

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



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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED DECEMBER 31, 2020

FINANCIAL HIGHLIGHTS			
	2020	2019	Change
	<i>RMB million</i>	<i>RMB million</i>	
Revenue	697.0	323.1	115.7%
Gross Profit	304.9	155.9	95.6%
Gross Profit Margin	43.7%	48.3%	
Net (Loss)/Profit	(378.9)	265.9	
Adjusted Non-IFRS Net Profit	252.3	318.0	-20.7%
Adjusted Non-IFRS Net Profit Margin	36.2%	98.4%	
	HK\$	HK\$	
Earnings per share			
– Basic	(0.28)	0.22	
–Diluted	(0.28)	0.20	
Adjusted Non-IFRS Earnings per share			
– Basic	0.18	0.26	-30.8%
– Diluted	0.18	0.24	-25.0%
The Board has recommended the payment of a final dividend of HK\$0.01 per share for the year ended December 31, 2020.			

NON-IFRS MEASURE

To supplement the Group's consolidated financial statements which are presented in accordance with the International Financial Reporting Standards ("IFRS"), the Company has provided adjusted Non-IFRS net profit, adjusted Non-IFRS net profit margin, and adjusted Non-IFRS earnings per share (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, transaction costs relating to the acquisition, amortization of acquired assets and listing expenses) as additional financial measures, which are not required by, or presented in accordance with, the IFRS. The Company believes that the adjusted Non-IFRS financial measures are useful for understanding and assessing underlying business performance and operating trends, and that the Company's management and investors may benefit from referring to these adjusted financial measures in assessing the Group's financial performance by eliminating the impact of certain unusual and non-recurring items that the Group does not consider indicative of the performance of the Group's business. However, the presentation of these non-IFRS financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the IFRS. You should not view the adjusted results on a stand-alone basis or as a substitute for results under the IFRS.

FOREIGN EXCHANGE RATE OF EARNINGS PER SHARE:

HK\$1:RMB0.8859 in 2020 (being the annual average central parity rate as announced by the People's Bank of China in 2020)

HK\$1:RMB0.8805 in 2019 (being the annual average central parity rate as announced by the People's Bank of China in 2019)

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2020, despite the impact and challenges to different extents caused by the COVID-19 pandemic to the operation of various industries, the biopharmaceutical industry thrived and recorded booming development. Driven by the increase in outsourcing proportion of global large-scale pharmaceutical enterprises and demand from small and medium-sized biotechnology companies, the global drug research and development (“**R&D**”) and production service industry continued to demonstrate an upbeat trend. The Group pro-actively grasped the opportunity, and achieved both internal growth and external expansion. The synergistic effects of our cash-for-service (CFS) model and equity-for-service (EFS) model were further demonstrated. We have made substantial progress in vertical integration and expansion along the industry chain to contract development manufacture organization (“**CDMO**”) business. The outbreak of COVID-19 in 2020 has not resulted in any significant adverse impact to the Group’s operation, with laboratory works and incubation portfolio business progressing in an orderly manner in 2020.

The Company will continue to pay close attention to the development of the COVID-19 outbreak and evaluate the potential impact on the financial position and operating results of the Group.

During the year ended December 31, 2020 (the “**Reporting Period**”), revenue of the Group increased significantly to RMB697.0 million from RMB323.1 million for the corresponding period last year, representing a year-on-year increase of 115.7%. Our adjusted non-IFRS net profit decreased to RMB252.3 million from RMB318.0 million for the corresponding period last year, representing a year-on-year decrease of 20.7%.

Cash-for-service (CFS) Business

Throughout 2020, revenue from the CFS business increased significantly to RMB604.7 million from RMB245.6 million for the corresponding period last year, representing a year-on-year increase of 146.2%, primarily attributable to the continuous expansion of extensive and diverse quality customer groups by the Viva Biotech Holdings (the “**Company**”) and, together with its subsidiaries, collectively the “**Group**”) and increase in orders from customers and increase in CDMO and commercialization services business due to acquisition of Langhua Pharmaceutical. The Group had accumulatively provided services to 1,252 clients.

CFS Drug Discovery Services

As of the end of 2020, the backlog order under the CFS drug discovery services reached approximately RMB416 million, representing a year-on-year increase of approximately 54.7% and the Company accumulatively delivered more than 21,000 protein structures to our clients and conducted R&D into over 1,500 independent drug targets. During the Reporting Period, the number of clients under this segment continued to increase. The Company had accumulatively provided drug discovery services to 543 biotechnology and pharmaceutical clients around the globe, including the global top 10 pharmaceutical companies (in terms of revenue in 2019) and 35 companies included in Fierce Biotech’s Fierce 15. Revenue from repeated clients accounted for 85.0% of the revenue during the Reporting Period.

Industry chain integration and expansion to CDMO business

On September 20, 2020, the Company entered into a share purchase agreement with SYNthesis med chem Pty Limited to acquire entire share capital of SYNthesis med chem (Hong Kong) Limited (“**SYNthesis**”) at a consideration of approximately US\$80 million. SYNthesis is a company for R&D of new pre-clinical small molecule drugs which mainly provides high-end pharmaceutical chemistry and synthetic chemistry services to its clients.

On November 12, 2020, the Company completed the very substantial acquisition of 80% of the equity interest in Zhejiang Langhua Pharmaceutical Co., Ltd. (浙江朗華製藥有限公司, “**Langhua Pharmaceutical**”), at a consideration of RMB2,560 million and Langhua Pharmaceutical became a non-wholly-owned subsidiary of the Company. As a comprehensive pharmaceutical R&D and manufacturing company, Langhua Pharmaceutical is mainly engaged in the production of small molecule APIs and intermediates and CDMO business. As of December 31, 2020, Langhua Pharmaceutical served a total of 709 clients, of whom the retention ratio of top ten clients reached 100%. Langhua Pharmaceutical currently is equipped with 12 GMP plants with total reactor scale reaching 671m³. Langhua Pharmaceutical recorded revenue of RMB1,518.1 million throughout the year, representing a year-on-year increase of 22.7% from the corresponding period of last year. Sales revenue from the CDMO business amounted to RMB875.0 million throughout the year, representing a year-on-year increase of RMB306.8 million, or 54.0%, which was primarily attributable to revenue derived from backlog products and an increase in demand for existing commercialized products. Langhua Pharmaceutical recorded a net profit of RMB171.4 million throughout the year, representing a year-on-year increase of 134.5% from the corresponding period of last year. Through the strategic integration of Langhua Pharmaceutical, the Group aims to establish a one-stop platform from front-end drug discovery to back-end commercial production, further enhance the existing CMC/CDMO foundation platform construction, expand into preparation production and strengthen appeal to clients and diversified regional expansion, thereby optimizing the one-stop R&D and production services and forging a closed loop for drug pipeline demands.

Equity-for-service (EFS) business

Throughout 2020, revenue from the EFS business increased significantly to RMB92.3 million from RMB77.5 million for the corresponding period last year, representing a year-on-year increase of 19.1%. Due to the increase of the incubated companies and their growing demands, the backlog order of the EFS business reached approximately RMB191 million, representing a year-on-year increase of approximately 138.8%. We extensively explored business opportunities around the globe. Throughout 2020, the Group reviewed a total of over 834 projects globally, and added 21 startups to our portfolio companies, made additional investment in 10 existing portfolio companies, and was in negotiation for incubation and investment in 4 new companies throughout the year. As of December 31, 2020, the Group had a total of 67 portfolio companies covering various indications, modalities and locations with an average agreed shareholding¹ of 19.31%. Details are as follows:

No.	Company Name	Type	Time of investment/ incubation agreement	Indications/Primary Technology/Business	Shareholding % received as at the date of this announcement
1	Blue Oak Pharmaceuticals, Inc.	EFS	2020/02	Discovering novel multi-target pathways to help patients with neurological disorders, focusing on systems neurobiology and brain circuitry.	4.59%
2	Regenacy Pharmaceuticals, Inc.	Strategic investment	2020/03	Developing innovative treatment of diabetic peripheral neuropathy and chemotherapy-induced peripheral neuropathy.	1.67%
3	Elgia Therapeutics, Inc.	EFS	2020/04	Focusing on the discovery and development of specific Caspase inhibitors for nonalcoholic fatty liver disease (NAFLD)/ non-alcoholic steatohepatitis (NASH) therapy and other inflammatory conditions.	13.77%
4	Phenomic AI Inc.	EFS	2020/05	Developing therapeutic antibodies targeting colorectal cancer.	5.03%

1 The agreed shareholding takes into account shareholding which the Group will acquire upon fulfilment of service milestones and other milestone events. The figure does not take into account investments where the agreed quantity of shareholding to be converted from such convertible bond investments are not determined as at the date of this announcement.

No.	Company Name	Type	Time of investment/ incubation agreement	Indications/Primary Technology/Business	Shareholding % received as at the date of this announcement
5	Vincere Biosciences, Inc.	EFS	2020/06	Developing therapeutics targeting mitochondrial pathways for brain disorders particularly in neuro degenerative diseases.	0%*
6	NERIO Therapeutics, Inc.	Strategic investment	2020/06	Developing allosteric/uncompetitive phosphatase inhibitors for several protein tyrosine phosphatase (PTP)s.	3.79%
7	Sisu Pharma, Inc.	EFS	2020/06	Focusing on the development of HSF1 inhibitor for the hormone treatment resistant prostate cancer.	21.32%
8	Focus-X Therapeutics, Inc.	EFS	2020/06	Focusing on the development of peptide receptor radionuclide therapy (PRRT).	16.10%
9	Triumvira Immunologics Inc.	Strategic investment	2020/06	Developing novel T cell therapies that are safer and more efficacious than current cancer treatments, including chimeric antigen receptor (CAR) and engineered T cell receptor (TCR) therapies.	2.10%
10	QurClear LLC	Strategic investment	2020/06	QurClear is a legal entity for holding shares of EnClear Therapies, Inc. Enclear Therapies is developing an equipment to filter toxic protein accumulated in brain and spinal cord to cure amyotrophic lateral sclerosis (ALS) and progressive supranuclear palsy (PSP) patients with C9orf72 mutation.	3.82%**
11	Basking Biosciences, Inc.	Strategic investment	2020/08	Developing the first reversible thrombolytic therapy for acute ischemic stroke (AIS).	4.59%

No.	Company Name	Type	Time of investment/ incubation agreement	Indications/Primary Technology/Business	Shareholding % received as at the date of this announcement
12	I-Mab Biopharma (Hangzhou) Co.,Ltd.	Strategic investment	2020/09	Focusing on the R&D and production of biological antibody drugs in the field of tumor immunity and autoimmune disease treatment.	0.67%
13	Telo Therapeutics, Inc.	EFS	2020/09	Developing a novel, personalized medicine therapeutic to selectively inhibit cancer cell immortality.	0.00%*
14	Evecxia Therapeutics, Inc.	Strategic investment	2020/11	Developing proprietary oral slow-release formulation of 5-HTP and low-dose carbidopa for anti-depression.	6.70%
15	Haya Therapeutics SA	Strategic investment	2020/11	Targeting lncRNA using oligonucleotide-based drugs to treat heart fibrosis.	3.60%
16	Synthis Therapeutics, Inc.	EFS	2020/12	Initial effort is an antibody-TGF β Antagonist-conjugate (ATAC) selectively blocking the TGF β -related immune suppressive signaling in the immune cells for cancer treatment.	0.00%*
17	f5 Therapeutics Incorporated	EFS	2020/12	Protein degradation drug company, focusing on the development of “molecular glue” technology. Developing Neosubstrate Expression Modulators library and synthetic lethal screening to achieve targeted protein degradation by binding to Cereblon for certain therapeutic areas.	0.00%*
18	Iterion Therapeutics, Inc.	EFS	2020/12	Developing a small molecule (Tegavivint) targeting TBL1, a novel downstream target in Wnt/ β -catenin signaling pathway.	1.08%

No.	Company Name	Type	Time of investment/ incubation agreement	Indications/Primary Technology/Business	Shareholding % received as at the date of this announcement
19	Cybrexa Holding Company, LLC	Strategic investment	2020/12	Developing next-generation tumor-targeted cancer therapies using its alphalex™ platform.	2.00%***
20	Grove Biopharma, Inc.	EFS	2020/12	Discovering and developing a new class of peptide-based therapeutics for enhancing therapeutic peptide stability and avidity.	0.00%*
21	WMT AG	EFS	2020/12	Targeting advanced cancers by combining tumor-autonomous approaches with immune stimulation.	0.00%*

* pending agreed service milestones, closing of transaction or conversion of convertible instruments (as the case may be) to receive shareholding interest in relevant incubation portfolio company.

** percentage of the units

*** share of interest

None of these investments constituted discloseable transaction under chapter 14 of the Listing Rules.

During the Reporting Period, R&D for all of the portfolio companies rolled out smoothly and total number of pipeline projects exceeded 120, half of which had entered PCC/IND-enabling stage. In September 2020, our portfolio company, Dogma Therapeutics and AstraZeneca reached an agreement regarding the acquisition of the global interest of small molecule oral PCSK9 inhibitor project, which was completed by the scientists team of the cooperative R&D department of EFS at the Group and the scientists team of Dogma Therapeutics.

We will also proactively carry out post-investment support to facilitate incubated companies to accelerate R&D progress, enhance talent recruitment, optimize product pipeline development strategies, bridge financing resources and launch industry events such as Demo Day and Viva Biotech Partnership Summit to develop and enhance ecosystem construction.

Technology platform

During the Reporting Period, the Group invested RMB66.0 million in R&D, representing a year-on-year increase of 46.7%. R&D investment was primarily used for the introduction of new technology platforms, such as Cryo-EM and computational chemistry. In addition, the Group also actively expanded into the field of antibody macromolecules and set up chemistry, manufacturing and control (“CMC”) process development team, so as to take the initiative to expand and meet customers’ demand for R&D and production services at various stages.

Staff and facilities

During the Reporting Period, the Company continued to enhance talent recruitment and expansion plan. As of December 31, 2020, the Group had a total of 1,619 employees, including 643 employees newly consolidated from Langhua Pharmaceutical. The Group (excluding Langhua Pharmaceutical) had 976 employees, including 817 R&D personnel, with a laboratory and office premise of approximately 24,000 square meters.

In order to better accommodate the Company's rapid-growing business needs and personnel, save rental expenses and provide stable R&D, production and operation premises for the Company. In February 2020, the Group successfully acquired a property with a total area of approximately 7,600 square meters located in Faladi Road, Pudong, Shanghai, as the office and R&D premise for our EFS incubation business. In May, Viva Biotech Chengdu New Drug Incubation and Production R&D Center with a site area of approximately 33,600 square meters officially commenced construction. In July, the Group successfully bid for a property in Zhoupu with a construction area of approximately 40,000 square meters, which will be used as the new headquarters of the Group and office and R&D site for CFS Division. In September, the Group entered into an investment agreement with Qiantang New District of Hangzhou, and obtained industrial land with a total land area of approximately 26,700 square meters in Hangzhou Pharmaceutical Port Town, which will be used as the future new drug incubation center.

Financing

In February, 2020, Viva Incubator Investment Management Limited (“**Viva Incubator HK**”), a wholly-owned subsidiary of the Company, issued US\$180 million 2.50% convertible bonds due 2025 guaranteed by the Company (the “**February 2025 Convertible Bonds**”).

In July, the Company placed an aggregate of 130,000,000 shares at a placing price of HK\$8.15 per placing share, raising net proceeds of approximately HK\$1,050 million.

In December, Viva Biotech Investment Management Limited (“**Viva Biotech BVI**”), a wholly-owned subsidiary of the Company, issued US\$280 million 1.00% convertible bonds due 2025 guaranteed by the Company (the “**December 2025 Convertible Bonds**”).

Such financing activities provided sufficient financial support for the Company in terms of accelerated realization of strategic development goals, business expansion and integration in the downstream of the industry chain, its business development and expansion and daily operations.

FUTURE STRATEGIES AND OUTLOOK

Positioning at the early drug discovery sources from “0” to “1”, the Company enjoys advantages in terms of technology platforms, customer flow and talents. In future, the Company will continue to construct and raise technology barriers, enhance talent recruitment, strengthen bridging of customers and portfolio companies, improve operating efficiency, tap into the synergistic effect, accelerate the construction of one-stop drug discovery and production service platforms from “0” to “1” and “N” and establish an open and cooperative platform targeting global biopharmaceutical innovators.

DISCUSSION OF RESULTS OF OPERATION

Revenue

The Group’s revenue in the Reporting Period was approximately RMB697.0 million, representing an increase of 115.7% as compared to approximately RMB323.1 million in the year ended December 31, 2019, primarily reflecting the Group’s business growth. Due to the acquisition of the Langhua Pharmaceutical during the Reporting Period, revenue generated included drug discovery services and CDMO and commercialization services.

The following table sets forth a breakdown of the Group’s revenue by respective types of goods or services during the Reporting Period and the corresponding period last year.

	Year ended December 31,	
	2020	2019
	<i>RMB’000</i>	<i>RMB’000</i>
Types of goods or services		
Drug discovery services		
– Full-time-equivalent (“FTE”)	299,393	212,911
– Fee-for-service (“FFS”)	79,400	66,484
– Service-for-equity (“SFE”)	60,015	43,662
CDMO and commercialization services		
– Sale of products	258,150	–
	<u>696,958</u>	<u>323,057</u>

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

	Year ended December 31,	
	2020	2019
	RMB'000	RMB'000
Revenue		
– USA	396,927	243,592
– European Union	127,479	1,802
– PRC	116,247	74,477
– Other countries/regions	56,305	3,186
	<u>696,958</u>	<u>323,057</u>

The increase of revenue in the Reporting Period as compared to the corresponding period last year was primarily due to an increase in the revenue of the Group's customers headquartered in the USA and European Union. This was mainly due to increases in the number of customers as well as customer orders from such overseas customers and the acquisition of the Langhua Pharmaceutical.

Cost of Services

Cost of services primarily consists of direct labor costs, cost of materials and overhead. Direct labor costs primarily consist of salaries, bonus, welfare, social security costs and share-based compensation for our R&D talents, excluding the costs allocated to research and development expenses, as well as those capitalized in contract costs. Cost of services in the Reporting Period was approximately RMB392.1 million, representing an increase of 134.5% as compared to approximately RMB167.2 million in the year ended December 31, 2019. The increase was in line with the Group's business growth.

Gross Profit and Gross Profit Margin

During the Reporting Period, the Group's gross profit was approximately RMB304.9 million, representing an increase of 95.6% as compared to approximately RMB155.9 million in the year ended December 31, 2019. The increase was in line with the Group's business growth. Gross margin was 43.7% for the Reporting Period, as compared to 48.3% for the year ended December 31, 2019. The decrease was primarily due to the integration of CDMO and commercialization services into our Group's service offerings.

Other Income and Gains

Other income and gains consist primarily of interest income, government grants, net foreign exchange gain, gain on derivative financial instruments, gain on deemed disposal of interests in associates, gain on deemed disposal of interests in a joint venture, gain on repurchase of convertible bonds and gain on disposal of right-of-use assets. During the Reporting Period, the Group recorded other income and gains of approximately RMB69.6 million, representing an increase of 6.6% as compared to approximately RMB65.3 million in the corresponding period last year.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of staff cost, travelling expenses and others. During the Reporting Period, the Group's selling and distribution expenses were approximately RMB13.1 million, representing an increase of 263.9% as compared to approximately RMB3.6 million in the year ended December 31, 2019. The increase was primarily due to expansion of our CDMO business, as well as the growth to our marketing team.

Administrative Expenses

Administrative expenses primarily consist of administrative staff costs, audit and consultancy fees, office administration expense, rental, depreciation, travelling and transportation expenses and others. During the Reporting Period, the Group's administrative expenses were approximately RMB110.2 million, representing an increase of 115.2% as compared to approximately RMB51.2 million in the year ended December 31, 2019. The increase primarily reflected rapid expansion of the Group's personnel, together with the increase in third party consultation fees.

Research and Development Expenses

Research and development expenses mainly consist of labor costs, cost of materials, overhead costs and fees paid to third parties that conduct certain research and development activities on our behalf. During the Reporting Period, the Group's research and development expenses were approximately RMB66.0 million, representing an increase of 46.7% as compared to approximately RMB45.0 million in the year ended December 31, 2019. The increase was primarily due to an increase in the number of R&D personnel.

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

Fair value gain on FVTPL mainly consists of fair value gains from financial products issued by banks and the gains from the fair value change of the equity interests in the Group’s incubation portfolio companies. The Group’s EFS model features sharing of the upside of our customers’ IP values, which is primarily reflected by the gains from the fair value change of the equity interest in the Group’s incubation portfolio companies. Such fair value gains are recorded as FVTPL in the Group’s financial statements.

The Group recorded gains arising from financial assets at FVTPL of approximately RMB106.9 million for the Reporting Period, mainly including (1) gain from investment in bank wealth management products of RMB4.9 million; (2) gain from fair value change of investment companies of RMB102.0 million, primarily reflecting the increase in the fair value of the Group’s equity interest in three incubation portfolio companies, Dogma Therapeutics, Inc., Mediar Therapeutics, Inc. and VivaVision Biotech (Shanghai) Ltd. (previously referred to as Weimou Biotech (Shanghai) Ltd.), as compared to approximately RMB217.6 million for the year ended December 31, 2019, primarily reflecting the increase in fair value of the Group’s equity interest in three incubation portfolio companies, Proviva Therapeutics, Inc., VivaVision Biotech (Shanghai) Ltd. and Liangzhun (Shanghai) Industrial Co., Ltd.

Impairment Losses under Expected Credit Model, Net of Reversal

Impairment losses under expected credit model, net of reversal reflects impairment loss on trade and other receivables. The Group recorded impairment losses of approximately RMB3.0 million for the Reporting Period, as compared to approximately RMB1.8 million of impairment losses for the year ended December 31, 2019.

Other Expenses

For the Reporting Period, the Group recorded other expenses of approximately RMB35.7 million, as compared to approximately RMB31 thousand for the year ended December 31, 2019. The increase primarily represented the Group’s net foreign exchange loss and acquisition transaction costs.

Share of Loss of a Joint Venture

For the Reporting Period, the Group recorded share of loss of a joint venture of approximately RMB0.5 million, as compared to approximately RMB1.9 million for the year ended December 31, 2019. The decrease primarily represented the Group’s decreased share of loss in one of its incubation portfolio companies, Jiaxing Youbo Biotech Co., Ltd.

Finance Cost

Finance cost primarily consists of interest on convertible bonds, interest on lease liabilities and interest expenses on loans from banks. For the Reporting Period, the Group’s finance cost was approximately RMB62.1 million, representing an increase of 2,600.0%, as compared to approximately RMB2.3 million for the year ended December 31, 2019. The increase was mainly due to an approximately RMB52.1 million increase in interest of the debt components of the convertible bonds issued by members of the Group during the Reporting Period.

Fair Value Loss on Financial Liabilities at FVTPL

Fair value loss on financial liabilities at FVTPL represents changes in fair value of the embedded derivative components of the convertible bonds and the series B convertible redeemable preferred shares. For the Reporting Period, the Group recorded fair value loss on financial liabilities at FVTPL of approximately RMB547.0 million regarding the fair value changes of the embedded derivative components of the convertible bonds, as compared to approximately RMB34.2 million for the year ended December 31, 2019, which represents changes in fair value of the series B convertible redeemable preferred shares (the “**Series B Preferred Shares**”) in connection with the Company’s pre-IPO financing.

Income Tax Expense

The Group’s income tax expense for the Reporting Period was approximately RMB22.7 million, representing an increase of 50.3% from approximately RMB15.1 million for the year ended December 31, 2019, primarily due to the Group’s business growth as well as the fair value loss of the embedded derivative components of the convertible bonds incurred by the Group is not tax deductible.

Net Profit and Net Profit Margin

As a result of the foregoing, the Group’s net loss for the Reporting Period was approximately RMB378.9 million, compared to net profit of RMB265.9 million for the year ended December 31, 2019.

The adjusted non-IFRS net profit of the Group decreased 20.7% to approximately RMB252.3 million for the Reporting Period from approximately RMB318.0 million for the year ended December 31, 2019. The adjusted non-IFRS net profit margin of the Group for the Reporting Period was 36.2%, compared to 98.4% for the corresponding period last year. The lower adjusted Non-IFRS net profit margin of the Group for the Reporting Period was primarily due to the increase in the administrative expenses and other expenses.

Liquidity, Financial Resources and Gearing Ratio

As at December 31, 2020, the Group’s total cash and cash equivalents amounted to approximately RMB2,308.5 million, representing an increase of 155.3% as compared to approximately RMB904.1 million as at December 31, 2019. Such increase was primarily attributable to the proceeds from the issue of convertible bonds. The Group maintains a strong cash position to meet potential needs for business expansion and development.

As at December 31, 2020, the Group had approximately RMB1,437.3 million of secured bank borrowings and RMB25.0 million of unsecured bank borrowings, increased by RMB1,460.4 million as compared to approximately RMB1.9 million as at December 31, 2019. The increase was primarily attributable to the secured bank loan obtained by the Group to finance the acquisition of Langhua Pharmaceutical during the Reporting Period. The Group intends to finance the expansion, investments and business operations with proceeds from its financing activities and internal resources. The Group targets to centralize its treasury activities and all cash transactions are dealt with state-owned banks and international banks with good reputation. As at December 31, 2020, the gearing ratio, calculated as total liabilities over total assets, was 53.9%, as compared with 6.4% as at December 31, 2019 as a result of the convertible bond issuance undertaken and secured bank loan obtained by the Group during the Reporting Period.

Significant Investment, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In March 2020, Viva Biotech Shanghai, an indirect wholly-owned subsidiary of the Company, acquired 100% of equity interest of Shanghai Viva Qizhi Biotech Limited (former name: Shanghai Shenyu Wires Co., Ltd) from its original shareholders, at a consideration of RMB120.0 million, Shanghai Viva Qizhi Biotech Limited has no substantive business operations at the time of the acquisition and its principal asset consist of a parcel of land with a total site area of approximately 7,600 square meters in Shanghai.

In July 2020, the Company also acquired land use right through auction published by the Shanghai Pudong District People's Court for RMB392.4 million, the land use right relates to a parcel of land with a gross floor area of approximately 40,000 square meters in Shanghai.

In September 2020, the Company entered into a share transfer agreement with SYNthesis med chem Pty Limited for the acquisition of SYNthesis, for further information about this acquisition, please refer to the section headed "Event After Reporting Period".

In November 2020, Viva Biotech Shanghai acquired 80% of equity interest of Langhua Pharmaceutical from its original shareholders, at a consideration of RMB2,560.0 million.

Save as disclosed in this announcement, the Company's prospectus dated April 25, 2019 (the "Prospectus"), and other announcements and circulars published by the Company up to the date of this announcement, the Group did not make any significant investment (being investment in companies with a value of 5% of the Group's total asset as of December 31, 2020), material acquisitions or disposals of subsidiaries, associated companies or joint ventures during the Reporting Period.

Pledge of Assets

As at December 31, 2020, a building with a carrying amount of approximately RMB5.0 million and one-year deposits of RMB640.0 million of the Group were pledged to secure borrowings of the Group. Deposits of RMB29.2 million were pledged to secure notes payables.

Capital Expenditure

For the Reporting Period, the Group's capital expenditure amounted to approximately RMB166.5 million, which was mainly used for construction of facilities and equipment purchases, as compared to approximately RMB56 million for the year ended December 31, 2019. The Group funded its capital expenditure with cash flow generated from its operations and partial proceeds from its fundraising activities.

Future Plan for Material Investment and Capital Assets

Save as disclosed in the Prospectus, this announcement and other announcements and circulars published by the Company up to the date of this announcement, the Group does not have other plans for material investments and capital assets for Reporting Period and up to the date of this announcement.

Currency Risk

Certain entities in our Group have foreign currency sales and purchases, which exposes us to foreign currency risk. In addition, certain entities in our Group also have other payables and receivables which are denominated in currencies other than their respective functional currencies. We recorded a net foreign exchange loss of approximately RMB19.8 million and a net foreign exchange gain of approximately RMB32.7 million for the Reporting Period and the year ended December 31, 2019, respectively. We are exposed to the foreign currency of U.S. dollars as part of our revenue was generated from sales denominated in U.S. dollars as well as deposits denominated in U.S. dollars. We purchased various bank foreign exchange wealth management products and forward currency contracts to hedge against our exposure to currency risk during the Reporting Period and up to the date of this announcement while we chose not to designate a hedging relationship and use hedge accounting. Our management will continue to evaluate the Group's foreign exchange risk and take actions as appropriate to minimize the Group's exposure whenever necessary.

SHARE INCENTIVE SCHEMES

The Group has adopted certain pre-IPO share incentive schemes (the “**Pre-IPO Share Incentive Schemes**”) in 2009 and 2018 to provide incentives to eligible employees of the Group. During the Reporting Period, 35,596,799 share options were exercised by directors and employees of the Group. As at December 31, 2020, an aggregate of 20,561,864 outstanding share options were exercisable under the Pre-IPO Share Incentive Schemes. As at December 31, 2020, outstanding options granted under the Pre-IPO Share Incentive Schemes and shares issued pursuant to the exercise of pre-IPO share options were held by trustees of relevant trusts set up for administering the Group's employee incentive schemes.

The Group also adopted a post-IPO share option scheme (the “**Post-IPO Share Option Scheme**”) on April 14, 2019. During the Reporting Period, 16,990,000 options have been granted under the Post-IPO Share Option Scheme, no Share has been issued under such options.

The Group further adopted a restricted share unit scheme (the “**Restricted Share Unit Scheme**”) on June 5, 2020. The Restricted Share Unit Scheme does not constitute a share option scheme within the meaning of Chapter 17 of the Listing Rules and is a discretionary scheme of the Company not involving any issue of new Shares. The Company has appointed Tricor Trust (Hong Kong) Limited as trustee to assist with the administration and vesting of awards pursuant to the Restricted Share Unit Scheme. During the Reporting Period, restricted share unit underlying 10,940,000 Shares had been awarded under the Restricted Share Unit Scheme.

EVENT AFTER REPORTING PERIOD

On September 20, 2020, the Company entered into an agreement with SYNthesis med chem Pty Limited in relation to acquisition of the entire equity interest in SYNthesis med chem (Hong Kong) Limited at the consideration of approximately US\$80 million, subject to price adjustment but in any event will not exceed US\$84 million and both parties entered into amendment agreements on December 15, 2020, January 25, 2021 and February 22, 2021 subsequently. Details of the transaction has been disclosed by the Company in its announcements dated September 21, 2020, October 15, 2020, December 15, 2020, December 23, 2020, January 18, 2021 and January 25, 2021 and its circular dated February 26, 2021.

On January 27 and 28, 2021, the Company repurchased in a total of 3,098,500 shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) for an aggregate consideration of approximately HK\$22.7 million including expenses and cancelled the said shares on February 17, 2021.

On 23 February, 2021, the Company convened an extraordinary general meeting and passed resolutions to approve the refreshment of general mandate to give a general mandate to the directors of the Company to allot, issue or deal with additional shares not exceeding 20% of the issued share capital of the Company and extend the authority given to the directors of the Company to issue shares by adding to the issued share capital of the Company the number of shares repurchased by the Company pursuant to the repurchase mandate granted to the Directors at the 2020 annual general meeting. Details of the refreshment of general mandate has been disclosed by the Company in its circular and announcement dated February 1, 2021 and January 4, 2021, respectively.

Save as disclosed above, as at the date of this announcement, the Group has no material subsequent events after December 31, 2020 which are required to be disclosed.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of association of the Company, or the laws of Cayman Islands, which would oblige the Company to offer new shares of the Company on a pro-rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the Reporting Period, the Company repurchased 3,652,500 shares on the Stock Exchange for an aggregate consideration of approximately HK\$15 million including expenses. The repurchased shares were subsequently cancelled. The repurchase was effected because the Board considered that the trading price of the Shares does not reflect their intrinsic value and this presents a good opportunity for the Company to repurchase the Shares, thereby enhancing the value of Shares and improving return to shareholders of the Company.

Details of the shares repurchased are as follows:

Month of repurchase	No. of shares repurchased	Highest price paid per share (HK\$)	Lowest price paid per share (HK\$)	Aggregate Consideration⁽¹⁾ (HK\$'000)
January 2020	2,673,500	4.290	4.130	11,295.4
April 2020	<u>979,000</u>	4.030	3.940	<u>3,896.5</u>
Total	<u><u>3,652,500</u></u>			<u><u>15,191.9</u></u>

(1) Aggregate consideration inclusive of expenses.

The Group has also repurchase US\$4,500,000 of the Bonds on April 16, 2020 for an aggregate 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.

Save as disclosed above, neither the Company nor any member of the Group purchased, sold or redeemed any of the Company's shares during the Reporting Period.

USE OF PROCEEDS FROM GLOBAL OFFERING

On May 9, 2019, the shares of the Company were listed on the Main Board of the Stock Exchange. The net proceeds from the global offering were approximately RMB1,217.1 million after deducting underwriting commissions and other expenses paid and payable by us in the global offering. There was no change in the intended use of net proceeds as previously disclosed in the Prospectus. As at December 31, 2020, the details of intended application of net proceeds are set out as follow:

	Approximate % of total net proceeds	Planned use of actual net proceeds RMB'million	Utilized net proceeds up to December 31, 2020 ⁽¹⁾ RMB'million	Proceeds unused ⁽²⁾ RMB'million	Expected timeline for utilizing the remaining balance of net proceeds from the global offering ⁽³⁾
Expanding EFS model	30%	365.13	219.32	145.81	Expected to be fully utilized by December 31, 2022
Building up commercial & research manufacturing capabilities and capacities in contract manufacturing organization ("CMO")	30%	365.13	246.33	118.80	Expected to be fully utilized by December 31, 2021
Purchasing laboratory equipment and materials	10%	121.71	121.71	0.00	–
Hiring, training and retaining biologics & chemical drug R&D personnel	10%	121.71	121.71	0.00	–
Expanding CMO business	10%	121.71	121.71	0.00	–
General corporate and working capital	10%	121.71	121.71	0.00	–

Notes:

- As disclosed in the Prospectus, the estimated net proceeds from the listing, after deduction of the underwriting fees and expenses paid by the Company in connection therewith were approximately HK\$1,231.7 million. The actual net proceeds received by the Company were approximately RMB1,217.1 million. The Company intends to adjust the difference between the estimated and actual net proceeds to each business objective in the same proportion as the original funds applied as shown in the Prospectus.
- As at December 31, 2020, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong or the PRC.
- The Company intends to use the remaining net proceeds in the coming years in accordance with the purpose set out in the Prospectus, the Company will continue to evaluate the Group's business objectives and will change or modify the plans against the changing market conditions to suit the business growth of the Group. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

USE OF PROCEEDS FROM PLACING

On July 10, an aggregate of 130,000,000 Shares were placed at the placing price of HK\$8.15 per Share, representing 7.07% of the issued share capital of the Company as enlarged by the allotment and issue of the 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\$1,050.7 million (equivalent to RMB948.3 million) As at December 31, 2020, the details of intended application of net proceeds are set out as follow:

Business objective as stated in the announcement	Percentage of total net proceeds	Planned use of actual net proceeds <i>RMB'million</i>	Utilized net proceeds up to December 31, 2020 <i>RMB'million</i>	Proceeds unused⁽¹⁾ <i>RMB'million</i>	Expected timeline for utilizing the remaining balance of net proceeds⁽²⁾
Business development and expansion, mainly for the investment and acquisition of downstream business	70%	663.8	663.8	0.00	–
Other working capital and general corporate purposes	30%	284.5	253.4	31.1	Expected to be fully utilized by June 30, 2021

Notes:

1. As at December 31, 2020, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong or the PRC
2. The Company intends to use the remaining net proceeds in the coming years in accordance with the purpose set out in the relevant announcement, the Company will continue to evaluate the Group's business objectives and will change or modify the plans against the changing market conditions to suit the business growth of the Group. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

USE OF PROCEEDS FROM CONVERTIBLE BONDS

On February 11, 2020, Viva Incubator HK issued the February 2025 Convertible Bonds. The net proceeds, after deducting the transaction costs of US\$2.6 million (equivalent to RMB18.3 million), were US\$177.4 million (equivalent to RMB1,256.0 million), and had been utilized as follows as at December 31, 2020:

Business objective as stated in the offering circular	Percentage of total net proceeds	Planned use of actual net proceeds <i>RMB'million</i>	Utilized net proceeds up to December 31, 2020 <i>RMB'million</i>	Proceeds unused⁽¹⁾ <i>RMB'million</i>	Expected timeline for utilizing the remaining balance of net proceeds
Business development and expansion	70%	879.19	266.42	612.77	Expected to be fully utilized by December 31, 2022
Working capital and general corporate purposes	30%	376.80	214.64	162.16	Expected to be fully utilized by December 31, 2021

On December 30, 2020, Viva Biotech BVI issued the December 2025 Convertible Bonds. The net proceeds, after deducting the transaction cost of US\$4.2 million (equivalent to RMB27.5 million), were US\$275.8 million (equivalent to RMB1,801.6 million), and has not been utilized as of December 31, 2020. The net proceeds is expected to be utilized in the following manner:

Business objective as stated in the offering circular	Percentage of total net proceeds	Planned use of actual net proceeds <i>RMB'million</i>	Expected timeline for utilizing the remaining balance of net proceeds
Business development and expansion including refinancing of the the acquisition cost of 80% of equity interest in Langhua Pharmaceutical	90%	1621.4	Expected to be fully utilized by December 31, 2021
Other working capital and general corporate purposes	10%	180.2	Expected to be fully utilized by December 31, 2021

Notes:

- As at December 31, 2020, net proceeds not yet utilized were deposited with certain licensed banks in Hong Kong or the PRC.
- The Company intends to use the remaining net proceeds in the coming years in accordance with the purpose set out in the relevant offering circulars, the Company will continue to evaluate the Group's business objectives and will change or modify the plans against the changing market conditions to suit the business growth of the Group. We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

FINAL DIVIDEND

The Directors recommended the payment of a final dividend of HK\$0.01 per share, representing an aggregate amount of approximately RMB16.2 million (using an exchange rate of HK\$1:RMB0.8444, being the average central parity rate as announced by the People's Bank of China on March 30, 2021) based on the total issued shares of the Company as of the date of this announcement. Subject to the approval of the Shareholders at the annual general meeting of the Company, the proposed final dividend is expected to be paid on or about Friday, July 9, 2021 to the Shareholders whose names appear on the registers of members of the Company on June 22, 2021. As disclosed in the interim results announcement dated August 31, 2020, the Board has resolved to declare an interim dividend of HK\$0.017 per share for the six months ended June 30, 2020.

ANNUAL GENERAL MEETING

The 2021 annual general meeting (the "2021 AGM") will be held on Thursday, June 10, 2021. Notice of the 2021 AGM and all other relevant documents will be published and despatched to shareholders of the Company in due course.

CLOSURE OF THE REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- (i) from Monday, June 7, 2021 to Thursday, June 10, 2021, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2021 AGM. In order to be eligible to attend and vote at the 2021 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Friday, June 4, 2021; and
- (ii) from Friday, June 18, 2021 to Tuesday, June 22, 2021, both days inclusive and during which period no share transfer will be effected, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 pm on Thursday, June 17, 2021.

SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the Board, as at the date of this announcement, the Company has maintained the public float as required under the Listing Rules.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability. The Board has adopted the principles and the code provisions of the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules to ensure that the Company’s business activities and decision making processes are regulated in a proper and prudent manner.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and performed by different individuals. Under the current organization structure of the Company, Mr. Mao is the chairman and chief executive officer of the Company. With his extensive experience in the industry, the Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership, allow for effective and efficient planning and implementation of business decisions and strategies, and is beneficial to the business prospects and management of the Group. Although Mr. Mao performs both the roles of chairman and chief executive officer, the division of responsibilities between the chairman and chief executive officer is clearly established. In general, the chairman is responsible for supervising the functions and performance of the Board, while the chief executive officer is responsible for the management of the business of the Group. The two roles are performed by Mr. Mao distinctly. We also consider that the current structure does not impair the balance of power and authority between the Board and the management of the Company given the appropriate delegation of the power of the Board and the effective functions of the independent non-executive Directors. However, it is the long-term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

Save as disclosed above, during the Reporting period the Company has complied with the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “**Model Code**”) as its code of conduct regarding dealings in the securities of the Company by the Directors and the Company’s senior management who, because of his/her office or employment, is likely to possess inside information in relation to the Company’s securities.

Upon specific enquiry, all Directors confirmed that they have complied with the Model Code during the Reporting Period. In addition, the Company is not aware of any non-compliance of the Model Code by the senior management of the Company during the Reporting Period.

REVIEW OF FINANCIAL STATEMENTS

Audit Committee

The Audit Committee of the Company had reviewed together with the management and external auditor the accounting principles and policies adopted by the Company and the audited consolidated financial statements for the year ended December 31, 2020. The Audit Committee confirms that the applicable accounting principles, standards and requirements have been complied with, and that adequate disclosures have been made. The Audit Committee has also discussed the auditing, risk management, internal control and financial reporting matters.

The annual results for the year ended December 31, 2020 have been prepared in accordance with IFRSs.

Scope of Work of Ernst & Young

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended December 31, 2020 as set out in this announcement have been agreed by the Group's auditors, Ernst & Young, to the amounts set out in the Group's audited consolidated financial statements for the year.

The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.vivabiotech.com). The annual report of the Company for the year ended December 31, 2020 will be despatched to the shareholders of the Company and published on the aforesaid websites in due course.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended December 31, 2020

	Notes	2020 RMB'000	2019 RMB'000
REVENUE	3	696,958	323,057
Cost of services		<u>(392,092)</u>	<u>(167,184)</u>
Gross profit		304,866	155,873
Other income and gains	3	69,633	65,321
Selling and distribution expenses		(13,095)	(3,571)
Administrative expenses		(110,163)	(51,215)
Research and development expenses		(66,041)	(44,954)
Listing expenses		–	(17,909)
Fair value gain on financial assets at fair value through profit or loss (“FVTPL”)	11	106,941	217,630
Impairment losses on financial assets, net		(3,029)	(1,812)
Other expenses		(35,653)	(31)
Finance costs	4	(62,134)	(2,261)
Share of losses of:			
A joint venture		(487)	(1,874)
An associate		<u>–</u>	<u>(34)</u>
PROFIT BEFORE FAIR VALUE LOSS ON FINANCIAL LIABILITIES AT FVTPL AND TAX		190,838	315,163
Fair value loss on financial liabilities at FVTPL		<u>(547,048)</u>	<u>(34,238)</u>
(LOSS)/PROFIT BEFORE TAX	5	(356,210)	280,925
Income tax expense	6	<u>(22,660)</u>	<u>(15,053)</u>
(LOSS)/PROFIT FOR THE YEAR		<u>(378,870)</u>	<u>265,872</u>
Attributable to:			
Owners of the parent		(386,880)	265,872
Non-controlling interests		<u>8,010</u>	<u>–</u>
		<u>(378,870)</u>	<u>265,872</u>
		RMB	RMB
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	7		
– Basic		<u>(0.25)</u>	<u>0.19</u>
– Diluted		<u>(0.25)</u>	<u>0.18</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2020

	2020 RMB'000	2019 <i>RMB'000</i>
(LOSS)/PROFIT FOR THE YEAR	<u>(378,870)</u>	<u>265,872</u>
OTHER COMPREHENSIVE (EXPENSE)/INCOME		
Other comprehensive (expense)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences:		
Exchange differences on translation of foreign operations	<u>(85,161)</u>	<u>231</u>
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR FOR THE YEAR, NET OF TAX	<u>(85,161)</u>	<u>231</u>
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR	<u>(464,031)</u>	<u>266,103</u>
Attributable to:		
Owners of the parent	(472,005)	266,103
Non-controlling interests	<u>7,974</u>	<u>–</u>
	<u>(464,031)</u>	<u>266,103</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At December 31, 2020

	<i>Notes</i>	2020	2019
		RMB'000	RMB'000
Non-Current Assets			
Property, plant and equipment		520,290	106,348
Right-of-use assets		216,720	50,638
Goodwill	9	1,847,723	–
Other intangible assets	10	469,462	–
Interests in a joint venture		–	4,228
Financial assets at FVTPL	11	924,532	622,854
Contract assets		15,381	5,405
Rental deposits and prepayments		498,485	11,097
Deferred tax assets		9,943	3,789
Pledged deposits		300,000	–
		<u>4,802,536</u>	<u>804,359</u>
Current Assets			
Inventories		164,745	8,530
Trade and bill receivables	12	320,510	57,505
Contract costs		7,703	5,612
Prepayments, other receivables and other assets		100,133	83,151
Financial assets at FVTPL	11	49,500	29,629
Derivative financial instruments		18,843	–
Pledged deposits	13	381,658	5,908
Cash and cash equivalents	13	2,308,452	904,091
		<u>3,351,544</u>	<u>1,094,426</u>
Current Liabilities			
Trade and bills payables	14	295,704	7,552
Other payables and accruals		243,860	28,394
Contract liabilities		13,386	635
Interest-bearing bank borrowings	15	155,554	525
Lease liabilities		11,411	24,458
Income tax payable		15,757	11,399
		<u>735,672</u>	<u>72,963</u>
Net Current Assets		<u>2,615,872</u>	<u>1,021,463</u>
Total Assets Less Current Liabilities		<u>7,418,408</u>	<u>1,825,822</u>

	<i>Notes</i>	2020 RMB'000	2019 <i>RMB'000</i>
Non-Current Liabilities			
Interest-bearing bank borrowings	<i>15</i>	1,306,786	1,340
Deferred income		22,710	15,844
Convertible bonds – debt component	<i>16</i>	1,491,848	–
Convertible bonds – embedded derivative instrument	<i>16</i>	200,291	–
Lease liabilities		3,912	23,084
Deferred tax liabilities		119,184	8,160
Other non-current liabilities		516,846	–
		<u>3,661,577</u>	<u>48,428</u>
Net Assets		<u>3,756,831</u>	<u>1,777,394</u>
EQUITY			
Equity attributable to owners of the parent			
Share capital	<i>17</i>	323	261
Treasury shares	<i>17</i>	(52,683)	–
Equity component of convertible bonds		468,731	–
Reserves		3,340,460	1,777,133
		<u>3,756,831</u>	<u>1,777,394</u>
Total Equity		<u>3,756,831</u>	<u>1,777,394</u>

NOTES:

1.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs (which include all IFRSs, International Accounting Standards (“IASs”) and interpretations) issued by the IASB, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, derivative financial instruments and embedded derivative components of convertible bonds which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

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

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

1.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised IFRSs for the first time for the current year's financial statements.

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>
Amendment to IFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised IFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “**Conceptual Framework**”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) 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 initial application, the acquisition of a 100% equity interest of Shanghai Viva Qizhi which was completed on March 9, 2020 was identified as asset acquisition.
- (c) Amendments to IFRS 9, IAS 39 and IFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“**RFR**”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 hedging relationships.
- (d) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the 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 for annual periods beginning on or after June 1, 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any impact on the financial position and performance of the Group.
- (e) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- (a) Drug discovery services: structure-based drug discovery services to biotechnology and pharmaceutical customers for their pre-clinical stage innovative drug development; and
- (b) Contract Development Manufacture Organization (“CDMO”) and commercialisation services: contract development and manufacturing services for small molecule APIs and intermediates and trading of APIs, intermediates and formulations.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment. The adjusted (loss)/profit before tax is measured consistently with the Group’s (loss)/profit before tax except that other income and gains, selling and distribution expenses, administrative expenses, research and development expenses, listing expenses, fair value gain on financial assets at FVTPL, impairment losses on financial assets, net, other expenses, finance costs, share of losses of a joint venture or an associate, and fair value loss on financial liabilities at FVTPL are excluded from such measurement. No analysis of segment assets and liabilities is presented as management does not regularly review such information for the purposes of resource allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

The following is an analysis of the Group’s revenue and results by reportable segments.

	Drug discovery services <i>RMB’000</i>	CDMO and commercialisation services <i>RMB’000</i>	Total <i>RMB’000</i>
Year ended December 31, 2020			
Segment revenue	438,808	258,150	696,958
Segment results	209,793	95,073	304,866
<i>Reconciliation:</i>			
Other income and gains			69,633
Selling and distribution expenses			(13,095)
Administrative expenses			(110,163)
Research and development expenses			(66,041)
Fair value gain on financial assets at FVTPL			106,941
Impairment losses on financial assets, net			(3,029)
Other expenses			(35,653)
Finance costs			(62,134)
Share of losses of a joint venture			(487)
Fair value loss on financial liabilities at FVTPL			(547,048)
Group’s loss before tax			(356,210)

	Drug discovery services RMB'000	CDMO and commercialisation services RMB'000	Total RMB'000
Year ended December 31, 2019			
Segment revenue	323,057	–	323,057
Segment results	<u>155,873</u>	<u>–</u>	<u>155,873</u>
<i>Reconciliation:</i>			
Other income and gains			65,321
Selling and distribution expenses			(3,571)
Administrative expenses			(51,215)
Research and development expenses			(44,954)
Listing expenses			(17,909)
Fair value gain on financial assets at FVTPL			217,630
Impairment losses on financial assets, net			(1,812)
Other expenses			(31)
Finance costs			(2,261)
Share of losses of:			
A joint venture			(1,874)
An associate			(34)
Fair value loss on financial liabilities at FVTPL			<u>(34,238)</u>
Group's profit before tax			<u><u>280,925</u></u>

Geographical information

(a) Revenue from external customers

	2020 RMB'000	2019 RMB'000
United States of America ("USA")	396,927	243,592
European Union	127,479	1,802
PRC	116,247	74,477
Other countries/regions	<u>56,305</u>	<u>3,186</u>
	<u><u>696,958</u></u>	<u><u>323,057</u></u>

The revenue information above is based on the locations of the customers' operations.

(b) *Non-current assets*

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Mainland China	<u>1,702,446</u>	<u>169,740</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments, goodwill, contract assets and deferred tax assets.

Information about a major customer

Revenue of approximately RMB107,206,000 (2019: Nil) was derived from sales by the CDMO and commercialisation services segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

3. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers	<u>696,958</u>	<u>323,057</u>

Revenue from contracts with customers

(a) Disaggregated revenue information

For the year ended December 31, 2020

Segments	Drug discovery services <i>RMB'000</i>	CDMO and commercialisation services <i>RMB'000</i>	Total <i>RMB'000</i>
Types of goods or services			
Revenue from non-investees			
FTE services	269,870	–	269,870
FFS services	76,671	–	76,671
Sale of products	–	258,150	258,150
	<u>346,541</u>	<u>258,150</u>	<u>604,691</u>
Revenue from investees			
FTE services	29,523	–	29,523
FFS services	2,729	–	2,729
SFE services	60,015	–	60,015
	<u>92,267</u>	<u>–</u>	<u>92,267</u>
Total revenue from contracts with customers	<u><u>438,808</u></u>	<u><u>258,150</u></u>	<u><u>696,958</u></u>
Geographical markets			
USA	359,565	37,362	396,927
European Union	4,216	123,263	127,479
PRC	65,046	51,201	116,247
Other countries/regions	9,981	46,324	56,305
	<u>438,808</u>	<u>258,150</u>	<u>696,958</u>
Total revenue from contracts with customers	<u><u>438,808</u></u>	<u><u>258,150</u></u>	<u><u>696,958</u></u>
Timing of revenue recognition			
Goods/services transferred at a point in time	79,400	258,150	337,550
Services transferred over time	359,408	–	359,408
	<u>359,408</u>	<u>–</u>	<u>359,408</u>
Total revenue from contracts with customers	<u><u>438,808</u></u>	<u><u>258,150</u></u>	<u><u>696,958</u></u>

For the year ended December 31, 2019

Segment	Drug discovery services <i>RMB'000</i>
Types of goods or services	
Revenue from non-investees	
FTE services	181,009
FFS services	64,548
	<u>245,557</u>
Revenue from investees	
FTE services	31,902
FFS services	1,936
SFE services	43,662
	<u>77,500</u>
Total revenue from contracts with customers	<u><u>323,057</u></u>
Geographical markets	
USA	243,592
PRC	74,477
European Union	1,802
Other countries/regions	3,186
	<u>323,057</u>
Total revenue from contracts with customers	<u><u>323,057</u></u>
Timing of revenue recognition	
Services transferred at a point in time	66,484
Services transferred over time	256,573
	<u>323,057</u>
Total revenue from contracts with customers	<u><u>323,057</u></u>

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
FFS services	<u><u>635</u></u>	<u><u>1,399</u></u>

(b) Performance obligations

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

FTE services

For services under the FTE model, revenue is recognised over time at the amount to which the Group has the right to invoice for services performed. Therefore, under practical expedients allowed by IFRS 15.121, the Group does not disclose the value of unsatisfied performance obligations under the FTE model.

FFS services

The performance obligation is satisfied upon finalisation, delivery and acceptance of the deliverable units or after the end of a confirmation period of the report and the payment is generally due within 30 days from the date of billing. Under FFS model, contracts are generally within an original expected length of one year or less, therefore, the expedients allowed by IFRS 15.121 is also applied.

SFE services

For services under the SFE model, revenue is recognised over time at the amount to which the Group is entitled to receive the equity interests of the customer. The customers would transfer certain number of their equity interests to the Group upon reaching pre-set milestones of FTE service value.

Sale of products

The performance obligation is satisfied upon delivery of the products and payment is generally due within 30 to 90 days from delivery. For sales of products, contracts are generally within an original expected length of one year or less, therefore, the expedients allowed by IFRS 15.121 is also applied.

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at December 31 are as follows:

	2020 RMB'000	2019 <i>RMB'000</i>
SFE services	117,618	71,170

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue within three years.

	2020 RMB'000	2019 <i>RMB'000</i>
Other income		
Interest income		
– Banks	16,545	14,904
– imputed interest income on rental deposits	165	182
Government grants	9,448	5,784
	26,158	20,870
Gains		
Gain on deemed disposal of interests in associates	–	11,684
Gain on deemed disposal of interests in a joint venture	6,303	–
Net foreign exchange gain	–	32,736
Gain on repurchase of convertible bonds	4,447	–
Gain on derivative financial instruments	30,974	–
Gain on disposal of right-of-use assets	1,612	3
Others	139	28
	43,475	44,451
	69,633	65,321

4. FINANCE COSTS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interest on convertible bonds	52,117	–
Interest on lease liabilities	1,173	1,973
Interest expenses on bank loans	8,844	288
	<u>62,134</u>	<u>2,261</u>

5. (LOSS)/PROFIT BEFORE TAX

The Group's (loss)/profit before tax is arrived at after charging/(crediting):

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost of inventories sold	147,338	–
Cost of services provided	44,599	33,701
Depreciation of property, plant and equipment	45,671	16,496
Depreciation of right-of-use assets	18,376	17,581
Amortisation of other intangible assets	6,139	–
Less: capitalised in contract costs	(706)	(439)
Less: capitalised in inventories	(820)	–
	<u>68,660</u>	<u>33,638</u>
Staff cost (including directors' emoluments):		
– Independent non-executive directors' fee	597	285
– Salaries and other benefits	199,085	126,503
– Retirement benefits scheme contributions	19,185	16,898
– Share-based payment expenses	14,047	8,330
	<u>232,914</u>	<u>152,016</u>
Less: capitalised in contract costs	(3,476)	(2,275)
Less: capitalised in inventories	(2,347)	–
	<u>227,091</u>	<u>149,741</u>
Foreign exchange losses/(gains), net	19,790	(32,736)
Fair value gain on derivative financial instruments	(30,974)	–
Transaction costs of business combination	15,582	–
Impairment losses on financial assets, net	3,029	1,812
Loss on disposal of items of property, plant and equipment	273	31
Auditors' remuneration	<u>3,800</u>	<u>4,227</u>

6. 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 analysed as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Current tax		
– Hong Kong	2,349	2,247
– Mainland China	18,122	10,543
	<u>20,471</u>	<u>12,790</u>
Deferred tax	2,189	2,263
	<u>22,660</u>	<u>15,053</u>

Cayman Islands/BVI

Pursuant to the relevant rules and regulations of the Cayman Islands and the BVI, the Company and the subsidiary of the Group incorporated therein are not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong

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 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%.

Mainland China

The provision for PRC corporate income tax is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC 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 renewed its “High and New Technology Enterprise” qualification in 2019 and is entitled to the preferential tax rate of 15% from 2019 to 2021.

Langhua Pharmaceutical renewed its “High and New Technology Enterprise” qualification in 2018 and is entitled to the preferential tax rate of 15% from 2018 to 2020.

A reconciliation of the tax expense applicable to (loss)/profit before tax using the applicable tax rates for the regions in which the majority of subsidiaries of the Company are domiciled to the tax expense at the effective tax rates is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(Loss)/profit before tax	(356,210)	280,925
Tax at the applicable tax rate of 25%	(89,053)	70,231
Preferential income tax rates applicable to subsidiaries	(10,427)	(10,234)
Adjustments in respect of current tax of previous years	(1,314)	305
Expenses not deductible for tax	167,239	18,820
Additional deduction allowance for research and development expenses	(5,319)	(3,061)
Income not subject to tax	(37,303)	(61,867)
Effect of tax rate differences in other jurisdictions	(1,163)	859
Tax charge	22,660	15,053

7. (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 year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,571,507,000 (2019: 1,400,446,000) in issue during the year.

The diluted loss per share for the year ended December 31, 2020 did not assume the conversion of the convertible bonds nor the exercise of Post-IPO Share Incentive Schemes as their inclusion would be anti-dilutive.

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended December 31, 2019 has been retrospectively adjusted for the effect of the Share Split and the Capitalization Issue. The weighted average number of ordinary shares for the purpose of calculating diluted earnings per share for the year ended December 31, 2019 has been retrospectively adjusted for the effect of the Share Split and the Capitalization Issue and the Pre-IPO Share Incentive Schemes but did not assume the conversion of the Series B Preferred Shares as their inclusion would be anti-dilutive.

The calculation of the basic and diluted (loss)/earnings per share are based on:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
(Loss)/earnings		
(Loss)/profit attributable to equity holders of the parent, used in the basic and diluted earnings per share	(386,880)	265,872

Number of shares ('000)

	2020	2019
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	1,571,507	1,400,446
Effect of dilutive potential ordinary shares:		
Pre-IPO Share Incentive Schemes of the Company	—	84,496
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,571,507	1,484,942

8. DIVIDENDS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Interim – HK\$0.0170 (equivalent to RMB0.0150) (2019: HK\$0.0050 (equivalent to RMB0.0045) per ordinary share)	28,755	7,148
Proposed final – HK\$0.0100 (equivalent to RMB0.0084) (2019: HK\$0.015 (equivalent to RMB0.0136)) per ordinary share	16,181	23,037
Special dividend declared and paid	–	120,747
	<u>44,936</u>	<u>150,932</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

9. GOODWILL

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cost at January 1, net of accumulated impairment	–	–
Acquisition of a subsidiary	1,847,723	–
Impairment during the year	–	–
Cost and net carrying amount at December 31	<u>1,847,723</u>	<u>–</u>
At December 31		
Cost	1,847,723	–
Accumulated impairment	–	–
Net carrying amount	<u>1,847,723</u>	<u>–</u>

Impairment testing of goodwill

The goodwill comprises the fair value of expected business synergies arising from the acquisitions, which is not separately recognised.

Goodwill acquired through business combination has been allocated to the relevant CDMO and commercialization service from which the goodwill was resulted. This business is treated as individual cash-generating unit (“CGU”) for impairment testing.

The carrying amount of goodwill allocated to the operation of CGU is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
CDMO and commercialization service	<u>1,847,723</u>	<u>–</u>

The recoverable amount of the CGU has been determined based on fair value less disposal cost calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management.

Assumptions were used in the value in use calculation of the CGU for December 31, 2020. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Gross margins and operating expenses – Gross margins are based on the average gross margins achieved in the year immediately before the budget year and are increased over the budget period for anticipated efficiency improvements. Estimates on operating expenses reflect past experience and management’s commitment to maintain them at an acceptable level.

Discount rates – the rates reflect management’s estimate of the risks specific to each of the units. The discount rate applied to the cash flow projections beyond the one-year period is 15%. The discount rate used is before tax and reflects specific risk relating to the relevant CGU.

Growth rates – the rates are based on published industry research. The growth rate used to extrapolate the cash flows of the CGU beyond the five-year period from the end of the reporting period is 3%.

The values assigned to the key assumptions on gross margins and operating expenses, discount rates and growth rates are consistent with management’s past experience and external information sources.

10. OTHER INTANGIBLE ASSETS

	Patents <i>RMB'000</i>	Customer relationships <i>RMB'000</i>	Total <i>RMB'000</i>
Cost at January 1, net of accumulated amortisation	–	–	–
Acquisition of a subsidiary	137,401	338,200	475,601
Amortisation provided during the year	(2,381)	(3,758)	(6,139)
	<u>135,020</u>	<u>334,442</u>	<u>469,462</u>
Cost and net carrying amount at December 31	<u>135,020</u>	<u>334,442</u>	<u>469,462</u>
At December 31			
Cost	137,401	338,200	475,601
Accumulated impairment	(2,381)	(3,758)	(6,139)
	<u>135,020</u>	<u>334,442</u>	<u>469,462</u>
Net carrying amount	<u>135,020</u>	<u>334,442</u>	<u>469,462</u>

11. FINANCIAL ASSETS AT FVTPL

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Unlisted investments at FVTPL	924,532	647,271
Financial products	49,500	5,212
	<u>974,032</u>	<u>652,483</u>
Analysed for reporting purposes as:		
Current assets	49,500	29,629
Non-current assets	924,532	622,854
	<u>974,032</u>	<u>652,483</u>

(a) **Unlisted investments at FVTPL**

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	204,740
Acquired	192,487
Recognised from SFE revenue	41,625
Recognised from deemed disposal of an associate	14,328
Gain on fair value change	212,700
Disposal	(18,326)
Exchange adjustment	(283)
	<hr/>
At December 31, 2019 and January 1, 2020	647,271
Acquired	171,381
Recognised from SFE revenue	51,297
Recognised from deemed disposal of a joint venture	10,044
Gain on fair value change	102,010
Disposal	(33,344)
Exchange adjustment	(24,127)
	<hr/>
At December 31, 2020	<u>924,532</u>

(b) **Financial products classified as financial assets at FVTPL**

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)
	<hr/>
At December 31, 2019 and January 1, 2020	5,212
Acquired	3,313,277
Acquisition of a subsidiary	49,000
Gain on fair value change	4,931
Disposal	(3,322,920)
	<hr/>
At December 31, 2020	<u>49,500</u>

At December 31, 2020, 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 (at December 31, 2019: 2.9% per annum).

12. TRADE AND BILL RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables		
– related parties	95	1,987
– third parties	321,476	57,275
Bills receivables	7,044	–
Impairment	<u>(8,105)</u>	<u>(1,757)</u>
	<u>320,510</u>	<u>57,505</u>

The Group allows a credit period ranging from 30 to 90 days to its customers (2019: 90 days). The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the involve date and net of loss allowance, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 6 months	311,335	50,186
6 months to 1 year	8,184	3,926
1 to 2 years	<u>991</u>	<u>3,393</u>
	<u>320,510</u>	<u>57,505</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At beginning of year	1,757	893
Acquisition of subsidiaries	7,653	–
Impairment losses, net	(931)	1,812
Amount written off as uncollectible	<u>(374)</u>	<u>(948)</u>
At end of year	<u>8,105</u>	<u>1,757</u>

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

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

As at December 31, 2020

	Ageing			Total
	Less than 6 months	7 to 12 months	Over 12 months	
Expected credit loss rate	2.3%	3.9%	26.1%	2.5%
Gross carrying amount (RMB'000)	318,760	8,514	1,341	328,615
Expected credit losses (RMB'000)	7,425	330	350	8,105

As at December 31, 2019

	Ageing			Total
	Less than 6 months	7 to 12 months	Over 12 months	
Expected credit loss rate	2.3%	3.7%	10.7%	3.0%
Gross carrying amount (RMB'000)	51,383	4,078	3,801	59,262
Expected credit losses (RMB'000)	1,197	152	408	1,757

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Cash and bank balances	2,308,452	904,091
Pledged deposits	681,658	5,908
	2,990,110	909,999
Less:		
Pledged time deposits for letters of credit	642,000	–
Pledged time deposits for notes payable	29,236	–
Restricted bank balances	10,422	5,908
Cash and cash equivalents	2,308,452	904,091
Denominated in RMB	294,840	109,310
Denominated in US\$	2,006,508	773,449
Denominated in HK\$	7,096	21,332
Denominated in other currencies	8	–
Cash and cash equivalents	2,308,452	904,091

The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

At December 31, 2020, the restricted bank balances of RMB10,422,000 (2019: RMB5,908,000), 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.

14. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 3 months	230,157	5,349
3 months to 1 year	65,260	1,188
Over 1 year	287	1,015
	<u>295,704</u>	<u>7,552</u>

The trade and bills payables are non-interest-bearing.

15. BANK BORROWINGS

	2020			2019		
	Effective Interest Rate (%)	Maturity	<i>RMB'000</i>	Effective Interest Rate (%)	Maturity	<i>RMB'000</i>
Current						
Bank loans – unsecured	One-year 3.92%	2021	25,000	–	–	–
Current portion of long term bank loans – secured and guaranteed	One-year Loan prime rate (“LPR”) +50 bps	2021	130,000	–	–	–
bank loans – secured	Eight-year LPR*110%	2021	554	Eight-year LPR*110%	2020	525
			<u>155,554</u>			<u>525</u>
Non-current						
Bank loans – secured and guaranteed	One-year LPR+50 bps	2025	1,306,000	–	–	–
Bank loans – secured	Eight-year LPR*110%	2023	786	Eight-year LPR*110%	2023	1,340
			<u>1,306,786</u>			<u>1,340</u>

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	155,554	525
In the second year	330,584	554
In the third to fifth years, inclusive	976,202	786
	<u>1,462,340</u>	<u>1,865</u>

16. CONVERTIBLE BONDS

(a) US\$180,000,000 convertible bonds

On February 11, 2020, Viva Incubator HK 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 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, other issues at less than current market price, modification of rights of conversion, other offers to shareholders.

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 February 11, 2025, 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 February 11, 2025 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 US\$180,000,000 convertible bonds comprise two components:

- (i) Debt component was initially measured at fair value amounting to US\$129,863,000 (equivalent to RMB919,365,000). It is subsequently measured at amortised cost using the effective interest method after considering the effect of the transaction costs.
- (ii) Derivative components comprise conversion options and early redemption options (not closely related to the debt component), which was 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 US\$180,000,000 convertible bonds were allocated to the debt and derivative components in proportion to their respective fair values.

The total transaction costs relating to the derivative components were charged to profit or loss in the current year. Transaction costs relating to the debt component were included in the carrying amount of the debt portion and amortised over the period of the US\$180,000,000 convertible bonds using the effective interest method.

	Debt component	Embedded derivative components	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Issue of US\$180,000,000 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	(19,926)	(8,234)	(28,160)
Interest charged	36,875	–	36,875
Repurchase*	(22,981)	(8,874)	(31,855)
Conversion**	(740,149)	(684,594)	(1,424,743)
Loss arising on changes of fair value	–	547,048	547,048
	<u>159,968</u>	<u>200,291</u>	<u>360,259</u>
As at December 31, 2020	<u>159,968</u>	<u>200,291</u>	<u>360,259</u>

* 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.

** Up to December 31, 2020, an aggregate principal amount of US\$148,000,000 were converted into 194,118,050 ordinary shares.

(b) US\$280,000,000 convertible bonds

On December 30, 2020, Viva Biotech BVI issued a five-year 1% convertible bonds in an aggregate principal amount of US\$280,000,000, which was guaranteed by the Company.

The conversion period is on or after February 9, 2021 up to the close of business on the 10th day prior to December 30, 2025 and the price of ordinary shares of the Company to be issued in exercise of the right of conversion is initially HK\$11.637 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, other issues at less than current market price, modification of rights of conversion, other offers to shareholders. The number of shares to be issued on conversion will be determined at the fixed exchange rate of HK\$7.7519 to US\$1.

On December 30, 2025, Viva Biotech BVI would redeem all unconverted bonds from bondholders at the price of 105.23% of its principal amount, together with accrued and unpaid interest thereon.

On December 30, 2023, the bondholders would have the right to ask Viva Biotech BVI to redeem all or some of bonds at 103.08% 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 Biotech BVI:

- (i) may at any time after January 9, 2024 and prior to December 30, 2025 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 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% of the applicable early redemption amount for each bond divided by the conversion ratio then applicable; or
- (ii) may at any time prior to December 30, 2025 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 fair value of the debt component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

The US\$280,000,000 convertible bonds have been split into the debt and equity components as follows:

	<i>RMB'000</i>
Issue of US\$280,000,000 convertible bonds	1,829,100
Equity component	(475,880)
Direct transaction costs attributable to the debt component	<u>(20,328)</u>
Debt component at the issuance date	1,332,892
Interest expense	513
Exchange realignment	<u>(1,525)</u>
Debt component at December 31, 2020	<u><u>1,331,880</u></u>

17. SHARE CAPITAL/TREASURY SHARES

Shares

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Issued and fully paid:		
1,917,720,747 (2019: 1,561,818,398) ordinary shares	<u><u>323</u></u>	<u><u>261</u></u>

Share Capital

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, 2019	246,917,810	164
Share split	740,753,430	–
Automatic conversion of Series B Preferred Shares upon Global Offering	64,934,128	11
Shares issued pursuant to Capitalisation Issue	102,394,632	17
Shares issued upon Global Offering	345,000,000	59
Exercise of over-allotment option	7,281,000	1
Share issued upon exercise of share options	88,901,398	15
Share repurchase and cancellation	<u>(34,364,000)</u>	<u>(6)</u>
At December 31, 2019 and January 1, 2020	1,561,818,398	261
Share repurchase and cancellation*	(3,652,500)	(1)
Share issued upon exercise of share options	35,596,799	6
Conversion of convertible bonds	194,118,050	34
Placing of new shares**	<u>130,000,000</u>	<u>23</u>
At December 31, 2020	<u><u>1,917,880,747</u></u>	<u><u>323</u></u>

* 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 3,652,500 shares were repurchased and cancelled at a total consideration of HK\$15,192,000 (equivalent to approximately RMB13,581,000) for the year ended December 31, 2020 (2019: 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)).

** Pursuant to the board resolution passed on July 3, 2020, an aggregate of 130,000,000 placing shares were placed at the placing price of HK\$8.15 per placing share on July 10, 2020.

Treasury Shares

	Number of shares repurchased	Treasury shares RMB'000
At December 31, 2019 and January 1, 2020	–	–
Repurchase of ordinary shares for restricted share units	<u>6,144,000</u>	<u>52,683</u>
At December 31, 2020	<u><u>6,144,000</u></u>	<u><u>52,683</u></u>

18. BUSINESS COMBINATION

On November 12, 2020, the Group acquired an 80% equity interest in Langhua Pharmaceutical. Langhua Pharmaceutical, together with its subsidiaries, Nuobai Pharmaceutical and Nuobai Hong Kong (“**Langhua Pharmaceutical Group**”), are primarily engaged in contract development and manufacturing services for small molecule APIs and intermediates and trading of APIs, intermediates and formulations.

The acquisition is in line with the Company's strategy of vertical integration in the industry chain and expansion into CDMO business, and is a part of the Group's further expansion of its principal business and will further strengthen the Group's overall competitiveness to offer a variety of services and enable the customers of the Group to obtain a more comprehensive support from an integrated drug development services platform.

Consideration

The purchase consideration for the acquisition was in the form of cash, with RMB20,000,000 paid in 2019 and the remaining RMB2,540,000,000 paid in 2020.

Put option over non-controlling interests

Viva Biotech Shanghai has agreed that, in the event that the business of Langhua Pharmaceutical is not listed on the A share stock market of the PRC within 5 years of the date of the share purchase agreement, the vendors may elect to sell their entire remaining equity interest in Langhua Pharmaceutical to Viva Biotech Shanghai (or its nominee) at a consideration of RMB640,000,000.

The vendors may also exercise the Vendors' qualified right of sale in the event that (i) the parties determine another entity rather than Langhua Pharmaceutical as the listing entity for the proposed A share listing but cannot agree on the reorganization (such as the conversion price and the shareholding structure of the listing entity), or (ii) the parties cannot agree on a listing venue rather than a PRC stock exchange, regardless of whether 5 years has elapsed since the date of the share purchase agreement.

The Company has provided a guarantee to Viva Biotech Shanghai's obligations to pay the consideration, acquire the vendors' remaining equity interest in Langhua Pharmaceutical upon exercise of the vendors' qualified right of sale as well as any damages and late payment fee relating to the aforementioned obligations.

The fair values of the identifiable assets and liabilities of Langhua Pharmaceutical Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition <i>RMB'000</i>
Property, plant and equipment	276,576
Right-of-use assets	86,601
Other intangible assets	475,601
Rental deposits and prepayments	13,243
Financial assets at FVTPL	49,000
Inventories	155,079
Derivative financial instruments	12,437
Trade and bills receivables	216,564
Prepayments, other receivables and other assets	50,339
Pledged deposits	40,251
Cash and cash equivalents	101,670
Trade and bills payables	(324,927)
Other payables and accruals	(116,765)
Contract liabilities`	(13,128)
Income tax payables	(1,058)
Interest-bearing bank borrowings	(25,000)
Deferred tax liabilities	(106,137)
	<hr/>
Total identifiable net assets at fair value	890,346
Non-controlling interests arising from a business combination	178,069
	<hr/>
Goodwill on acquisition	1,847,723
	<hr/>
Total purchase consideration	<u>2,560,000</u>

The Group incurred transaction costs of RMB14,170,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

The goodwill recognised is primarily attributed to the expected business synergies arising from the acquisition, which is not separately recognised. The goodwill is not deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of Langhua Pharmaceutical Group is as follows:

	<i>RMB'000</i>
Cash consideration paid	(2,560,000)
Cash and bank balances acquired	<u>101,670</u>
Net outflow of cash and cash equivalents included in cash flows from investing activities	(2,458,330)
Transaction costs of the acquisition included in cash flows from operating activities	<u>14,170</u>
	<u><u>(2,444,160)</u></u>

The fair values of the trade and bills receivables and prepayments, other receivables and other assets as at the date of acquisition amounted to RMB216,564,000 and RMB50,339,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB224,217,000 and RMB50,339,000, respectively, of which an expected credit loss of RMB7,653,000 was recorded in trade and bills receivables.

Since the acquisition, Langhua Pharmaceutical Group contributed RMB258,150,000 to the Group's revenue and RMB40,047,000 to the consolidated profit for the year ended December 31, 2020.

Had the combination taken place at the beginning of the year, the revenue from operations of the Group and the loss of the Group for the year would have been RMB1,518,081,000 and RMB127,490,000, respectively.

APPRECIATION

On behalf of the Board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

By Order of the Board
Viva Biotech Holdings
MAO Chen Cheney
Chairman and Chief Executive Officer

Hong Kong, March 30, 2021

As at the date of this announcement, the Board comprises four Executive Directors, namely, Mr. Mao Chen Cheney (Chairman), Mr. Wu Ying, Mr. Hua Fengmao and Mr. Ren Delin; a Non-executive Director, namely, Ms. Sun Yanyan; and three Independent Non-executive Directors, namely, Mr. Fu Lei, Ms. Li Xiangrong and Mr. Wang Haiguang.