Gram Capital Limited
嘉林資本有限公司

30 June 2025

To: The Independent Board Committee of YiChang HEC ChangJiang Pharmaceutical Co., Ltd.

Dear Sir/Madam,

(1) PROPOSED CONDITIONAL PRIVATISATION OF YICHANG HEC CHANGJIANG PHARMACEUTICAL CO., LTD. BY SUNSHINE LAKE PHARMA CO., LTD. BY WAY OF MERGER BY ABSORPTION OF YICHANG HEC CHANGJIANG PHARMACEUTICAL CO., LTD.; (2) PROPOSED SPECIAL DIVIDEND; AND (3) PROPOSED WITHDRAWAL OF LISTING

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Merger, details of which are set out in the Composite Document dated 30 June 2025 jointly issued by the Company and the Offeror to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Composite Document unless the context requires otherwise.

On 10 May 2024, the Offeror and the Company have entered into the Merger Agreement, pursuant to which the Offeror and the Company have agreed to implement the Merger subject to the terms and conditions of the Merger Agreement, including the Pre-Conditions and the Conditions. Following the fulfilment (or waiver, as applicable) of the Pre-Conditions and Conditions and the completion of the Share Exchange, the Company will be delisted from the Stock Exchange, the Offeror H Shares will be listed on the Main Board of the Stock Exchange by way of introduction (i.e. the Listing) and the Company will be merged into and absorbed by the Offeror in accordance with the terms of the Merger Agreement and PRC Company Law and other applicable PRC Laws. On 27 June 2025, the Company announced that the Pre-Conditions had been satisfied.

Pursuant to Rule 2.8 of the Takeovers Code, the Independent Board Committee is required to comprise all the non-executive Directors who have no direct or indirect interest in the Merger other than as Shareholders. Mr. TANG Xinfa, being the non-executive Director and a director of the Offeror, is regarded as being interested in the Merger. Accordingly, the Independent Board Committee, which comprises all independent non-executive Directors who are not interested in the Merger, being Mr. TANG Jianxin, Ms. XIANG Ling and Mr. LI Xuechen, has been established by the Board to advise the Independent H Shareholders as to whether the Merger is fair and reasonable and whether to vote in favour of or against the Merger at the EGM and the H Shareholders' Class Meeting.

We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee in respect of the Merger, and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Merger pursuant to Rule 2.1 of the Takeovers Code. The appointment of Gram Capital as the Independent Financial Adviser has been approved by the Independent Board Committee.

INDEPENDENCE

During the past two years immediately preceding the Latest Practicable Date, Gram Capital was engaged as an independent financial adviser in relation to the Company's (i) continuing connected transaction as set out in the Company's circular dated 1 December 2023; (ii) continuing connected transactions as set out in the Company's circular dated 8 December 2023; and (iii) continuing connected transactions as set out in the Company's circular dated 15 October 2024. Save for the aforesaid engagements, there was no other service provided by Gram Capital to the Company relating to any transaction of the Company with executed agreement during the past two years immediately preceding the Latest Practicable Date.

Notwithstanding the aforesaid engagements, we were not aware of any relationships or interests between Gram Capital and the Company, the Offeror, and their respective controlling shareholders; and Gram Capital was not in the same group as the financial or other professional advisers (including a stockbroker) to the Company or the Offeror, during the past two years immediately preceding 8 March 2024 (being the date of the first announcement of the Company in respect of the Merger pursuant to Rule 3.7 of the Takeovers Code) up to and including the Latest Practicable Date, of a kind reasonably likely to create, or to create the perception of, a conflict of interest or reasonably likely to affect the objectivity of Gram Capital's advice and to act as the Independent Financial Adviser to the Independent Board Committee.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained or referred to in the Composite Document and the information and representations as provided to us by the Directors and the Offeror (where applicable). We have assumed that all information and representations that have been provided by the Directors and the Offeror (where applicable), for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date, and should there be any material changes to our opinion

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after the Latest Practicable Date, Shareholders would be notified as soon as possible. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors and the Offeror (where applicable) in the Composite Document were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Composite Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the Offeror (where applicable), which have been provided to us. Our opinion is based on the Directors' and the Offeror's representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Merger. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules and Rule 2 of the Takeovers Code.

We have not made any independent evaluation or appraisal of the assets and liabilities of the Group or the Offeror Group and we have not been furnished with any such evaluation or appraisal, save as and except for the Valuation Report prepared by the Valuation Adviser as set out in Appendix II to the Composite Document. Since we are not experts in the valuation of assets or businesses, we have relied solely upon the valuation on the value of the Offeror as at 31 December 2024.

Your attention is drawn to the responsibility statements as set out in the section headed "1. RESPONSIBILITY STATEMENT" of Appendix IV to the Composite Document. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Composite Document, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Offeror or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Merger.

We have assumed that the Merger will be consummated in accordance with the terms and conditions set forth in the Composite Document without any waiver, amendment, addition or delay of any terms or conditions. We have assumed that in connection with the receipt of all the necessary governmental, regulatory or other approvals and consents as required for the Merger, no delay, limitation, condition or restriction will be imposed that would have a material adverse effect on the contemplated benefits expected to be derived from the Merger. In addition, our opinion is necessarily based on the financial, market, economic, industry-specific and other conditions as they existed on, and the information made available to us as at the Latest Practicable Date.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly and fairly extracted, reproduced or presented from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Merger, we have taken into consideration the following principal factors and reasons:

1. Background of the Merger

Pursuant to the Merger Agreement, conditional upon fulfilment (or waiver, as applicable) of the Pre-Conditions and the Conditions set out in the Board Letter, the Share Exchange Shareholders will be entitled to receive from the Offeror 0.263614 new Offeror H Shares for every Share Exchange H Shares cancelled (i.e. the Share Exchange Ratio).

Application has been made to the Stock Exchange for the Offeror H Shares to be listed and traded on the Stock Exchange by way of introduction.

All rights attaching to all H Shares held by the Share Exchange Shareholders shall cease to have effect from and including the Settlement Date and the relevant H Shares shall be cancelled. The share certificates for all H Shares held by the Share Exchange Shareholders will cease to have effect as documents or evidence of title from and including the Settlement Date.

Subject to the fulfilment (or waiver, as applicable) of all the Pre-Conditions and the Conditions, the Company will pay a Special Dividend of HK$1.50 per Share to the Shareholders whose names appear on the register of members of the Company on the Special Dividend Record Date other than the Offeror Group (if applicable). The payment of the Special Dividend will not result in any adjustment to the Share Exchange Ratio.

On 27 June 2025, the Company announced that the Pre-Conditions had been satisfied.

Further details of the Merger are set out in the Board Letter.

2. Background of the Company and the Offeror

2.1 Information on the Company

With reference to the Board Letter, the Company is a pharmaceutical manufacturing company that focuses on the production, sales and development of pharmaceutical products in the therapeutic areas of anti-infectives, endocrine and metabolism. The ultimate controlling Shareholders of the Company are Ms. Guo Meilan and her son Mr. Zhang Yushuai as they control approximately 62.12% interests in the Offeror, which in turn controls approximately 51.41% interests in the Company as at the Latest Practicable Date.

As at the Latest Practicable Date, the relevant securities of the Company in issue are 879,967,700 Shares, which comprise 653,767,700 H Shares and 226,200,000 Domestic Shares.

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With reference to the annual report for the year ended 31 December 2024 (the "**2024 Annual Report**"), the Group's core product, Kewei (oseltamivir phosphate), an anti-viral drug, is the first-line drug for treatment of influenza in the PRC, which can be used in the treatment and prevention of Influenza A and Influenza B and is listed in the Influenza Treatment Guidance (2020 version)* (《流行性感冒診療方案(2020年版)》, being a guidance for the treatment of influenza published by the National Health Commission of the PRC) and the National Drug List for Basic Medical Insurance, Work-Related Injury Insurance and Maternity Insurance (2023 Version)* (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2023年)》, being a catalogue of drugs for various diseases (including influenza) issued by the Ministry of Human Resources and Social Security of the PRC).

2.1.1 Financial performance

Set out below is a summary of the audited consolidated financial performance of the Group for the three years ended 31 December 2024, as extracted from the Company's annual report for the year ended 31 December 2023 (the "**2023 Annual Report**") and the 2024 Annual Report:

	For the year ended 31 December 2024 ("FY2024") *RMB'000*	For the year ended 31 December 2023 ("FY2023") *RMB'000*	For the year ended 31 December 2022 ("FY2022") *RMB'000*	Changes from FY2023 to FY2024 %	Changes from FY2022 to FY2023 %
Revenue	3,723,783	6,294,585	3,744,952	(40.84)	68.08
— Sales of anti-viral drugs	*2,584,574*	*5,580,477*	*3,116,059*	*(53.68)*	*79.09*
— Sales of endocrine and metabolic drugs	*249,009*	*164,174*	*113,497*	*51.67*	*44.65*
— Sales of cardiovascular drugs	*270,249*	*184,117*	*150,114*	*46.78*	*22.65*
— Sales of anti-infectives drugs	*114,676*	*106,919*	*87,190*	*7.26*	*22.63*
— Sales of other medical products and license fee	*505,275*	*258,898*	*278,092*	*95.16*	*(6.90)*
Gross profit	2,794,058	4,985,764	2,846,074	(43.96)	75.18
Profit for the year	482,712	1,855,826	49,239	(73.99)	3,669.02

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Comparison between FY2022 and FY2023

The Group's revenue increased from approximately RMB3,745 million for FY2022 to approximately RMB6,295 million for FY2023, representing an increase of approximately 68.08%. With reference to the 2023 Annual Report, such increase was mainly attributable to the increase in sales volume of the Group's core product, Kewei (oseltamivir phosphate capsules and granules). The Group's revenue from sales of Kewei accounted for approximately 82.58% and 87.53% of the Group's revenue for FY2022 and FY2023 respectively. As advised by the Directors, the increase in sales volume of Kewei was mainly attributable to the gradually normalized footfall and daily social activities (social contact among the public raised the transmission rate of influenza as compared to that during the COVID-19 pandemic), and the recovery momentum in flow of people in the post-pandemic era, resulting in the recovery in number of diagnosis and treatment activities and the volume of drug prescriptions in frontline medical institutions.

As a result of the foregoing, the Group recorded (i) corresponding increases in gross profit; and (ii) significant increase in profit for FY2023 as compared to that for FY2022.

Comparison between FY2023 and FY2024

The Group's revenue decreased from approximately RMB6,295 million for FY2023 to approximately RMB3,724 million for FY2024, representing a decrease of approximately 40.84%. Kewei remained as the Group's core product for FY2024 and the Group's revenue from sales of Kewei accounted for approximately 66.82% of the Group's revenue for FY2024. With reference to the 2024 Annual Report and as advised by the Directors, the aforesaid decrease in the Group's revenue was mainly attributable to the decrease in sales volume of Kewei (sales of Kewei for FY2024 decreased by approximately 54.83% as compared to that for FY2023) as a result of a lower incidence of seasonal flu outbreaks in 2024, partially offset by the rapid growth achieved by the Group's other core products, such as a significant increase of 101.14% in revenue from the Group's insulin series products for FY2024, a significant increase of 120.06% in revenue from Emitasvir Phosphate Capsules for FY2024. As the revenue from Kewei accounted for a significant portion of the Group's revenue, the aforesaid decrease in sales volume of Kewei led to corresponding decrease in Group's gross profit.

The Group's profit for FY2024 decreased by approximately 73.99% as compared to that for FY2023. With reference to the 2024 Annual Report, such decrease was mainly attributable to (i) the decrease in revenue and gross profit as aforementioned; (ii) increase in research and development costs, particularly in areas of chronic diseases; and (iii) increase in impairment loss on trade and other receivables due to increased long-aged trade receivables.

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2.1.2 Financial position

Set out below is a summary of the audited consolidated financial position of the Group as at 31 December 2022, 2023 and 2024, as extracted from the 2023 Annual Report and the 2024 Annual Report:

	As at 31 December 2024 *RMB'000*	As at 31 December 2023 *RMB'000*	As at 31 December 2022 *RMB'000*
Assets			
Fixed assets	3,963,571	3,740,424	3,518,765
Intangible assets	2,503,625	2,565,626	2,920,646
Investment in unlisted shares of the Offeror	Nil	Nil	2,312,320
Trade and other receivables	2,257,335	2,112,798	1,036,916
Restricted cash	395,613	1,567,300	76,781
Cash and cash equivalents	1,403,777	1,674,413	923,543
Other assets	1,905,294	1,083,768	1,100,829
Total assets	**12,429,215**	**12,744,329**	**11,889,800**
Liabilities			
Trade and other payables	1,467,646	1,755,352	1,718,222
Bank loans and other borrowings (including interest-bearing borrowings)	2,220,846	2,607,804	3,821,565
Other liabilities	232,527	445,660	280,012
Total liabilities	**3,921,019**	**4,808,816**	**5,819,799**
Net current assets	**2,192,872**	**1,720,836**	**73,239**
Net assets	**8,508,196**	**7,935,513**	**6,070,001**

As depicted from the above table, the Group's total assets were mainly comprised of fixed assets (representing the Group's property, plant and equipment and right-of-use assets), intangible assets investment in unlisted shares of the Offeror, trade and other receivables, restricted cash, and cash and cash equivalents; while the Group's total liabilities were mainly comprised of trade and other payables and bank loans and other borrowings (including interest-bearing borrowings).

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As at 31 December 2024, the carrying amount of the Group's fixed assets was approximately RMB3,964 million. As advised by the Directors, the Group's fixed assets mainly represented the Group's production facilities.

As at 31 December 2024, the carrying amount of the Group's intangible assets was approximately RMB2,504 million, which represented the patents, intellectual property rights and capitalized costs of Group's hepatitis C drugs and other drugs.

The Group's investment in unlisted shares of the Offeror represented the grant of 10% of the then equity of the Offeror at nil consideration by Shenzhen HEC Industrial in connection with the revised non-competition agreement (the "**2021 Non-Competition Agreement**") entered into by the Company on 19 March 2021 to revise the scope of non-competition and commitments between the Company and the Offeror. On 23 December 2022, the Company entered into the equity transfer agreement with Shenzhen HEC Industrial (as the transferee) and the Offeror (as target company) in relation to the disposal of the equity interest in the Offeror held by the Company at a consideration of approximately RMB2,312 million (the "**Disposal**"), representing the fair value of the equity interest in the Offeror held by the Company prior to the Disposal. As the Company only holds less than 10% equity interest in the Offeror prior to the Disposal, the Offeror was not a subsidiary nor an associate of the Company, the Offeror's financial information was not consolidated nor accounted for using equity method in the Group's financial statements. Furthermore, as the Disposal resulted in no gain or loss, the Disposal has no effect on the Group's financial performance for FY2023. The Company ceased to hold any interests in the Offeror after completion of the Disposal on 27 June 2023.

As at 31 December 2024, the Group's restricted cash, and cash and cash equivalents were approximately RMB396 million and RMB1,404 million respectively. With reference to the 2024 Annual Report, the Group's restricted cash represented security deposits pledged to banks for bank loans and other borrowings.

As at 31 December 2024, the Group's net current assets and net assets were approximately RMB2,193 million and RMB8,508 million respectively.

2.2 Information on the Offeror

With reference to the Board Letter, the Offeror was established on 29 December 2003. It is an integrated pharmaceutical company driven by independent R&D, rooted in the PRC and facing to the world. It has full capabilities integrating R&D, production and commercialisation. The Offeror focuses on the three key areas of infection, chronic diseases and oncology. With its extensive pipeline of anti-infective drugs, it has been approved by the Ministry of Science and Technology of the PRC to establish a State Key Laboratory of Anti-Infective Drug Development. The Offeror focuses on innovative drugs and is also involved in modified new drugs, generic drugs and biosimilars. It currently has a diverse and robust product portfolio. After over 20 years of experience, the Offeror has established advanced R&D platform, facilities that meet international standards and an extensive sales network.

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As at the Latest Practicable Date, the Offeror holds approximately 51.41% of the Shares, comprising (a) a direct shareholding of 226,200,000 Domestic Shares (representing all of the Domestic Shares in issue and approximately 25.71% of the total issued share capital of the Company); and (b) an indirect shareholding of 226,200,000 H Shares through its wholly-owned subsidiary HEC (Hong Kong) (representing approximately 34.60% of the total number of H Shares in issue and approximately 25.71% of the total issued share capital of the Company). The Company is a subsidiary of the Offeror and the financial results of the Group has been consolidated into the Offeror's financial statements. All the H Shares and Domestic Shares held by the Offeror (including those held through HEC (Hong Kong) will not form part of the Share Exchange but will be cancelled after completion of the Merger.

Further details of the Offeror, its advantages and strategies are set out under the section headed "(1) Information on the Offeror" of the Board Letter.

2.2.1 Financial performance

Set out below is a summary of the audited consolidated financial performance of the Offeror Group for the three years ended 31 December 2024, prepared in accordance with the IFRS, as extracted from Appendix V to the Composite Document:

	For the year ended 31 December 2024	For the year ended 31 December 2023	For the year ended 31 December 2022	Changes from FY2023 to FY2024	Changes from FY2022 to FY2023
	RMB'000	*RMB'000*	*RMB'000*	*%*	*%*
Revenue	4,018,905	6,385,616	3,813,566	(37.06)	67.44
— Anti-infective drugs	*2,797,632*	*5,745,811*	*3,242,508*	*(51.31)*	*77.20*
— Chronic disease treatment drugs	*1,067,707*	*580,743*	*517,258*	*83.85*	*12.27*
— Others	*153,566*	*59,062*	*53,800*	*160.01*	*9.78*
Gross profit	3,058,631	5,077,048	2,922,189	(39.76)	73.74
Profit/(loss) for the year	24,803	1,013,878	(1,415,915)	(97.55)	N/A

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Comparison between FY2022 and FY2023

The Offeror Group's revenue increased by approximately 67.44% from approximately RMB3,814 million for FY2022 to RMB6,386 million for FY2023, primarily due to respective increases in revenue from sales of anti-infective drugs, chronic disease treatment drugs and others. With reference to Appendix V to the Composite Document:

- increase in revenue from anti-infective drugs was mainly driven by (i) higher demand due to greater incidence of influenza in 2023 due to the resumption of normal travel activities; and (ii) increased purchasing of anti-infective drugs from pharmacies and hospital by patients as a result of increased societal awareness on respiratory infectious diseases and demand for anti-viral treatments following the end of the COVID-19 pandemic.

- increase in revenue from chronic disease treatment drugs overall marketing efforts to boost the sales of our insulin series, which included (i) an increase in educational promotion activities and enhanced training for our sales staff in charge of our insulin series; and (ii) an increase in the number of sales and distribution channels to hospitals and other medical institutions.

- increase in revenue from others was primarily attributable to increased revenue from newly launched product (such as sildenafil launched in December 2021).

As a result of the foregoing, the Offeror Group's gross profit increased by approximately 73.74% from approximately RMB2,922 million for FY2022 to approximately RMB5,077 million for FY2023. The Offeror Group's gross profit margin increased from approximately 76.63% for FY2022, to approximately 79.51% for FY2023, primarily attributable to a significant increase in the Offeror Group's revenue from and improved gross profit margin for its anti-infective drugs due to a decrease in costs of raw material for the production of Kewei (oseltamivir phosphate) and decrease in manufacturing costs per unit benefitted from the economies of scale attained from ramping up the Offeror Group's production to meet market demand.

The Offeror Group recorded losses of approximately RMB1,416 million for FY2022 and profit of approximately RMB1,014 million for FY2023. With reference to Appendix V to the Composite Document, the Offeror Group recorded losses for FY2022 primarily because of the lower than usual sales volume of Kewei (oseltamivir phosphate) in FY2022 due to travel restrictions, social-distancing measures and business closures that significantly reduced the movement of people and increased widespread preventive measures against influenza, which resulted in a significant decline in the incidence of respiratory diseases such as influenza.

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Comparison between FY2023 and FY2024

The Offeror Group's revenue decreased by approximately 37.06% from approximately RMB6,386 million for FY2023 to approximately RMB4,019 million for FY2024, primarily due to a decrease in revenue from sales of anti-infective drugs for FY2024. With reference to Appendix V to the Composite Document, the decrease in revenue from sales of anti-infective drugs was primarily due to a decrease in sales volume of Kewei (in the form of granule and capsule) as a result of a lower incidence of seasonal flu outbreaks in 2024.

Nevertheless, the decrease in the Offeror Group's revenue was partially offset by (i) the increase in revenue from sales of chronic disease treatment drugs primarily due to (a) increase in the sales of its insulin products as all five of the Offeror Group's insulin products have been included in the volume-based procurement schemes of PRC public hospitals in 2024 (a scheme adopted by PRC hospitals aimed to achieve a lower price of pharmaceuticals and medical devices centered on medical products with mature, high-volume clinical usage and sufficient market competition through a competitive bidding process for large-volume procurement); and (b) increase in sales of its insulin products, other hypoglycemic products and Esomeprazole Magnesium as a result of an increase in related educational promotion activities; and (ii) the increase in revenue from others primarily due to license fee generated pursuant to an exclusive development and commercialisation license agreement with Apollo Therapeutics Group Limited, a portfolio biopharmaceutical company headquartered in the United Kingdom and one of its affiliates (namely, Apollo AP60 Limited), for the development, manufacture and commercialisation of the GLP-1/FGF21 dual agonist HEC88473 (an innovative drug candidate of the Offeror Group that can simultaneously activate GLP-1 and FGF receptors, which synergistically lower blood glucose levels, reduce body weight and improve lipid metabolism).

As a result of the foregoing, the Offeror Group's gross profit decreased by approximately 39.76% from approximately RMB5,077 million for FY2023 to approximately RMB3,059 million for FY2024. The Offeror Group's gross profit margin decreased from approximately 79.51% for FY2023 to approximately 76.11% for FY2024. With reference to Appendix V to the Composite Document, the aforesaid decrease in the Offeror Group's gross profit margin was primarily due to decreased sales in Kewei, a high margin product.

The Offeror Group's profit decreased by approximately 97.55% from approximately RMB1,014 million for FY2023 to approximately RMB25 million for FY2024. With reference to Appendix V to the Composite Document, the aforesaid decrease in the Offeror Group's profit was primarily due to (i) the decrease in revenue and gross profit as aforementioned; (ii) the significant increase in impairment loss on trade and other receivables (from approximately RMB3 million for FY2023 to approximately RMB126 million for FY2024), equity-settled share-based payment expenses (from approximately RMB130 million for FY2023 to

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approximately RMB267 million for FY2024), and listing and privatisation expenses (from approximately RMB3 million for FY2023 to approximately RMB17 million for FY2024), partially offset by (a) the decrease in distribution costs primarily attributable to decrease in the Offeror Group's promotional activities for anti-infective drugs as a result of a lower incidence of seasonal flu outbreaks in 2024 and the decrease in bonuses under labour costs for the Offeror Group's sales and marketing personnel; and (b) decrease in income tax expense.

2.2.2 Financial position

Set out below is a summary of the audited consolidated financial position of the Offeror Group as at 31 December 2022, 2023 and 2024, prepared in accordance with the IFRS, as extracted from Appendix V to the Composite Document:

	As at 31 December 2024 *RMB'000*	**As at 31 December 2023** *RMB'000*	**As at 31 December 2022** *RMB'000*
Assets			
Fixed assets	4,390,990	4,179,536	4,002,509
Intangible assets	1,573,456	1,605,045	1,914,857
Trade and bills receivables	1,722,556	1,906,387	808,652
Other receivables	171,737	112,101	1,465,771
Prepayments	1,088,668	489,670	457,307
Restricted cash	435,617	1,567,300	110,270
Cash and cash equivalents	1,480,810	1,920,158	971,510
Other assets	1,067,680	877,902	958,107
Total assets	**11,931,514**	**12,658,099**	**10,688,983**
Liabilities			
Trade and other payables	2,421,629	2,594,007	4,917,390
Bank loans and other borrowings (including interest-bearing borrowings)	4,483,293	5,250,510	6,164,137
Other liabilities	559,092	638,263	481,391
Total liabilities	**7,464,014**	**8,482,780**	**11,562,918**
Net current assets/ (liabilities)	**164,509**	**233,985**	**(4,807,661)**
Net assets/(liabilities)	**4,467,500**	**4,175,319**	**(873,935)**

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As depicted from the above table, the Offeror Group's total assets mainly comprised of fixed assets, intangible assets, trade and other receivables, prepayments, restricted cash and cash and cash equivalents; and the Offeror Group's total liabilities mainly comprised of trade and other payables and bank loans and other borrowings (including interest-bearing borrowings).

The Offeror Group's fixed assets increased from approximately RMB4,003 million as at 31 December 2022 to approximately RMB4,180 million as at 31 December 2023, and further increased to approximately RMB4,391 million as at 31 December 2024. With reference to Appendix V to the Composite Document, the Offeror Group's fixed assets mainly represented the Offeror Group's manufacturing facilities (including R&D) and the increase in the Offeror Group's fixed assets was primarily a result of its expansion of manufacturing facilities for the production of new biosimilar and generic drugs; the construction of new facility for its innovative drugs.

As at 31 December 2024, the net book value of the Offeror Group's intangible assets was approximately RMB1,573 million. With reference to Appendix V to the Composite Document, these intangible assets represented the Offeror Group's hepatitis C drugs, insulin and other drugs and the net book value of which represented cost of relevant patents, intellectual property rights and capitalised development costs, less accumulated impairment losses and amortisation.

The Offeror Group's trade and bills receivables increased from approximately RMB809 million as at 31 December 2022 to approximately RMB1,906 million as at 31 December 2023, and decreased to approximately RMB1,723 million as at 31 December 2024. With reference to Appendix V to the Composite Document, the increase in the Offeror Group's trade and other receivables as at 31 December 2023 as compared to that as at 31 December 2022 was mainly due to the significant increase in sales for FY2023 as compared to that for FY2022, in line with an improvement in the Offeror Group's business operations; and the decrease in the Offeror Group's trade and other receivables as at 31 December 2024 as compared to that as at 31 December 2023 was primarily due to the decrease in demand for the Offeror Group's oseltamivir phosphate products caused by a lower incidence of seasonal flu outbreaks in 2024, which resulted in lower revenue and balance of trade and bills receivables.

The Offeror Group's other receivables significantly decreased from approximately RMB1,466 million as at 31 December 2022 to approximately RMB112 million as at 31 December 2023 and approximately RMB172 million as at 31 December 2024, primarily due to the repayment received by the Offeror Group from its related parties on outstanding loans in 2023.

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The Offeror Group's restricted cash increased from approximately RMB110 million as at 31 December 2022 to approximately RMB1,567 million as at 31 December 2023, and decreased to approximately RMB436 million as at 31 December 2024. With reference to Appendix V to the Composite Document, the significant increase in restricted cash as at 31 December 2023 as compared to that as at 31 December 2022 was primarily due to the increase in Offeror Group's bank loans for the repurchase of its outstanding convertible bonds, which required the Offeror Group to place funds in escrow. The decrease in restricted cash as at 31 December 2024 was due to the Offeror Group's repayment of the aforesaid bank loans, resulted in the release of a portion of its restricted cash from escrow.

As at 31 December 2024, the Offeror Group's net current assets and net assets were approximately RMB165 million and RMB4,468 million respectively.

Please refer to the section headed "Financial Information" of Appendix V to the Composite Document for more details on the financial review of the Offeror Group.

Given that (i) the Offeror Group's revenue was mostly contributed by the Group for the three years ended 31 December 2024; and (ii) the significance of the Offeror Group (excluding the Group) is its R&D capability and the Pipeline Products (which was included in the value of the entire shareholders' equity of the Offeror as at 31 December 2024 under the Valuation Report), comparison between the fundamentals of the Offeror Group and the Group does not contribute to our assessment on the terms of the Merger.

2.3 Highlights of the Group and the Offeror Group

Set out below are highlights of different business and operational aspects of (i) the Group; and (ii) the Offeror Group (including the Group):

	The Group	**The Offeror Group**
Business overview	Development, production and sales of pharmaceutical products IN mainland China.	R&D, production and commercialisation of pharmaceutical products IN AND OUTSIDE mainland China.

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	The Group	The Offeror Group
Drug development	Consistency evaluation of existing small molecule generic drugs, and subsequent clinical development of the more mature pharmaceutical products in research acquired through external introduction (independent third parties and the Offeror Group).	Pre-clinical R&D and clinical development of new small molecule and large molecule drugs, development of small molecule generic drugs and biosimilar drugs. The R&D team has an excellent track record of developing innovative drugs, having successfully launched three innovative drugs onto the market (namely, Dongwei'en (emitasvir phosphate), Dong'antai (netanasvir phosphate) and Dong'anqiang (encofosbuvir)), advancing one innovative drug to the NMPA's review for launching in China and progressed dozens of independently-discovered drug candidates to the clinical research stage.
R&D team	Nil	More than 1,100 R&D personnels which consist of scientists with extensive working experience gained in multinational pharmaceutical companies and pharmaceutical talents with extensive experience in R&D. The R&D team is led by Mr. Zhang Yingjun (a director of the Offeror) and core members of the R&D team also include Dr. Zhang Ji, Dr. Gu Baohua, Dr. Ye Qunrui, Dr. Liang Shaoqin and Dr. Cai Xiaoli, which held senior positions at renowned pharmaceutical companies and research institutions. They have been involved in drug discovery and development across various field. They have over 25 years of experience in drug discovery and development and have profound insights and extensive experience in all aspects of drug development.

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	The Group	The Offeror Group
*Number of approved drugs as at 20 June 2025, being the latest practicable date of the Listing Document ("**Listing Document LPD**")*	*61 approved drugs in China, including:* • *2 innovative drugs;* • *5 biosimilar drugs; and* • *54 generic drugs.*	*150 approved drugs in the world, including China, the United States and Europe, covering:* • *3 innovative drugs;* • *5 biosimilar drugs;* • *142 generic drugs.*
Number of drugs candidates as at Listing Document LPD	*2 drug candidates, including:* • *1 innovative drugs; and* • *1 biosimilar drug.*	*101 drug candidates, including:* • *49 innovative drugs;* • *7 biosimilar drugs;* • *9 modified new drugs; and* • *36 generic drugs.*
Product types, brands and patents	The Company has been granted drug approvals for most of its pharmaceutical products, and has owned some drug pipelines, including 33 generic drugs that were acquired by the Company from the Offeror. The Company's main products focus on anti-infection, endocrine diseases and metabolic diseases.	The pharmaceutical products of the Offeror Group (excluding the products previously transferred to the Company) are mainly target at anti-infection, anti-tumor, and chronic diseases.

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	The Group	The Offeror Group
Pharmaceuticals production	The production of pharmaceutical products for domestic market. Yidu production base ("**Yidu Production Base**") has obtained Chinese GMP certification. As at 31 December 2024, Yidu Production Base was the largest production base of oseltamivir phosphate formulation in the world and can produce a wide range of insulin products ranging from second to fourth generation.	The production of pharmaceutical products for domestic and overseas markets. In addition to the Yidu Production Base, the Offeror Group also owned the Songshan Lake production base ("**Songshan Lake Production Base**"). Songshan Lake Production Base is a first-class factory in China producing solid chemical formulation and biologics. It has obtained GMP certifications from United States, the European Union and China, including passing EU GMP audit conducted by National Office for Health and Social Affairs of Germany in November 2023, GMP inspection by the U.S. FDA in March 2024, and a GMP compliance check by the Guangdong Provincial Drug Administration in January 2025. A large-scale biologics facility located in Dongguan that complies with international GMP standards is expected be completed in 2026, equipped with production lines for cell, E coli fermentation and yeast fermentation as planned, which will provide solid support for the commercialization of our biologics under development.

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	The Group	The Offeror Group
Production bases' specification as at the Listing Document LPD	**Yidu Production Base** *Gross floor area:* Yidu Factory No. 1: 29,621 square meters Yidu Factory No. 2: 18,299 square meters Yidu Factory No. 3: 231,942 square meters *Production line:* Oral solid dosage form (tablets, capsules and granules) Freeze-dried powder for injection Active pharmaceutical ingredient (API) *Designed annual production capacity:* Tablets: 2,000 million pills Granules: 1,600 million packets Capsules: 1,500 million pieces Insulin (API): 1,000 kilograms Insulin (injection): 15 million vails APIs: 60.3 tonnes Freeze-dried powder for injection: 4.5 million vials	In addition to the Yidu Production Base, the Offeror Group also owned the Songshan Lake Production Base with the following specifications: **Songshan Lake Production Base** *Gross floor area:* 21,298 square meters *Production line:* Oral solid dosage form (tablets and capsules) *Designed annual production capacity:* Tablets: 1,500 million pills Capsules: 350 million pieces Aggregated designed annual production capacity of the Offeror Group's production bases: Tablets: 3,500 million pills Granules: 1,600 million packets Capsules: 1,850 million pieces Insulin (API): 1,000 kilograms Insulin (injection): 15 million vails APIs: 60.3 tonnes Freeze-dried powder for injection: 4.5 million vials
Sales of pharmaceutical products	The Group only sells pharmaceutical preparation products in China.	Sales of pharmaceutical products in China and overseas.
Sales and marketing team as at the Listing Document LPD	The Group has 1,854 staffs in its sales teams, across nationwide product distribution network, which was built solely by the Group's effort.	The Offeror Group has 1,884 employees (including those of the Group) engaged in its marketing and educational promotion activities, covering 32 provinces, cities and autonomous regions and nearly 300 prefecture-level cities in the PRC.

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3. Reasons for and the benefits of the Merger and the Listing

3.1 Background and reasons of the Merger and the Listing

With reference to the Board Letter, the Offeror plans to further integrate with the Company to become a comprehensive pharmaceutical company driven by independent R&D and incorporating R&D, production and sales capabilities, further capitalising on the scale effect and synergies to unleash greater growth potential. Set out below are the summarised reasons and benefits of the Merger, as noted from the section headed "Reasons and Benefits of the Merger and the Listing" of the Board Letter.

3.1.1 Becoming an integrated pharmaceutical company through the Merger

As advised by the Directors, before the completion of the Merger, the Group lacks an independent R&D system and its drug products (including Kewei (oseltamivir phosphate)) were obtained through acquiring the relevant patents and the R&D through contract research organizations (CROs). The Group's financial performance was to a certain extent dependent on the sales performance of Kewei (the Group's core product) as approximately 82.58%, 87.53% and 66.83% of the Group's revenue for FY2022, FY2023 and FY2024, respectively, was derived from the sales of Kewei. The Group represents part of the production function and the PRC's sales and distribution function of the Offeror Group. As Kewei was the core product of the Group and the Offeror Group, the Offeror Group had historically relied on the revenue generated from the sales of Kewei through the Group (accounted for approximately 61.92% of the Offeror Group's revenue for FY2024), hence a significant portion of the Offeror Group's financial performance was attributed by the Group. Nevertheless, the Offeror Group has been committed to developing products with breakthrough potential, including 49 innovative drug candidates and 7 biosimilar drug candidates. It has extensive experience in engaging in in-house R&D of innovative drugs and has established a diverse and robust pipeline of innovative drug candidates with commercialization potential.

As stated in the 2024 Annual Report, as the development direction of China's pharmaceutical industry is gradually shifting from generic drugs to innovative drugs, drug innovation has become the core competitiveness which supports the future development of enterprises. In order to capture opportunities in the fierce competition, pharmaceutical companies need to make continuous efforts in various aspects including product R&D, refinement of technical processing abilities, production and supply chain management and sales management.

As disclosed in section headed "2.3 Highlights of the Group and the Offeror Group" above, as at the Listing Document LPD, the Group owned 61 approved drugs in the PRC (majority of which were acquired by the Group from the Offeror Group) and 3 drugs candidates. On the other hands, the Offeror

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Group had 150 approved drugs and 101 drug candidates as at the Listing Document LPD, including 49 innovative drug candidates, 7 biosimilar drug candidates, 9 modified new drug candidates and 36 generic drug candidates.

The Offeror Group has more than 1,100 R&D personnels which consist of scientists with extensive working experience gained in multinational pharmaceutical companies and pharmaceutical talents with rich experience in R&D, its R&D team has deep understanding and profound experience in various aspects of drug R&D, providing strong support for the Offeror Group's product development. On the other hand, the Group did not have any R&D personnel. The Group can only carry out the re-development activities for its existing drugs, while the Offeror Group has full-cycle drug development capabilities covering all aspects, including pre-clinical R&D and clinical development of small molecule and large molecule new drugs, development of small molecule generic drugs and biosimilars. The Group currently does not possess the full-cycle drug development capabilities similar to that of Offeror Group. The Group's core competitiveness lies in its strong domestic product commercialization capabilities.

The Offeror Group's R&D capability was far greater and with deeper pipeline portfolio than those of the Group.

Previously, the Group's R&D activities were mostly related to its existing products and pipeline products that the Group already owned, and their respective related manufacturing and production processes. The Group's current strategies on acquiring new drug products include (i) acquire rights to manufacture and sell new products from third parties; and (ii) seize cooperation opportunities from the Offeror Group through cooperation model between the Offeror Group and the Group pursuant to the 2021 Non-Competition Agreement.

Furthermore, pursuant to the 2021 Non-Competition Agreement:

- The Offeror shall be responsible for all R&D activities, submission of regulatory approval documents, completion of clinical trials, obtaining of pharmaceutical approval numbers and other cooperative arrangement for (1) national pharmaceutical approval numbers for its pharmaceutical products listed overseas; and (2) new national pharmaceutical approval numbers (together with (1), the "**Domestic Cooperative Products**").

- The Offeror shall have the right to choose to retain the relevant intellectual property rights, proprietary technologies, clinical trial approvals and pharmaceutical approval numbers for the domestic pharmaceutical products, and determine fair terms for the cooperation and transaction of the Domestic Cooperative Products through various market-based mechanisms for commercialization. If the Company determines to accept the cooperation opportunities, the Company may

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be given priority to obtain opportunities for the promotion and commercialization of the Domestic Cooperative Products within the PRC at nil consideration and cooperate and carry out transactions through the income sharing model.

To accelerate R&D progress of the Domestic Cooperative Products (which is conducive to the Company's intention of expanding its pipeline in view of the fierce competition in domestic pharmaceutical market), the Company entered into the drug R&D pipeline cooperation framework agreement with the Offeror on 29 November 2023, pursuant to which the Company will bear part of the R&D expenses of the Domestic Cooperative Products, and both parties will collaborate by way of sharing sales with reference to R&D investment amount of the relevant products in domestic commercialisation stage.

We understood from the Directors that (i) the Group was granted the rights to use certain patents relating to oseltamivir phosphate (i.e. Kewei) from Shenzhen HEC Industrial, which Shenzhen HEC Industrial in-licensed from the licensor of oseltamivir phosphate; and (ii) the Group acquired 35 new drug products from the Offeror in 2018 and 2019.

The Group's product structure is relatively simple and its channels for acquiring new drug products are to a certain extent relied on the Offeror. Through the Merger, the R&D capability and the pipeline of the Offeror Group and the sales capability of the Group shall be integrated and the Post-Merger Offeror shall have less reliance on Kewei through Post-Merger Offeror's diverse and robust drug pipeline upon commercialisation, particularly, its abundant pipeline of innovative drugs.

3.1.2 Integration of domestic and overseas sales channels

With reference to the Board Letter, pursuant to the non-compete agreement and to avoid competition between the Company and the Offeror, the Group was solely responsible for the commercialisation of pharmaceutical products in the PRC, while the Offeror Group was solely responsible for the pharmaceutical R&D and overseas sales. After years of development, the Company has formed a large domestic sales network in the PRC, while the Offeror has built an extensive sales network which covers eight jurisdictions and regions including but not limited to the United States, Germany, and the United Kingdom. By combining the sales channels of the Company and the Offeror, the Post-Merger Offeror will form a fully-integrated extensive sales network. As a result, the Post-Merger Offeror can carry out its business operations more flexibly and respond to the unmet medical demands for different pharmaceutical products without being subject to the constraints of the non-compete agreement and provide its diverse and robust pipeline of pharmaceutical products to both domestic and overseas markets.

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With reference to Appendix V to the Composite Document, over 95% of the Offeror Group's revenue was derived from the PRC (through the Group) during the three years ended 31 December 2024. We understood from the Directors that the Offeror Group's revenue from outside the PRC was primarily derived from sales of generic drugs (drugs that contain the same active ingredients as original formulation and is comparable in dosage form, strength, quality, performance and intended use) which faces intense competition with other generic drugs in the overseas market, hence its revenue contribution to the Offeror Group was relatively low. Although the Offeror Group had limited revenue from oversea markets, as noted from the Board Letter, the overseas sales and distribution network of the Offeror Group spans across eight countries including the United States, Germany and the United Kingdom. As the Offeror Group had several innovative and biosimilar drug candidates that are conducting clinical trials overseas, the Offeror Group's established overseas sales and distribution network would help the promotion of these overseas drug candidates upon commercialization. Furthermore, the Offeror plans to expand its overseas sales network to Africa and Latin America, forming a global sales network across five continents.

3.1.3 Improve overall corporate efficiency for long-term sustainable and resilient growth

Under the current arrangement, the review chain of major business decision-making processes is long and requires approval from each of the Offeror and the Company. Since the listing of the H Shares, the Company had conducted various connected transactions with the Offeror, which as noted from the Board Letter, takes a long time to implement the approval process.

The integration of the Company and the Offeror can optimise the management structure, shorten business decision-making process and improve management operation efficiency. Together with integration of the R&D capability of the Offeror Group and the sales capability of the Group, are conducive to achieving long term sustainable and resilient growth.

The Offeror is committed to becoming an integrated world-class pharmaceutical enterprise under the dual driving forces of "innovation" and "internationalisation". Through the integration, the Offeror intends to achieve structural optimisation and business integration. The Merger and the Listing will enable the Offeror to reap further synergies from the integration of "research, production and marketing" and enhance its market competitiveness, which in turn will maximise returns for shareholders. Details of the strategic plans of the Offeror Group in the sub-section headed "Strategic Plans of the Offeror Group" under the section headed "Reasons and Benefits of the Merger and the Listing" of the Board Letter.

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3.2 Benefits to the Share Exchange Shareholders

With reference to the Board Letter, the board of the Offeror believes that the Post-Merger Offeror will be an attractive investment target. Upon completion of the Merger, the Share Exchange Shareholders will not only be able to continue holding their investment in the Company (as a part of the Offeror) which will be equipped with commercialisation capabilities; but also be able to share the R&D results from the R&D platform and the benefits brought by the potential synergies that can be realised as a result of the Merger (such as the Offeror's diversified pipeline portfolio and the integration of domestic and overseas sales channels).

3.2.1 Industry overview of pharmaceutical industry

With reference to the Board Letter, the Offeror has established a diverse and robust product pipeline focused in three major therapeutic areas with huge unmet clinical need, and has formed differentiated development paths in each R&D fields, namely (a) pipeline of anti-infective drugs covers indications such as influenza, hepatitis B and hepatitis C and acute respiratory infection; (b) in the field of chronic diseases covering respiratory system diseases, metabolic disorders and neuropsychiatric disorders; and (c) oncology pipeline focusing on the treatment of solid tumour and blood cancers (hematological malignancy) utilising technologies such as precise targeting.

Given the above, we extracted and analysed certain statistics regarding the pharmaceutical industry (in particular, the therapeutic areas which the Offeror Group (including the Group) is specialised in and the relevant markets) as extracted from the section headed "Industry Overview" of Appendix V to the Composite Document, prepared by Frost & Sullivan (the "**Industry Overview**"). We have primarily relied on the research of Frost & Sullivan to analyse the pharmaceutical industry as we are unable to obtain market statistics and information on the PRC's pharmaceutical industry relating to the areas that the Offeror Group is specialized in, namely, the anti-influenza drug market, chronic diseases drugs market and oncology drug markets. We consider the Industry Overview prepared by Frost & Sullivan to be objective, fair and representative on the basis that (i) Frost & Sullivan is independent global market research and consulting company founded in 1961 and it was engaged by the Offeror to conduct a detailed analysis and prepare an independent industry report in connection with the Listing (the "**Listing Engagement**"); (ii) Frost & Sullivan was engaged to prepare independent market research reports for pharmaceutical markets for various listing applicants, particularly, Frost & Sullivan was engaged by over 10 listing applicants which were successfully listed on the Stock Exchange within the PRC pharmaceutical industry during the period from 1 January 2024 up to and including the Latest Practicable Date; (iii) team head of Frost & Sullivan responsible for the Listing Engagement is responsible for Frost & Sullivan's life science team in the Greater China region and had involved in the preparation of various market research reports for pharmaceutical markets; while the team head and officers of Frost & Sullivan

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possess extensive knowledge and experience in IPO consulting, new drug products market entry and pricing; (iv) the fee payable by the Offeror to Frost & Sullivan for the preparation of its report is not contingent upon the successful Listing or the results of its report; and (v) Frost & Sullivan prepared its report based on its in-house database, independent third-party reports and publicly available data from reputable industry organisation and Frost & Sullivan had independently analysed the information. Thus, we consider the estimation and statistics contained in the Industry Overview are objective, fair and representative.

Size of the pharmaceutical market in the PRC

Set out below are the size of the pharmaceutical market in the PRC during the five years ended 31 December 2023, as extracted from the Industry Overview:

	2019	2020	2021	2022	2023
Size of pharmaceutical market in the PRC *(RMB billion)*	1,633	1,448	1,591	1,554	1,618

The size of pharmaceutical market in the PRC fluctuated from 2019 to 2023 and reached RMB1,618 billion for 2023. According to the Industry Overview, the growth factors of the PRC pharmaceutical market include, among others, increasing patient population, improvement of China's economy and increase in per capita income, increase in medical insurance expenditures and favourable government policies.

Based on the statistics published by the National Bureau of Statistics of the PRC:

- The Chinese population recorded year-on-year decrease for each of 2022, 2023 and 2024, and decreased from approximately 1,412 million as of the end of 2020 to approximately 1,408 million as of the end of 2024. However, the aging population of the PRC (population with age of 65 or above) had been growing, from approximately 191 million as of the end of 2020 to approximately 220 million as of the end of 2024, representing a compound annual growth rate ("**CAGR**") of 3.60%, and accounted for approximately 16% of the Chinese population as of the end of 2024.

- The PRC's disposable income per capita recorded year-on-year increase for each of 2021, 2022, 2023 and 2024, and increased from RMB32,189 for 2020 to RMB41,314 for 2024, representing a CAGR of 6.44%.

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- The PRC's healthcare expenditure per capita recorded year-on-year increase for each of 2021, 2022, 2023 and 2024, and increased from RMB1,843 for 2020 to RMB2,547 for 2024, representing a CAGR of 8.42%.

The growing aging population of the PRC would lead to increase in the number of patients of age-related diseases such as chronic diseases and cancers. The increasing disposable income per capita and the rising health awareness of the Chinese population, as substantiated by the increasing healthcare expenditure per capita, may further promote the development of the pharmaceutical market in the PRC.

Size of the anti-influenza drugs market in the PRC

Set out below are (i) the size of anti-influenza drugs market in the PRC during the five years ended 31 December 2024, as extracted from the Industry Overview; and (ii) the influenza cases reported in the PRC during the five years ended 31 December 2024, being the latest five full-year statistics published by the National Health Commission of the PRC and the National Disease Control and Prevention Administration of the PRC:

	2020	2021	2022	2023	2024
Size of anti-influenza drug market in the PRC *(RMB billion)*	3.2	1.6	4.4	11.0	6.7
Reported influenza cases in the PRC *(million)*	1.1	0.7	2.5	12.8	8.6

The size of anti-influenza drug market in the PRC declined in 2021, primarily due to the impact of COVID-19 pandemic. Subsequently, the size of anti-influenza drug market in the PRC increased to approximately RMB4.4 billion for 2022. With the end of the COVID-19 pandemic, other respiratory infectious diseases have broken out intensively and the impact of the influenza epidemic in the PRC was greater as compared to the pre-pandemic period. As a result, the size of anti-influenza drug market in the PRC increased significantly to approximately RMB11.0 billion for 2023. As there were no significant influenza outbreaks in the PRC in 2024, the demand for anti-influenza drugs decreased and the size of anti-influenza drugs market in the PRC decreased to approximately RMB6.7 billion for 2024.

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With reference to the Industry Overview, the sales value of oseltamivir phosphate in the PRC was approximately RMB4.7 billion for 2024, accounted for approximately 70.3% of the size of anti-influenza drug market in the PRC. In the same year, the Offeror Group's revenue from sales of oseltamivir phosphate was approximately RMB2.6 billion, accounted for approximately 38.8% of the size of anti-influenza drug market in the PRC.

Size of the anti-hepatitis B drugs market and anti-hepatitis C drugs market in the PRC

Set out below are the size of the anti-HBV drugs market and anti-HCV drugs in the PRC during the five years ended 31 December 2023, as extracted from the Industry Overview:

	2019	2020	2021	2022	2023
Size of anti-HBV drugs market in the PRC *(RMB billion)*	10.9	9.9	10.2	10.8	9.9
Size of anti-HCV drugs market in the PRC *(RMB billion)*	2.5	3.2	3.4	3.4	3.7

The size of anti-HBV drugs market in the PRC decreased from RMB10.9 billion for 2019 to RMB9.9 billion for 2023. As noted from the Industry Overview, current treatments for HBV have significant limitations as these medications do not achieve complete eradication of HBV and require long-term treatment regimen. With the improvement of health management awareness, the progress of detection of hepatitis B in primary medical institutions and the introduction of various innovative HBV drugs, the treatment for HBV is expected to become more affordable, market demand is projected to expand rapidly and the size of anti-HBV drugs in the PRC is expected to reach RMB43.4 billion for 2030, representing a CAGR of approximately 23.51% as compared to that for 2023.

The size of anti-HCV drugs market in the PRC increased from RMB2.5 billion for 2019 to RMB3.7 billion for 2023. With reference to the Industry Overview, the current diagnosis rate of chronic hepatitis C in the PRC is extremely low because of, among other factors, lack of obvious symptoms. With the increasing awareness of health management of HCV, the HCV diagnosis rate is expected to increase substantially and it is estimated that the number of diagnosed chronic HCV patients will increase to 3.1 million in 2030; and the market size of anti-HCV drugs market in the PRC will increase to RMB4.9 billion for 2030.

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Size of metabolic diseases drugs and diabetes drugs market in the PRC

Set out below are the size of metabolic diseases drugs market (including diabetes drugs) in the PRC during the five years ended 31 December 2023, as extracted from the Industry Overview:

	2019	2020	2021	2022	2023
Market size of metabolic diseases drug market in the PRC *(RMB billion)*	91.7	86.3	96.7	101.9	107.4
Market size of diabetes drug market in the PRC *(RMB billion)*	65.4	63.2	64.7	66.4	67.6

There was year-on-year increase in the size of metabolic disease drugs market for each of the year 2021, 2022 and 2023. Diabetes drugs represented the largest segment of the PRC metabolic diseases drug market and accounted for over 60% of the PRC metabolic diseases drug markets (in terms of market size) over the five years ended 31 December 2023. We noted from the Industry Overview that, as a results of unhealthy lifestyle habits and an aging population, the prevalence of diabetes in China is high and continues to rise.

We noted from the Industry Overview that the diabetes drug market in the PRC is segmented by different types of diabetes drugs, and insulin and its analogs accounted for approximately 27% of the diabetes drug market in the PRC in 2023. However, as a result of the volume-based procurement scheme of insulin products and increased penetration rate of alternative therapeutics, the price of insulin and its analogs decreased over the years. As at the Listing Document LPD, there were over 60 companies that have received approval to manufacture insulin products in the PRC, and the top six market players (including the Offeror Group) hold an aggregate of over 55.0% of the market share of the insulin market in the PRC in terms of revenue in 2023.

Furthermore, there are several new drugs for the treatment of diabetes introduced to the Chinese market, including SGLT-2 inhibitors (sodium-gloucose Cotransporter-2, a protein that facilitates gloucose reabsorption in the kidney). The market size of SGLT-2 inhibitors had increased substantially over the past year, from approximately RMB1.3 billion for 2019 to approximately RMB10.5 billion for 2023, accounted for approximately 15.5% of the diabetes drug market in the PRC. As at the Listing Document LPD, there are six approved generic SGLT-2 inhibitors and two innovative SGLT-2 inhibitors that are at the new drug applicable stage in the PRC, including Olorigliflozin under the name of Dongjiantang, one of the drug candidates in the Offeror Group's pipeline.

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The diabetes drug market in the PRC remains highly competitive, with decreasing price of insulin and its analogs; concentration of the insulin market by the top six market players; and new drug products introduced to the Chinese market. Nevertheless, the Offeror Group had made progress in developing new diabetes drug (which had completed the relevant BLA/NDA) to better position itself in view of the shift in drug product structures in the market.

Size of oncology drugs market in the PRC

Set out below are the size of oncology drugs market in the PRC during the five years ended 31 December 2023, as extracted from the Industry Overview:

	2019	2020	2021	2022	2023
Size of oncology drugs market in the PRC *(RMB billion)*	182.7	197.5	231.1	233.6	269.0

There was year-on-year increase in the size of oncology drugs market in the PRC for each of the year 2020, 2021, 2022 and 2023. The size of oncology drugs market in the PRC increased from RMB182.7 billion for 2019 to RMB269.0 billion for 2024, representing a CAGR of approximately 10.15%. With reference to the Industry Overview, the increasing prevalence of cancer in the PRC, driven by an aging population, lifestyle changes and environmental influences, had led to higher demand for oncology drugs. AML is the most common type of leukemia among the adult population and accounted for approximately 80% of all cases of leukemia.

With reference to the Board Letter, Clifutinib besylate under the name Dongningchun, is a class I innovative drug candidate the Offeror Group had been developing in-house for the treatment of AML and had reached phase III clinical trial.

Despite the challenges faced in the PRC diabetes drugs market driven by the segmented market landscape and the emergence of new innovative drug products, against the backdrop of (i) the Offeror Group's solid performance in the PRC anti-influenza drugs market; (ii) the R&D progress made by the Offeror Group in developing an innovative drug product for the treatment of diabetes; and (iii) the increasing prevalence rate of cancer in the PRC and the Offeror Group's continuous effort in developing innovative oncology drugs (namely, Dongningchun), we are of the view that the prospects of the Offeror Group in its specialised therapeutic areas (infectious diseases, chronic diseases and oncology) are generally positive.

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3.2.2 Immediate capital return

With reference to the Board Letter, the Share Exchange Shareholders will also directly receive immediate cash benefits by way of Special Dividend of HK$1.50 per Share to be distributed by the Company, thus enabling the Share Exchange Shareholders to realise a certain level of capital return from their investment.

We noted from the Company's past annual reports that since the listing of the Company's H Shares on 29 December 2015, the Company had been paying out cash dividend in respect of each of the financial year up to 31 December 2020 with dividend payout ratio (excluding the bonus issue declared by the Company on 27 March 2020) ranging from approximately 10.53% to 48.95%. As advised by the Directors, the Group's financial performance had significantly worsened since the second half of 2020 as a result of the outbreak of the COVID-19 pandemic and the Company had not distributed its earnings ever since.

The Special Dividend of HK$1.50 per Share (equivalent to approximately RMB1.37 per Share based on the Exchange Rate) represents a dividend payout ratio of approximately 61% based on the Group's aggregate net earnings per share for the four years ended 31 December 2024.

3.3 Our conclusion

In conclusion, we are of the view that the Share Exchange Shareholders will be benefited from the Merger based on the followings:

- the Share Exchange Shareholders shall directly receive immediate capital return in the form of the Special Dividend (subject to the fulfilment (or waiver, as applicable) of all the Pre-Conditions and Conditions);

- the Group currently lacks R&D capability and majority of its revenue was derived from the sales of its core product, Kewei. The Post-Merger Offeror would be better equipped with the R&D capability, the pipeline of the Offeror, and the sales capability of the Company, and shall place less reliance on a few major products with its diverse drug pipeline upon commercialization. Upon completion of the Merger and the Listing, the Share Exchange Shareholders will not only be able to continue holding their investment in the Company (through their interests in the Offeror H Shares), but will also share the benefits brought by the potential synergies through the Merger of the Company and the Offeror (such as the Offeror's diversified pipeline portfolio and integration of domestic and overseas sales channels); and

- the Offeror Group's prospects in the PRC pharmaceutical market, particularly those therapeutic areas the Offeror Group are specialized in.

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4. Valuation of the Offeror H Shares

With reference to the Board Letter, the Valuation Adviser appointed by the Offeror to value the Offeror H Shares has estimated that the estimated value of the entire shareholders' equity of the Offeror as at 31 December 2024 is approximately RMB31,093.0 million, with a range from approximately RMB28,382.3 million and RMB34,478.1 million, which implies the theoretical value of approximately RMB67.02 (equivalent to approximately HK$73.45 based on the Exchange Rate, the "**Estimated Value**") per Offeror H Share, with a range from approximately RMB61.18 to RMB74.32 per Offeror H Share (equivalent to approximately HK$67.04 to HK$81.44 per Offeror H Share based on the Exchange Rate).

4.1 Background of the Valuation Adviser

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuation Adviser with the Offeror; (ii) the Valuation Adviser's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuation Adviser for preparing the Estimated Value. From the mandate letter and other relevant information provided by the Valuation Adviser and based on our interview with the Valuation Adviser, we were satisfied with the terms of engagement of the Valuation Adviser. Based on the information provided by the Valuation Adviser, we noted that the Valuation Adviser is a corporation licensed to carry out and Type 6 (advising on corporate finance) regulated activity under the SFO, and the signatory of the Valuation Report had over 15 years of experience in corporate finance, capital markets and financial investment experience, including valuation of to-be-listed companies during IPO process.

The Valuation Report is contained in Appendix II to the Composite Document and was reported on by CICC in accordance with the requirements under Rules 10.3(b) and 11.1(b) of the Takeovers Code and by KPMG in accordance with the requirements under Rules 10.3(b) and 11.1(a) of the Takeovers Code. The reports from CICC and KPMG are also contained in Appendix II to the Composite Document.

On the basis of the foregoing, we are satisfied with the qualification and experience of the Valuation Adviser for the preparation of the Valuation Report.

4.2 Valuation methodology

We have reviewed and discussed with the Valuation Adviser the methodology used, and the basis and assumptions adopted, for the estimation of the Estimated Value as set out in the Valuation Report. Based on our discussion with the Valuation Adviser and the Valuation Report, the Valuation Adviser determined that sum-of-the-parts approach (with all three of the commonly adopted valuation methodologies,

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namely income approach, asset-based approach and market approach being adopted) is the most appropriate valuation methodology for the purpose of preparing the Valuation Report as:

(i) the Offeror directly and indirectly hold approximately 51.41% equity interest in the Company (the "**Long-term Equity Investment**"), which was evaluated by the Valuation Adviser using market approach;

(ii) the Offeror Group has been investing into its pipeline products (the "**Pipeline Products**") through R&D, which has built assets with substantial value in the form of capitalised expenditure and directly holds them and such capitalised expenditure is expected to provide income benefit streams in the future; and was evaluated by the Valuation Adviser using income approach;

(iii) the 25 subsidiaries of the Offeror other than the Company (the "**Other Subsidiaries**"), which have assets or in operation, do not exhibit significant cash generating activities; and were evaluated by the Valuation Adviser using asset-based approach (excluding their assets relating to Pipeline Products, if any); and

(iv) assets and liabilities of the Offeror other than the Long-term Equity Investment, the Pipeline Products (which replaced the Offeror Group's capitalised development costs as it forms part of the underlying value of the Pipeline Products) and its investments in the Other Subsidiaries, were evaluated by the Valuation Adviser using asset-based approach (the "**Other Assets and Liabilities**").

4.3 Bases and assumptions

4.3.1 Long-term Equity Investment under market approach

The value of the Long-term Equity Investment was estimated by the Valuation Adviser with reference to the average closing prices of the Company for 90 trading days prior to and including 31 December 2024 (the "**90 Days Average Closing Price**"). Based on the Valuation Report, we noted that the Valuation Adviser adopted the average closing prices of such period to reflect the price which a buyer or seller is willing to transact.

We consider the average closing price of the Company over a medium term of 90 days could weaken impact of any short-term fluctuation in prices of the H Shares and thus such assumption is reasonable. Based on the 90 Days Average Closing Price and the Offeror's holding of approximately 51.41% equity interest in the Company, the valuation of the Long-term Equity Investment was approximately RMB3,825.2 million.

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We have reviewed the average closing prices of the H Shares for 120 trading days and 180 trading days prior to and including 31 December 2024, and for FY2024. Based on the average closing prices of the H Shares for 120 trading days and 180 trading days prior to and including 31 December 2024, and for FY2024, the value of the Long-term Equity Investment would be approximately RMB3,819.3 million, RMB4,029.5 million and RMB4,034.1 million, respectively. We consider that the valuation of the Long-term Equity Investment would not be (a) materially different using the average closing price of the H Share for a longer period; and (b) materially over-valued using the 90 Days Average Closing Price.

We have also cross-checked the valuation of the Long-term Equity Investment against the consolidated net asset value of the Group as at 31 December 2024. Based on the Group's consolidated net assets of approximately RMB8,508 million as at 31 December 2024, the value of the Long-term Equity Investment would be approximately RMB4,374 million. We consider that the use of the 90 Days Average Closing Price would not over-value the Long-term Equity Investment as compared to that using the Group's consolidated net assets.

Given the aforesaid and that (i) the value of the Long-term Equity Investment based on the Group's consolidated net asset as at 31 December 2024 does not reflect the market value or value that may be realised by owner of the Long-term Equity Investment; and (ii) the use of 90 Days Average Closing Price reflects the average price which a buyer or seller is willing to transact (i.e. market value/price) over a period of time to mitigate any short-term fluctuation in prices, we consider the valuation of Long-term Equity Investment of approximately RMB3,825.2 million using the 90 Days Average Closing Price to be fair and reasonable.

4.3.2 Pipeline Products under income approach

The value of the Pipeline Products was estimated by the Valuation Adviser with reference to the cash flow forecast of each individual Pipeline Products based on their respective estimated operating results for the forecast period of 10 years with terminal growth of 1% (i.e. perpetual cash flow), discounted by the relevant discount rate and adjusted for the estimated commercialisation success rates.

For our due diligence purpose, we obtained from the Valuation Adviser the underlying calculation of the estimated value of each Pipeline Products and analysed on the following parameters.

Commercialisation success rate

As noted from the Valuation Report, the commercialisation success rates were determined with reference to (i) the expected success probabilities provided by the Offeror Group's management; (ii) the discussion between the Valuation Adviser and Frost & Sullivan; and (iii) the research article "Clinical Development Success Rates for Innovative Drugs in China" (the "**Research Article**") as contained in the academic

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journal "International Journal of Pharmacology (volume 18)". In general, commercialisation success rate is higher as the Pipeline Products achieved later clinical stage.

We do not doubt the commercialisation success rates adopted by the Valuation Adviser on the basis that (i) the expected success probabilities were provided by the Offeror Group's management, which has in-depth understanding in the status of each Pipeline Products; (ii) the estimation provided by Frost & Sullivan are objective, fair and representative based on our analysis as set out under the sub-section headed "3.2.1 Industry overview of pharmaceutical industry" above; (iii) the Research Article analysed efficiency of drug development in the PRC by examining the clinical trial success rates of drug candidates from 2003 to 2019 and evaluated over 1,000 new drug submissions, focusing on phase transition probabilities and approval probabilities; and (iv) the Valuation Adviser had taken into account inputs from (i) to (iii) above, which reflects the Offeror Group's management expectation specific to each Pipeline Products, objective inputs from Frost & Sullivan (being an independent global market research and consulting company) and past commercialisation success rates as shown in the Research Article.

Set out below are the range of commercialisation success rate for each clinical stage of the Pipeline Products adopted by the Valuation Adviser:

Clinical stage	Pre-clinical	Phase I	Phase II	Phase III	Pre-listing
Range of success probabilities	52–81%	47–81%	47–61%	61–93%	90–93%

We noted that there are two Pipeline Products that are still in early clinical stages but with exceptionally high commercialisation success rate; and one Pipeline Product that is in phase III clinical stage with commercialisation success rate of 93%. As such, we enquired into the Valuation Adviser regarding the reasonableness of the commercialisation success rates of these Pipeline Products with exceptionally high commercialisation success rate and we understood that the high commercialisation success rate of these Pipeline Products was mainly because (i) one of the Pipeline Products is biosimilar drug (a therapeutic biological product that is similar in quality, safety and efficacy to a reference drug approved for registration); (ii) one of the Pipeline Products is also a biosimilar drug that is not required to undergo phase II clinical trials; and (iii) one of the Pipeline Products had reached the end of phase III clinical stage and is entering the pre-listing stage.

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Estimated revenue

The estimated revenue was projected by the estimated number of patients for indication of each Pipeline Products, diagnosis rate, treatment rate, product penetration rate and unit price. We enquired into the Valuation Adviser and understood that the estimated number of patients for relevant indications, diagnosis rate, treatment rate, and product penetration rate (collectively, the "**Forecast Data**") were estimated based on industry statistics provided by Frost & Sullivan, the independent industry consultant engaged by the Offeror.

According to the Industry Overview, Frost & Sullivan is an independent global market research and consulting company, founded in 1961, and is based in the United States. Services provided by Frost & Sullivan include market assessments, competitive benchmarking and strategic and market planning for a variety of industries. Frost & Sullivan was engaged by the Offeror to conduct a detailed analysis and prepare an industry report on the pharmaceutical market (including anti-infective drug market, metabolic disease drug market, oncology drug market, respiratory disease drug market and neuropsychiatric drug market in China, the U.S. and globally (as applicable)) in connection with the Listing. Based on our analysis as set out under the sub-section headed "3.2.1 Industry overview of pharmaceutical industry" above, we consider the estimated data provided by Frost & Sullivan are objective, fair and representative. We also noted that Frost & Sullivan prepared numerous industry reports, which were made reference to by listing applicants on the Stock Exchange, including listing applicants that are engaged in pharmaceutical industry.

We noted that Frost & Sullivan prepared its report based on its in-house database, independent third-party reports and publicly available data from reputable industry organizations. Frost & Sullivan will also contact companies operating in the industry, if necessary, to gather and synthesize information in relation to the market, prices and other relevant information.

Having also considered the background and experience of Frost & Sullivan, we are of the view that it is appropriate to project the estimated revenue based on the Forecast Data (comprised of estimated number of patients for relevant indications, diagnosis rate, treatment rate, and product penetration rate).

Estimated costs of sales

The estimated cost of sales of each Pipeline Products is 25% of the estimated revenue for the first year of commercialisation (implying gross profit margin of 75%) and shall decrease by 1% per annum until it reaches 15%.

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We noted from the Valuation Report that the Valuation Adviser had cross-checked the gross profit margin of comparable companies of the Offeror (for the purpose of calculating the discount rate, which are fair, representative and exhaustive as analysed below) (the "**Offeror Comparable Companies**") and results have shown that the industry average and median are 67.8% and 70.5% respectively, both being lower than the implied gross profit margin of 75% adopted for the first year of commercialisation. However, we understood from the Valuation Adviser that as new drug products are projected to have a higher selling price as compared to commercialised drug products, which will result in lower cost of sales as a percentage of revenue. As the Offeror Comparable Companies are engaged in similar line of business as the Offeror Group (namely, the R&D, production, sales and development of pharmaceutical products) and operate primarily in the PRC, we consider the use of the Offeror Comparable Companies' operating metrics to cross-check the implied gross profit margin of the Pipeline Products to be fair and reasonable.

In respect of the decreasing rate of 1% per annum, we noted from the Valuation Report that such assumption is primarily due to economies of scale expected to be achieve upon commercialisation and is in line with the industry average in terms of new drugs. As noted from Appendix V to the Composite Document, the gross profit margin of the Offeror Group's anti-infective drugs increased from approximately 81.8% for FY2022 to approximately 84.2% for FY2023, representing an increase of approximately 2.4 percentage points, primarily attributable to the increase in production volume of Kewei, thereby resulting in the decrease in the unit manufacturing costs, due to its increasing market demand.

As such, we consider the estimated cost of sales for the first year of commercialisation of each Pipeline Products, being 25% of the estimated revenue, is justifiable and we do not doubt the reasonableness of the decreasing rate of 1% per annum.

Estimated operating expenses

We noted from the Valuation Report that the estimated operating expenses primarily consisted of tax and surcharge, selling expenses, management expenses, R&D expenses, and depreciation and amortisation, all of which are estimated based on a percentage of the estimated revenue for the corresponding forecast period. We noted that such percentage was determined based on (i) the Offeror Group's historical average for the three years ended 31 December 2024; or (ii) the industry average and median of the Offeror Comparable Companies. We cross-checked the relevant data and they are in line with the assumptions made in formulating the estimated operating expenses.

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According, we consider the basis and assumptions for the estimated operating expenses are justifiable.

Discount rate

We noted from the Valuation Report that the discount rate (i.e. the weighted average cost of capital) applied was approximately 8.57%, formulated based on the cost of equity derived by the Valuation Adviser using the modified capital asset pricing model (the "**Modified CAPM**") and the cost of debt using the Offeror Group's historical financial information and capital structure.

We searched through the internet and noted that the Modified CAPM formula is widely adopted for the purpose of formulating the cost of equity. We understood from the Valuation Adviser that the capital asset pricing model was modified to reflect the unsystematic risk attributable to a specific company (i.e. the specific company adjustment). The cost of equity under the Modified CAPM was formulated using the formula below:

$$R_e = R_f + \beta * ERP + RP_u$$

Where:

R_e	=	*cost of equity*
R_f	=	*risk-free rate*
β	=	*beta coefficient, a measure of systematic risk*
ERP	=	*equity risk premium*
RP_u	=	*specific company adjustment*

Risk-free rate represents the theoretical rate of return of zero-risk assets, which also reflects the minimum return required by an investor of a riskier investment. We noted from the Valuation Report that the risk-free rate adopted in the Valuation was 1.68%, determined with reference to the 10-year MOF-China Government Bond yield as at 31 December 2024, on the basis that:

(i) the business operations of the Offeror Group are primarily located in the PRC, the use of the 10-year MOF-China Government Bond yield reflects the local economic and financial conditions in medium-to-long term, which also coincides with the forecast period of 10 years; and

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(ii) the use of the 10-year MOF-China Government Bond yield avoid inconsistency in functional currency of the Offeror Group's business operations and the minimum return of an investment denominated in RMB.

We have cross-checked the 10-year MOF-China Government Bond yield as at 31 December 2024 as published by the Ministry of Finance of the PRC and the risk-free rate adopted by the Valuation Adviser is in line with our findings. As the adopted risk-free rate reflects the risk associated with the principal place of operation of the Offeror Group, we consider the use of 10-year MOF-China Government Bond yield for the determination of risk-free rate is justifiable.

For the purpose of formulating the beta coefficient, we noted from the Valuation Report that Valuation Adviser had selected the Offeror Comparable Companies and obtained their levered betas using the following selection criteria:

(i) pharmaceutical companies listed on the Stock Exchange;

(ii) companies principally engaged in the production, sales and development of pharmaceutical products primarily in the PRC;

(iii) companies focused on drug research and development; and

(iv) companies that are primarily engaged in retail, distribution, contract manufacturing organisation or contract development and manufacturing organisation are excluded.

We consider the selection criteria as set out above allow the Valuation Adviser to (i) identify companies listed on the Stock Exchange that engage in similar line of business of and primarily derived revenue from the same geographical location as the Offeror Group; and (ii) assess the systematic risks (in the form of beta) associated with the cost of capital (as represented by the discount rate) of the Pipeline Products (contributed by the Offeror) with reference to those companies listed on the same listing venue as that the Offeror is seeking to be listed on, and thus they are fair and representative. As also confirmed by the Valuation Adviser, the Offeror Comparable Companies are exhaustive based on their selection criteria.

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Having identified the Offeror Comparable Companies, the Valuation Adviser had indexed the historical share prices of the Offeror Comparable Companies for FY2024 against Hang Seng Index as benchmark to derive their respective levered beta. We consider the use of 1-year historical share price of the Offeror Comparable Companies could adequately reflect the prevailing market conditions and the volatility of the stock market within one year prior to 31 December 2024 and would allow the Valuation Adviser to observe how the stock market has performed in current condition, identify short-term risk and return relationships of the stock market and derive the current level of systematic risks. We also understood from the Valuation Adviser that the use of 1-year historical data can also minimise the influence of past events (such as the COVID-19 pandemic) that no longer impact the stock market. We cross-checked the levered betas of the Offeror Comparable Companies through Wind Financial Terminal and noted that the levered betas obtained by the Valuation Adviser are in line with our findings. The levered betas obtained by the Valuation Adviser had been un-levered to remove the effect of their respective financial leverages, and re-levered at the estimated capital structure of the Offeror to reflect the systematic risks of the Offeror.

Equity risk premium represents the excess return required by equity investors to compensate for higher equity risks than risk-free. We noted from the Valuation Report that the equity risk premium of approximately 5.13% adopted in the Valuation was determined with reference to the equity risk premium of Hong Kong stock market as at 31 December 2024 published by Prof. Aswath Damodaran, the Professor of Finance at the Stern School of Business at New York University. As the Offeror is seeking to list its shares on the Stock Exchange, we consider the use of equity risk premium of the Hong Kong stock market in determining the discount rate of the Pipeline Products, representing the cost of capital of the Pipeline Products which are contributed by the Offeror, to be fair and reasonable.

As noted from Prof. Aswath Damodaran's website (https://pages.stern.nyu.edu/~adamodar/), Prof. Aswath Damodaran specialised in corporate finance and valuation, and his papers have been published in the "Journal of Financial and Quantitative Analysis", the "Journal of Finance", the "Journal of Financial Economics" and the "Review of Financial Studies". We also noted from various valuation reports prepared by other valuation experts as contained in circulars issued by Hong Kong listed companies that it is common for valuation experts to use the data published by Prof. Aswath Damodaran on his website in determining discount rates (such as equity risk premiums and market risk premiums), and thus we consider it is common practice among valuation experts to use the data published by Prof. Aswath Damodaran in determining discount rates of business and assets.

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A specific company adjustment of 3.5% is added to account for the unsystematic risk attributable to the Offeror. We noted from the Valuation Report that the Valuation Adviser had considered ten risk factors associated with the Offeror Group's business and had assigned the specific risk premium based on the Offeror Group's status as compared to those of the Offeror Comparable Companies. We consider the risk factors considered by the Valuation Adviser would allow the Valuation Adviser to assess the risk specifically related to the Offeror that would not have been considered in the other components of the Modified CAPM formula and thus we consider the specific company adjustment adopted is justifiable.

The cost of debt adopted in formulating the discount rate represents the Offeror's post-tax effective interest rate for FY2024. Having derived the cost of equity and cost of debt of the Offeror, the Valuation Adviser formulated the discount rate with reference to the average debt-to-equity ratio of the Offeror Comparable Companies.

We noted from the Valuation Report that the Valuation Adviser had performed sensitivity analysis by altering key inputs in the valuation of the Pipeline Products (namely, the discount rate, perpetual growth rate, gross profit margin and selling expenses) to arrive at the best-case and worst-case valuation of the Pipeline Products. Based on the sensitivity analysis performed by the Valuation Adviser:

(i) if the discount rate increases or decreases by 0.5 percentage points and the perpetual growth rate increase or decrease by 0.05 percentage points, the valuation of the Pipeline Products would range from approximately RMB28,368.5 million to RMB34,531.4 million, representing an increase in value of approximately 10.54% and the decrease in value of approximately 9.19%; and

(ii) if the gross profit margin increases or decreases by 1 percentage point and the selling expenses as a percentage of revenue increase or decrease by 0.5 percentage points, the valuation of the Pipeline Products would range from approximately RMB28,928.6 million to RMB33,547.7 million, representing an increase or decrease in value of approximately 7.39%.

We consider the inputs used in the sensitivity analysis are pivotal to the valuation of the Pipeline Products. As the valuation results of the Pipeline Products are highly sensitive to the changes in the key inputs and over-adjusting the key inputs may lead to arbitrary/non-referential results, we consider the percentage points range adopted in performing the sensitivity analysis is justifiable.

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4.3.3 Other Subsidiaries and Other Assets and Liabilities under asset-based approach

The aggregated book value and appraised value of the "Other Subsidiaries and Other Assets and Liabilities" were both approximately negative RMB3,970.3 million. As noted from the Valuation Report, the Valuation Adviser had verified the book value of the relevant assets and liabilities by cross-checking the audited figures of the relevant assets and liabilities with the underlying management accounts, and carrying out discussion and interview with the management of the Offeror. We consider the above approach to be justifiable.

On the basis of the foregoing, (a) the valuation of the Long-term Equity Investment was approximately RMB3,825.2 million; (b) the valuation of the Pipeline Products based on base-case scenario was approximately RMB31,238.1 million; and (c) the valuation of the "Other Subsidiaries and Other Assets and Liabilities" is approximately negative RMB3,970.3 million in aggregate. By adopting the sum-of-the-parts approach, the value of the entire shareholders' equity of the Offeror was approximately RMB31,093.0 million as at 31 December 2024, implying the Estimated Value of RMB67.02 (equivalent to approximately HK$73.45 based on the Exchange Rate) per Offeror H Share.

On the basis that for every Share Exchange H Share cancelled under the Merger, the Share Exchange Shareholders will receive 0.263614 Offeror H Shares, the theoretical value of the consideration for each Share Exchange H Share would be approximately HK$19.36 (the "**Implied Consideration**").

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5. Analysis on the Share Exchange Ratio

As stated in the Board Letter, the Share Exchange Ratio of 0.263614 new Offeror H Shares for every Share Exchange H Share cancelled was determined on commercial basis on arm's length term after taking into account, among other things, the theoretical value of the Offeror H Shares under the Merger for each Share Exchange H Share (i.e. the Implied Consideration).

Set out below are the relative contributions of value of the Post-Merger Offeror attributable by shareholders of the Offeror (based on the estimated value of the entire shareholders' equity of the Offeror as at 31 December 2024) and the Share Exchange Shareholders (based on the value of the Share Exchange H Shares), the implied exchange ratio and the shareholding proportion in the Post-Merger Offeror, for comparison:

	Shareholders of the Offeror	**Share Exchange Shareholders**
Value contribution *(RMB million)*	31,093 *(Note 1)* (A)	3,617 *(Note 2)* (B)
Value of the Post-Merger Offeror *(RMB million)*	34,710 (C = A + B)	
Relevant contribution	89.58% (D = A ÷ C)	10.42% (E = B ÷ C)
Number of Offeror Shares/ Share Exchange H Shares	463,943,215 (F)	427,567,700 (G)
Value per share attributable to shareholders *(RMB)*	67.02 (H = A ÷ F)	8.46 (I = B ÷ G)
Implied share exchange ratio (I ÷ H)	0.13	
Number of Offeror Shares held by Shareholders of the Offeror and the Share Exchange Shareholders immediately after the completion of the Merger	463,943,215 (J)	112,712,832 (K) *(Note 3)*
Total number of Offeror Shares immediately after the completion of the Merger	576,656,047 (L = J + K)	
Shareholding proportion in the Post-Merger Offeror	80.45% (J ÷ L)	19.55% (K ÷ L)

Notes:

1. Value attributable to shareholders of the Offeror was determined with reference to the estimated value of the entire shareholders' equity of the Offeror as at 31 December 2024 according to the Valuation Report.

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2. Value attributable to Share Exchange Shareholders was determined with reference to the 90 Days Average Closing Price (which align with the Valuation Adviser's basis in estimating the value of the Long-term Equity Investment).

3. The number of Offeror Shares held by the Share Exchange Shareholders immediately after the completion of the Merger were calculated by multiplying the number of Share Exchange H Shares by the Share Exchange Ratio.

As illustrated in the above table, the implied exchange ratio based on the estimated value of the entire shareholders' equity of the Offeror as at 31 December 2024 and value of the Share Exchange H Shares was approximately 0.13 Offeror H Shares for every Share Exchange H Share, which is significantly lower than the Share Exchange Ratio of 0.263614. Furthermore, the contribution of value of the Post-Merger Offeror by the Share Exchange Shareholders (in terms of percentage, i.e., 10.42%) was also less than the shareholding proportion of the Share Exchange Shareholders in the Post-Merger Offeror.

6. Comparison of value

The Implied Consideration of HK$19.36 per Share Exchange H Share represents:

(i) a premium of approximately 29.93% over the closing price of HK$14.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 44.48% over the closing price of HK$14.90 per Share as quoted on the Stock Exchange on the Latest Practicable Date, less the Special Dividend resulting in a net price of HK$13.40 per Share;

(iii) a premium of approximately 72.24% over the closing price of HK$11.24 per Share as quoted on the Stock Exchange on the Last Trading Day;

(iv) a premium of approximately 98.77% over the closing price of HK$11.24 per Share as quoted on the Stock Exchange on the Last Trading Day, less the Special Dividend resulting in a net price of HK$9.74 per Share (the "**LTD Premium**");

(v) a premium of approximately 115.83% over the average closing price of approximately HK$8.97 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(vi) a premium of approximately 159.17% over the average closing price of approximately HK$8.97 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day, less the Special Dividend resulting in a net price of HK$7.47 per Share (the "**30 Days Premium**");

(vii) a premium of approximately 109.52% over the average closing price of approximately HK$9.24 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

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(viii) a premium of approximately 150.13% over the average closing price of approximately HK$9.24 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day, less the Special Dividend resulting in a net price of HK$7.74 per Share (the "**60 Days Premium**");

(ix) a premium of approximately 116.07% over the average closing price of approximately HK$8.96 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(x) a premium of approximately 159.52% over the average closing price of approximately HK$8.96 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day, less the Special Dividend resulting in a net price of HK$7.46 per Share;

(xi) a premium of approximately 130.48% over the average closing price of approximately HK$8.40 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

(xii) a premium of approximately 180.58% over the average closing price of approximately HK$8.40 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day, less the Special Dividend resulting in a net price of HK$6.90 per Share;

(xiii) a premium of approximately 146.94% over the average closing price of approximately HK$7.84 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;

(xiv) a premium of approximately 205.36% over the average closing price of approximately HK$7.84 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day, less the Special Dividend resulting in a net price of HK$6.34 per Share; and

(xv) a premium of approximately 82.64% over the consolidated net asset value per Share as at 31 December 2024 of approximately HK$10.60 per Share (based on a total of 879,967,700 Shares in issue as at the Latest Practicable Date and the audited equity attributable to owners of the Company of approximately RMB8,508.2 million (equivalent to approximately HK$9,324.1 million) as at 31 December 2024).

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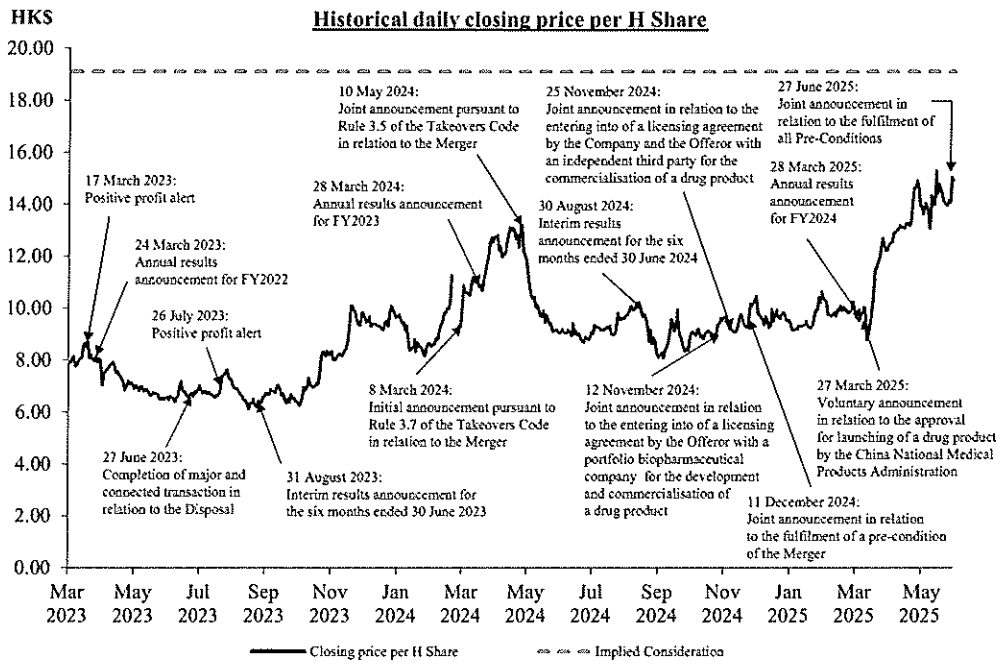
6.1 Historical performance of the H Shares

6.1.1 Historical price of H Shares

Set out below is a chart showing the movement of the closing prices of the H Shares during the period from 1 March 2023 (being approximately one year prior to the Last Trading Day) up to and including the Latest Practicable Date (the "**H Shares Review Period**") to illustrate the general trend and level of movement of the closing prices of the Shares.



Source: the Stock Exchange's website

Note: Trading in the H Shares was halted (i) with effect from 9:00 a.m. on 4 March 2024 and resumed at 9:00 a.m. on 11 March 2024; and (ii) with effect from 9:00 a.m. on 10 May 2024 and resumed at 9:00 a.m. on 13 May 2024.

During the H Shares Review Period, the lowest and highest closing prices of H Shares as quoted on the Stock Exchange were HK$6.13 per H Share recorded on 21 August 2023 and HK$15.26 per H Shares recorded on 12 June 2025. The Implied Consideration is above the closing price of the H Shares during the entire H Shares Review Period and representing a premium of approximately 26.87% over the highest closing price of H Shares during the H Shares Review Period.

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From the start of the H Shares Review Period up to 10 November 2023, the closing prices of H Shares fluctuated between the range of HK$6.13 and HK$8.67. Thereafter, the closing prices of H Shares formed a general increasing trend before it reached HK$10.06 per H Share on 4 January 2024.

From 5 January 2024, the closing prices of H Shares formed a decreasing trend until 5 February 2024 before the closing prices of H Shares rebounded and reached HK$11.24 per H Share on the Last Trading Day.

Following the publication of the initial announcement pursuant to Rule 3.7 of the Takeovers Code (the "**Rule 3.7 Announcement**"), the closing prices of H Shares formed an increasing trend and reached HK$13.16 on 9 May 2024 (being the date immediately prior to the publication of the joint announcement by the Company and the Offeror in relation to the Merger pursuant to Rule 3.5 of the Takeovers Code (the "**Rule 3.5 Announcement**")).

Following the publication of the Rule 3.5 Announcement and up to the Latest Practicable Date, the closing prices of H Shares fluctuated between HK$8.08 and HK$15.26.

6.1.2 Historical liquidity of H Shares

Set out below is a table showing the average daily number of H Shares traded per month, and the respective percentages of the H Shares' average daily trading volume as compared to (i) the total number of H Shares held by

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Independent H Shareholders as at the Latest Practicable Date; and (ii) the total number of H Shares in issue as at the Latest Practicable Date, to illustrate the trading liquidity of H Shares during the H Shares Review Period.

Month	Number of trading days	Average daily trading volume (the "Average Volume") *Number of Shares*	% of the Average Volume to total number of H Share held by Independent H Shareholders as at the end of each month/ period *Approximate %*	% of the Average Volume to total number of H Shares in issue as at the end of each month/ period *Approximate %*
2023				
March	23	3,058,957	0.75	0.47
April	17	1,283,994	0.32	0.20
May	21	474,510	0.12	0.07
June	21	367,457	0.09	0.06
July	20	539,297	0.13	0.08
August	23	493,174	0.12	0.08
September	19	481,763	0.12	0.07
October	20	1,357,821	0.33	0.21
November	22	2,287,464	0.56	0.35
December	19	1,795,684	0.44	0.27
2024				
January	22	1,412,427	0.35	0.22
February	19	908,284	0.22	0.14
March *(Note)*	15	3,288,720	0.81	0.50
— Last Trading Day	*1*	*7,269,000*	*1.79*	*1.11*
— 11 March to 28 March	*14*	*3,004,414*	*0.74*	*0.46*
April	20	2,954,000	0.73	0.45
May *(Note)*	20	3,562,150	0.88	0.54
— 2 May to 9 May	*6*	*2,990,167*	*0.74*	*0.46*
— 13 May to 31 May	*14*	*3,807,286*	*0.94*	*0.58*

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Month	Number of trading days	Average daily trading volume (the "Average Volume") *Number of Shares*	% of the Average Volume to total number of H Share held by Independent H Shareholders as at the end of each month/ period *Approximate %*	% of the Average Volume to total number of H Shares in issue as at the end of each month/ period *Approximate %*
2024 (continued)				
June	19	1,222,173	0.30	0.19
July	22	488,168	0.12	0.07
August	22	1,859,473	0.46	0.28
September	19	2,820,337	0.70	0.43
October	21	2,325,849	0.57	0.36
November	21	1,522,825	0.38	0.23
December	20	4,016,137	0.99	0.61
2025				
January	19	3,104,564	0.77	0.47
February	20	3,359,199	0.83	0.51
March	21	3,087,014	0.76	0.47
April	19	9,660,240	2.38	1.48
May	20	8,313,510	2.05	1.27
June (up to and including the Latest Practicable Date)	20	11,165,780	2.75	1.71

Source: the Stock Exchange's website

Note: Trading in the H Shares was halted (i) with effect from 9:00 a.m. on 4 March 2024 and resumed at 9:00 a.m. on 11 March 2024; and (ii) with effect from 9:00 a.m. on 10 May 2024 and resumed at 9:00 a.m. on 13 May 2024.

As illustrated in the above table, (i) the Average Volume in most of the months during the H Shares Review Period was below 1% of the number of H Shares held by Independent H Shareholders (except for April 2025, May 2025 and June 2025 (up to and including the Latest Practicable Date)); and (ii) the Average Volume in most of the months during the H Shares Review Period (except for March 2024, May 2024, December 2024, February 2025, April 2025, May 2025 and June 2025 (up to and including the Latest Practicable Date)) was below 0.50% of the total number of H Shares in issue as at the Latest Practicable Date. The Average Volume was thin during the H Shares Review Period.

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6.2 Comparison with other comparable companies

To assess the fairness and reasonableness of the Implied Consideration, we performed trading multiple analysis (including price-to-earnings ratio ("**PER**"), price-to-book ratio ("**PBR**") and price-to-sales ratio ("**PSR**")). We searched for Hong Kong Main Board listed companies (i) which are principally engaged in similar line of business as the Group (being production and sales of drug products in the PRC) and derived more than 50% of their revenue from such business (excluding tradition Chinese medicines); (ii) which are profit-making based on their respective latest published full-year financial information as at the Latest Practicable Date; and (iii) with market capitalisation between HK$1 billion and HK$50 billion as at the Latest Practicable Date. We found ten companies listed below which met the aforesaid criteria and they are exhaustive (the "**Comparable Companies**"). As it has been over one year since the date of the Rule 3.7 Announcement and that the Comparable Companies have published updated annual financial results, we performed trading multiple analysis on the Comparable Companies as at the Latest Practicable Date to reflect their updated trading multiples based on their latest published financial information.

Set out below are the PER, PBR and PSR of the Comparable Companies based on their closing prices as at the Latest Practicable Date, and their then respective latest published financial information:

Company name (stock code)	Principal business	Market capitalization *(HK$ billion)*	PER *(Note 1)*	PBR *(Note 2)*	PSR *(Note 3)*
Shandong Xinhua Pharmaceutical Company Limited (719 & SZ000756)	Development, production and sale of pharmaceutical raw materials, preparations, medical intermediate and other products	9.3	17.99	1.64	1.00
China Medical System Holdings Limited (867)	R&D, production, promotion and sale of medicines	29.3	16.49	1.64	3.58
Essex Bio-Technology Limited (1061)	Development, manufacture and sale of biologic drugs	2.6	8.34	1.21	1.53
Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd. (1349 & SH688505)	Innovative R&D, production and marketing of biomedicine	7.6	175.65 *(Note 4)*	3.02	9.84 *(Note 4)*
Livzon Pharmaceutical Group Inc. (1513 & SZ000513)	R&D, production and sale of pharmaceutical products	33.1	14.64	2.13	2.56

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Company name (stock code)	Principal business	Market capitalization *(HK$ billion)*	PER *(Note 1)*	PBR *(Note 2)*	PSR *(Note 3)*
SSY Group Limited (2005)	R&D, manufacturing and selling of pharmaceutical products	8.1	7.65	1.12	1.41
Simcere Pharmaceutical Group Limited (2096)	R&D, manufacturing and sales of pharmaceutical products	27.2	33.88	3.51	3.74
Luye Pharma Group Ltd. (2186)	Developing, producing, marketing and selling innovative pharmaceutical products	13.2	25.46	0.85	1.98
Dawnrays Pharmaceutical (Holdings) Limited (2348)	Development, manufacture and sale of non-patented pharmaceutical medicines	1.8	2.99	0.51	1.59
China Resources Pharmaceutical Group Limited (3320)	(i) R&D, manufacturing and sale of pharmaceutical products; (ii) pharmaceutical distribution; and (iii) pharmaceutical retail businesses	32.6	8.88	0.62	0.12
	Maximum (excluding outlier):		33.88	3.51	3.74
	Minimum (excluding outlier):		2.99	0.51	0.12
	Average (excluding outlier):		15.15	1.63	1.94
	Median (excluding outlier):		14.64	1.42	1.59
The Company (based on the Implied Consideration)		17.0 *(Note 5)*	32.03 *(Note 6)*	1.83 *(Note 7)*	4.15 *(Note 8)*

Source: the Stock Exchange's website and the cninfo website

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Notes:

1. PERs of the Comparable Companies were calculated based on their respective latest published audited profit for the year attributable to the shareholders, their respective closing prices as quoted on the Stock Exchange and the total issued shares as at the Latest Practicable Date.

2. PBRs of the Comparable Companies were calculated based on their respective latest published net assets attributable to the shareholders, their respective closing prices as quoted on the Stock Exchange and the total issued shares as at the Latest Practicable Date.

3. PSRs of the Comparable Companies were calculated based on their respective latest published audited revenue for the year, their respective closing prices as quoted on the Stock Exchange and the total issued shares as at the Latest Practicable Date.

4. The PER and PSR of the relevant company were exceptionally high as they are more than two standard deviations away from the mean and were considered as outliers based on the mean and standard deviation outlier detection method. We could not identify any specific reason for the aforesaid results.

5. The implied market capitalisation of the Company was calculated based on the Implied Consideration and the number of Shares in issue as at the Latest Practicable Date.

6. The implied PER of the Company was calculated based on the Implied Consideration, the audited profit attributable to owners of the Company for FY2024 and the total number of Shares in issue as at the Latest Practicable Date.

7. The implied PBR of the Company was calculated based on the Implied Consideration, the net assets attributable to owners of the Company as at 31 December 2024 and the total number of Shares in issue as at the Latest Practicable Date.

8. The implied PSR of the Company was calculated based on the Implied Consideration, the Group's audited revenue for FY2024 and the total number of Shares in issue as at the Latest Practicable Date.

As depicted in the above table:

- the PERs of the Comparable Companies (excluding outlier) ranged from approximately 2.99 times to 33.88 times, with an average of approximately 15.15 times and median of approximately 14.64 times; the PBRs of the Comparable Companies ranged from approximately 0.51 times to 3.51 times, with an average of approximately 1.63 times and median of approximately 1.42 times; and the PSRs of the Comparable Companies (excluding outlier) ranged from approximately 0.12 times to 3.74 times, with average of approximately 1.94 times and median of approximately 1.59 times.

The implied PER and implied PBR of the Company are within the respective range of the Comparable Companies and are higher than the average and median of the Comparable Companies (excluding outlier, where applicable), and the implied PSR of the Company is above the PSR range of the Comparable Companies (excluding outlier).

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6.3 Comparison with other privatisation cases through share exchange offer

To further assess the fairness and reasonableness of the Implied Consideration, we searched for completed privatisation cases through share exchange offer announced by listed companies in Hong Kong from 9 March 2019 to the Latest Practicable Date, being approximately 5 years prior to the date of Rule 3.7 announcement (i.e. 8 March 2024) and up to the Latest Practicable Date, excluding transactions with cash alternatives (the "**Share Exchange Case(s)**"). Based on the aforesaid selection criteria, we found seven Share Exchange Cases which met the aforesaid criteria for comparison and they are exhaustive. Although the business and operation of the Group are not the same as those of the offeree companies of the Share Exchange Cases, the Share Exchange Cases can demonstrate the market practices of privatisation cases through share exchange offer conducted by other Hong Kong listed companies. Set out below is an exhaustive list of the Share Exchange Cases based on our selection criteria:

Name of offeror (stock code)	Name of offeree (stock code)	Date of initial announcement	Implied consideration per share *(Note 1)* *(HK$)*	Premium/ (discount) of the implied consideration over/to the closing price per share on the last full trading day prior to the publication of the initial announcement in relation to the respective proposal *(%)*	Premium/ (discount) of the implied consideration over/to the closing price per share for the 30 full trading days prior to the publication of the initial announcement in relation to the respective proposal *(%)*	Premium/ (discount) of the implied consideration over/to the closing price per share for the 60 full trading days prior to the publication of the initial announcement in relation to the respective proposal *(%)*
Haier Smart Home Co., Ltd. (SH600690)	Haier Electronics Group Co., Ltd. (1169)	16 December 2019	31.51	44.20	42.65	46.62
Huarong International Financial Holdings Limited (993)	Huarong Investment Stock Corporation Limited (2277)	6 July 2020	0.42	35.54	61.28	54.77
Shandong Gold Mining Co., Ltd. (1787 & SH600547)	Hengxing Gold Holding Company Limited (2303)	30 September 2020	3.29	9.60 *(Note 2)*	(0.34) *(Note 2)*	2.11 *(Note 2)*
Asia Standard International Group Limited (129)	Asia Standard Hotel Group Limited (292)	19 June 2024	0.11	52.78	57.44	70.76

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Name of offeror (stock code)	Name of offeree (stock code)	Date of initial announcement	Implied consideration per share *(Note 1)* *(HK$)*	Premium/ (discount) of the implied consideration over/to the closing price per share on the last full trading day prior to the publication of the initial announcement in relation to the respective proposal *(%)*	Premium/ (discount) of the implied consideration over/to the closing price per share for the 30 full trading days prior to the publication of the initial announcement in relation to the respective proposal *(%)*	Premium/ (discount) of the implied consideration over/to the closing price per share for the 60 full trading days prior to the publication of the initial announcement in relation to the respective proposal *(%)*
Guotai Junan Securities Co., Ltd. (2611 & SH601211)	Haitong Securities Co., Ltd. (6837 & SH600837)	9 October 2024	4.90 *(Note 3)*	35.14 *(Note 4)*	41.49 *(Note 4)*	38.45 *(Note 4)*
Viva Goods Company Holdings Limited (933)	Bossini International Holdings Limited (592)	16 October 2024	0.11	(12.20)	23.38	21.17
Get Nice Holdings Limited (64)	Get Nice Financial Group Limited (1469)	5 November 2024	0.616	105.33 *(Note 5)*	113.89 *(Note 5)*	158.64 *(Notes 5 & 6)*
	Maximum:			**105.33**	**113.89**	**70.76**
	Minimum:			**(12.20)**	**(0.34)**	**2.11**
	Average:			**38.63**	**48.54**	**38.98**
	Median:			**35.54**	**42.65**	**42.53**
	The Merger	8 March 2024	19.36	98.77 *(Note 7)*	159.17 *(Note 7)*	150.13 *(Note 7)*

Notes:

1. In the case where the relevant offeror is a listed company, the implied consideration per share was based on the sum of (a) closing price of the respective offeror's shares as quoted on the Stock Exchange on the last full trading day immediately before the date of the initial announce multiplied by the respective share exchange ratio; and (b) the relevant cash consideration (if any). In the case where the relevant offeror was not listed on the Stock Exchange prior to the completion of the relevant proposal, the implied consideration per share was based on the sum of (a) mid-point of the valuation range of the relevant offeror's share as estimated by its valuation adviser multiplied by the share exchange ratio; and (b) the cash consideration (if any).

2. Adjusted for special dividend of HK$0.3585 per share of the relevant offeree.

3. Adjusted for the interim dividend of HK$0.1641716 per share of the relevant offeror.

4. Adjusted for the interim dividend of HK$0.0328343 per share of the relevant offeree.

5. Adjusted for the scheme dividend of HK$0.50 per share of the relevant offeree.

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6. The premium as represented by the cancellation price of the relevant privatisation proposal was exceptionally high as they are more than two standard deviations away from the mean and were considered as outliers based on the mean and standard deviation outlier detection method.

7. Adjusted for the Special Dividend of HK$1.50 per Share.

As depicted in the above table, the premium represented by the Implied Consideration over (i) the closing price of H Shares on the Last Trading Day (adjusted for the Special Dividend) was within the premium/discount range of the Share Exchange Cases; and (ii) the average closing price of H Shares for the 30 and 60 consecutive trading days (adjusted for the Special Dividend) are above the respective range of the Share Exchange Cases (excluding the privatisation proposal for Get Nice Financial Group Limited, being the outlier identified).

6.4 Our conclusion

Taking into account:

- the Implied Consideration is above the closing price range of H Shares during the entire H Shares Review Period;
- the Implied Consideration represents substantial premiums over the recent closing price of H Shares, including the LTD Premium, 30 Days Premium and 60 Days Premium;
- the Implied Consideration represents a substantial premium over the consolidated net asset value per Share as at 31 December 2024;
- as at the Latest Practicable Date, the implied PER and PBR of the Company are within the respective range ranges of the Comparable Companies and are higher than the average and median of the Comparable Companies (excluding outlier, where applicable), and the implied PSR of the Company is above the PSR range of the Comparable Companies (excluding outlier); and
- the premiums represented by the Implied Consideration over (i) the closing price of H Shares on the Last Trading Day (adjusted for the Special Dividend) was within the premium/discount range of the Share Exchange Cases; and (ii) the average closing price of H Shares for the 30 and 60 consecutive trading days (adjusted for the Special Dividend) are above the respective range of the Share Exchange Cases (excluding outlier),

we consider the Implied Consideration (as implied by the Share Exchange Ratio) is fair and reasonable.

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RECOMMENDATION

Having taken into consideration the principal factors and reasons as discussed above, in particular:

- the Share Exchange Shareholders shall directly receive immediate capital return in the form of Special Dividend (subject to the fulfilment (or waiver, as applicable) of all the Pre-Conditions and Conditions);
- the Post-Merger Offeror would be better equipped with the R&D capability and the pipeline of the Offeror and the sales capability of the Company. Upon completion of the Merger and the Listing, the Share Exchange Shareholders will not only be able to continue holding its investment in the Company (through their interests in the Offeror H Shares), but will also share the benefits brought by the potential synergies through the Merger of the Company and the Offeror;
- the Offeror Group's prospects in the PRC pharmaceutical market, particularly those therapeutic areas the Offeror Group is specialized in;
- the Share Exchange Ratio is favourable to the Share Exchange Shareholders as analysed in the section headed "5. Analysis on the Share Exchange Ratio" above; and
- the Implied Consideration (as implied by the Share Exchange Ratio) is fair and reasonable as analysed in the section headed "6. Comparison of value" above,

we consider that the Merger is fair and reasonable so far as the Independent H Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent H Shareholders to vote in favour of the relevant resolutions which will be proposed at the EGM and the H Shareholders' Class Meeting to approve the Merger.

As different Shareholders would have different investment criteria, objectives and/or circumstances, we would recommend any Shareholders who may require advice in relation to any aspect of the Composite Document, or as to the action to be taken, to consult a licensed securities dealer, bank manager, solicitor, professional accountant, tax adviser or other professional adviser.

Yours faithfully,
For and on behalf of
Gram Capital Limited

Susanna Ho
Director

Note: Ms. Susanna Ho is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. She has over 20 years of experience in investment banking industry.

* *For identification purposes only*

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