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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)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO 80% OF THE EQUITY INTEREST OF LANGHUA PHARMACEUTICAL

Financial Adviser to the Company



THE ACQUISITION

The Company refers to its announcements dated December 27, 2019 and May 20, 2020, respectively, in relation to, inter alia, the Acquisition of 80% of the equity interest in Langhua Pharmaceutical.

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

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

Viva Biotech Shanghai has made a RMB20 million Deposit payment pursuant to the Letter as accepted by the Vendors on May 20, 2020. The remainder of the Consideration is payable in two installments, with the First Installment of RMB2,028 million and the Second Installment of RMB512 million (subject to Profit Guarantee Adjustment) to be paid on the Completion Date. In the event that Langhua Pharmaceutical's adjusted audited net profit is less than RMB150 million, any payment made under the Second Installment in excess of the amount calculated under the Profit Guarantee Adjustment shall be returned to Viva Biotech Shanghai within 10 Business Days after completion of Langhua Pharmaceutical's audit for the 2020 financial year. In addition, Viva Biotech Shanghai shall provide an irrevocable bank guarantee of RMB640 million to the Vendor on the Completion Date, which shall secure the performance of the Vendors' Qualified Right of Sale.

LISTING RULES IMPLICATIONS

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

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

GENERAL

The EGM will be convened for the Shareholders to consider and, if thought fit, to approve among other matters, the Acquisition. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the resolutions in respect of the Acquisition or should be required to abstain from voting on the resolutions to be proposed at the EGM.

A circular containing, inter alia, (i) further details of the Acquisition; (ii) the accountants' report of Langhua Pharmaceutical; (iii) unaudited pro forma financial information of the Enlarged Group; (iv) a notice of the EGM; and (v) other information as required by the Listing Rules is expected to be dispatched to the Shareholders on or before September 14, 2020, as additional time is required for the preparation of the relevant information for inclusion in the circular.

Completion is subject to fulfilment of the conditions precedent set out in the Share Purchase Agreement, and the Acquisition may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

INTRODUCTION

The Company refers to its announcements dated December 27, 2019 and May 20, 2020, respectively, in relation to, inter alia, the Acquisition of 80% of the equity interest in Langhua Pharmaceutical.

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

I. THE ACQUISITION

PRINCIPAL TERMS OF THE SHARE PURCHASE AGREEMENT

Date: August 8, 2020

Purchaser: Viva Biotech Shanghai

Guarantor: the Company

Vendors: Ninhua Group, Nuobai Investments, Zhining Investments, Mr. Shan Mengchun, Mr. Yang Nuo and Ms. Ban Yan, being the Vendors and all the shareholders of Langhua Pharmaceutical on the date of the Share Purchase Agreement

Subject matter

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

Consideration

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

- (a) the Deposit of RMB20 million was paid to the Vendors upon their acceptance of the Letter on May 20, 2020 and will be applied to offset the Consideration;
- (b) a further RMB2,028 million will be paid in cash on the Completion Date (the “**First Installment**”);
- (c) subject to the Profit Guarantee Adjustment, a further RMB512 million will be paid in cash on the Completion Date (the “**Second Installment**”); and

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

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

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

The Company refers to its inside information announcement dated May 20, 2020 in relation to the strategic cooperation with and potential acquisition of Langhua Pharmaceutical, which disclosed that, among other things, the potential acquisition was based on a valuation of RMB2,680 million for Langhua Pharmaceutical. The valuation of Langhua Pharmaceutical has increased as a result of arm's length negotiations between the parties, along with the increase in the valuation of market comparable companies in general and the increased Profit Guarantee based on the latest development of Langhua Pharmaceutical, and the Consideration represents an increased valuation of Langhua Pharmaceutical of approximately RMB3,200 million. Market approach has been adopted by the Company in determining the valuation of Langhua Pharmaceutical. The valuation of approximately RMB3,200 million is equivalent to a price-to-earnings ratio of approximately 35 times based on the net profit of Langhua Pharmaceutical for 2019, which is lower than (i) the average price-to-earnings ratio of approximately 135 times of 4 comparable companies which are listed on the Stock Exchange; primarily engaged in providing drug development services including CDMO business and form a sufficient, exhaustive, fair and reasonable list; and (ii) the price-to-earnings ratio of approximately 67 times of the Company. Based on the above, the Board considers the Consideration is fair and reasonable.

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

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

- (i) approximately RMB101.6 million, representing 3.97%, of the Consideration, from proceeds of the Company's initial public offering in May 2019;
- (ii) approximately RMB661.5 million, representing 25.84% of the Consideration, from proceeds of the placing under general mandate in July 2020; and
- (iii) approximately RMB1,796.9 million, representing 70.19% of the Consideration, to be satisfied using other resources (including internal resources and bank facilities) available to the Group.

Profit Guarantee and Performance Bonus

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

$$\text{Profit Guarantee Adjustment} = \text{RMB512 million} \times (\text{LP Adjusted Net Profit} / \text{RMB160 million})$$

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

- (i) labor and R&D cost increase as a result of the increase of R&D and quality control personnel;
- (ii) interest cost savings from repayment of bank borrowings as a result of capital injection to Langhua Pharmaceutical (if any);
- (iii) capital expenditure (such as construction cost) to increase production capacity (if such capital expenditure does not contribute to Langhua Pharmaceutical's production in 2020), financing cost resulting from increased bank borrowings and depreciation of fixed assets occurring after the end of 2019; and
- (iv) fees for intermediaries and other professional service providers arising out of the Acquisition.

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

Conditions precedent

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

The condition precedent above may not be waived by either party. As at the date of this announcement, this condition has not been fulfilled.

Sale of Vendors' Remaining Equity Interest

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

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

Post-completion Obligations

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

- (a) **Board composition:** After the Completion Date, Langhua Pharmaceutical's board shall comprise five directors. Ninhua Group, being one of the Vendors, is entitled to designate one director (who shall serve as the deputy chairman of the board) and Viva Biotech Shanghai is entitled to designate four directors (including the chairman of the board). Ninhua Group shall cease to have board seat after completion of the sale of the Vendors' remaining equity interest upon the exercise of the Vendors' Qualified Right of Sale;
- (b) **Accounting standards:** Langhua Pharmaceutical shall prepare its financial statement in accordance with applicable accounting standards and other applicable PRC laws and regulations, as well as maintaining the same accounting standards as that of the Group. Unless approved by the board of Langhua Pharmaceutical or as required by applicable PRC laws and regulations, the accounting policies and estimates of Langhua Pharmaceutical may not be revised;

- (c) **Management continuity:** Each party to the Share Purchase Agreement shall use all reasonable effort to maintain the stability of Langhua Pharmaceutical's management team and core employees (except for the internal move to a similar or higher position for business purposes or dismissal under the PRC Labor Contract Law) in the coming three years. Langhua Pharmaceutical will adopt a share incentive scheme for its management team and core employees; and
- (d) **Positioning of Langhua Pharmaceutical:** Langhua Pharmaceutical shall be positioned as the Enlarged Group's sole CDMO platform for small molecule drugs and intermediate. Upon Completion, all of the Group's existing and future operation related to the development, optimization and commercialization of small molecule drugs and intermediate shall be conducted under Langhua Pharmaceutical, Ninhua Group has undertaken that during the term when it remains as a shareholder of Langhua Pharmaceutical, it shall not undertake any businesses that will either directly or indirectly compete with the Enlarged Group.

Termination and Completion

The Share Purchase Agreement may be terminated

- (a) by written consent of both the Vendors and Viva Biotech Shanghai;
- (b) by the non-defaulting party through written notice within 10 Business Days after becoming aware of the breach of the defaulting party which has caused material losses to the non-defaulting party or Langhua Pharmaceutical; or
- (c) by the Vendors through written notice within 10 Business Days after becoming aware that the Acquisition is not approved by the Stock Exchange or the Shareholders. In this event the Deposit of RMB20 million shall be forfeited.

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

- (a) within 8 days of the Completion Date, execute all the documents for the public filings with respect to the Acquisition including but not limited (i) the resolution of the existing shareholders approving the Acquisition, the Share Purchase Agreement and the change in directors, supervisors and general manager of Langhua Pharmaceutical, and (ii) the new articles of association of Langhua Pharmaceutical; and
- (b) within 22 days of completing the items set out in paragraph (a) above, complete the public filings in respect of the Acquisition with the relevant government authorities.

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

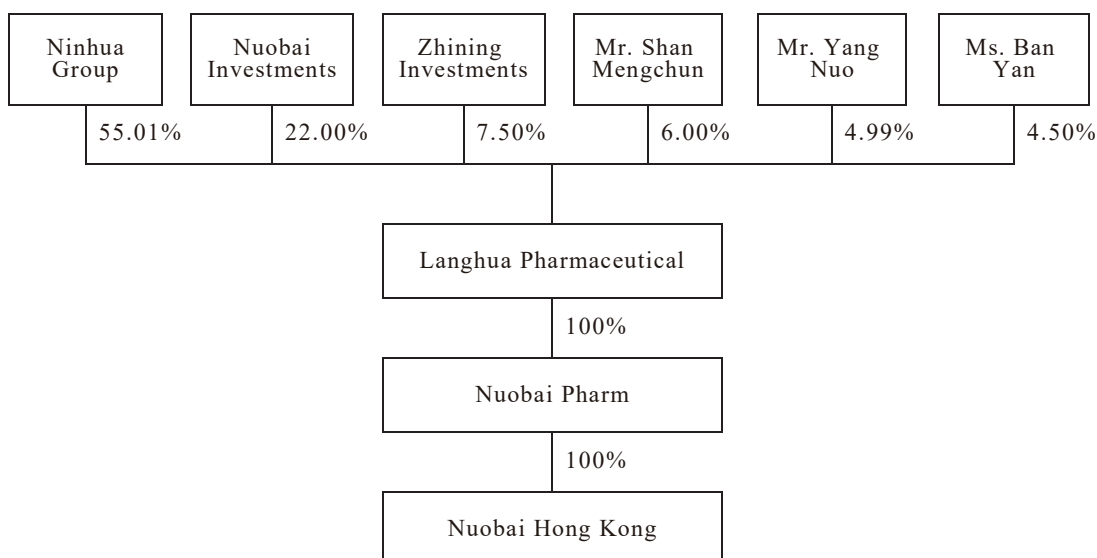
Guarantee by the Company

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

INFORMATION ON LANGHUA PHARMACEUTICAL GROUP

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

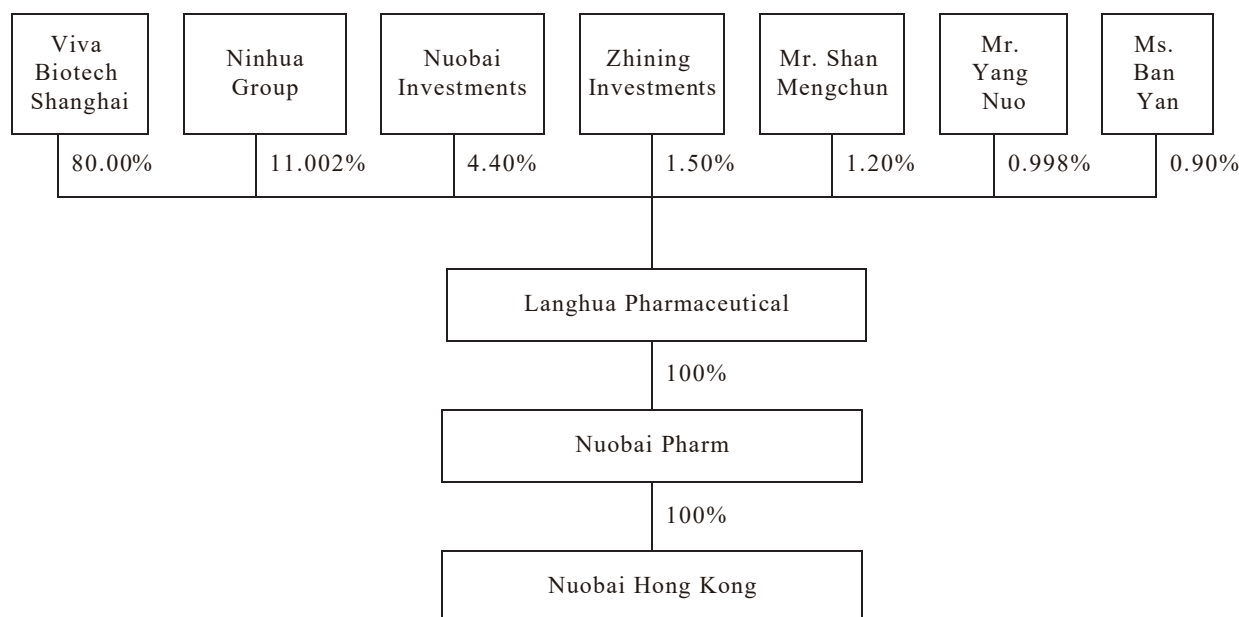
Below is the organization chart of Langhua Pharmaceutical Group as at the date of this announcement.



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

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

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



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

- **CDMO services:** contract development and manufacturing for small molecule APIs and intermediates.
- **Commercialization services:** domestic and international trading of APIs, intermediates and formulations.

Financial information of Langhua Pharmaceutical

Below is a summary of the audited consolidated financial information of Langhua Pharmaceutical for the Track Record Period prepared in accordance with CASBE and audited by a PRC certified public accountant firm:

	For the year ended December 31		
	2017	2018	2019
	RMB'000		
Revenue	357,615	1,131,211	1,236,193
Profit before tax	9,070	101,649	113,559
Profit after tax	8,122	80,625	91,353

The audited net assets of Langhua Pharmaceutical as at December 31, 2019 was approximately RMB315.68 million.

As at the date of this announcement, the Company's auditor is still in the process of preparing the accountants' report of Langhua Pharmaceutical for the three years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 in accordance with IFRS and such report will be included in the circular in relation to the Acquisition. It is expected there is no principal differences between the latest CASBE and IFRS which may have a material impact on the financial information of Langhua Pharmaceutical except for the mandatory effective dates of certain IFRSs including IFRS 9, IFRS 15 and IFRS 16 will be earlier than the corresponding CASBEs. As at the date of this announcement, some potential adjustments on the report audited by the PRC certified public accounting firm have been identified including the accounting treatments on business combination under common control and the share-based payments of Langhua Pharmaceutical.

REASONS FOR AND BENEFITS OF THE ACQUISITION

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

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

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

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

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

Capture the potential growth of CDMO market

According to Frost & Sullivan, the markets for CRO and CMO services have significant market potentials, and the global CMO market is expected to grow from US\$23.8 billion in 2017 to US\$43.2 billion in 2022 with an expected CAGR of 12.7%, which is 3.2% greater than the CAGR recorded from 2013 to 2017. In particular, the size of both CRO and CMO markets in China are expected to double in 2022 as compared to 2017, and the CMO market in China is estimated to grow from US\$2 billion in 2017 to US\$4.9 billion in 2022, representing a CAGR of 20.4%. Among the US\$4.9 billion market, chemical drug is expected to account for 4.2 billion, which is equivalent to 85% of the CMO market.

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

Enhanced geographical coverage

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

Potential synergy with the Group's existing business

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

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

Expanded institutional investors' interest in the Company

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

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

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

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

II. INFORMATION OF THE GROUP AND THE VENDORS

The Group

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

Viva Biotech Shanghai

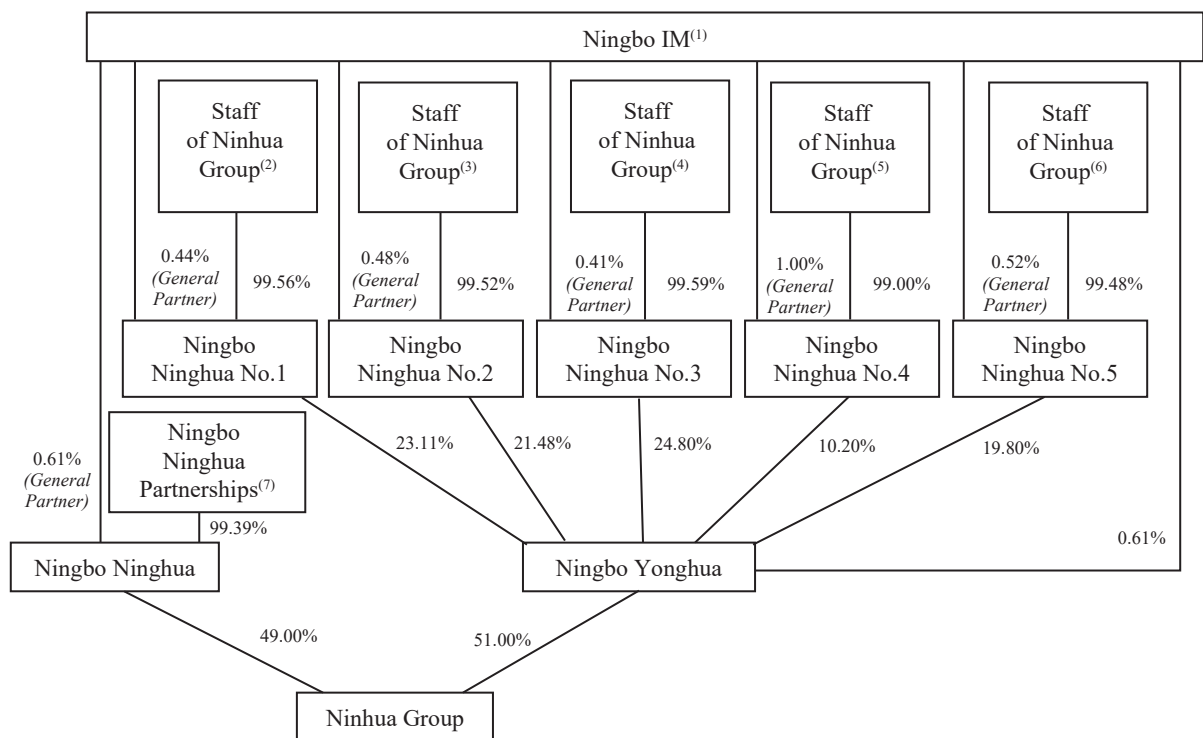
Viva Biotech Shanghai is a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. It is the Company's principal operating subsidiary in the PRC and is primarily engaged in providing research services.

The Vendors

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

To the best of the Directors' knowledge, as at the date of this announcement,

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



Notes:

- (1) Ningbo IM is held by 11 individuals in equal proportion, being Mr. Liu Jianping, Ms. Zhao Li, Mr. Zhang Zhenye, Mr. Wu Kan, Mr. He Dongsheng, Mr. Chen Weijun, Mr. Chen Youxiang, Mr. Chen Zhongyu, Mr. Zhu Fuyuan, Ms. Ban Yan and Mr. Shan Mengchun, each being present or retired employees/senior executives of Ninhua Group and/or its subsidiaries.
- (2) “**Ningbo Ninghua No.1**” refers to Ningbo Ninghua Yihao Investment Management Center (Limited Partnership) (寧波寧化壹號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No.1 are Mr. Shan Mengchun (as to 38.41% interest); Ms. Ban Yan (as to 24.28% interest); Mr. Xu Wanrong (as to 5.52% interest); Ms. Chen Yajun (as to 5.30% interest) and 23 other individuals each as to less than 5% interest in Ningbo Ninghua No.1.
- (3) “**Ningbo Ninghua No.2**” refers to Ningbo Ninghua Erhao Investment Management Center (Limited Partnership) (寧波寧化貳號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No.2 are Mr. He Dongsheng (as to 26.13% interest); Mr. Zhang Zhenye (as to 17.58% interest); Mr. Li Zhiyu (as to 9.98% interest); Mr. Ji Deling (as to 9.26% interest); Ms. Hu Wenli (as to 5.46% interest) and 20 other individuals each as to less than 5% interest in Ningbo Ninghua No.2.
- (4) “**Ningbo Ninghua No.3**” refers to Ningbo Ninghua Sanhao Investment Management Center (Limited Partnership) (寧波寧化叁號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No.3 are Mr. Chen Youxiang (as to 40.79% interest); Mr. Wu Kan (as to 23.00% interest); Mr. Fang Zhen (as to 5.62% interest) and by 39 other individuals each as to less than 5% interest in Ningbo Ninghua No.3.
- (5) “**Ningbo Ninghua No.4**” being Ningbo Ninghua Sihao Investment Management Center (Limited Partnership) (寧波寧化肆號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No.4 are Mr. Chen Weijun (as to 33.13% interest); Mr. Sheng Wentao (as to 7.96% interest); Mr. He Dongsheng (as to 7.70% interest); Mr. Liu Jianping (as to 6.88% interest); Mr. Zhu Fuyuan (as to 5.50% interest); Mr. Zhang Zhenye (as to 5.23% interest) and by 30 other individuals each as to less than 5% interest in Ningbo Ninghua No.4.
- (6) “**Ningbo Ninghua No.5**” being Ningbo Ninghua Wuhao Investment Management Center (Limited Partnership) (寧波寧化伍號投資管理中心(有限合夥)). The limited partners of Ningbo Ninghua No.5 are Mr. Liu Jianping (as to 25.26% interest); Mr. Zhu Fuyuan (as to 20.10% interest); Mr. Chen Zhongyu (as to 6.96% interest); Ms. Zhong Yamin (as to 6.44% interest); Mr. Li Minming (as to 5.67% interest) and by 28 other individual limited partners each holding less than 5% interest in Ningbo Ninghua No.5.
- (7) “**Ningbo Ninghua Partnerships**” refers to Ningbo Ninghua No.1, Ningbo Ninghua No.2, Ningbo Ninghua No.3, Ningbo Ninghua No.4 and Ningbo Ninghua No.5, holding 23.11%, 21.48%, 24.80%, 10.20% and 19.80% interest as limited partners in Ningbo Ninghua, respectively.
- (8) In this shareholding structure chart, reference to staff of Ninhua Group includes present or retired staff of Ninhua Group and/or its subsidiaries.
- (b) Nuobai Investments is primarily engaged in investment management. The general partner of each of (i) Nuobai Investments and (ii) the limited partners of Nuobai Investments is Ningbo Haishu Nuobai Investment Management Co., Ltd. (寧波海曙諾柏投資管理有限公司), in which Mr. Shan Mengchun and Ms. Ban Yan own 47.5% and 35.5% share capital, respectively.
- (c) Zhining Investments is primarily engaged in investment management. Its general partner is Ningbo Haishu Zhining Investment Management Co., Ltd. (寧波海曙致寧投資管理有限公司), in which Mr. Shan Mengchun owns 50.42% share capital.
- (d) Mr. Shan Mengchun and Ms. Ban Yan are the chairman and vice president of Ninhua Group respectively. Mr. Yang Nuo is an individual investor who is the associate general manager of Jiangxi Huashi Pharmaceutical Co., Ltd (江西華士藥業有限公司), an independent third party. Mr. Liu Jianping is the former chairman and president of Ninhua Group and now he is retired.

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

III. LISTING RULES IMPLICATIONS

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

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

IV. GENERAL

The EGM will be convened for the Shareholders to consider and, if thought fit, to approve among other matters, the Acquisition. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the resolutions in respect of the Acquisition or should be required to abstain from voting on the resolutions to be proposed at the EGM.

A circular containing, inter alia, (i) further details of the Acquisition; (ii) the accountants' report of Langhua Pharmaceutical; (iii) unaudited pro forma financial information of the Enlarged Group; (iv) a notice of the EGM; and (v) other information as required by the Listing Rules is expected to be dispatched to the Shareholders on or before September 14, 2020, as additional time is required for the preparation of the relevant information for inclusion in the circular.

Completion is subject to fulfilment of the conditions precedent set out in the Share Purchase Agreement, and the Acquisition may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Acquisition”	the acquisition of 80% of the equity interest of Langhua Pharmaceutical by Viva Biotech Shanghai from the Vendors
“API”	active pharmaceutical ingredient
“Board”	the board of Directors

“Business Days”	a day on which banks are normally open to conduct corporate banking businesses (other than a Saturday or Sunday or public holiday in the PRC)
“CAGR”	the compound annual growth rate
“CASBE”	the China Accounting Standards for Business Enterprises
“CDMO”	contract development and manufacturing organization(s), a CMO that, in addition to comprehensive drug manufacturing services, also provide process development and other drug development services in connection with its manufacturing services
“CMC”	chemistry, manufacturing and control
“CMO”	contract manufacturing organization, which provides comprehensive drug manufacturing services to companies in the pharmaceutical industry
“Company”	Viva Biotech Holdings, a company incorporated in the Cayman Islands as an exempted company with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1873)
“Completion”	completion of the Acquisition in accordance with the terms of the Share Purchase Agreement
“Completion Date”	the date of Completion, which shall take place on ten Business Days after the last condition precedent under the Share Purchase Agreement has been fulfilled, or any other date as the Vendors and Viva Biotech Shanghai may agree in writing
“Consideration”	the consideration payable by Viva Biotech Shanghai to the Vendors for 80% of the equity interest in Langhua Pharmaceutical pursuant to the Share Purchase Agreement, being RMB2,560 million (equivalent to approximately HK\$2,842 million and subject to the Profit Guarantee Adjustment)
“CRO”	contract research organization, which provides research and development services to companies in the pharmaceutical industry
“Deposit”	RMB20 million deposit for the Acquisition paid by Viva Biotech Shanghai to the Vendors pursuant to the Letter
“Directors”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened for the Shareholders to consider and, if thought fit, approve the Acquisition

“Enlarged Group”	the enlarged Group immediately after Completion
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“IFRS”	the International Financial Reporting Standards
“Langhua Pharmaceutical” or “LP”	Zhejiang Langhua Pharmaceutical Co., Ltd. (浙江朗華製藥有限公司), a limited liability company established in the PRC
“Langhua Pharmaceutical Group”	Langhua Pharmaceutical and its subsidiaries, being Nuobai Pharm and Nuobai Hong Kong
“Letter”	the letter delivered by Viva Biotech Shanghai and accepted by the Vendors on May 20, 2020, pursuant to which Viva Biotech Shanghai agreed to pay the Deposit and proceed with the negotiation of the Acquisition
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Ninhua Group”	Ninhua Group Co., Ltd. (中寧化集團有限公司), a limited liability company established in the PRC
“Nuobai Hong Kong”	Ningbo Nuobai Pharmaceutical (Hongkong) Limited (寧波諾柏醫藥(香港)有限公司), a private company limited by shares established in Hong Kong
“Nuobai Investments”	Ningbo Nuobai Investment Management Center (Limited Partnership) (寧波諾柏投資管理中心(有限合夥)), a limited partnership established in the PRC
“Nuobai Pharm”	Ningbo Nuobai Pharmaceutical Co., Ltd. (寧波諾柏醫藥有限公司), a limited liability company established in the PRC
“PRC”	the People’s Republic of China, which for the sole purpose of this announcement excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Profit Guarantee”	a profit guarantee from the Vendors that Langhua Pharmaceutical’s adjusted audited net profit for 2020 will be no less than RMB160 million
“Profit Guarantee Adjustment”	adjustment mechanism in relation to the Consideration as detailed in “Profit Guarantee and Performance Bonus” of this announcement

“Prospectus”	the prospectus of the Company dated April 25, 2019
“R&D”	research and development
“RMB”	Renminbi, the lawful currency of the PRC
“Share Purchase Agreement”	the agreement dated August 8, 2020 entered into between the Vendors and Viva Biotech Shanghai in relation to the Acquisition
“Share(s)”	the shares of the Company
“Shareholder(s)”	the holders of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the three years ended December 31, 2019
“US\$”	US dollar(s), the lawful currency of the United States of America
“Vendors”	Ninhua Group, Nuobai Investments, Zhining Investments, Mr. Shan Mengchun (單孟春), Mr. Yang Nuo (楊諾), and Ms. Ban Yan (班豔)
“Vendors’ Qualified Right of Sale”	the Vendors right to sell their remaining equity interest in Langhua Pharmaceutical to Viva Biotech Shanghai subject to the terms as set out in “Sale of Vendors’ Remaining Equity Interest” of this announcement
“Viva Biotech Shanghai”	Viva Biotech (Shanghai) Ltd. (維亞生物科技(上海)有限公司), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Zhining Investments”	Ningbo Zhining Investment Management Center (Limited Partnership) (寧波致寧投資管理中心(有限合夥)), a limited partnership established in the PRC
“%”	per cent.

For the purpose of this announcement and for illustrative purposes only, unless the context otherwise requires, conversion of RMB to HK\$ is based on the exchange rate of HK\$1.11 to RMB1.00.

By order of the Board
Viva Biotech Holdings
Mao Chen Cheney
Chairman and Executive Director

Hong Kong, August 9, 2020

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; two Non-executive Directors, namely, Ms. Mao Jun and Ms. Sun Yanyan; and three Independent Non-executive Directors, namely, Mr. Fu Lei, Ms. Li Xiangrong and Mr. Wang Haiguang.