I. VALUATION REPORT

The following is the text of the letter from China Sunrise Capital Limited to the Board of the Offeror prepared for the purpose of incorporation into this Composite Document.

CHINA SUNRISE CAPITAL LIMITED
Room 1512
YF Life Centre
38 Gloucester Road
Wan Chai, Hong Kong

The Board of Directors
The Offeror
No. 368 Zhen'an Middle Road
Chang'an Town, Dongguan City
Guangdong Province
the People's Republic of China

China International Capital Corporation Hong Kong Securities Limited
29/F, One International Finance Centre
1 Harbour View Street, Central
Hong Kong

30 June 2025

Dear Sirs,

PROPOSED PRE-CONDITIONAL PRIVATISATION OF THE COMPANY BY THE OFFEROR BY WAY OF MERGER BY ABSORPTION OF THE COMPANY ESTIMATED VALUE OF THE OFFEROR H SHARES

I. INTRODUCTION

We refer to our engagement as the Valuation Adviser to the board of directors of the Offeror in respect of providing an estimated value of the Offeror H Shares ("**Estimated Value**"). The Offeror H Shares are to be issued to the shareholders of the Company according to the proposed pre-conditional privatisation of the Company. Capitalised terms used in this letter shall have the same meanings as those defined in the Announcement dated 10 May 2024 and the Composite Document dated 30 June 2025 jointly issued by the Offeror and the Company 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 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. The Share Exchange Shareholders (which do not include the Offeror or its subsidiaries (if any)) will become shareholders of the Offeror.

Further to our letter of 10 May 2024 containing the Estimated Value, we have updated the Estimated Value using market information and exchange rate of RMB to HK dollars as at 25 June 2025, which is the Latest Practicable Date. In determining the updated Estimated Value, we have used the same methodology as described in our letter of 10 May 2024.

We have been appointed to provide the Estimated Value of the Offeror H Shares, to be offered to the Shareholders, pursuant to paragraph 30 of Schedule I of the Takeovers Code which provides that the offer document should contain "*when the offer involves the issue of unlisted securities, an estimate of the value of such securities by an appropriate adviser, together with the assumptions and methodology used in arriving at the value*". Although as at the date of this letter the Offeror H Shares are not listed on any stock exchange, it is one of the Pre-Conditions of the Merger that the Listing Committee of the Stock Exchange approves the listing of and permission to deal in the Offeror H Shares on the Stock Exchange pursuant to the Listing.

II. PURPOSE

The Estimated Value has been provided to the board of directors of the Offeror and CICC solely for the purpose of paragraph 30 of Schedule I of the Takeovers Code and shall not be used or relied upon for any other purpose whatsoever.

The Estimated Value assumes a willing buyer and seller, neither being under any compulsion to buy or sell, dealing on an arm's length basis, each having knowledge of all relevant facts. The Estimated Value is also prepared on the basis of a value as to investors acquiring a minority interest as a portfolio investment. It does not include any premium for control.

The Estimated Value does not constitute an opinion as to the price at which the Offeror H Shares may trade at any point, in the future, or represent the value that a holder of the Offeror H Shares may realise on any sale, in the future, where such a value may be higher or lower than the Estimated Value contained in this letter.

In formulating the Estimated Value, we have reviewed, among other things, the following materials (the "**Materials**"):

1. the Announcement;

2. the Composite Document;

3. the audited consolidated financial statements of the Offeror for years ended 31 December ("**FY**") 2023 and 2024;

4. Revenue forecast of each Selected Pipeline Product (as defined below) for the 10-year period ending 31 December 2034;

5. the annual results announcement of the Company for FY2023 and FY2024; and

6. other publicly available information related to the Offeror and the Company

We have assumed that all information, facts, opinions and representations contained in the Materials which we have relied on, are true, complete and accurate and not misleading in all material respects. We have not conducted any independent verification of the Materials.

We would like to draw your attention that the Shares are publicly traded securities and will be subject to the fluctuations of the capital market. Those certain market uncertainties and contingencies are difficult to predict and are beyond our control. Consequently, the Estimated Value expressed in this letter is not necessarily indicative of the price at which the Offeror H Shares might actually trade in any public market as at the date of this letter or at any future date, or the amount which might be realised upon a sale of the Offeror H Shares to a third party. The Estimated Value may differ substantially from estimates available from other sources such as research reports published by brokers. In addition, our view would be expected to fluctuate with changes in prevailing market conditions, the financial conditions and prospects of the Offeror and other factors which generally influence the valuation of securities. As a result, there can be no assurance that the actual price of the Offeror H Shares will be higher or lower than implied by the Estimated Value.

III. METHODOLOGY

There are three generally accepted approaches to appraise the Estimated Value of the Offeror H Shares, namely the income approach, the asset-based approach and the market approach. All three of them have been considered regarding this valuation:

1. Income Approach

The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The fundamental method for income approach is the discounted cash flow ("**DCF**") method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from the ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

2. Asset-based Approach

The asset-based approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration the past and present maintenance policy and rebuilding history.

3. Market Approach

The market approach provides an indication of value by comparing the subject asset to the same asset or similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are comparable to the subject asset.

There are three methods under the market approach. Firstly, the guideline company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject company and then applies the multiple to the corresponding financial metric of the subject company. Secondly, the comparable transaction method computes a price multiple using recent transactions of assets that are considered to be comparable to the subject asset and then applies the result to the corresponding financial metric of the subject company. Thirdly, the market price method directly takes reference to the trading prices of the assets in the open market.

4. Selected Valuation Approach

Each of the above-mentioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a certain approach will be determined by the most adopted practice in valuing business entities that are similar in nature.

For the purpose of this valuation, we have determined that sum-of-the-parts approach is the most appropriate valuation methodology as we have taken into consideration the following:

(a) referring to the discussion with the management team of the Offeror (the "**Management**") and the review of all the Offeror's subsidiaries (which are all wholly-owned subsidiaries), we understand that out of the 25 subsidiaries of the Offeror, 9 subsidiaries do not have any principal business activities. Additionally, the remaining subsidiaries, except Shenzhen HEC Detection Technology Co. Ltd. ("**Shenzhen HEC DT**"), that are currently in operation are experiencing losses. For Shenzhen HEC DT, although it is profit-making, its revenue only accounted for approximately 0.6% of that of the Offeror, according to the management account for FY2024.

Considering that all 25 subsidiaries of the Offeror, although they are either operational or possess assets, and none of them exhibit significant cash generating activities, we believe it is appropriate to employ the asset-based approach for the valuation of the 25 subsidiaries;

(b) the Offeror directly holds approximately 51.41% equity interest in the Company (the "**Long-term Equity Investment**") which is evaluated by market approach; and

(c) the Offeror has been investing into its pipeline products (the "**Pipeline Products**") through research and development, which has built assets with substantial value in the form of capitalised expenditure and directly holds them. Such capitalised expenditure is expected to provide income benefit streams in the future. Therefore, income approach is appropriate for the Pipeline Products.

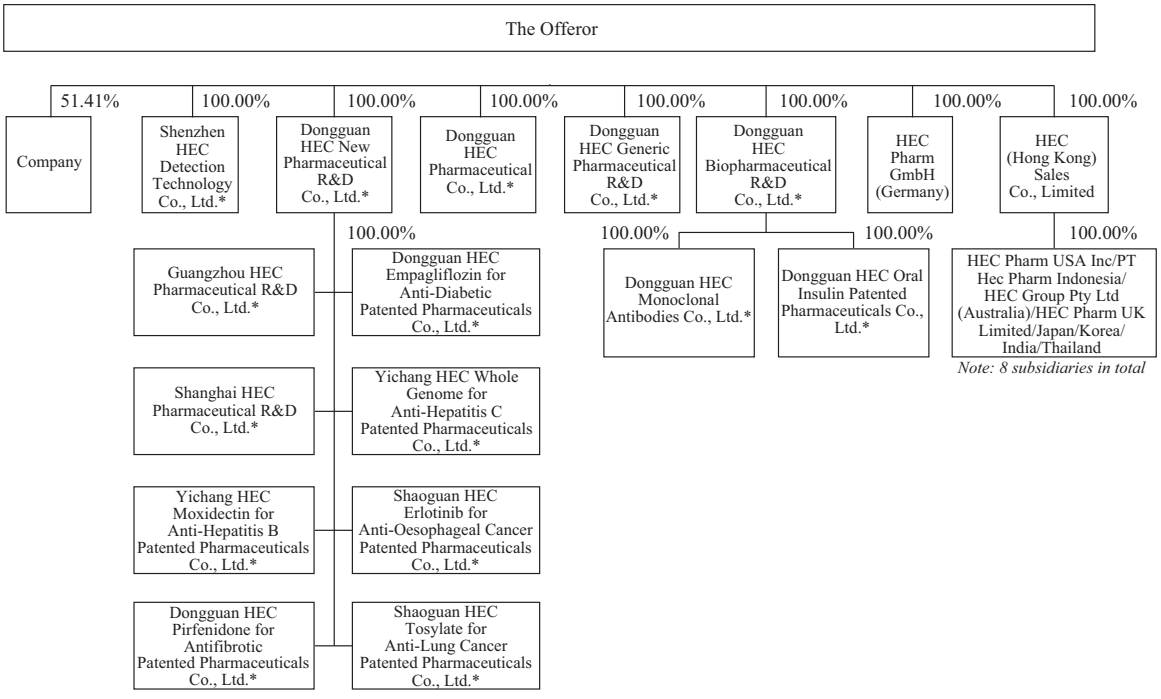


Table 1 — List of 25 subsidiaries of the Offeror

Number	Company name	Principal business
1	Shenzhen HEC Detection Technology Co. Ltd.* (深圳市東陽光檢測技術有限公司)	Pharmaceutical testing business
2	Dongguan HEC New Pharmaceutical R&D Co., Ltd.* (東莞市東陽光新藥研發有限公司)	No principal business
3	Guangzhou HEC Pharmaceutical R&D Co., Ltd.* (廣州東陽光醫藥研發有限公司)	Clinical business in Guangzhou
4	Shanghai HEC Pharmaceutical R&D Co., Ltd.* (上海東陽光醫藥研發有限公司)	Clinical business in Shanghai
5	Yichang HEC Moxidectin for Anti-Hepatitis B Patented Pharmaceuticals Co., Ltd.* (宜昌東陽光莫非賽定抗乙肝專利新藥有限公司)	Project company has no principal business
6	Dongguan HEC Pirfenidone for Antifibrotic Patented Pharmaceuticals Co., Ltd* (東莞市東陽光伊非尼酮抗纖維化專利新藥有限公司)	Project company has no principal business
7	Shaoguan HEC Tosylate for Anti-Lung Cancer Patented Pharmaceuticals Co., Ltd* (韶關市東陽光寧格替尼抗肺癌專利新藥有限公司)	Project company has no principal business
8	Shaoguan HEC Erlotinib for Anti-Oesophageal Cancer Patented Pharmaceuticals Co., Ltd* (韶關市東陽光萊洛替尼抗食道癌專利新藥有限公司)	Project company has no principal business
9	Yichang HEC Whole Genome for Anti-Hepatitis C Patented Pharmaceuticals Co., Ltd.* (宜昌東陽光全基因抗丙肝專利新藥有限公司)	Project company has no principal business
10	Dongguan HEC Empagliflozin for Anti-Diabetic Patented Pharmaceuticals Co., Ltd.* (東莞市東陽光榮格列淨抗糖尿病專利新藥有限公司)	Project company has no principal business
11	Dongguan HEC Pharmaceutical Co., Ltd.* (東莞東陽光製藥有限公司)	No principal business
12	Dongguan HEC Generic Pharmaceutical R&D Co., Ltd.* (東莞市東陽光仿製藥研發有限公司)	Research and development of generic drugs
13	Dongguan HEC Biopharmaceutical R&D Co., Ltd.* (東莞市東陽光生物藥研發有限公司)	Research and development of biopharmaceutical drugs
14	Dongguan HEC Monoclonal Antibodies Co., Ltd.* (東莞市東陽光單抗生物藥有限公司)	Research and development of monoclonal antibodies
15	Dongguan HEC Oral Insulin Patented Pharmaceuticals Co., Ltd.* (東莞市東陽光口服胰島素專利新藥有限公司)	Project company has no principal business

Number	Company name	Principal business
16	HEC (Hong. Kong) Sales Co., Limited (香港東陽光銷售公司)	Sales of overseas pharmaceutical products
17–24	HEC Pharm USA Inc./PT Hec Pharm Indonesia/ HEC Group Pty Ltd (Australia)/HEC Pharm UK Limited/Japan/Korea/India/Thailand	Sales of overseas pharmaceutical products
25	HEC Pharm GmbH (Germany)	Sales of overseas pharmaceutical products

Thus, we determined that the asset-based approach was the most appropriate valuation approach to value the 25 wholly-owned subsidiaries of the Offeror and we have applied the adjusted net assets value method under the asset-based approach in this valuation by considering the assets and liabilities of the 25 subsidiaries.

Apart from the asset-based approach, we adopted market approach for the Long-term Equity Investment and income approach for the Pipeline Products.

(i) Long-term Equity Investment

Given that the Shares are listed on the Stock Exchange, we are of the view that the market price reflects the willingness of buyers and sellers to transact at a particular price, making it an objective and representative measure of the investment's value. We have adopted the 90-trading day timeframe which allows us to consider the medium-term perspective, looking beyond short-term fluctuations.

(ii) Intangible assets and development expenditure — Pipeline Products

We understand from the Management that capitalised development expenditure are mainly for the Pipeline Products. As the Pipeline Products are expected to generate income benefit streams in the future, by which the value of the Pipeline Products is determined, we consider that the income benefit streams could be valued as intangible assets. The capitalised development expenditure would be assigned nil value as its value is included in the valuation of the Pipeline Products.

The income benefit streams of the Pipeline Products could be identified based on projected cash flows prepared by the Management. Therefore, we consider income approach is applicable for the Pipeline Products.

The Exchange Rate of HK$ = RMB0.91250 as at the Latest Practicable Date is adopted. The market reference date (the "**Market Reference Date**") is 31 December 2024, which is prior to the date of this Valuation Report for the purpose of ascertaining certain information contained in this Valuation Report was applied in our calculation. We consider that there will be no material changes from the Market Reference Date to the Latest Practicable Date, taking into account the following:

1. Long-term Equity Investment: The valuation is based on the Market Reference Date, as we believe that the 90-trading day valuation based on the Latest Practicable Date is significantly distorted. Notably, since the Company's announcement on 10 April 2025, regarding the NDRC approval for the Merger, the stock price has increased by approximately 42.4% as of the Latest Practicable Date. While we have also considered the valuation as of 10 April 2025, the difference in the 90-day average price of the shares between the Market Reference Date and 10 April 2025, is minimal (approximately 4.4%). Therefore, for consistency, the valuation of the Long-term Equity Investment should be based on the Market Reference Date;

2. Pipeline Products: The valuation is based on future cash flows. As of the Latest Practicable Date, there have been no changes to the cash flow projections, as the listing schedule for the Pipeline Products remains unchanged; and

3. Remaining Assets and Liabilities: The balance sheet in the latest audited financial statements is for the year ended 31 December 2024. Additionally, as set out in the section headed "9. Material Change of the Offeror" in Appendix IV to the Composite Document, the Directors confirmed that there have been no material change to the financial position of the Offeror Group since 31 December 2024, up to and including the Latest Practicable Date.

IV. INFORMATION OF THE OFFEROR

1. Overview of the Offeror

The Offeror was established in 2003. It is an integrated pharmaceutical company driven by independent R&D, rooted in China and opened to the world. It has comprehensive strength in R&D, production and sales. The Offeror focuses on the three key areas of infectious diseases, chronic diseases and oncology. In particular, according to the industry data collected by Frost & Sullivan, Kewei (oseltamivir phosphate), the core product in the anti-infectious field, has a leading position in the influenza market with a market share of approximately 50.5% of China's anti-influenza drug market in 2023. With its rich 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 diversified and large product

portfolio and a sustainable development pipeline. After over 20 years of experience accumulation, the Offeror has established a leading R&D platform, international standard production capacity and a global sales network. The Offeror has been named in the Top 20 of "China Drug Research and Development Comprehensive Strength Ranking" published by Yaozh.com, for seven consecutive years from 2017 to 2023. In 2023, it was successfully selected as one of the "Top 100 Competitive Enterprises in Chinese Pharmaceutical Industry" and ranked at the top of the list of the "Top 100 Chinese Pharmaceutical Innovators for 2023" released by Healthcare Executive Magazine.

The Offeror is committed to developing products that are first-of-its-kind or best-in-class with breakthrough potential in the global market. It has built outstanding R&D capabilities and created a diversified and robust pipeline portfolio with broad and deep indication coverage through differentiated molecular design and comprehensive technology platforms. The Offeror has formed a large-scale, professional and comprehensive R&D team with more than 1,100 personnels as of 31 December 2024, and has established a comprehensive and integrated independent R&D system and a R&D platform covering the complete development cycle of large and small molecule drugs. Its R&D capabilities are independent and systematic, which enables the Offeror to swiftly advance its drugs under development to commercialisation. As of 31 December 2024, the Offeror has 147 approved drugs in the world, including in China, the United States and Europe, more than 100 drugs in the pipeline, including 45 Class I Innovative Drugs candidates among which three are under the NMPA's review for launching in China and 10 are in Phases II or III of clinical trials. The Offeror is one of a handful of PRC pharmaceutical companies who has successfully launched two Class I Innovative Drug (An innovative drug that has never been marketed worldwide, being an active pharmaceutical ingredient and its preparation that contain new compounds with clearly defined structure and pharmacological effects which is defined by Reform Plan for Registration Category of Chemical Medicine* (化學藥品註冊分類改革工作方案) issued by the National Medical Products Administration* (國家藥品監督管理局) on March 4, 2016; in other jurisdictions, this type of drug may be classified differently, such as new drug or other classifications, based on their respective regulatory frameworks) and applied for the launch of two Class I Innovative Drugs through in-house R&D. The Offeror attaches great importance to the protection of core technologies. Its patents cover new drug compounds, protein molecular structures, manufacturing processes, usage and preparation formulation, providing a sufficient and long-life patent protection strategy for the Offeror's products. As of 31 December 2024, the Offeror had applied for a total of 2,446 invention patents, including 382 Patent Cooperation Treaty (PCT) applications, 1,131 domestic invention patents, and 933 overseas invention patents; among them, a total of 1,401 invention patents have been granted by the relevant patent authorities, including 746 domestic invention patents and 655 overseas invention patents. According to Frost & Sullivan, the Offeror ranked first among PRC pharmaceutical companies in the number of patents published and the number of authorised patent announcements in China between 1 January 2014 and 31 December 2023, and the Offeror ranked 79th in the world and 10th in China in terms of the number of public invention patent applications for the global biomedical industry in 2023.

As of the Latest Practicable Date, the Offeror has two high-standard production bases in Songshan Lake, Dongguan, Guangdong and Yidu, Hubei, covering a total area of more than 1,300 mu, covering the entire pharmaceutical production process in respect of the formulation production. It has production capabilities for tablets, capsules, granules, dry suspensions and freeze-dried powder injections. The Offeror has also formed a pharmaceutical production and quality management system with international standards, aiming to provide high-quality medicines and laying the foundation for the subsequent sales of the Offeror's products in overseas jurisdictions.

The Offeror has an extensive global sales network, covering China, Europe, North America and other regions. In the domestic market, as of 31 December 2024, the Offeror has a nationwide sales and distribution network and 1,884 professional sales personnels, covering 32 provincial-level regions and nearly 300 prefecture-level cities. The Offeror extensively covers more than 2,500 Class III Hospitals (these are the largest regional hospitals with the highest standard in China designated as Class III hospitals by the hospital classification system of the National Health and Family Planning Commission (currently known as the NHC), typically providing high-quality professional healthcare services covering a wide geographic area and undertaking higher academic and scientific research initiatives), more than 9,600 Class II Hospitals and more than 89,000 Class I Hospitals in the PRC as well as many large-scale national or regional pharmacy chains.

As at the date of this document, the Offeror has a total issued share capital of 463,943,215 ordinary shares. The Offeror has no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) as at the date of this document. The ultimate controlling shareholders of the Offeror are Ms. Guo Meilan and her son Mr. Zhang Yushuai controlling approximately 62.12% equity interests in the Offeror as at the date of this document.

Please refer to section 8(1) headed "Information on the Offeror" in the Composite Document for further details of the Offeror.

2. Financial highlights of the Offeror

	FY2024 *(RMB Million)*	FY2023 *(RMB Million)*
Revenue	4,019	6,386
Profit for the year	25	1,014
Non-current assets	6,953	6,246
Property, plant and equipment	3,897	3,732
Intangible assets	1,573	1,605
Current assets	4,979	6,412
Inventories	738	529
Cash and cash equivalents	1,481	1,920
Non-current liabilities	2,650	2,304
Current liabilities	4,814	6,178
Total equity	4,468	4,175

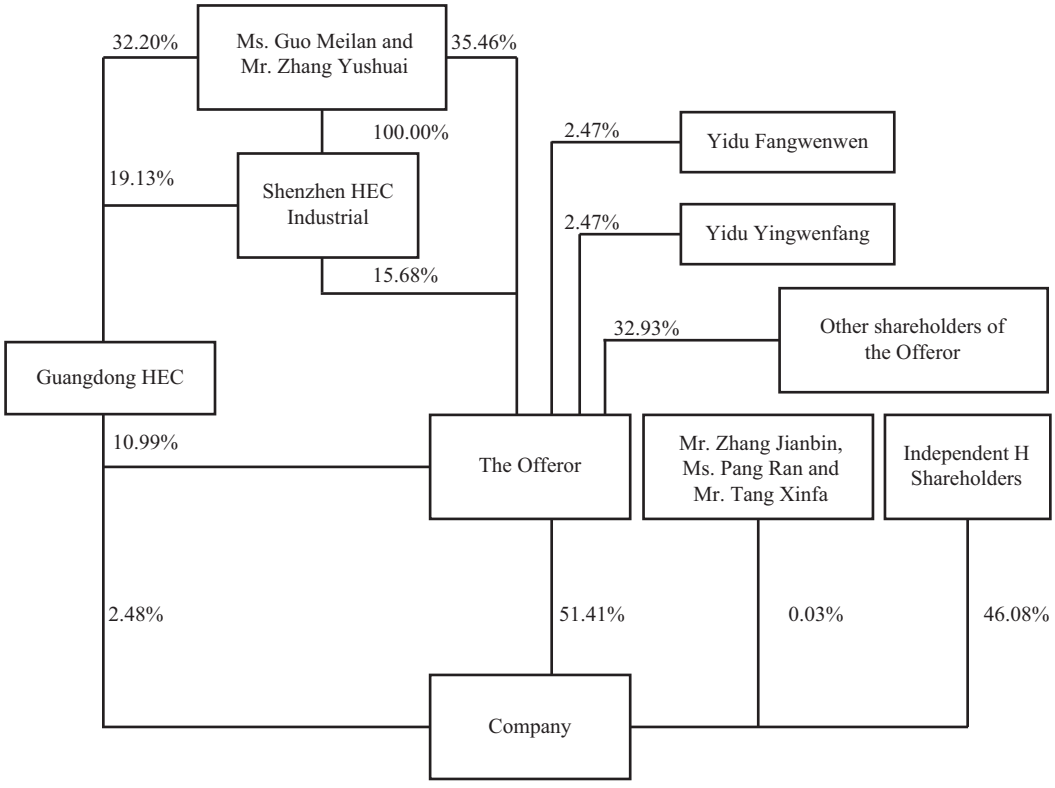
Source: As extracted from the audited consolidated financial statements of the Offeror for FY2023 and FY2024, which forms part of the reviewed Materials as stated in pages II-2 to II-3. As our valuation under asset-based approach are based on our review on the audited consolidated financial statements of the Offeror for FY2023 and FY2024, the detailed valuation methodology is set out under the above section headed ''III. METHODOLOGY''.

For the year ended 31 December 2024, the Offeror recorded revenue of approximately RMB4,019 million, representing a decrease of approximately 37.06% as compared with the that of the previous financial year. We understand from the Offeror that such decrease is mainly caused by the decreased revenue of the Company which was due to decrease purchasing of anti-infective drugs from pharmacies and hospitals by patients as a result of lower incidence of seasonal flu outbreaks and decreased demand for antiviral treatments in 2024. This, in turn, decreased the purchase of anti-infective drugs from the Company's distributors by pharmacies and hospitals, ultimately resulting in decreased purchase of anti-infective drugs from the Company by its distributors. The net profit for the year of the Offeror recorded approximately RMB25 million for the year ended 31 December 2024, representing a decrease of approximately 97.55% as at 31 December 2023.

As at 31 December 2024, the Offeror had cash and cash equivalents of approximately RMB1,481 million, registered a decrease of approximately 22.88% as compared with approximately RMB1,920 million as at 31 December 2023. The net asset value attributable to shareholders of the Offeror was approximately RMB4,468 million as at 31 December 2024, representing an increase of approximately 7.00% as compared with approximately RMB4,175 million as at 31 December 2023.

3. Shareholding structure

The diagram below shows the existing shareholding structure of the Offeror.



* *Most of the other subsidiaries are wholly-owned by the Offeror.*

V. INFORMATION OF THE COMPANY

1. Overview of the Company

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 owners 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.

Please refer to section 8(3) headed ''Information on the Company'' in the Composite Document for further details of the Company.

2. Financial highlights of the Company

	FY2024 *(RMB Million)*	FY2023 *(RMB Million)*
Revenue	3,724	6,295
Gross profit	2,794	4,986
Profit for the year	483	1,856
Non-current assets	7,396	6,691
Property, plant and equipment	3,618	3,398
Fixed assets	3,964	3,740
Intangible assets	2,504	2,566
Current assets	5,033	6,053
Inventories	646	409
Cash and cash equivalents	1,404	1,674
Non-current liabilities	1,080	477
Current liabilities	2,841	4,332
Total equity	8,508	7,936

Source: As extracted from the annual results announcement of the Company for FY2023 and FY2024 and is for illustrated purpose only as our valuation does not rely on the Company's financials. The detailed valuation methodology is set out under the above section headed "III. METHODOLOGY".

For the year ended 31 December 2024, the Company had revenue of approximately RMB3,724 million, representing a decrease of approximately 40.8% as compared with the previous financial year. Net profit for year recorded approximately RMB483 million for the year ended 31 December 2024, represented a decline by approximately 74.0% from approximately RMB1,856 million for the year ended 31 December 2023.

As at 31 December 2024, the Company had cash and cash equivalents of approximately RMB1,404 million, registered a decrease of approximately 16.2% as compared with approximately RMB1,674 million as at 31 December 2023. The net asset value attributable to shareholders was approximately RMB8,508 million as at 31 December 2024, represented an increase of approximately 7.2% comparing with approximately RMB7,936 million as at 31 December 2023.

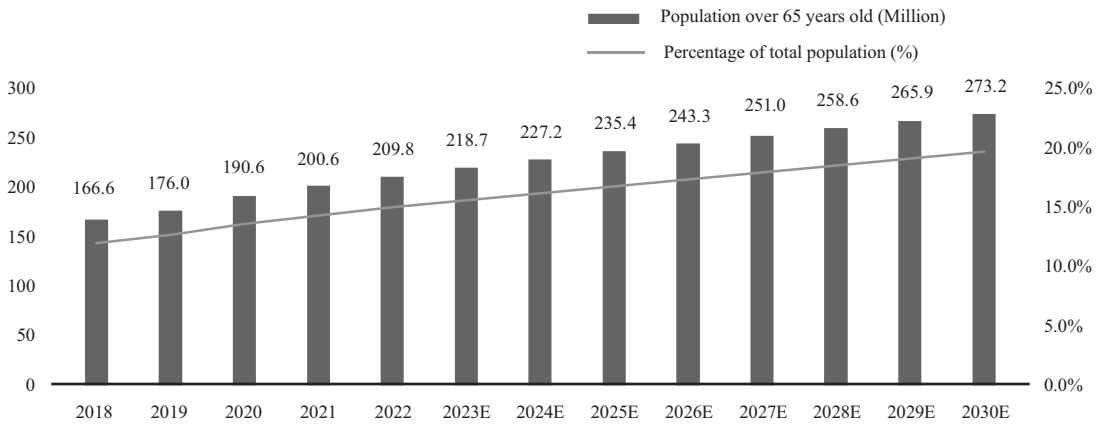
VI. OVERVIEW OF PHARMACEUTICAL MARKET

1. Pharmaceutical market in China

The pharmaceutical market in China has been expanding rapidly, driven by factors such as an aging population, increasing healthcare expenditure, rising middle-class incomes, government initiatives to improve healthcare access, the decline in birth rate of newborns and the increase in life expectancy, the aging trend of the China population is

accelerating. From 2018 to 2022, the ageing of the Chinese population continued to intensify, with approximately 209.8 million people over 65 years old in 2022. This number is expected to reach approximately 243.3 million by 2027, growing at a compounded annual growth rate of approximately 3.77% from 2022 to 2027. China's ageing population is expected to reach approximately 273.2 million by 2030 (since this figure is an estimated figure for 2030, we have classified the figure as "**2030E**"), accounting for approximately 19.57% of the total population.

Chart 1: China ageing population trend, 2018–2030E

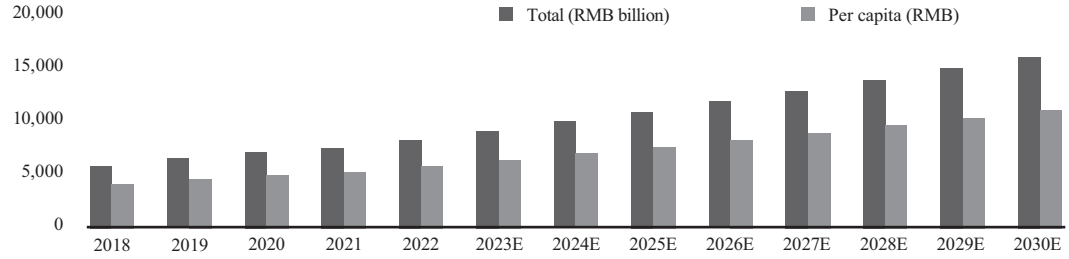


Source: National Bureau of Statistics and Frost and Sullivan

China's total health expenditure has been increasing significantly over the years as the country focuses on improving healthcare access and quality for its population. China's total health expenditure has been growing at a robust rate, driven by factors such as population growth, urbanisation, aging population, and increased healthcare needs. The Chinese government has been increasing its healthcare budget to meet these demands and actively investing in healthcare infrastructure, facilities, and services. It has implemented several healthcare reform initiatives to enhance healthcare access, including the establishment of primary healthcare centers, the expansion of healthcare insurance coverage, and the implementation of the "Healthy China 2030 plan"* (健康中國2030規劃綱要).

The demand for medical and health services in China is on the rise due to the increasing prevalence of adult diseases at younger ages. As a result, health expenditure per capita in the country has been experiencing rapid growth. According to the National Bureau of Statistics, from 2018 to 2021, health expenditure per capita increased from approximately RMB4,206.7 to approximately RMB5,348.1, reflecting a compound annual growth rate of approximately 8.33%. Projections indicate that by 2025 and 2030, health expenditure per capita is expected to reach approximately RMB7,723.7 and approximately RMB11,242.8, respectively, with a compound annual growth rate of approximately 7.80%.

Chart 2: China health expenditure, 2018–2030E

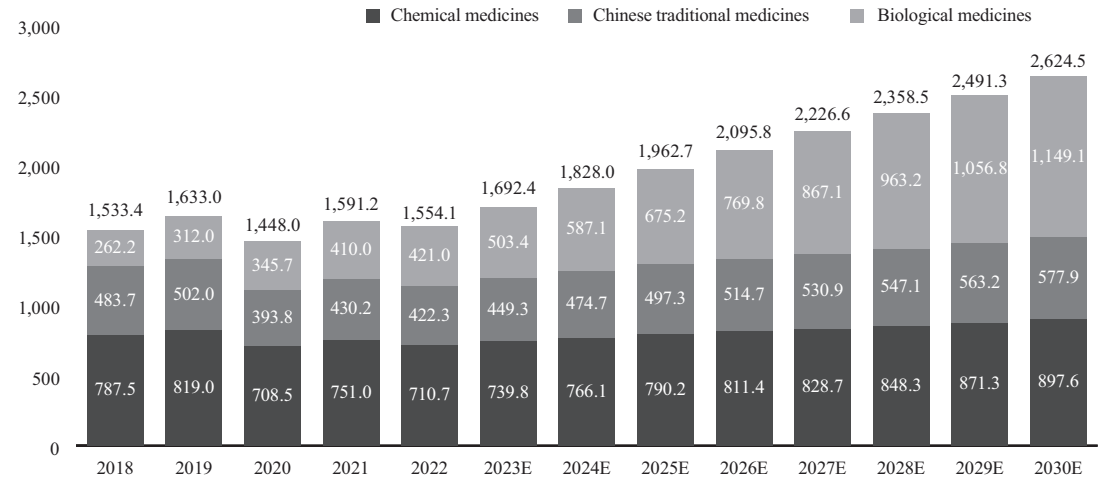


Source: National Bureau of Statistics and Frost and Sullivan

During the period from 2018 to 2021, China witnessed a substantial increase in total healthcare expenditure, rising from approximately RMB5.9 trillion to approximately RMB7.6 trillion, reflecting a compound annual growth rate of approximately 8.54% during the period. This upward trend is projected to continue in the future, with China's total health expenditure expected to reach approximately RMB11.0 trillion by 2025 and approximately RMB16.3 trillion by 2030.

From 2018 to 2022, the total size of China's pharmaceutical market increased from approximately RMB1,533.4 billion to approximately RMB1,554.1 billion, with a compound annual growth rate of approximately 0.34%. It is expected to reach approximately RMB2,095.8 billion in 2026 and approximately RMB2,624.5 billion in 2030.

Chart 3: China medical market, 2018–2030E



Source: National Bureau of Statistics and Frost and Sullivan

In 2022, the chemical medicines market dominated the China medical market, with a value of approximately RMB710.7 billion, representing approximately 45.73% of the total market. The remaining market share is divided between the biological medicines market and Chinese traditional medicines. Oseltamivir and similar drugs belong to the category of chemical medicines, while insulin products fall under the category of biological medicines. However, projections indicate a shift in the future years, with the biological medicines market expected to surpass the chemical medicines market. By 2027, the biological medicines market is anticipated to reach a value of approximately RMB867.1 billion, accounting for approximately 38.94% of the total market. According to Frost & Sullivan, the projections are based on several factors driving the growth of China's biological medicines market including an aging population that increases demand for treatments for chronic diseases, improved health awareness and financial capacity among residents, and a favorable policy environment that supports research and commercialisation. Additionally, local companies are making significant technological advancements, while strong interest from the capital market offers crucial funding for innovation. Together, these elements create a positive long-term outlook for the biological medicines sector in China.

2. Driving forces of China's pharmaceutical market development

(i) Improvement of people's health awareness and medical expenditure

China's medical expenditure has been on the rise, driven by the improved health awareness of its population and the increase in residents' disposable income. This shift in focus from merely treating diseases to a more holistic approach of long-term comprehensive health management, along with the prevention and treatment of complications, has been observed with the progress of people's health awareness. The 2020 Report on the Status of Nutrition and Chronic Diseases* (中國營養與慢性病狀況報告(2020年)) published by National Health Commission of the People's Republic of China in October 2020 in China highlights a significant increase in the proportion of individuals regularly monitoring health indicators such as weight, blood pressure, blood sugar, and blood lipids. This growing health consciousness among patients with chronic diseases is expected to contribute to the development of China's pharmaceutical market to a certain degree.

(ii) Growing demand for chronic disease management due to ageing

China's economic and social development, along with advancements in health services, have led to a continuous increase in life expectancy per capita. Consequently, the survival period for patients with chronic diseases like diabetes, cardiovascular diseases, and cerebrovascular diseases has significantly lengthened. Additionally, factors such as an aging population, urbanisation, industrialisation, and lifestyle changes have contributed to a notable rise in the incidence of chronic diseases in China. As a result, the number of patients with chronic diseases has been expanding steadily, which in turn drives further growth in the related pharmaceutical market.

(iii) Government policy support

The Chinese government has implemented a range of policies in recent years to foster the growth of the pharmaceutical industry. In October 2019, the National Development and Reform Commission introduced the Industrial Structure Adjustment Guidance Catalogue (2019 Edition)* (產業結構調整指導目錄(2019年本)) which, for the first time, included the development and production of new drugs with independent intellectual property rights and the production of generic drugs for the prevention and treatment of major diseases in China, and the Industrial Structure Adjustment Guidance Catalogue (2024 Edition)* (產業結構調整指導目錄(2024年本) was approved at the 6th Committee Meeting on December 1, 2023, and will take effect on February 1, 2024. These industries were listed among those encouraged for development.

Furthermore, the "14th Five-Year Plan" outline, released by the National People's Congress in March 2021, identifies biopharmaceutical technology innovation and antibody drug research and development as frontier areas of scientific and technological research. These initiatives aim to establish a new pillar in the industrial system. The outline also emphasises the need to expedite the growth of biomedicine and other industries to further enhance the bioeconomy's size and strength. The introduction of various innovation incentives by the government has provided a significant boost to the pharmaceutical industry's development and innovation efforts.

(iv) Expansion of health insurance coverage

As medical reform progresses, the accessibility of healthcare services in China has been steadily enhancing. The Chinese government has prioritised investments in the construction and modernisation of medical infrastructure, as well as the expansion of medical insurance coverage. According to the Chinese Pharmaceutical Association[1], there has been a consistent increase in the proportion of medical insurance drugs within the drugs utilised by medical institutions since 2018. The National Basic Medical Insurance, Work Injury Insurance, and Maternity Insurance Drug Catalogue (2024)* (國家基本醫療保險、工傷保險和生育保險藥品目錄(2024年)) published by National Healthcare Security Administration of the People's Republic of China, includes a total of 3,159 drugs, comprising 1,765 Western medicines, 1,394 traditional Chinese medicines, and 892 pieces of traditional

[1] The Chinese Pharmaceutical Association has a rich history and a significant role in the development of pharmaceutical sciences in China. Established in 1907, it is one of the oldest academic organisations in China, dedicated to advancing pharmaceutical knowledge, promoting research, and enhancing the professional standards of pharmaceutical practitioners. There are several objective bases for relying on data from the Chinese Pharmaceutical Association. Firstly, its long-standing credibility is rooted in over a century of experience in the field, which makes it a trusted source for pharmaceutical information. Furthermore, the association operates under the oversight of the China Association for Science and Technology and the National Medical Products Administration. This government guidance adds a layer of credibility and regulatory compliance to the data it provides. In addition, the Chinese Pharmaceutical Association often collaborate with other health organisations and government agencies, which enhances the reliability of its results.

Chinese herbal medicine. Since the establishment of the National Healthcare Security Administration in 2018, there have been continuous dynamic adjustments to the insurance drug list for seven consecutive years, with a total of 835 new drugs added to the catalogue, including 91 new drugs in 2024. This trend has further solidified the dominant position of medical insurance drugs, resulting in improved rationality in clinical drug usage. Simultaneously, the inclusion of innovative drugs in medical insurance has been accelerated, significantly reducing the approval cycle and enhancing patient accessibility to these medications.

3. Development trend of China's pharmaceutical market

(i) Increased access to medications

In 2022, the State Council of China issued the Opinions on Deepening the Reform of the Medical Security System* (關於深化醫藥衛生體制改革的意見), which outlines the importance of enhancing the basic medical insurance system. The document emphasises the need to establish a comprehensive and inclusive medical insurance system and policy framework that covers all citizens in accordance with the law. It also highlights the importance of unifying the medical insurance catalog and standardising medical insurance payment processes.

Medical insurance payment serves as a crucial mechanism to ensure that citizens can avail themselves of high-quality medical services. To adapt to the advancements in innovative pharmaceutical research and development technology and meet the clinical needs of the population, the dynamic adjustment mechanism of the medical insurance catalog is being optimised and improved. This ensures that drugs with significant clinical value and excellent economic evaluation are included in the scope of medical insurance, enhancing patients' accessibility to clinically beneficial medications.

(ii) Accelerated expansion of the innovative drug market

In 2021, several key departments, including the Ministry of Industry and Information Technology, the National Health Commission, the National Health Insurance Administration, and the State Food and Drug Administration, collaborated to issue the "14th Five-Year Plan for the Development of the Pharmaceutical Industry"* ("十四五"國家藥品安全及促進高品質發展規劃). This plan highlights the significant progress made during the "13th Five-Year Plan" period, with traditional pharmaceutical companies accelerating their innovation and transformation efforts. The number of innovative pharmaceutical companies has also seen a notable increase, accompanied by a rise in the number of new drugs entering the clinical stage and a surge in research and development investments. Driven by a range of incentive policies promoting innovation-driven transformation, the pharmaceutical industry is poised to continue its investment in innovation, expedite transformation processes, and facilitate sustained growth in the number of new drugs entering the clinical stage. Furthermore, the plan sets forth a target for the "14th Five-Year Plan" period, aiming for an average annual growth rate of research and

development investment across the entire industry of over 10.00%. This strategic focus will contribute to the emergence of transformative innovative drugs and therapies, fostering the continuous expansion of China's drug market.

(iii) Research and development of innovative drugs that meet clinical needs

Chronic diseases, including diabetes, have emerged as the leading cause of death in China, and their prevalence is escalating due to the aging population. The State Council's Report on the Status of Nutrition and Chronic Diseases in China (2020)* (中國營養與慢性病狀況報告(2020年)) reveals that chronic diseases accounted for approximately 88.50% of all deaths in China in 2019. In addition, the Report on Nutrition and Chronic Disease Status of Chinese Residents (2024)* (中國營養與慢性病狀況報告(2024年)), mention that the issue of overweight and obesity among residents in China is becoming increasingly prominent, with the overweight rate among adults reaching 36.5% and the obesity rate reaching 17.8%, resulting in a combined total of over 50%, and it indicates that the rates of overweight and obesity among adults in China continue to rise, representing a significant health issue closely related to various chronic diseases. Furthermore, as the population continues to age, the incidence of new cancer cases is projected to rise, highlighting the increasing demand for anti-tumor drugs. This industry landscape propels the acceleration of technological innovation in the field of anti-tumor drugs to cater to the evolving clinical requirements of tumor treatments. Simultaneously, the misuse of anti-infective drugs is contributing to the surge in drug resistance. Coupled with growing consumer health awareness, the use of anti-infective drugs is becoming more cautious, with consumers seeking safer, more effective, and reliable alternatives. Presently, the government places greater emphasis on drug treatments for diseases with significant clinical burdens such as diabetes, cardiovascular and cerebrovascular diseases, central nervous system diseases, tumors, and infections. In the future, the development of innovative drugs in China will prioritise medications that meet the criteria of safety, long-term efficacy, patient compliance, and comprehensive benefits. These innovative drugs will occupy a significant position in the research and development landscape, aligning with the evolving needs of the population.

4. Pipeline Products of the Offeror

The Offeror's products are primarily developed through independent research and development. The pipeline is rich and focuses on innovative drugs, innovative formulations, and high-end generics in the areas of infection, oncology, and chronic diseases. As of the end of 2024, the Offeror had a portfolio of 147 approved products and more than 100 products in the pipeline, and 10 drugs were in phase II and III clinical trials as at the end of 2024.

In general, later clinical stages indicate higher success probabilities. The table below summarises the range of success probabilities we use based on the respective clinical stages. However, these probabilities are estimates determined by the unique circumstances of each Selected Pipeline Product. We understand from the Offeror and Frost & Sullivan

that some of the selected pipeline products are classified as biobetters, (i.e. new drugs that are developed from existing ones and feature improved properties). Compared to innovative drugs, biobetters have a higher probability of success. Our review of relevant academic journals (detailed background information is set out in note 2 on page II-34) supports this finding. For further details, please refer to "Table 2: Selected Pipeline Products" below.

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%

VII. OVERALL VALUATION OF THE OFFEROR

1. Valuation Assumptions

(i) General assumptions

a. It is assumed that there are no force majeure factors and unforeseeable factors that will have a material adverse impact on the Offeror's continuous operation.

b. It is assumed that the business scope (operation scope), operation model, product structure and decision-making procedures of the Offeror are basically consistent with those currently in place based on the existing management mode (model) and management level, and the future development trend of its business is basically consistent with the development trend of the industry in which it operates as at the Market Reference Date.

c. It is assumed that the operator of the Offeror is responsible and its management is capable of performing its duties and responsibilities.

d. It is assumed that all business-related qualifications of the appraised entity can successfully obtain the approval of relevant authorities after the expiration of the validity period, and the industry qualifications will remain valid.

e. The Offeror is currently involved in a pending legal action. The pending legal action is a lawsuit on the basis of copyright infringement and the Offeror is one of the defendants. It is pending judgement from the court of first instance. The plaintiff of the pending legal action has claimed approximately RMB100,000,000. We do not consider this potential claim amount is material because the product, which is the subject of the pending legal action, is not one of the main products of the Offeror. The percentage of revenue contribution from Linagliptin tablets during the Track Record Period is below 5% for the years ending December 31, 2022, 2023, and

2024, respectively. Furthermore, the Offeror was unsuccessful in its bid for inclusion in the national volume-based procurement scheme in 2024. This suggests that the provincial volume-based procurement scheme may not commence until the completion of the current three-year national procurement cycle, thereby limiting its future growth potential. Based on our discussion with the management of the Offeror, the accrued provision for the potential outcome of the legal proceedings is sufficient as Dongguan HEC New Pharmaceutical R&D Co., Ltd, an indirect substantial shareholder of the Offeror, has indemnified the Offeror in the amount of RMB100,000,000 for any potential claims or damages resulting from the pending legal action. Aside from the fact that the potential claims are borne by the shareholder of the Offeror, the maximum proposed amount claimed by the plaintiff is RMB100,000,000, and the legal action is still pending. Therefore, it is assumed that the main operating assets and businesses of the appraised entity are free from material legal disputes and obstacles, and the property rights of the assets are clear.

f. It is assumed that the enterprise will maintain its existing credit policy and will not encounter any major problem of fund recovery in the future.

g. It is assumed that the contracts and agreements entered into by the appraised entity in previous years and the current year are valid and enforceable.

h. It is assumed that the Offeror fully complies with all relevant current laws and regulations.

(ii) Specific assumptions for income approach

a. Assumption of continuous use of assets: continuous use assumption is an assumption of the conditions of the market where the assets are intended to enter and the status of the assets under such market conditions. Firstly, the appraised assets associated with the Pipeline Products are in use, and secondly, it is assumed that the assets associated with the Pipeline Products will continue to be used.

b. Enterprise going concern assumption: the production and operation of the appraised entity associated with the Pipeline Products can continue to operate in its current condition, and there will be no material changes in its operating conditions in the foreseeable operating period (i.e. 10 years).

(iii) Valuation of restricted conditions

The valuation results from three different approaches are derived from the evaluation of various factors. The asset-based approach considers the value, book value, and appraisal value of assets and liabilities of the Offeror (excluding the Long-term Equity Investment and the Pipeline Products). The market approach

focuses on the market price of the Long-term Equity Investment. Lastly, the income approach estimates the present value of the income benefit streams generated by the Pipeline Products. By utilising these three approaches, a comprehensive assessment of the valuation is obtained, considering different aspects of the assets, liabilities, and income potential.

Based on the assumption of an open market, the appraised value does not consider the impact of potential price fluctuations in special transactions, nor does it consider the influence of macroeconomic changes, natural forces, or other force majeure events on the asset price.

The valuation results in this Valuation Report are based on the above assumptions and limitations. When the above valuation assumptions and limitations change significantly, the valuation results will be invalid.

2. Asset-based approach

(i) Application of specific valuation methods for various assets and liabilities under the asset-based approach

As the Offeror has provided the list of main assets of the Offeror which are normally used or in use, and the replacement value of the relevant assets of the Offeror is easily accessible and the depreciation can be reasonably predicted, the asset-based approach is suitable for this valuation excluding the Pipeline Products. We note that the Accountants' Report as stated in Appendix IV is prepared on a consolidated basis and includes the historical financial information of the Offeror and its subsidiaries including the Company. As mentioned above in our report, we have evaluated the Long-term Equity Investment (approximately 51.41% equity interest in the Company held by the Offeror) by using the market approach. As such, we did not take into consideration of the book value of the Company as part of our valuation.

(ii) Valuation of current assets

a. Monetary funds

Monetary funds include bank deposits and other monetary funds. For non-foreign currency accounts, the appraised value is determined based on the verified book value. For foreign currency accounts, the appraised value is determined by multiplying the foreign currency exchange rate on the Market Reference Date by the book value of foreign currency.

b. Bills receivables

Bills receivable are non-interest bearing bank acceptance bills. The appraised value is determined based on the verified book value.

c. Trade and other receivables

On the basis of verification, the appraised value of various receivables is determined based on the amount of each payment that may be recovered. For the receivables that are believed to be fully recoverable with reasons, the appraised value is calculated based on the entire amount of receivables; for the amounts that may be partially unrecoverable, in the event that it is difficult to determine the amount of unrecoverable accounts, the amounts are estimated based on the historical information and on-site investigation, specifically analysing the amount, time and reason of the arrears, recovery of the amounts, the funds, credit, operation and management status of the debtors, and with reference to the ageing analysis method, and the appraised value is calculated after deducting the risk loss; for those that have conclusive evidence that they are unable to be recovered, the appraised value is zero; as the aforementioned calculation of trade and other receivables has taken provision for bad debts and the deduction of risk loss into consideration, the Offeror's subsidiaries have made provisions for all receivables. Therefore, the appraised value of "provision for bad debts" items of the accounts is zero.

d. Prepayments

The valuation of prepayment is based on the accounting treatment as to determine if the value of assets or rights of the corresponding goods that can be recovered. We have also discussed with the Management and understand that, historically, the Offeror has not experienced any recoverability issues involving the prepayment. Therefore, the verified book value is taken as the appraised value.

e. Inventories

Inventories evaluated include materials procurement (material in transportation), raw materials, work in progress, finished goods and goods delivered. Based on the spot check and verification of the reported quantity and amount, the estimations are as follows:

For materials procurement and raw materials, the replacement cost method is adopted which is based on the prevailing market prices of various materials, plus reasonable transportation and miscellaneous expenses and other reasonable expenses, multiplied by the actual quantity and recognised as the appraised value.

For semi finished products, on the basis of verification, considering that the production cycle is short, the enterprise records the actual cost. The cost comprised raw materials used for production and the manufacturing cost (cost of conversion), and the book value can basically be reflected in the current value of the semi finished products. Therefore, the verified book value is recognised as the appraised value.

For finished products, the appraised value is determined by multiplying the verified quantity by the prevailing market selling price after deducting reasonable sales costs, taxes and appropriate profits.

(iii) Valuation of long-term equity investments

a. For the Long-term Equity Investment, the book value is replaced by the value obtained from the market approach, details of which are set out below in section "3. Market approach for the Long-term Equity Investment";

b. For the Offerors' interests in subsidiaries (other than the Company), we conducted the asset approach based on their book value.

(iv) Valuation of fixed assets

The verified book value is taken as the appraised value in this valuation.

(v) Valuation of right-of-use assets

The verified book value is taken as the appraised value in this valuation. It mainly comprises of lease of building, office and ownership interests in leasehold land held for own use.

(vi) Valuation of intangible assets — land use rights

The verified book value is taken as the appraised value in this valuation.

(vii) Valuation of intangible assets — other intangible assets

As at the Market Reference Date, intangible assets — other intangible assets include purchased software and off-book research and development projects recorded in the book.

a. Purchased software and other intangible assets

We have estimated the amortisation of the software system and other intangible assets based on the purchase price. The estimated value after amortisation is equivalent to the book value. The verified book value is taken as the appraised value in this valuation.

b. Research and development projects

The Pipeline Products in the research and development projects are appraised based on income approach, details of which are set out below in section "4. Income approach for the Pipeline Products".

(viii) ***Valuation of development expenditures***

In this valuation, the development expenditures are appraised as part of the research and development projects of other assets in intangible assets. The capitalised development expenditure would be assigned nil value as its value is replaced by the valuation of the Pipeline Products.

(ix) Valuation of other non-current assets

All other non-current assets are receivables, which we have adopted the same valuation as trade receivable as set out above in the subsection headed c. Trade and other receivables.

(x) Valuation of liabilities

Liabilities include short-term borrowings, note payable, accounts payable, contract liabilities, staff emoluments payable, taxes payable, other payables, long-term borrowings, lease liabilities, long-term payables, provisions and deferred income.

a. Contract liabilities

The appraised amount is determined according to the subsequent obligations agreed in the contracts and the relevant tax payment obligations.

b. Borrowings

On the basis of verification, the appraised amount is determined based on the amount of principal and interest payable according to actual term of the borrowings.

c. Accounts and other payable

On the basis verification and out of the purpose of conservatism, the appraised amount is determined based on the verified book value, except for accounts and other payable aged more than 5 years with non-related parties, which are appraised as nil.

d. Estimated liability

As estimated liability only involve the contingent liability under a pending legal action, on the basis of verification and out of the purpose of conservatism, the appraised amount is determined based on the verified book value, for which the amount the plaintiff is suing the defendant.

e. Other liabilities

On the basis of verification, the appraised amount is determined based on the book value.

As such, for assets, the book value is 7,990.5 million excluding Long-term Equity Investment of approximately RMB5,278.2 million and the book value of Pipeline Products-related items including intangible assets and development expenditure of RMB529.6 million and the appraised value is 2,182.7 million. For liabilities, the book value and appraised value is 6,153.1 million.

3. Market approach for the Long-term Equity Investment

We have chosen to analyse the Company's stock performance over a 90-trading day period as part of our evaluation of the Long-term Equity Investment. This approach is based on the market's assessment, which reflects the willingness of buyers and sellers to transact at a particular price, making it an objective and representative measure of the investment's value. We have not observed any announcements that significantly impacted the performance of the shares. It is important to note that the market may take time to fully digest the information contained in the Composite Document and then reflecting in the Company's stock trading price. As the 90-trading day timeframe allows us to consider the medium-term perspective, looking beyond short-term fluctuations, we believe it is reasonable to reference the 90-trading day period for the purpose of valuing the Long-term Equity Investment.

Taking reference to 90-trading day average price of the Shares, which is from 20 August 2024 to 31 December 2024, the last trading day and the Market Reference Date, the estimated value of the Company is approximately RMB7,440.6 million or approximately for RMB8.46 per share (equivalent to approximately HK$9.27 per share based on the Exchange Rate).

As such, the valuation of the Long-term Equity Investment is approximately RMB3,825.2 million.

Moreover, the appraised value above in relation to the Long-term Equity Investment does not constitute an opinion as to the price at which the Offeror H Shares may trade at any point, in the future, or represent the value that a holder of the H Shares may realise on any sale, in the future, where such a value may be higher or lower than the appraised value above.

4. Income approach for the Pipeline Products

Considering that research and development projects, which are the Pipeline Products, are the main business of pharmaceutical research and development enterprises and the main source of future profits of enterprises, the income approach is adopted in this valuation for the Offeror's innovative drugs and biological drugs research and development projects.

In connection with the Pipeline Products, assuming that (i) the future income can be reasonably estimated and measured; (ii) the risks associated with the expected returns can be measured; and (iii) the income period can be determined or reasonably expected, we have adopted income approach by conducting discounted cashflow valuation. The appraisal period of the Pipeline Products is 10 years. We consider the appraisal period of 10 years is reasonable on the following basis:

(i) forecasting accuracy: as the time horizon increases, the uncertainty and difficulty in accurately predicting future cash flows also increase. The longer the appraisal period, the more likely the estimates will be less reliable due to various factors such as changes in the business environment, market conditions, and technological advancements. A 10-year period is often considered a reasonable compromise between capturing long-term value and maintaining a reasonable level of forecasting accuracy;

(ii) business cycles: many businesses and industries experience cyclical patterns that can significantly impact their performance. By using a 10-year period, we aim to capture at least one full business cycle, including periods of expansion and contraction. This allows for a more comprehensive assessment of the investment's potential over different economic conditions; and

(iii) stages of the Selected Pipeline Products: The Selected Pipeline Products are anticipated to be listed in the next three years. Using a shorter evaluation period may not significantly improve the accuracy of the valuation.

Additionally, considering that the Pipeline Products are in various stages of development, their valuation will be affected by the timing of listing and success probabilities. Therefore, the WACC (as defined below) will be used to discount projected pre-listing costs and post-listing revenues for each year and for each Selected Pipeline Products (as defined below).

(i) Pipeline Products with clinical approvals

The Pipeline Products that are the main focuses of the Offeror (the "**Selected Pipeline Products**", as set out in the table below) are valued mainly based on their expected revenue, research and development expenses, expected commercialisation date and success probability.

Table 2: Selected Pipeline Products

We primarily reference three sources regarding success probabilities based on clinical stages: (i) an academic journal for biosimilar (No. 1 to 4 below); (ii) an academic journal for innovative drugs (No. 5 to 13 below); and (iii) research from Frost & Sullivan on improved drugs (No. 14 to 16 below).

No.	Indication	Pipeline Products	Latest clinical stage	Success probabilities	Basis
1	Diabetes	Guang Jian You (光健優)	Applying for listing	93%	According to Clinical Development Success Rates and Contributing Factors 2011–2020, the success probability for biosimilar at pre-listing stage is approximately 93%.
2	Diabetes	Guang Jian Da* (光健達)	Pre-biologics license application	93%	According to Clinical Development Success Rates and Contributing Factors 2011–2020, the success probability for biosimilar at pre-biologics license application stage is approximately 93%.
3	Diabetes	Guang Jian Cheng* (光健成)	Clinical phase 1 completed	81%	According to Clinical Development Success Rates and Contributing Factors 2011–2020, the success probability for biosimilar at clinic stage 1 is approximately 32%. However, as the drug has a high similarity to the original research, the next stage is expected to be clinical stage 3. Therefore, the success probability is adjusted to be 81%.

No.	Indication	Pipeline Products	Latest clinical stage	Success probabilities	Basis
4	Diabetes	Guang Jian Tang* (光健坦)	Pre-clinical phase	81%	According to Clinical Development Success Rates and Contributing Factors 2011–2020, the success probability for biosimilar at pre-listing stage is approximately 32%. However, the drug features advanced production technology, resulting in a higher similarity to the original research. Its success has already been demonstrated in China. Since a clinical stage is not required. Only key bioequivalence studies with the original research are needed. Therefore, the success probability is adjusted to align with that of Phase 3 clinical trials, set at 81%.
5	Hepatitis	Dong Antai* (東安泰)	Applying for listing	90%	According to International Journal of Pharmacology ("**Int. J. Pharmacol.**"), 18 (6):1137–1150, 2022, the success probability for innovative drugs at pre-listing stage is approximately 90%.
6	Hepatitis	Dong Andi* (東安帝)	Clinical phase 3	67%	According to Int. J. Pharmacol., 18 (6):1137–1150, 2022, the success probability for innovative drugs at clinical phase 3 is approximately 67%.
7	Esophageal carcinoma	Dong Ningguan* (東寧冠)	Clinical phase 3	67%	According to Int. J. Pharmacol., 18 (6):1137–1150, 2022, the success probability for innovative drugs at clinical phase 3 is approximately 67%.

No.	Indication	Pipeline Products	Latest clinical stage	Success probabilities	Basis
8	Acute myelogenous	Dong Ningchun* (東寧春)	Clinical phase 3	67%	According to Int. J. Pharmacol., 18 (6):1137–1150, 2022, the success probability for innovative drugs at clinical phase 3 is approximately 67%.
9	Depression	Dong Tong Shen* (東通神)	Clinical phase 2	61%	According to Int. J. Pharmacol., 18 (6):1137–1150, 2022, the success probability for innovative drugs at clinical phase 2 is approximately 61%.
10	Idiopathic pulmonary fibrosis	Dong Jiandi* (東健帝)	Clinical phase 2	61%	According to Int. J. Pharmacol., 18 (6):1137–1150, 2022, the success probability for innovative drugs at clinical phase 2 is approximately 61%.
11	Cancer-associated anemia	Dong Ningsheng* (東寧生)	Clinical phase 2	61%	According to Int. J. Pharmacol., 18 (6):1137–1150, 2022, the success probability for innovative drugs at clinical phase 2 is approximately 61%.
12	Diabetes	Guang Jian Bao* (光健寶)	Clinical phase 1 completed	61%	According to Int. J. Pharmacol., 18 (6):1137–1150, 2022, the success probability for innovative drugs at completion of clinical phase 1 is approximately 61%.
13	Other	Other (New Drug)	Pre-clinical phase/Clinical phase 1/2	47%	According to Int. J. Pharmacol., 18 (6):1137–1150, 2022, the average success probability for innovative drugs from pre-clinical phase to clinical phase 2 is approximately 47%.

No.	Indication	Pipeline Products	Latest clinical stage	Success probabilities	Basis
14	Gastric ulcer	Vonoprazan Fumarate* (富馬酸伏諾拉生*)	Clinical phase 1 competed	57%	Improved drugs change the administration methods and frequencies. Given that the original compounds have been successfully marketed, the expected success probability for improved drug is higher. We have also considered the research from Frost and Sullivan, the success probability for the improved drugs at completed clinical phase 1 is adjusted to approximately 57%.
15	Alzheimer's disease	Injector* (美金剛長效注射劑)	Clinical phase 1	52%	Improved drugs change the administration methods and frequencies. Given that the original compounds have been successfully marketed, the expected success probability for improved drug is higher. We have also considered the research from Frost and Sullivan, the success probability for the improved drugs at clinical phase 1 is adjusted to approximately 52%.

No.	Indication	Pipeline Products	Latest clinical stage	Success probabilities	Basis
16	Asthma	Inhalers* (吸入噴霧劑)	Pre-clinical phase	52%	Improved drugs change the administration methods and frequencies. Given that the original compounds have been successfully marketed, the expected success probability for improved drug is higher. We have also considered the research from Frost and Sullivan, the success probability for the improved drugs at pre-clinical stage is adjusted to approximately 52%.

We understand that the report titled ''Clinical development success rates and Contributing Factors from 2011 to 2020'', published by Biotechnology Innovation Organization, Informa Pharma Intelligence, and Quantitative Life Sciences Advisors, is both an updated study of clinical drug development success rates from its report dated 2016, and an expansion into the drivers of success with the addition of machine learning modeling to analyse the predictive factors contributing to drug development. It is noted that a total of 12,728 clinical and regulatory phase transitions were recorded and analysed from 9,704 development programs over the last decade during the period from 2011 to 2020, across 1,779 companies in the Biomedtracker (a subscription-based product of Informa Pharma Intelligence, tracks the clinical development and regulatory history of investigational drugs to assess their likelihood of approval by the FDA) database.

Phase transitions occur when a drug candidate advances into the next phase of development or is suspended by the sponsor. This report calculated the number of programs progressing to the next phase versus the total number progressing and suspended, and further assessed the success rate at each of the four phases of development (i.e. phase I, phase II, phase III and regulatory filing). With the phase-by-phase data in hand, they then compared groups of diseases, drug modalities, and other attributes to generate the most comprehensive analysis yet of biopharmaceutical R&D success.

We further understand that Biotechnology Innovation Organization is the world's largest trade association representing biotechnology companies, academic institutions, and related organizations globally. Its members, ranging from startups to Fortune 500 companies, are involved in developing innovative biotechnology products across various sectors. Informa Pharma Intelligence is the trusted partner of all the top 50 global pharmaceutical companies and the top 10 contract research organisations providing timely intelligence and insight to help them make authoritative decisions. Quantitative Life Sciences Advisors is a technology and advisory company based in Cambridge, Massachusetts, it employs a blend of fundamental and quantitative tools to help clients manage risk, assess reward, and develop investment and financing strategies for portfolios of healthcare-related assets.

We are of the opinion that the sample size recorded and analysed during a ten-year timeframe by the Clinical development success rates and Contributing Factors from 2011 to 2020 report, are sufficient, fair and representative.

(ii) Basis of success probabilities of the Selected Pipeline Products

The Management has provided the expected success probabilities of the Selected Pipeline Products. Having reviewed the average success probabilities of the industry, the reasons provided by the Management and the discussion with the industry adviser, Frost and Sullivan, we have adjusted downward the success probabilities to better reflect the risk nature of the Selected Pipeline Products and be closer to the industry average suggested below.

We have also reviewed the data of average success probabilities of the industry provided by Frost and Sullivan and academic journal (International Journal of Pharmacology, 18 (6): 1137–1150, 2022)[2] which summarised the success probabilities of various stages in China, which are approximately 30%–91%. In addition, we have reference to Frost and Sullivan's report and the average success probabilities of the industry, combined with the different clinical stages of the Pipeline Products, in order to determine the success probabilities. Thus, we consider the success probabilities are reasonable and able to reflect the risk nature of the Selected Pipeline Products. For the success probabilities, of the Selected Pipeline Products, please refer to the table 2 above.

(iii) Basis of revenue

Revenue is projected by the estimated number of patients for indication of each Selected Pipeline Products respectively, diagnostic rate, treatment rate, product penetration rate and unit revenue.

The estimated number of patients for indication of each Selected Pipeline Products is based on publicly available real-world studies, academic literature, data from the World Health Organization, and official statistics from various countries.

[2] We understand that the International Journal of Pharmacology is an internationally recognised journal, contains peer-review material and provides broad coverage of all aspects of the interactions of drugs and medicines with biological systems including autonomic, behavioral, cardiovascular, cellular, clinical, developmental, gastrointestinal, immuno-, neuro-, pulmonary, and renal pharmacology, as well as analgesics, drug abuse, metabolism and disposition, chemotherapy, and toxicology, pharmaceuticals, neutraceuticals, immunomodulation, vaccines and vaccines based therapies, pharmacogenomics aided drug development and therapeutics, pharmacokinetics, pharmacodynamics, modes of action and metabolism of effective drugs and medicines, various upcoming drug designing and novel drug delivery methods. The International Journal of Pharmacology also emphasises frontiers in therapeutic advances and their biomedical perspectives including advances and recent trends in various prophylactic and therapeutic regimens to effectively combat various diseases and other health problems, both infectious and non-infectious posing challenge to the humans and their companion animals. We noted that the International Journal of Pharmacology is issued by the IMR Press, an academic publisher established in 2017. In 2018, the IMR Press established its first journal, the Journal of Molecular and Clinical Medicine. Responding to growth demands, in November 2019, IMR Press registered IMR Press PTE. LTD in Singapore, designating it as the global headquarters of IMR Press. In the same year, IMR Press established an office in Hangzhou, Zhejiang, China, primarily responsible for technical support such as website hosting and data production, ensuring the continuous provision of high-quality publishing services to the academic community. The management team of IMR Press includes: (i) Assoc. Prof. Ng Yin Kwee is the executive editor of IMR Press, Prof. Ng Yin Kwee obtained a Bachelor of Engineering from the University of Newcastle upon Tyne; Ph.D at the Cambridge University with a Cambridge Commonwealth Scholarship and a Postgraduate Diploma in Teaching Higher Education; (ii) Prof. Dr. Tu Guo Wei is the publishing director of IMR Press, Prof. Dr. Tu Guo Wei served on the editorial board of reviews in Cardiovascular Medicine in 2022. He obtained his Doctor of Medicine degree from Fudan University, China. Currently, he holds the position of Professor in the Cardiac Surgery Intensive Care Unit at Zhongshan Hospital, Fudan University, China; and (iii) Behrooz Astaneh is the director of Education and Ethics Integrity of IMR Press, he is an experienced department head with a demonstrated history of working in the higher education industry. He obtained a Doctor of Medicine degree from Shiraz University of Medical Sciences and Medical Journalology degree from Westminster University, London, United Kingdom and Health Research Methodology at McMaster University, Hamilton, Ontario, Canada.

We noted from the International Journal of Pharmacology that the materials and methods adopted include retrospectively analysed the status of investigational new drug submissions for innovative drugs filed in China between 1 January 2003 and 31 May 2019, calculating the phase transition probability and approval probability of 1,076 innovative drugs from 506 applicants. We understand that the data and information adopted in the International Journal of Pharmacology was extracted from two official databases of the Center for Drug Evaluation* (國家藥品監督管理局藥品審評中心).

This information, combined with insights from frontline expert interviews, was analysed through Frost and Sullivan's internal modelling system to ensure the data is scientifically valid, grounded in reality, and has industry reference value.

Regarding diagnosis rate and treatment rate, Frost and Sullivan has systematically organised publicly available literature data from both domestic and international sources, combined with interviews from multiple clinical experts, to obtain information on the consultation rates, medication status, and treatment rates for various diseases in actual clinical settings.

The product penetration rate and unit revenue are derived from publicly available data such as annual reports of publicly listed companies, along with insights from frontline expert interviews. The interview participants included frontline experts closely related to product sales and clinical use including: (i) executives from pharmaceutical companies (e.g., strategic leaders, head of product line and regional general managers); (ii) key members of the marketing and sales teams (e.g., marketing directors, head of sales and frontline sales representatives); and (iii) attending physicians and chief physicians from public hospitals and private medical institutions. Through in-depth interviews with the above-mentioned frontline experts, Frost and Sullivan systematically obtained key findings and insights regarding the product's clinical use scenarios, patient acceptance level, prescribing habits, channel accessibility, actual sales status, pharmaceutical companies' product strategies and future development plans, as well as market perceptions of competing products. This analysis considers the sales revenue, market share, regional sales performance, channel coverage, and product type differences of various manufacturers in different markets. Different markets include the Anti-influenza Drug Market in China, anti-influenza Drug and Oseltamivir Phosphate Drug Markets in China, Anti-HBV Drug Market in China, Anti-HCV Drug Market in China, Metabolic Disease Drug Market in China, Diabetes Drug Market in China, SGLT-2 Inhibitor Drug Market in China, Pulmonary Fibrosis Drug Market in China, Oncology Drug Market in China, Acute Myeloid Leukemia Drug Market in China.

We have reviewed the supporting documents related to the estimations obtained from Frost and Sullivan. Additionally, we conducted a separate review of relevant information based on our desktop research. Our findings indicate no significant differences between our research and the documents provided by Frost and Sullivan.

(iv) Basis of cost of sales

Cost of sales represents the direct cost incurred in the production. According to the Management, the cost of sales for new drugs is higher and then gradually decreases due to scale of economics. We have reviewed the industry average (the "**Industry Average**") and the industry median (the "**Industry Median**") of the Comparable Public Companies (as defined below under the subsection headed "(3) Beta"), which are approximately 32.2% and 29.5%, respectively. We further noted that the range of cost of sales is between 3.4% to 73.0%. We understood from the

Management that due to the high cost of sales for new drugs and for the purpose of conservatism, the costs of sales will be 25.00% of the projected revenue for the first year of listing for each Selected Pipeline Products, and then drop by 1.00% per year until it reaches 15.00%. As we have discussed with Frost and Sullivan, we understood that such decrease in percentage is due to scale of economics and in line with industry average in terms of new drugs. Such decrease in costs per year is based on the equal distribution taken into consideration of resource planning and cost management, the assumption of which can assist the company to maintain stability and sustainability in expenses throughout the appraisal period.

(v) Basis of operating expenses

In the financial projection, the operating expenses consist of the following items:

(1) Tax and surcharge

Tax and surcharge were projected as a percentage of revenue. It is understood that taxes and surcharges include urban construction and maintenance tax, education surcharge, real estate tax, land use tax, stamp duty, etc., but not corporate income tax. As the tax and surcharge of the Offeror in the past 3 years prior to the appraisal period was 1.39% in average, it is projected to remain stable at approximately 1.39% during the appraisal period.

(2) Selling expenses

Selling expenses were projected as a percentage of revenue. We have reviewed the Industry Average and the Industry Median of the selling expenses, which are approximately 29.4% and 29.9%, respectively. We understand from the Management that, the selling expenses of new drugs at first are higher and then gradually drops. Therefore, the selling expense percentage of revenue is projected to be 40.00%, and then drop by 1.00% per year until it reaches 30.00%, which is closer to the Industry Average.

(3) Management expenses

Management expenses were projected as a percentage of revenue. We have reviewed the Industry Average and the Industry Median of the management expenses, which are approximately 9.8% and 7.9%, respectively. The management expense of the Offeror in the past 3 years prior to the appraisal period was approximately 25.73%, 43.98% and 14.58%, respectively and was 28.10% in average. We have discussed with the Management and note that the fluctuation in percentages were mainly due to (i) the grant of grant of equity-settled share-based payment and privatisation expense of the Offeror in 2023; and (ii) collaboration with the Company and Appollo Therapeutics in 2024.

For the purpose of conservatism, we suggest that percentage will decrease gradually. we adopted the average of approximately 28.10%, for the first year of the appraisal period, and then drop by 1.00% per year over the appraisal period of 10 years by which it reaches approximately 18.10%. Besides, although the management expenses should cover the whole business of the Offeror, for the purpose of the valuation, we adopted activity-based costing, by which we identified the cost of the Selected Pipeline Products and allocated the corresponding management expenses based on their revenue respectively.

(4) Research and development expenses

The Management has provided the research and development plan for the Pipeline Products, which includes the budget covering the clinical trial expenses, material costs, salaries, patent registry and maintenance costs, etc. Certain part of the expenses is capitalised into research and development expense on the balance sheet, depending on the clinical trial stage. Based on the prevailing accounting treatment, expenses incurred during the pre-clinical phase to clinical phase 3 of a project are not capitalised. However, during the clinical phase 3 to pre-listing stage, a substantial portion of expenses, typically ranging from 90% to 100%, are capitalised and recorded as research and development expenses on the balance sheet.

(5) Depreciation and amortisation

As the depreciation expenses of the fixed assets, not including the research and development projects, in the past 3 years prior to the appraisal period were 15.69% of the beginning balance of the fixed assets in average, they were projected with the assumption that the annual depreciation is 15.69% of the beginning balance of the fixed assets.

As the depreciation and amortisation expenses of the research and development expenses in the past 3 years prior to the appraisal period were 15.69% and 3.98% respectively, they were projected with the assumption that the annual depreciation and amortisation are 15.69% and 3.98%, respectively.

As the depreciation expenses of the fixed assets and the depreciation and amortisation expenses of the research and development expenses are non-cash items, such amounts would be subsequently added back when calculating the cash flow for the year.

(vi) Basis of capital expenditure

Capital expenditure represented expenditure to be incurred in the construction of additional production lines and upgrade or replacement of existing fixed assets. Referring to the Management, there is a capital expenditure plan to ensure that the capacity of production lines can match with the future revenue.

(vii) Working capital requirement

Working capital mainly includes accounts receivable, prepayment, inventory, bills payable, trade payable, salary payable and tax payable. In order to determine the movement of net working capital, working capital is projected based on the estimation of the Management and historical working capital ratios as follows:

i. Accounts receivables would be collected in approximately 106.49 days;

ii. Prepayment would be exchanged into services or products in approximately 153.96 days;

iii. Inventory would be sold and replaced in approximately 210.47 days;

iv. Bills payables would be paid in approximately 71.61 days;

v. Trade payable would be paid in approximately 71.61 days;

vi. Salary payable would be paid in approximately 206.48 days; and

vii. Tax payable would be paid in approximately 4.47 days.

(viii) Basis of corporate income taxes

Referring to the Management, the corporate income tax rate of the Offeror is 15.00% as it is a national high-tech enterprise that enjoys a lower corporate income tax in accordance with "Administrative measures for the determination of high and new technology enterprises"* (高新技術企業認定管理辦法).

(ix) Other projects of new drugs and biological drugs ("Other (New drugs)")

Other (New Drugs) includes other drugs and biological products in the Offeror's pipeline and they are not appraised individually. This is because they are in the early stages of research and development, which typically involves a lengthy cycle. However, from a cash flow perspective, their research and development expenses impact future cash outflow and the listing of products leads to future cash inflow. Therefore, we include them as a group. In view of this, we include them into valuation while adjust their success probabilities to approximately 47.00% based on the average industry success probabilities in China from the academic journal (International Journal of Pharmacology, 18 (6): 1137–1150, 2022).

(x) Determination of discount rate

We developed weighted average cost of capital (the "**WACC**"), which is based on the cost of equity for this valuation based on data and factors relevant to the economy, the industry as at the Market Reference Date, and the cost of debt based on the Offeror's historical financial information and capital structure.

a. Cost of Equity

(1) Modified capital asset pricing model ("**MCAPM**")

MCAPM, as applied to this valuation, can be summarised as follows:

$$Re = Rf + Beta * ERP + RPu$$

Where

Re: Cost of equity,

R_f: Risk free rate;

Beta: A measure of systematic risk;

ERP: Equity risk premium; and

RPu: Specific company adjustment

(2) Risk free rate

Risk free rate was determined by identifying the return yields of the local government bonds. Ideally, the duration of the security used as an indication of risk free rate should match the horizon of the projected cash flows that were being discounted, which was into perpetuity in the present case. Despite the Offeror's intention to pursue a listing in Hong Kong, we relied on the 10-year MOF-China Government Bond Yield, which was 1.68% as at the Market Reference Date according to Ministry of Finance of the PRC, taking into consideration below:

1. Geographic relevance: Since the Offeror's business operations are primarily located in China, it makes sense to use a risk-free rate that reflects the local economic and financial conditions. The MOF-China Government Bond Yield represents the prevailing interest rate on government bonds in China, which is directly tied to the local market and economic factors; and

2. Currency alignment: Using the MOF-China Government Bond Yield ensures consistency in terms of currency. By adopting a risk-free rate based on China's financial market, which operates in RMB, we could align the valuation with the same currency in which the Offeror conducts its business operations. This approach avoids potential inconsistencies that could arise from using a risk-free rate based on a different currency.

By taking into consideration the Offeror's business operations, we have selected the 10-year MOF-China Government Bond Yield as the risk free rate which is more appropriate in the current context. The 10-year MOF-China Government Bond Yield is more align with the Offeror's business operations, which are primarily located in China and directly tied to the local market and economic factors. By using the 10-year MOF-China Government Bond Yield, we aim to capture the risk and market conditions that closely impact the Offeror's operations. We believe that the 10-year MOF-China Government Bond Yield provides a more appropriate basis for the risk free rate. In the event that if the 10-year yield-to-maturity of Hong Kong was adopted as the risk free rate, for illustration purpose, the Appraised value of the Pipeline Products under the base-case scenario would be approximately RMB22,020.9 million, which is lower by approximately 30%.

(3) Beta

In the MCAPM formula, beta is a measure of the systematic risk of a particular investment relative to the market for all investment assets. Due to the business nature of the Offeror, which includes R&D, R&D on a standalone basis, is different from the Company, which is primarily engaged in the manufacturing and sale of drugs, we selected an exhaustive list of comparable companies and obtained betas of eight (8) comparable public companies[3] (the "**Comparable Public Companies**") for this valuation. In order to obtain betas of the Comparable Public Companies, we have collected the historical daily price data for FY2024, including the Hang Seng Index as the benchmark index and the Comparable Public Companies. After calculating the daily returns of the benchmark index Comparable Public Companies, covariance between the daily return of the benchmark index and the Comparable Public Companies, and the variance of the benchmark return, we could obtain the betas which is a measure of systematic risk and represents the stock's sensitivity to market movements. The identified betas have been un-levered to remove the effects of financial leverage on the indication of relative risk provided by the beta, then taken the market capitalisation weighted average, and re-levered at the estimated capital structure of the Offeror in the long run.

As aforementioned, the Comparable Public Companies were selected to compute beta in the determination of cost of equity, we have selected the companies based on the following criteria:

1. pharmaceutical companies listed on the Stock Exchange;

2. companies principally engaged in the production, sale and development of pharmaceutical products;

3. companies focused on drug research and development; and

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

[3] SciClone Pharmaceutics (Holding) Limited (SEHK: 6600) is excluded from the previous set of comparable public companies because it was delisted in 2024.

The median of market capitalisation weighted average of beta is approximately 0.92 and that of un-levered beta is approximately 0.80.

Comparable Public Companies

Company Name	**Stock Code**
CSPC Pharma	1093
Fosun Pharma	2196
Hansoh pharma	3692
Hutchmed	13
Innovent Bio	1801
Livzon Pharma	1513
Sino Biopharm	1177
SSY Group	2005

(4) Equity risk premium

Equity risk premium is the excess return equity investors required to compensate them for taking on relatively higher equity risks above zero risks. We acknowledged the Offeror is planning to seek listing on the Stock Exchange, we have referred to equity risk premium of the Hong Kong stock market published by Prof. Aswath Damodaran, the Professor of Finance at the Stern School of Business at New York University, which is approximately 5.13%, as at the Market Reference Date.

(5) Company Specific Risk Premium ("**CSRP**")

CSRP for unsystematic risk attributable to the specific company is designed to account for additional risk factors specific to this valuation.

In this valuation, considering that the Offeror's businesses comprise both sales of developed products, which are generating income stream and track records, and research and development projects, which involve the development of innovative drug candidates and as such consist of uncertainty regarding the future income stream, plus the Offeror recorded a drop in revenue in FY2024. To address these concerns, we have identified ten risk factors to determine the appropriate CSPR. We reviewed Comparable Public Companies and compared them with the Offeror based on these risk factors. The table below summarises the conclusion of the risk factors for the Offeror in relation to the Comparable Public Companies we examined. The total CSPR is 3.5% as shown in the following table.

Risk factors	Low (0%)	Neutral (0.5%)	High (1%)	Explanation
Company Size	X			The Offeror's size presents a low risk.
Management depth	X			The Offeror possesses adequate talent to support company operations.
Access to capital	X			The Offeror has easy access to both equity and debt financing.
Customer concentration	X			The Offeror's products cater to a diverse range of customer segments.
Production diversification	X			The Pipeline Products address various diseases.
Geographical distribution		X		Some of the Pipeline Products are listed in the U.S., which is affected by the trading conflict between the U.S. and China.
Volatility of earnings or cash flow			X	The Offeror's revenue and net profit declined by approximately 37.1% and 97.6%, respectively, in 2024.
Potential new competitors		X		The Pipeline Products face competition from new entrants.
Pending litigation		X		The Offeror is currently involved in pending legal action; however, the potential claim amount is not material.
Pending regulatory changes			X	Some of the Pipeline Products are listed in the U.S., which is subject to frequent regulatory changes that may impact revenue.

b. Cost of debt

The cost of debt is the effective interest expense over the total amount of interest-bearing debt, which was 6.42% based on the audited consolidated financial statements of the Offeror for FY2024. Using FY2024 data, the forecasted cost of debt can be determined with the highest degree of accuracy.

c. WACC

The WACC, as applied to this valuation as discount rate, can be summarised as follows:

$$WACC = \text{Re} * \frac{E}{(D + E)} + \text{Rd}* \frac{D}{(D + E)} * (1 - \textit{Tax rate})$$

Where	WACC:	Weighted average cost of capital;
	Re:	Cost of equity
	E:	Total amount of shareholders' equity
	D:	Total amount of interest-bearing debt
	Rd:	Cost of debt
	Tax rate:	15.00%

For the total amount of shareholders' equity and total amount of interest-bearing debt, we understand from the Management that, within 5 years after listing by introduction, they intend to modify the capital structure of the Offeror that is closer to the Industry Average, which consists of approximately 18.5% debt and approximately 81.5% equity. Therefore, we adopted the Industry Average of the capital structure as the estimated capital structure of the Offeror in the long run. The WACC is approximately 8.57%.

(xi) Determination of value

To determine total the value of a company's cash flows beyond the projected period, known as the terminal value, there are three commonly used approaches:

1. Exit Multiple Method: This method involves applying a multiple to relevant financial metrics, such as enterprise multiple to estimate the terminal value. However, this method is applicable only to the entire company and not specific product lines.

2. Perpetuity Growth Method: This method assumes that the company's cash flows will continue to grow at a constant rate indefinitely into the future.

3. Liquidation method: This method assumes that the company will cease operations at a point in time in the future and sell the assets it has accumulated to the highest bidders.

Since the exit multiple method and liquidation method are not suitable for evaluating specific product lines and considering our inability to predict the impact and timing of new drug advancements, we can only rely on the perpetuity growth method to obtain the terminal value for the Pipeline Products.

As we adopted the perpetual cash flow model, this model calculates the terminal value by summing up its future cashflow beyond the appraisal period (i.e. 10 years) discounted by the corresponding compounded WACC for each year. It is noteworthy that such assumption of the perpetual cash flow is only applicable to the calculation of the terminal value while the appraisal period remains 10 years and such terminal value is discounted by 10-year compounded WACC.

As required by the perpetuity growth method, we have to assign a long-term sustainable growth rate (the "**Growth Rate**") and we assume to be 1.00% for the purpose of conservatism, whereas it is often to be the expected gross domestic product growth rate in the country of its business and operation.

The formula for calculating the terminal value using the perpetual cash flow model is:

Terminal Value = Cash Flow in the Last Forecasted Year * (1 + Growth Rate)/ (WACC – Growth Rate)

After that, we applied WACC to discount the cash flow and the terminal value so as to obtain the valuation.

Based on the investigation and analysis stated above and on the valuation method employed, it was our opinion that the appraised value of the Pipeline Products as at the Market Reference Date was as follows:

As the appraisal period is 10 years which we may capture at least one full business cycle, we have considered the best-case scenario which contains optimistic assumptions about the key variables and the worst-case scenario which contains pessimistic assumptions about the key variables.

Based on our discussion with the Management, the best-case scenario assumes that (i) the gross profit margin improves by 1.00% of the revenue; and (ii) the operating expenses decrease by the range from 0.10%–0.50% of the revenue. We have considered the R&D expenses and capital expenditures, which can support the Offeror's growth and profitability from new products and the terminal value is based on the overall company operation of the Offeror, bolstered by the potential listing of new drugs. Therefore, we assume that it will achieve profitability on a perpetual basis.

Based on our discussion with the Management, the worst-case scenario assumes that (i) the gross profit margin deteriorates by 1.00% of the revenue; and (ii) the operating expenses, including but not limited to tax and surcharge, selling expenses and management expenses, increase by the range from 0.10%–0.50% of the revenue.

Table 3 Appraised value of the Pipeline Products as at the Market Reference Date

Indication(s)	**Product name**	**Best-case valuation** *(RMB million)*	**Base-case valuation** *(RMB million)*	**Worst-case valuation** *(RMB million)*
Diabetes	Guang Jian You* (光健優)	6,394.9	5,890.4	5,555.7
	Guang Jian Tan* (光健坦)	1,246.8	1,139.6	1,055.7
	Guang Jian Da* (光健達)	1,619.8	1,489.5	1,376.3
	Guang Jian Cheng* (光健成)	2,438.6	2,211.7	2,012.0
	Guang Jian Bao* (光健寶)	3,205.9	2,889.2	2,616.6
Hepatitis	Dong Antai* (東安泰)	4,937.8	4,507.7	4,256.5
	Dong Andi* (東安帝)	4,242.6	3,884.8	3,567.9
Depression	Dong Tong Shen* (東通神)	1,019.5	928.0	850.3
Esophageal carcinoma	Dong Ningguan* (東寧冠)	2,358.7	2,161.9	1,988.7
Acute myelogenous leukemia	Dong Ningchun* (東寧春)	1,282.3	1,170.2	1,087.4
Idiopathic pulmonary fibrosis	Dong Jiandi* (東健帝)	2,748.7	2,521.1	2,319.8
Cancer-associated anemia	Dong Ningsheng* (東寧生)	569.9	517.1	472.7
Alzheimer's disease	Injector* (美金剛長效注射劑)	854.6	771.8	698.0
Asthma	Inhalers* (吸入噴霧劑)	172.4	146.9	124.1
Gastric ulcer	Vonoprazan Fumarate* 富馬酸伏諾拉生*	566.9	527.1	492.3
Other	Other (New drugs)	963.9	481.1	53.4
Total		34,623.3	31,238.1	28,527.5

Sensitivity Analysis

The WACC, the Growth Rate, gross profit margin and selling expenses play the pivotal roles in the valuation given their high sensitivity to the appraised value of the Pipeline Products. The appraised value of the Pipeline Products under different combination of the WACC, the Growth Rate, gross profit margin and selling expenses are presented below:

As slight change in the WACC and the Growth Rate will lead to large valuation deviation, we have discussed with the Management and relied on the industry practice. To demonstrate the sensitivity of the valuation to the WACC and Growth Rate, we considered the WACC range of approximately 8.14% to 9.00% (with a deviation of 5.00% from the WACC of approximately 8.57%) and the Growth Rate range of approximately 0.95% to 1.05% (with a deviation of 5.00% from the Growth Rate of 1.00%), the valuation is estimated to range from approximately RMB28,368.5 million to approximately RMB34,531.4 million.

Table 4 Sensitivity analysis — Change in WACC and Growth Rate to the appraised value of the Pipeline Products

		Growth rate										
	RMB Million	0.95%	0.96%	0.97%	0.98%	0.99%	1.00%	1.01%	1.02%	1.03%	1.04%	1.05%
WACC	9.00%	28,368.5	28,402.5	28,436.6	28,470.8	28,505.1	28,539.4	28,573.8	28,608.4	28,643.0	28,677.7	28,712.5
	8.91%	28,877.3	28,912.2	28,947.3	28,982.5	29,017.8	29,053.1	29,088.6	29,124.1	29,159.7	29,195.4	29,231.2
	8.83%	29,398.4	29,434.4	29,470.5	29,506.7	29,543.0	29,579.4	29,615.9	29,652.5	29,689.1	29,725.9	29,762.7
	8.74%	29,932.4	29,969.4	30,006.6	30,043.9	30,081.2	30,118.7	30,156.3	30,193.9	30,231.7	30,269.5	30,307.5
	8.65%	30,479.6	30,517.8	30,556.0	30,594.4	30,632.9	30,671.4	30,710.1	30,748.9	30,787.8	30,826.8	30,865.8
	8.57%	31,040.5	31,079.8	31,119.2	31,158.8	31,198.4	**31,238.1**	31,278.0	31,317.9	31,357.9	31,398.1	31,438.4
	8.48%	31,615.6	31,656.1	31,696.7	31,737.4	31,778.3	31,819.2	31,860.2	31,901.4	31,942.7	31,984.0	32,025.5
	8.40%	32,205.4	32,247.1	32,289.0	32,330.9	32,373.0	32,415.2	32,457.5	32,499.9	32,542.4	32,585.1	32,627.9
	8.31%	32,810.4	32,853.4	32,896.5	32,939.8	32,983.2	33,026.6	33,070.3	33,114.0	33,157.8	33,201.8	33,245.9
	8.23%	33,431.1	33,475.5	33,519.9	33,564.5	33,609.3	33,654.1	33,699.1	33,744.2	33,789.4	33,834.8	33,880.2
	8.14%	34,068.2	34,113.9	34,159.8	34,205.8	34,251.9	34,298.2	34,344.6	34,391.1	34,437.7	34,484.5	34,531.4

Table 5 Sensitivity analysis — Change in gross profit margin and selling expenses as percentage of revenue to the appraised value of the Pipeline Products

In order to demonstrate the sensitivity of the gross profit margin and selling expenses as percentage of revenue in line with the best-case and worst-case scenario, we considered the gross profit margin range of 74.00% to 76.00% (with a deviation of approximately 1.00% around the gross profit margin of 25.00%) and the selling expenses as percentage of revenue range of 39.50% to 40.50% (with a deviation of approximately 0.50% around the selling expenses as percentage of revenue of 40.00%). The valuation is estimated to range from approximately RMB28,928.6 million to approximately RMB33,547.7 million.

It provides a systematic way of analysing the sensitivity of the valuation output to different key input parameters according to the best-case and worst-case scenario.

		Selling expenses as percentage of revenue										
Gross profit margin	RMB Million	39.50%	39.60%	39.70%	39.80%	39.90%	40.00%	40.10%	40.20%	40.30%	40.40%	40.50%
	76.00%	33,547.7	33,394.0	33,240.3	33,086.7	32,933.0	32,779.3	32,625.7	32,472.0	32,318.4	32,164.7	32,011.0
	75.80%	33,239.4	33,085.7	32,932.1	32,778.4	32,624.8	32,471.1	32,317.4	32,163.8	32,010.1	31,856.5	31,702.8
	75.60%	32,931.2	32,777.5	32,623.8	32,470.2	32,316.5	32,162.9	32,009.2	31,855.5	31,701.9	31,548.2	31,394.6
	75.40%	32,622.9	32,469.2	32,315.6	32,161.9	32,008.3	31,854.6	31,700.9	31,547.3	31,393.6	31,240.0	31,086.3
	75.20%	32,314.7	32,161.0	32,007.3	31,853.7	31,700.0	31,546.4	31,392.7	31,239.0	31,085.4	30,931.7	30,778.1
	75.00%	32,006.4	31,852.8	31,699.1	31,545.4	31,391.8	**31,238.1**	31,084.5	30,930.8	30,777.1	30,623.5	30,469.8
	74.80%	31,698.2	31,544.5	31,390.8	31,237.2	31,083.5	30,929.9	30,776.2	30,622.5	30,468.9	30,315.2	30,161.6
	74.60%	31,389.9	31,236.3	31,082.6	30,928.9	30,775.3	30,621.6	30,468.0	30,314.3	30,160.6	30,007.0	29,853.3
	74.40%	31,081.7	30,928.0	30,774.4	30,620.7	30,467.0	30,313.4	30,159.7	30,006.1	29,852.4	29,698.7	29,545.1
	74.20%	30,773.4	30,619.8	30,466.1	30,312.4	30,158.8	30,005.1	29,851.5	29,697.8	29,544.1	29,390.5	29,236.8
	74.00%	30,465.2	30,311.5	30,157.9	30,004.2	29,850.5	29,696.9	29,543.2	29,389.6	29,235.9	29,082.2	28,928.6

VIII. CONCLUSION

The market value of the total shareholders' equity of the Offeror as at the Market Reference Date was appraised in accordance with the principles of independence, impartiality and objectivity and necessary valuation procedures. Based on the above valuation work, the following valuation conclusion is reached:

We have taken into consideration that:

a. regarding the Long-term Equity Investment, the valuation is approximately RMB3,825.2 million;

b. regarding the Pipeline Products, referring to Table 3 Appraised value of the Pipeline Products as at the Market Reference Date, the valuation ranges from approximately RMB28,527.5 million to RMB34,623.3 million, with a base case scenario of approximately RMB31,238.1 million;

c. regarding the assets excluding the Long-term Equity Investment and the Pipeline Products, the valuation is approximately RMB2,182.7 million, due to the deduction of the book value of the Long-term Equity Investment and development expenditure; and

d. the current number of total issued shares of the Offeror is 463,943,215.

By adopting the sum-of-the-parts approach:

a. The book value and appraised value of the total assets of the Offeror were approximately RMB7,990.5 million and approximately RMB37,246.0 million (Long-term Equity Investment (RMB3,825.2 million) + Pipeline Products (RMB31,238.1 million) + remaining assets (RMB2,182.7 million)) which includes the valuation for

the Long-term Equity Investment and the Pipeline Products, respectively, and the appraised value represents an appreciation of approximately 366.1% of the book value.

b. The book value and appraised value of the total liabilities of the Offeror were approximately RMB6,153.1 million.

c. The market value of the entire shareholders' equity of the Offeror appraised as at the Latest Practicable Date is approximately RMB31,093.0 million.

Therefore, we are of the view that the total estimated value of the Offeror as of the Market Reference Date is approximately RMB31,093.0 million, with a range from approximately RMB28,382.3 million and RMB34,478.1 million, which implies the theoretical Estimated Value is approximately RMB67.02 per Offeror H Share, with a range from approximately RMB61.18 to RMB74.32 per Offeror H Share (equivalent to approximately HK$73.45, HK$67.04 and HK$81.44, respectively based on the Exchange Rate). We confirm that the valuation as at the Latest Practicable Date would not be materially different from that as at the Market Reference Date (For details, please refer to page II-8 of this Valuation Report).

Warning: H Shareholders and potential investors should be aware that, regarding the Pipeline Products, our relevant valuation results contained in our report, in particular under the section headed "Sensitivity Analysis" on page II-47 to page II-48 of our report, may deviate to a great extent from real life scenario based on different variations in the WACC rate, the Growth Rate, the gross profit margin and selling expenses of the Company.

Yours faithfully,
for and on behalf of
CHINA SUNRISE CAPITAL LIMITED

Anthony Fong
Managing Director

Mr. Anthony Fong is a licensed person registered with the SFC and a responsible officer of China Sunrise Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO who has over 15 years of experience in corporate finance industry. Mr. Fong has extensive experience in corporate finance execution, including (i) valuation of to be listed companies during the IPO process; and (ii) review and comment on the valuation of unlisted targeted company(ies) being purchased by listed companies.

* *For identification purposes only*