The Company's Pre-IPO Share Incentive Schemes (the "Schemes") were adopted pursuant to resolutions passed on August 1, 2009, January 2, 2018 and June 21, 2018, respectively, for the primary purpose of providing incentives to directors of the Company and eligible employees of the Group. Under the Schemes, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company, to subscribe for shares in the Company.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)**Equity-settled share option schemes of the Company (Continued)**

Details of specific categories of options granted are as follows:

Grant date	Number of options	Expiry date	Exercise price per share	Notes
August 1, 2009	788,500	June 22, 2018 ~ July 27, 2019	US\$0.20	(i) (iii) (iv)
August 3, 2010	4,040,000	June 30, 2019 ~ April 14, 2020	US\$0.05	(i)
June 15, 2011	14,400,000	June 22, 2018 ~ June 26, 2021	US\$0.05	(i) (iii)
January 2, 2018	1,125,000	January 1, 2028	US\$0.54	(i)
January 2, 2018	12,065,000	January 1, 2022	US\$0.54	(ii)
June 21, 2018	500,000	June 20, 2022	US\$1.90	(v)

Notes:

- (i) 40%, 20%, 20% and 20% of the total number of the options granted shall vest on the second, third, fourth and fifth anniversary of grant date, respectively.
- (ii) 100% of the total number of the options granted shall vest on the second anniversary of grant date.
- (iii) Pursuant to a board resolution dated January 1, 2018, the expiry dates of 454,500 and 2,800,000 of options granted on August 1, 2009 and June 15, 2011, respectively, were extended to June 30, 2019. There was no significant change in the fair value of the option before and after the modification in connection with the extension of such expiry date.
- (iv) The number and the exercise price per share for the options granted on August 1, 2009 represented the unadjusted number and price before the share split incurred on January 26, 2010.
- (v) 100% of the total number of the options granted shall vest upon the completion of the IPO.

The following table discloses details of the movements of the outstanding options granted under the Schemes during the Track Record Period:

Category	Option type	Outstanding at January 1, 2016	Granted during year	Exercised during year	Forfeited during year	Outstanding at December 31, 2016
Category 1: Chief Executive						
Mr. Mao Chen Cheney	June 15, 2011	4,000,000	—	—	—	4,000,000
	Subtotal Chief Executive	4,000,000	—	—	—	4,000,000
Category 2: Director						
Mr. Wu Ying	August 1, 2009	1,215,000	—	—	—	1,215,000
	June 15, 2011	2,000,000	—	—	—	2,000,000
	Subtotal Director	3,215,000	—	—	—	3,215,000
Category 3: Employees						
	August 1, 2009	4,980,000	—	—	—	4,980,000
	August 3, 2010	2,410,000	—	—	(150,000)	2,260,000
	June 15, 2011	5,800,000	—	—	—	5,800,000
	Total Employees	13,190,000	—	—	(150,000)	13,040,000
	Total	20,405,000	—	—	(150,000)	20,255,000
	Exercisable at the end of the year	17,895,000				20,255,000
	Weighted average exercise price	US\$ 0.04	N/A	N/A	US\$ 0.05	US\$ 0.04
Category	Option type	Outstanding at January 1, 2017	Granted during year	Exercised during year	Forfeited during year	Outstanding at December 31, 2017
Category 1: Chief Executive						
Mr. Mao Chen Cheney	June 15, 2011	4,000,000	—	—	—	4,000,000
	Subtotal Chief Executive	4,000,000	—	—	—	4,000,000
Category 2: Director						
Mr. Wu Ying	August 1, 2009	1,215,000	—	—	—	1,215,000
	June 15, 2011	2,000,000	—	—	—	2,000,000
	Subtotal Director	3,215,000	—	—	—	3,215,000

32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option schemes of the Company (Continued)

Category	Option type	Outstanding at January 1, 2017	Granted during year	Exercised during year	Forfeited during year	Outstanding at December 31, 2017
Category 3: Employees						
	August 1, 2009	4,980,000	—	—	—	4,980,000
	August 3, 2010	2,260,000	—	—	—	2,260,000
	June 15, 2011	5,800,000	—	—	—	5,800,000
	Total Employees	13,040,000	—	—	—	13,040,000
	Total	20,255,000	—	—	—	20,255,000
	Exercisable at the end of the year	20,255,000				20,255,000
	Weighted average exercise price	US\$ 0.04	N/A	N/A	N/A	US\$ 0.04
Category	Option type	Outstanding at January 1, 2018	Granted during year	Exercised during year	Forfeited during year	Outstanding at December 31, 2018
Category 1: Chief Executive and Directors						
Mr. Mao Chen Cheney	June 15, 2011	4,000,000	—	—	—	4,000,000
	January 2, 2018	—	500,000	—	—	500,000
	Subtotal	4,000,000	500,000	—	—	4,500,000
Mr. Wu Ying	August 1, 2009	1,215,000	—	—	—	1,215,000
	June 15, 2011	2,000,000	—	—	—	2,000,000
	January 2, 2018	—	993,000	—	—	993,000
	Subtotal	3,215,000	993,000	—	—	4,208,000
Mr. Ren Delin (Note vii)	August 1, 2009	1,450,000	—	—	—	1,450,000
	June 15, 2011	1,000,000	—	—	—	1,000,000
	January 2, 2018	—	1,200,000	—	—	1,200,000
	Subtotal	2,450,000	1,200,000	—	—	3,650,000
Mr. Hua Fengmao (Note vii)	January 2, 2018	—	1,900,000	—	—	1,900,000
	June 21, 2018	—	500,000	—	—	500,000
	Subtotal	—	2,400,000	—	—	2,400,000
	Total Chief Executive and Directors	9,665,000	5,093,000	—	—	14,758,000
Category 2: Employees						
	August 1, 2009	3,530,000	—	—	—	3,530,000
	August 3, 2010	2,260,000	—	—	—	2,260,000
	June 15, 2011	4,800,000	—	—	—	4,800,000
	January 2, 2018	—	8,597,000	—	(60,000)	8,537,000
	Total Employees	10,590,000	8,597,000	—	(60,000)	19,127,000
	Total	20,255,000	13,690,000	—	(60,000)	33,885,000
	Exercisable at the end of the year	20,255,000				20,255,000
	Weighted average exercise price	US\$ 0.04	US\$ 0.59	N/A	US\$ 0.54	US\$ 0.26

Notes:

- (vi) The number of options granted on August 1, 2009 has been proportionately adjusted for the increase in the number of issued shares resulting from a share split referred in Note 31.
- (vii) Mr. Ren Delin and Mr. Hua Fengmao were appointed as directors of the Company on July 3, 2018, therefore the share options outstanding at January 1, 2018 and granted during year for them were reclassified from Category 2: Employees to Category 1: Chief Executive and Directors.

32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)**Equity-settled share option schemes of the Company (Continued)**

These fair values of the options granted were determined using the binomial pricing model. These fair values and corresponding inputs into the model were as follows:

	<u>August 1, 2009(Notes viii)</u>	<u>April 3, 2010</u>	<u>June 15, 2011</u>	<u>January 2, 2018</u>	<u>June 21, 2018</u>
Grant date option fair value per share	US\$0.15	US\$0.01	US\$0.01	US\$0.19 ~ US\$0.28	US\$0.14
Grant date share price	US\$0.24	US\$0.02	US\$0.03	US\$0.58	US\$1.10
Exercise price	US\$0.20	US\$0.05	US\$0.05	US\$0.54	US\$1.90
Expected volatility	56.8% ~ 57.6%	52% ~ 54%	46.1% ~ 47.7%	35.8% ~ 38.5%	35.4%
Expected life	9 ~ 10 years	9 ~ 10 years	7 ~ 10 years	4 ~ 10 years	4 years
Risk-free rate	3.37% ~ 3.48%	3.64% ~ 3.87%	2.49% ~ 3.15%	2.14% ~ 2.46%	2.71%
Expected dividend yield	0%	0%	0%	0%	0%

Note:

(viii) The option fair value, share price and the exercise price per share for the options granted on August 1, 2009 represented the unadjusted option fair value, share price and exercise price before considering the share split incurred on January 26, 2010.

Expected volatility was determined by using the historical volatility of the comparable companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations. The Group recognized the total expense of RMB16,000, Nil and RMB8,602,000 for the year ended December 31, 2016, 2017 and 2018, respectively, in relation to share options granted by the Company.

33. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debts, which includes financial liabilities at FVTPL, loans from related parties, bank borrowings (net of cash and cash equivalents), obligations under a finance lease and equity attributable to owners of the Company (comprising share capital and reserves).

The management of the Group reviews the capital structure on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the new share issues as well as the issue of new debts or the redemption of existing debts.

34. FINANCIAL INSTRUMENTS**(a) Categories of financial instruments****The Group**

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	54,668	72,281	—
Financial assets at amortized cost	—	—	215,186
Financial assets designated as at FVTPL	2,005	71,059	—
Financial assets at FVTPL	—	—	204,740
	<u>56,673</u>	<u>143,340</u>	<u>419,926</u>
Financial liabilities			
Financial liabilities measured at amortized cost	9,033	23,345	20,922
Financial liabilities at FVTPL	—	—	220,600
Obligations under a finance lease	226	—	—
	<u>9,259</u>	<u>23,345</u>	<u>241,522</u>

The Company

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Financial assets			
Loans and receivables (including cash and cash equivalents)	129	198	—
Financial assets at amortized cost	—	—	249,037
Financial assets designated as at FVTPL	—	25,346	—
Financial assets at FVTPL	—	—	53,861
	<u>129</u>	<u>25,544</u>	<u>302,898</u>
Financial liabilities			
Financial liabilities measured at amortized cost	1,266	26,618	84,159
Financial liabilities at FVTPL	—	—	220,600
	<u>1,266</u>	<u>26,618</u>	<u>304,759</u>

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include financial assets at FVTPL, trade and other receivables, loans to a related party, restricted bank balances, cash and cash equivalents, trade and other payables, loans from related parties and bank borrowings and financial liabilities at FVTPL. Details of the financial assets and liabilities are disclosed in respective notes. The risks associated with these financial assets and liabilities and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

34. FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies (Continued)****Market risk**

The Group's and the Company's activities expose it primarily to currency risk, interest rate risk and other price risk. There has been no change in the Group's and the Company's exposure to these risks or the manner in which it manages and measures the risks.

(i) Currency risk

Certain group entities have foreign currency sales and purchases, which expose the Group to foreign currency risk. The carrying amounts of relevant group entities' foreign currency denominated monetary assets and liabilities other than their functional currency are disclosed in the respective notes.

The Group mainly exposes to foreign currency of US\$. The Group does not use any derivative contracts to hedge against its exposure to currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

The Group

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Assets:			
US\$	16,690	38,480	173,875
HK\$	—	—	66
	<u> </u>	<u> </u>	<u> </u>
	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Liabilities:			
US\$	—	13,357	337
	<u> </u>	<u> </u>	<u> </u>

The Company

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Assets:			
US\$	129	198	248,971
HK\$	—	—	66
	<u> </u>	<u> </u>	<u> </u>
	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Liabilities:			
US\$	1,266	1,272	53,435
	<u> </u>	<u> </u>	<u> </u>

Sensitivity analysis

The following table details the Group's and the Company's sensitivity to a 5% increase and decrease in RMB against US\$, the foreign currency with which the Group and the Company may have

34. FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies (Continued)****Market risk (Continued)****(i) Currency risk (Continued)****Sensitivity analysis (Continued)**

a material exposure. 5% represents management's assessment of the reasonably possible change in foreign exchange rate. The sensitivity analysis uses outstanding foreign currency denominated monetary items as a base and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rate. A negative/positive number below indicates a decrease/an increase in profit where RMB strengthens 5% against US\$. For a 5% weakening of RMB against US\$, there would be an equal and opposite impact on profit.

The Group

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Impact on profit or loss after tax			
US\$	(703)	(972)	(7,979)

The Company

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Impact on profit or loss after tax			
US\$	57	54	(9,780)

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

(ii) Interest rate risk

The Group and the Company are exposed to fair value interest rate risk in relation to obligation under a finance lease and financial liabilities at FVTPL. The Group is also exposed to cash flow interest rate risk in relation to variable rate bank balances and bank borrowings. The Group currently does not have an interest rate hedging policy to mitigate interest rate risk; nevertheless, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

If the interest rate of bank borrowings had been 50 basis points higher/lower and all other variables were held constant, the Group's profit after tax would decrease/increase by RMB12,000, RMB11,000 and RMB9,000 for the years ended December 31, 2016, 2017 and 2018, respectively. Bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

34. FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies (Continued)****Market risk (Continued)****(ii) Interest rate risk (Continued)**

For the exposure of fair value interest rate risk in relation to financial liabilities at FVTPL, if the market interest rate had been 100 basis points higher/lower and all other variables were held constant, the Group's profit after tax would increase by RMB1,181,000 or decrease by RMB1,211,000 for the year ended December 31, 2018.

(iii) Other price risk

The Group and the Company are also exposed to other price risk through financial assets at FVTPL and Series B Preferred Shares classified as financial liabilities at FVTPL.

Sensitivity analysis

The sensitivity analyzes below have been determined based on the exposure to equity price risk at the reporting date for financial assets at FVTPL and financial liabilities at FVTPL.

If the prices of the equity investments held by the Group had been changed based on the 5% higher/lower:

- post-tax profit for the year ended December 31, 2016 would increase by RMB100,000 and decrease by RMB100,000, as a result of the changes in fair value of financial assets at FVTPL;
- post-tax profit for the year ended December 31, 2017 would increase by RMB3,293,000 and decrease by RMB3,293,000, as a result of the changes in fair value of financial assets at FVTPL; and
- post-tax profit for the year ended December 31, 2018 would increase by RMB9,833,000 and decrease by RMB9,833,000 as a result of the changes in fair value of financial assets at FVTPL.

If the equity value of the ordinary shares of the Company had been changed based on the 5% higher/lower, the post-tax profit for the year ended December 31, 2018 would decrease by RMB6,804,000 and increase by RMB6,748,000, as a result of the changes in fair value of the ordinary shares of the Company.

Credit risk

At December 31, 2016, 2017 and 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is the carrying amount of the respective recognized financial assets measured at amortized cost as stated in the consolidated statements of financial position.

Note 23 details the Group's maximum exposure to credit risk and the measurement bases used to determine expected credit losses since January 1, 2018.

Credit terms are granted to customers which are good credit quality customers. In order to minimize the credit risk, the Group reviews the recoverable amount of each individual trade debt

34. FINANCIAL INSTRUMENTS (Continued)**(b) Financial risk management objectives and policies (Continued)****Credit risk (Continued)**

periodically and the management also has monitoring procedures to ensure the follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At December 31, 2016, 2017 and 2018, the Group had concentration of credit risk as 19.76%, 29.21% and 21.65%, respectively, of the total gross trade receivables was due from the Group's largest customer and 49.00%, 57.92% and 49.28%, respectively, of the total gross trade receivables was due from the five largest customers.

The Group expects that there is no significant credit risk associated with restricted bank balances 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.

The Group also expects that there is no significant credit risk associated with loans to a related party and other receivables since counterparties to these financial assets have a high credit rating.

Liquidity risk

In the management of the liquidity risk, the Group and the Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

*Liquidity and interest risk tables***The Group**

	Weighted average interest rate	On demand or less than 1 year RMB'000	1 to 5 years RMB'000	over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At December 31, 2016						
Trade and other payables	N/A	5,753	—	—	5,753	5,753
Bank borrowings						
— variable interest rate	5.39%	612	2,449	816	3,877	3,280
Obligations under a finance lease . . .	4.80%	234	—	—	234	226
Total		<u>6,599</u>	<u>2,449</u>	<u>816</u>	<u>9,864</u>	<u>9,259</u>

34. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

The Group (Continued)

	Weighted average interest rate	On demand or less than 1 year RMB'000	1 to 5 years RMB'000	over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At December 31, 2017						
Trade and other payables	N/A	8,400	—	—	8,400	8,400
Bank borrowings						
— variable interest rate	5.39%	612	2,449	204	3,265	2,833
Loans from related parties						
— Fixed rate	8.82%	12,112	—	—	12,112	12,112
Total		<u>21,124</u>	<u>2,449</u>	<u>204</u>	<u>23,777</u>	<u>23,345</u>

	Weighted average interest rate	On demand or less than 1 year RMB'000	1 to 5 years RMB'000	over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At December 31, 2018						
Trade and other payables	N/A	18,560	—	—	18,560	18,560
Bank borrowings						
— variable interest rate	5.39%	612	2,041	—	2,653	2,362
Financial liabilities at FVTPL	11%	—	243,929	—	243,929	220,600
Total		<u>19,172</u>	<u>245,970</u>	<u>—</u>	<u>265,142</u>	<u>241,522</u>

The Company

	Weighted average interest rate	On demand or less than 1 year RMB'000	1 to 5 years RMB'000	over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At December 31, 2016						
Amounts due to subsidiaries ...	N/A	<u>1,266</u>	<u>—</u>	<u>—</u>	<u>1,266</u>	<u>1,266</u>

	Weighted average interest rate	On demand or less than 1 year RMB'000	1 to 5 years RMB'000	over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
At December 31, 2017						
Amounts due to subsidiaries ...	N/A	<u>26,168</u>	<u>—</u>	<u>—</u>	<u>26,168</u>	<u>26,168</u>

34. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

The Company (Continued)

	Weighted average interest rate	On demand or less than 1 year	1 to 5 years	over 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2018						
Amounts due to subsidiaries . . .	N/A	72,643	—	—	72,643	72,643
Accrued listing expenses and issue costs	N/A	11,516	—	—	11,516	11,516
Financial liabilities at FVTPL	11%	—	243,929	—	243,929	220,600
Total		84,159	243,929	—	328,088	304,759

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

The Group's financial assets and financial liabilities at FVTPL which are measured at fair value (details refer to Notes 17 and 30) at December 31, 2016, 2017 and 2018 are grouped under Level 2 and Level 3 hierarchy. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value at			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	December 31,		December 31,				
	2016	2017	2018				
	RMB'000	RMB'000	RMB'000				
1) Flash Therapeutics, LLC*	N/A	14,212	21,503	Level 3	Comparable company method	The ratio of P/R&D Discount for lack of marketability	The higher the ratio of P/R&D, the higher the valuation (Note a) The higher the discount for lack of marketability, the lower the valuation (Note b)
	2,005	N/A	N/A	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation (Note c)
2) Dogma Therapeutics, LLC	N/A	4,208	10,700	Level 3	Comparable company method	The ratio of P/R&D Discount for lack of marketability	The higher the ratio of P/R&D, the higher the valuation (Note a) The higher the discount for lack of marketability, the lower the valuation (Note b)

34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value measurements of financial instruments (Continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value at			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	December 31,		December 31,				
	2016	2017	2018				
	RMB'000	RMB'000	RMB'000				
3) Tabomedex Biosciences, Inc.	N/A	3,458	5,835	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation (Note c)
4) ArthroSi Therapeutics LLC***	N/A	5,764	N/A	Level 2	Most recent transaction price	N/A	N/A
	N/A	N/A	10,570	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation (Note c)
	N/A	N/A	41,180	Level 2	Cost method	N/A	N/A
5) Bonti, Inc.	N/A	12,452	N/A	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation (Note c)
6) Epican Technology Limited**	N/A	25,346	N/A	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation (Note c)
	N/A	N/A	25,288	Level 2	Most recent transaction price	N/A	N/A
7) Liangzhun (Shanghai) Industrial Co., Ltd.	N/A	5,619	7,549	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation (Note c)
8) Weimou Biotech	N/A	N/A	13,298	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation (Note c)
9) Anji Pharmaceuticals Inc.	N/A	N/A	26,220	Level 3	Backsolve from most recent transaction price	IPO Probability	The higher the probability, the higher the valuation (Note c)
10) QurAlis Corporation****	N/A	N/A	3,432	Level 2	Cost method	N/A	N/A
11) AmacaThera, Inc.****	N/A	N/A	5,148	Level 2	Cost method	N/A	N/A
12) VersaPeutics, Inc.****	N/A	N/A	20,590	Level 2	Cost method	N/A	N/A
13) Weiqing Biotech (Shanghai) Ltd.****	N/A	N/A	11,074	Level 2	Cost method	N/A	N/A
14) Clues Therapeutics Inc.****	N/A	N/A	2,353	Level 2	Cost method	N/A	N/A

Notes:

* During the year ended December 31, 2017, there was no recent transaction, which resulted in a change in the valuation techniques from backsolve from most recent transaction price method to comparable company method.

** Pursuant to a share transfer agreement dated March 26, 2018, the Group agreed to transfer its equity interest in Epican Technology Limited to CFS Healthcare Investment Fund Limited which is controlled by Mr. Hua Fengmao. The transaction was completed in June 2018, which resulted in a change in the valuation techniques from backsolve from most recent transaction price method to most recent transaction price method.

34. FINANCIAL INSTRUMENTS (Continued)**(c) Fair value measurements of financial instruments (Continued)****(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)**

*** During the year ended December 31, 2018, there was no recent transaction for the series A investment, which resulted in a change in the valuation techniques from most recent transaction price method to backsolve from most recent transaction price method. The new investment of Series B was acquired in the fourth quarter 2018. No significant operating milestone was achieved since the acquisition. Hence, cost method was used as the best estimate of the fair value of the Series B investment.

**** The investments were acquired in the fourth quarter 2018. No significant operating milestone were achieved since the acquisitions. Hence, cost method was used as the best estimate of the fair value of the relevant investments

Note a: A 10% increase/decrease in the ratio of P/R&D while holding all other variables constant would increase the fair value of the unlisted companies by RMB1,820,000 and RMB3,117,000 or decrease the fair value of the unlisted companies by RMB1,631,000 and RMB4,397,000 at December 31, 2017 and December 31, 2018, respectively.

Note b: A 5% increase/decrease in the discount for lack of marketability while holding all other variables constant would decrease the fair value of the unlisted companies by RMB1,051,000 and RMB2,582,000 or increase the fair value of the unlisted companies by RMB1,318,000 and RMB2,104,000 at December 31, 2017 and December 31, 2018, respectively.

Note c: A 5% increase/decrease in the IPO probability while holding all other variables constant would increase the fair value of the unlisted companies by RMB110,000, RMB1,027,000 and RMB2,517,000 or decrease the fair value of the unlisted companies by RMB107,000, RMB1,099,000 and RMB2,561,000 at December 31, 2016, 2017 and 2018, respectively.

In addition, the Group's financial liabilities at FVTPL are measured at fair value at December 31, 2018 and are grouped under Level 3 hierarchy. The fair values estimated based on the probability-weight expected return method and the option pricing method, details of valuation parameters and major assumptions used in the valuation are disclosed in Note 30. Fair value of Series B Preferred Shares is most significantly affected by volatility and probability of IPO. A decrease in volatility and probability of IPO would cause decrease in the fair value of Series B Preferred Shares. A 5% increase/decrease in the volatility while holding all other variables constant would increase the fair value of the redeemable convertible preferred shares by RMB471,000 or decrease the fair value of the convertible redeemable preferred shares by RMB571,000 at December 31, 2018. A 5% increase/decrease in the IPO probability while holding all other variables constant would increase the fair value of the convertible redeemable preferred shares by RMB7,307,000 or decrease the fair value of the redeemable convertible preferred shares by RMB7,315,000 at December 31, 2018.

There were no transfers between level 1 and level 2 during the Track Record Period.

34. FINANCIAL INSTRUMENTS (Continued)**(c) Fair value measurements of financial instruments (Continued)****(ii) Reconciliation of Level 3 fair value measurements**

Details of reconciliation of financial assets at FVTPL measured at Level 3 fair value measurement are set out as below:

The Group

	Total
	RMB'000
At January 1, 2016	—
Recognized from SFE revenue	2,005
At December 31, 2016	2,005
Acquired	14,349
Recognized from SFE revenue	12,928
Recognized from deemed disposal of an associate	25,346
Gain on fair value changes	10,667
At December 31, 2017	65,295
Acquired	10,596
Recognized from SFE revenue	20,725
Recognized from deemed disposal of a joint venture	12,589
Gain on fair value change	64,273
Disposal	(63,085)
Transfer from level 2	10,570
Transfer to level 2	(25,288)
At December 31, 2018	95,675

The Company

	Total
	RMB'000
At January 1, 2016 and 2017	—
Recognized from deemed disposal of an associate	25,346
At December 31, 2017	25,346
Acquired	5,329
Gain on fair value change	36,852
Disposal	(16,019)
Transfer to level 2	(25,288)
At December 31, 2018	26,220

Details of reconciliation of financial liabilities at FVTPL measured at Level 3 fair value measurement are set out in Note 30.

Of the total gains or losses for the years ended December 31, 2016, 2017 and 2018 included in profit or loss, RMB2,005,000, RMB10,667,000 and RMB36,399,000 was unrealized fair value gains related to financial assets at FVTPL held at December 31, 2016, 2017 and 2018, respectively. Fair value gains or losses on financial assets at FVTPL are included in "Fair value gain on financial assets at fair value through profit or loss".

34. FINANCIAL INSTRUMENTS (Continued)**(c) Fair value measurements of financial instruments (Continued)****(ii) Reconciliation of Level 3 fair value measurements (Continued)****The Company (Continued)**

Of the total gains or losses for the year ended December 31, 2018 included in profit or loss, RMB20,658,000 was unrealized fair value loss related to financial liabilities at FVTPL held at December 31, 2018. Fair value gains or losses on financial liabilities at FVTPL are included in "Fair value loss on financial liabilities at FVTPL".

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors of the Company consider that the carrying amount of the Group's and the Company's financial assets and financial liabilities recorded at amortized cost in the Historical Financial Information approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

35. RETIREMENT BENEFITS PLANS

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to profit or loss in respect of the above-mentioned schemes amounted to approximately RMB5,008,000 and RMB6,076,000, and RMB10,672,000 for the years ended December 31, 2016, 2017 and 2018, respectively.

36. OPERATING LEASES

The Group leases various office premises under non-cancellable operating lease agreements. The lease terms are from 1 to 5 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within one year	8,024	8,042	7,245
In the second to fifth year inclusive	19,821	14,430	12,167
Over five years	2,579	—	—
	<u>30,424</u>	<u>22,472</u>	<u>19,412</u>

37. CAPITAL COMMITMENTS

The Group had capital commitments in respect of the acquisition of property, plant and equipment and construction of laboratory facilities under contracts as follows:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Contracted but not provided for	4,258	493	346,262

38. CONTINGENT LIABILITIES

At the end of each reporting period, the Group had no significant contingent liability.

39. RELATED PARTY DISCLOSURES**(a) Transactions with related parties**

In addition to the equity transaction with related parties disclosed in note 17, the Group also entered into the following transactions with related parties during the Track Record Period:

i. Provision of research and development services to joint ventures

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Sichuan Haoyisheng (Note 1)	1,688	—	N/A
Weimou Biotech (Note 2)	6,061	9,228	N/A
Jiaxing Youbo	—	—	2,191
	<u>7,749</u>	<u>9,228</u>	<u>2,191</u>

ii. Provision of research and development services to associates

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Shanghai Epican (Note 3)	4,743	62	N/A
Jiaxing Tekeluo	296	192	1,118
Yinlaiteng	243	—	—
QureBio	—	688	3,495
	<u>5,282</u>	<u>942</u>	<u>4,613</u>

iii. Interest income/expenses arising from related parties' loans

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Interest income			
Mr. John Wu Jiong	1,068	178	—

39. RELATED PARTY DISCLOSURES (Continued)**(a) Transactions with related parties (Continued)****iii. Interest income/expenses arising from related parties' loans (Continued)**

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Interest expenses			
Shanghai Daidai (Hong Kong) Limited	—	101	42
JMCR Partners Limited	—	576	372
	—	677	414

Notes:

- (1) Since November 2, 2018, Sichuan Haoyisheng is no longer a related party of the Group.
 (2) Since January 8, 2018, Weimou Biotech is no longer a related party of the Group.
 (3) Since December 15, 2017, Shanghai Epican is no longer a related party of the Group.

(b) Related party balances**The Group**

At the end of the reporting periods, the Group had balances with related parties as follows:

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Trade receivables from related parties			
Sichuan Haoyisheng	1,067	—	—
Weimou Biotech	1,800	8,366	—
Yinlaiteng	3,900	3,900	—
Jiaxing Tekeluo	—	50	326
Jiaxing Youbo	—	—	882
QureBio	—	—	713
	6,767	12,316	1,921

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Other receivables from related parties (non-trade)			
Shanghai Daidai (Hong Kong) Limited	78	78	—
Mr. Mao Chen Cheney	20	—	—
Yinlaiteng	1,000	—	—
	1,098	78	—

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Loans to a related party			
Mr. John Wu Jiong	20,397	2,002	—

The loans to Mr. John Wu Jiong were unsecured, repayable on demand and carried at the fixed rates of 5.75% per annum for the years ended December 31, 2016 and 2017.

39. RELATED PARTY DISCLOSURES (Continued)**(b) Related party balances (Continued)****The Group (Continued)**

	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Other payables to related parties (non-trade)			
Mr. Wu Ying	3,000	—	—
Mr. Hua Fengmao	—	547	—
	<u>3,000</u>	<u>547</u>	<u>—</u>
	At December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Loans from related parties			
Shanghai Daidai (Hong Kong) Limited	—	1,741	—
JMCR Partners Limited	—	10,371	—
	<u>—</u>	<u>12,112</u>	<u>—</u>

The loan from Shanghai Daidai (Hong Kong) Limited represented settlement of the Group's investments in the convertible note of ArthroSi Therapeutics, Inc. in July 2017 by Shanghai Daidai (Hong Kong) Limited on the Group's behalf. The loans were unsecured, repayable on demand and carried interest at a fixed rate of 12% per annum for the year ended December 31, 2017 and 2018. Details of these investments are set out in Note 17 (ii).

The loan from JMCR Partners Limited represented settlement of the Group's investments in Bonti, Inc. in April 2017 and January 2018 by JMCR Partners Limited on the Group's behalf. The loans were secured by the Group's investments in Bonti, Inc., repayable on demand and carried interest at a fixed rate of 8% per annum for the year ended December 31, 2017 and 2018. Details of these investments are set out in Note 17 (iii).

The maximum amount outstanding of the non-trade related amounts due from directors during the Track Record Period are as follow:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Other receivables from related parties (non-trade)			
Mr. Wu Ying	30	—	—
	<u>30</u>	<u>—</u>	<u>—</u>
	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Loans to a related party			
Mr. John Wu Jiong	20,397	20,575	2,002
	<u>20,397</u>	<u>20,575</u>	<u>2,002</u>

39. RELATED PARTY DISCLOSURES (Continued)**(b) Related party balances (Continued)****The Company**

	As December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries			
Viva Biotech HK	—	—	167,684
Viva Biotech Shanghai	129	1	1
	129	1	167,685
Current	129	1	28,009
Non-current	—	—	139,676
	129	1	167,685

The loan to Viva Biotech HK is unsecured, repayable within two years and carries at the fixed rate of 3.6% per annum.

	As December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Amounts due to subsidiaries			
Viva Biotech HK	486	—	—
Viva Incubator HK	—	735	37,816
Viva Biotech Shanghai	780	25,883	34,516
Viva Incubator Shanghai	—	—	311
Current	1,266	26,618	72,643

Excepted otherwise stated, all the non-trade balances due from/to related parties were unsecured, interest free and repayable on demand.

(c) Compensation of key management personnel

The remuneration of the directors of the Company and other members of key management of the Group during the three years ended December 31, 2016, 2017 and 2018 were as follows:

	Year ended December 31,		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Salaries and other benefits	1,778	2,324	6,679
Performance-based bonus	25	66	48
Retirement benefits scheme contributions	45	52	78
Share-based compensation	12	—	4,339
	1,860	2,442	11,144

40. PARTICULARS OF SUBSIDIARIES

During the Track Record Period and as at the date of this report, the Company has direct and indirect shareholders' interests in the following subsidiaries:

Name of subsidiaries	Place and date of incorporation/ establishment	Issued and fully paid capital/ registered capital	Shareholding/equity interest attributable to the Company			Principal activities	Notes
			At December 31,		At the date of this report		
			2016	2017			
<i>Directly held:</i>							
Viva Biotech HK	Hong Kong, June 17, 2008	US\$2,000,000	100%	100%	100%	Investment holding	(a)
<i>Indirectly held:</i>							
Viva Biotech Shanghai (維亞生物科技(上海)有限公司)	PRC, August 14, 2008	US\$25,000,000	100%	100%	100%	Primarily providing research services	(b)
Jiaxing Viva (嘉興維亞生物科技有限公司)	PRC, March 19, 2014	RMB30,000,000	100%	100%	100%	Primarily providing research services	(c)
Viva Incubator Shanghai (上海本苑創業孵化器管理有限公司)	PRC, December 7, 2015	RMB10,000,000	100%	100%	100%	Business incubator	(c)
Viva Incubator HK	Hong Kong, March 20, 2017	US\$5,000,000	N/A	100%	100%	Investment holding	(b)
Sichuan Viva (四川維亞本苑生物科技有限公司)	PRC, October 30, 2018	US\$30,000,000	N/A	N/A	100%	Business incubator	(b)

Notes:

- (a) Viva Biotech HK is directly held by the Company.
 (b) Viva Biotech Shanghai, Sichuan Viva and Viva Incubator HK are indirectly held by the Company through Viva Biotech HK.
 (c) These companies are indirectly held by the Company through Viva Biotech Shanghai.

40. PARTICULARS OF SUBSIDIARIES (Continued)

All of the subsidiaries adopted December 31 as financial year end.

The statutory financial statements of Viva Biotech HK for each of the two years ended December 31, 2017 were prepared in accordance with Hong Kong Financial Reporting Standards and were audited by Gary Cheng CPA Limited, certified public accountants registered in Hong Kong. As of the date of this prospectus, the statutory audited financial statements of Viva Biotech HK for the year ended December 31, 2018 have not been issued.

The statutory financial statements of Viva Biotech Shanghai for each of the three years ended December 31, 2018 were prepared in accordance with relevant accounting principles and financial regulations applicable in the PRC and were audited by Shanghai Tripod Certified Public Accountants, certified public accountants registered in the PRC.

The statutory financial statements of Jiaying Viva for each of the three years ended December 31, 2018 were prepared in accordance with relevant accounting principles and financial regulations applicable in the PRC and were audited by Shanghai Xuanhe Certified Public Accountants, certified public accountants registered in the PRC.

The statutory financial statements of Viva Incubator Shanghai for each of the three years ended December 31, 2018 were prepared in accordance with relevant accounting principles and financial regulations applicable in the PRC and were audited by Shanghai Xuanhe Certified Public Accountants, certified public accountants registered in the PRC.

The statutory financial statements of Sichuan Viva for the period from October 30, 2018 to December 31, 2018 were prepared in accordance with relevant accounting principles and financial regulations applicable in the PRC and were audited by Shanghai Xuanhe Certified Public Accountants, certified public accountants registered in the PRC.

The statutory financial statements of Viva Incubator HK for the period from March 20, 2017 to December 31, 2017 were prepared in accordance with Hong Kong Financial Reporting Standards and were audited by Gary Cheng CPA Limited, certified public accountants registered in Hong Kong. As of the date of this prospectus, the statutory audited financial statements of Viva Incubator HK for the year ended December 31, 2018 have not been issued.

41. RESERVES MOVEMENT OF THE COMPANY

The reserves movement of the Company is as follows:

	Share premium RMB'000	Share option reserve RMB'000	Other reserve RMB'000	(Accumulated losses) retained earnings RMB'000	Total RMB'000
At January 1, 2016	13,590	11,867	33,705	(14,780)	44,382
Loss and total comprehensive expense for the year	—	—	—	(73)	(73)
Recognition of equity-settled share based payment	—	16	—	—	16
At December 31, 2016	13,590	11,883	33,705	(14,853)	44,325
Profit and total comprehensive income for the year	—	—	—	63	63
At December 31, 2017	13,590	11,883	33,705	(14,790)	44,388
Profit and total comprehensive income for the year	—	—	—	3,315	3,315
Recognition of equity-settled share based payment	—	8,602	—	—	8,602
Issue of ordinary shares	33,661	—	(33,705)	—	(44)
At December 31, 2018	<u>47,251</u>	<u>20,485</u>	<u>—</u>	<u>(11,475)</u>	<u>56,261</u>

42. NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS**(a) Reconciliation of liabilities arising from financing activities**

The table below details changes in the 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 Group's consolidated statements of cash flows as cash flows from financing activities.

	Borrowings	Obligations under a finance lease	Loans from related parties (non-trade)	Financial liabilities at FVTPL	Payable for listing expenses and issue costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
January 1, 2016	3,703	341	—	—	—	4,044
Financing cashflow (Note i)	(612)	(129)	—	—	—	(741)
Interest on borrowings	189	14	—	—	—	203
December 31, 2016	3,280	226	—	—	—	3,506
Financing cashflow (Note i)	(615)	(234)	—	—	—	(849)
Acquisition of financial assets at FVTPL	—	—	12,060	—	—	12,060
Interest on borrowings	168	8	677	—	—	853
Exchange gain on borrowings	—	—	(625)	—	—	(625)
December 31, 2017	2,833	—	12,112	—	—	14,945
Financing cashflow (Note i)	(614)	—	(15,336)	199,942	(4,513)	179,479
Operating cashflow (Note ii)	—	—	—	—	(14,969)	(14,969)
Listing expenses	—	—	—	—	24,274	24,274
Deferred issue costs	—	—	—	—	6,724	6,724
Acquisition of financial assets at FVTPL	—	—	3,267	—	—	3,267
Fair value loss on financial liability at FVTPL	—	—	—	20,658	—	20,658
Interest on borrowings	143	—	414	—	—	557
Exchange gain	—	—	(457)	—	—	(457)
December 31, 2018	2,362	—	—	220,600	11,516	234,478

Notes:

- (i) The financing cash flows represent 1) the proceeds and repayment of bank borrowings and interest paid, 2) the repayment of obligations under a finance lease and the finance lease charges paid, 3) the repayment to related parties, 4) the proceeds from the issue of the Company's convertible redeemable preferred shares, and 5) the payment of the issue costs that are attributable to proposed issue of new shares.
- (ii) The operating cash flow represents the payment of the listing expenses charged to profit or loss.

(b) Major non-cash transactions

- During the Track Record Period, the Group provides research services under SFE method to its customer in exchange for equity interests of the customer. Further details were set out in Note 17.
- Part of the consideration for the investments on ArthroSi Therapeutics, Inc. and Bonti, Inc. was paid by the Group's related parties on the behalf of the Group. Further details of the were set out in Note 17(ii) and 17(iii).

43. SUBSEQUENT EVENTS

Except as disclosed elsewhere of the Historical Financial Information, the Group has following significant events subsequent to December 31, 2018:

- a. Pursuant to a shareholders' resolution passed on April 14, 2019, the authorized share capital of the Company is expected to be split on a 1-to-4 basis and as a result, the par value will be changed from US\$0.0001 per each share to US\$0.000025 per each share and the authorized share capital of US\$50,000.00 of the Company will be divided into (1) 1,935,065,872 Shares of US\$0.000025 each share; and (2) 64,934,128 Series B Preferred Shares of US\$0.000025 each share (the "Share Split").
- b. Pursuant to a shareholders' resolution passed on April 14, 2019, a total of 102,394,632 shares of the Company is expected to be allotted and issued to both ordinary and preferred shareholders on the register of members of the Company at the close of business on the date immediately preceding the date on which the Global Offering becomes unconditional (or as it/they may direct) in proportion to their respective shareholdings in the Company by way of capitalization of the sum of US\$2,559.87 standing to the credit of the share premium account of the Company. These shares shall rank *pari passu* in all respects with the then existing issued shares of the Company (the "Capitalization Issue").
- c. Pursuant to a shareholders' resolution passed on April 13, 2019, the Company declared special dividends of RMB128,686,000.00 to both ordinary and preferred shareholders listed on the register of members on March 24, 2019, being the date one month prior to the commencement of the international offering and the Hong Kong public offering of the Company (together the "Global Offering"), which is expected to be paid out prior to the completion of the Global Offering.

44. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to December 31, 2018 and up to the date of this report.

* * * * *

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