



24 May 2024

To: The Independent Board Committee of SciClone Pharmaceuticals (Holdings) Limited

Dear Sirs,

**(1) PROPOSAL FOR THE PRIVATISATION OF
SCICLONE PHARMACEUTICALS (HOLDINGS) LIMITED
BY SILVER PEGASUS INVESTMENT LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT
(UNDER SECTION 86 OF THE COMPANIES ACT)
(2) PROPOSED WITHDRAWAL OF LISTING OF
SCICLONE PHARMACEUTICALS (HOLDINGS) LIMITED
(3) SPECIAL DEAL RELATING TO ROLLOVER ARRANGEMENTS**

INTRODUCTION

We refer to our appointment by the Company, with the approval of the Independence Board Committee, to advise the Independent Board Committee in connection with the Proposal, the Scheme, the Option Offer and the Rollover Arrangements. Details of the Proposal, the Scheme, the Option Offer and the Rollover Arrangements are set out in Part IV — Letter from the Board and Part VII — Explanatory Memorandum (the “**Explanatory Memorandum**”) of this composite scheme document dated 24 May 2024 jointly issued by the Company and the Offeror in relation to, among others, the Proposal (the “**Scheme Document**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context requires otherwise.

Reference is made to the Announcement. On 19 March 2024, the Offeror requested the Board to put forward the Proposal to the holders of Scheme Shares for the privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Act involving the

cancellation of the Scheme Shares and, in consideration thereof, the payment to the Scheme Shareholders of the Cancellation Price in cash for each Scheme Share, and the withdrawal of the listing of the Shares on the Stock Exchange.

The Offeror is also making an appropriate offer to the Optionholders to cancel every vested and unvested Subject Share Option in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional upon the Scheme becoming effective.

If the Proposal is approved and implemented, under the Scheme, the Scheme Shares will, on the effective date of the Scheme, be cancelled and extinguished. Contemporaneously with such cancellation and extinguishment, the share capital of the Company will be maintained by the issuance at par to the Offeror, credited as fully paid, of the aggregate number of Shares as is equal to the number of Scheme Shares cancelled. The reserve created in the Company's books of account as a result of the cancellation of the Scheme Shares will be applied in paying up in full at par the new Shares so issued, credited as fully paid, to the Offeror.

The Rollover Shares will not form part of the Scheme Shares and will not be cancelled. Following the Scheme becoming effective, pursuant to the Rollover Agreements, the Rollover Shares will be transferred to the Offeror in consideration for an aggregate of 209,084,863 shares to be issued by Topco (which wholly owns the Offeror) to the Rollover Shareholders credited as fully paid at the Cancellation Price.

Upon completion of the Scheme and the transfers of the Rollover Shares pursuant to the Rollover Agreements, the Company will become wholly-owned by the Offeror.

THE INDEPENDENT BOARD COMMITTEE

Pursuant to Rules 2.1 and 2.8 of the Takeovers Code, among others, a board of the offeree company which receives an offer must, in the interests of shareholders, establish an independent committee of the board to make a recommendation as to whether the offer is, or is not, fair and reasonable and as to acceptance or voting, and the members of such independent committee of the board should comprise all non-executive directors who have no direct or indirect interest in the offer, other than as a shareholder of the offeree company.

In the case of the Company, the Board currently has four non-executive Directors and four independent non-executive Directors. As Mr. Li ultimately controls the Offeror, Dr. Vasella is a Director nominated by GL Capital and Ms. Lin is currently a partner of the private equity investment department of GL Capital, Mr. Li, Dr. Vasella and Ms. Lin are concert parties of the Offeror. In addition, Ms. Wang is a Director nominated by Bank of China Group Investment Limited, which is a limited partner of the GL Cayman Fund. The four named non-executive

Directors are not included as members of the Independent Board Committee as they are not considered to be independent for the purpose of making a recommendation to the Disinterested Shareholders for the abovementioned reasons.

As such, the Independent Board Committee, which comprises all the independent non-executive Directors, namely Dr. Liu Guoen, Dr. Chen Ping, Mr. Gu Alex Yushao and Ms. Wendy Hayes, has been established by the Board to make a recommendation (i) to the Disinterested Shareholders as to whether the Proposal, the Scheme and the Rollover Arrangements are, or are not, fair and reasonable and as to voting at the Court Meeting and the EGM; and (ii) to the Optionholders as to whether the Option Offer are, or are not, fair and reasonable and whether to accept the Option Offer.

We have been appointed by the Company, pursuant to Rule 2.1 of the Takeovers Code and with the approval of the Independent Board Committee, to advise the Independent Board Committee in connection with the Proposal, the Scheme, the Option Offer and the Rollover Arrangements.

OUR INDEPENDENCE

We were appointed as the independent financial adviser to advise the independent board committee and the independent shareholders of the Company in relation to a conditional cash offer by Somerley Capital Limited on behalf the Company to buy-back up to 77,534,791 Shares and the application for whitewash waiver, details of which is set out in the offer document of the Company dated 27 January 2023 (the “**Past Appointment**”).

As at the Latest Practicable Date, we did not have any connection, financial or otherwise with the Group, the Offeror, the Offeror Concert Parties or any of their respective controlling shareholders, or any party acting, or presumed to be acting in concert with, or have control over any of them, which would create or likely to create the perception of a conflict of interest or reasonably likely to affect the objectivity of our advice. During the past two years, except the normal independent financial advisory fees paid or payable to us in connection with the Past Appointment and this appointment, no arrangements exist whereby we had received or will receive any fees or benefits from the Group, the Offeror, the Offeror Concert Parties or any of their respective controlling shareholders, or any party acting, or presumed to be acting in concert with, or have control over any of them that could reasonably be regarded as relevant to our independence. We therefore consider ourselves suitable to give independent advice to the Independent Board Committee in respect of the Proposal, the Scheme, the Option Offer and the Rollover Arrangements pursuant to Rule 2.6 of the Takeovers Code.

BASIS OF OUR OPINION

In formulating our advice and recommendation to the Independent Board Committee, we have reviewed, amongst other things:

- (i) the Announcement;
- (ii) the Company's annual report for the year ended 31 December ("FY") 2022 (the "**2022 Annual Report**") published by the Company on 27 April 2023;
- (iii) the Company's annual report for FY2023 (the "**2023 Annual Report**") published by the Company on 29 April 2024; and
- (iv) other information as set out in the Scheme Document.

We have also discussed with and reviewed the information provided to us by the Company, the Directors and the management of the Group (collectively, the "**Management**") regarding the business and outlook of the Group.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Scheme Document and the information and representations made to us by the Management. We have assumed that all information and representations contained or referred to in the Scheme Document and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive (i) at the time when they were provided; (ii) at the time they were made; or (iii) as at the Latest Practicable Date. Shareholders will be notified of material changes as soon as possible, if any, to the information and representations provided and made to us and the contents of this letter after the Latest Practicable Date pursuant to Rule 9.1 of the Takeovers Code. Shareholders will also be informed of our opinion in relation to such material changes, if any, as soon as possible.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Scheme Document were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any such statement contained in the Scheme Document misleading. We have no reason to suspect that any relevant information has been withheld, or to doubt the truth, accuracy and completeness of the information and facts contained in the Scheme Document, or the reasonableness of the opinions expressed by the Management, which have been provided to us.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. However, we have not carried out any independent verification of the information (save for examining numerical figures and conducting cross-checking the relevant information, data and disclosures against the contents of our letter) provided by the Management, and nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospects.

The Directors have jointly and severally accepted full responsibility for the accuracy of the information contained in the Scheme Document (including the relevant information concerning the Group provided by the Management set out in our letter) and confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Scheme Document have been arrived at after due and careful consideration and there are no other facts not contained in the Scheme Document, the omission of which would make any statement in the Scheme Document misleading.

This letter is issued to the Independent Board Committee solely in connection with and for their consideration of the Proposal, the Scheme, the Option Offer and the Rollover Arrangements, and except for its inclusion in the Scheme Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

We have not considered the taxation implications on Scheme Shareholders or Optionholders of acceptance or non-acceptance of the Proposal, the Scheme and the Option Offer, if any, and therefore we will not accept responsibility for any tax effect or liability that may potentially be incurred by the Scheme Shareholders or Optionholders as a result of the Proposal, the Scheme and the Option Offer. In particular, Scheme Shareholders or Optionholders who are subject to Hong Kong or overseas taxation on dealings in securities are urged to seek their own professional advisers on taxation matters. Their attention is particularly drawn to the section headed “21. Taxation Advice” in the Explanatory Memorandum.

PRINCIPAL TERMS OF THE PROPOSAL, THE SCHEME, THE OPTION OFFER AND THE ROLLOVER ARRANGEMENTS

The terms set out below are summarised from the Explanatory Memorandum. Disinterested Shareholders are encouraged to read the Scheme Document and the appendices in full.

1. Terms of the Proposal

The Scheme

The Scheme will provide that the Scheme Shares will be cancelled in exchange for HK\$18.8 (i.e. the Cancellation Price) in cash for each Scheme Share. Under the Scheme, the total consideration payable for cancellation of the Scheme Shares will be paid by the Offeror.

If, after the date of the Announcement, any dividend and/or other distribution and/or other return of capital is announced, declared or paid in respect of the Shares, the Offeror reserves the right to reduce the Cancellation Price by all or any part of the amount or value of such dividend, distribution and/or, as the case may be, return of capital after consultation with the Executive, in which case any reference in the Announcement, the Scheme Document or any other announcement or document to the Cancellation Price will be deemed to be a reference to the Cancellation Price as so reduced (and the Option Offer Price shall be reduced accordingly). The Company has confirmed that it does not intend to announce, declare or pay any dividend, distribution or other return of capital before the Long Stop Date or the lapse, withdrawal or termination of the Scheme (whichever is earlier). As at the Latest Practicable Date, the Company has no declared but unpaid dividends and/or other distribution and/or other return of capital.

The Cancellation Price will not be increased, and the Offeror does not reserve the right to do so. Shareholders and potential investors should be aware that, following the making of this statement, the Offeror will not be allowed to increase the Cancellation Price. Disinterested Shareholders should note that there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with any of them) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, (i) announce an offer or possible offer for the Company, or (ii) acquire any voting rights of the Company if the Offeror or persons acting in concert with it would thereby become obliged under Rule 26 of the Takeovers Code to make an offer, in each case except with the consent of the Executive.

The Option Offer

As at the Latest Practicable Date, there are: (i) 36,737,842 Share Options (all of which are vested) granted under the Option Incentive Plan, comprising (a) 20,400,842 Share Options entitling the holders to subscribe for 20,400,842 new Shares and (b) 16,337,000 Share Options entitling the holders to receive 16,337,000 existing Shares from the Option Trustee; and (ii) 30,785,690 Share Options (21,761,890 of which are vested) granted under the Post-IPO Option Plan entitling the holders to subscribe for 30,785,690 new Shares. The Company will not grant any further Share Options under the Option Incentive Plan or the Post-IPO Option Plan before the Long Stop Date or the lapse, withdrawal or termination of the Scheme (whichever is earlier).

The exercise of all the Subject Share Options in full would result in the issue of 51,186,532 new Shares, representing approximately 8.13% of the issued share capital of the Company as at the Latest Practicable Date and approximately 7.52% of the issued share capital of the Company as enlarged by the issue of such new Shares.

The Offeror is making an appropriate offer to the Optionholders to cancel every vested and unvested Subject Share Option in accordance with Rule 13 of the Takeovers Code. The Option Offer will be conditional upon the Scheme becoming effective. Under the Option Offer, the Offeror is offering the Optionholders the “see-through” price (being the Cancellation Price minus the relevant exercise price in case of the Subject Share Options) for each Subject Share Option they hold for the cancellation of every Subject Share Option in accordance with Rule 13 of the Takeovers Code. A schedule of the Subject Share Options of various exercise prices and the corresponding “see-through” prices is set out in the paragraph headed “Option Offer” under the section headed “2. Terms of the Proposal” in the Explanatory Memorandum (the “**Option Offer Schedule**”).

As at the Latest Practicable Date, save as disclosed in the section headed “4. Shareholding Structure of the Company” in the Explanatory Memorandum, the Offeror and the Offeror Concert Parties do not hold any Share Options.

The Option Offer Letter is being sent to each Optionholder, together with the Scheme Document and a Form of Acceptance. If the Optionholders exercise any of the Subject Share Options in accordance with the terms of the Option Incentive Plan and the Post-IPO Option Plan (as applicable) and become Shareholders on or before the Scheme Record Date, any Shares so issued will be subject to and eligible to participate in the Scheme.

In accordance with the terms of the Option Incentive Plan, the Post-IPO Option Plan and the Board Resolutions, if a general offer by way of a scheme of arrangement is made to all Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror

and/or any person acting in association or concert with the offeror) and has been approved by the necessary number of Shareholders at the requisite meetings, the optionholders shall be entitled to exercise the Share Options thereafter (up to the Latest Option Exercise Date) by notice in writing to the Company. To the extent that the Share Options have not been so exercised, the right to exercise the Share Options shall terminate on the Scheme Record Date and such Optionholders will only be entitled to the Option Offer. Any unexercised Share Option which are not tendered for acceptance under the Option Offer will automatically lapse (other than the right to receive payment of the “see-through” price from the Option Trustee) upon the Scheme becoming effective.

Any Share Options granted under the Option Incentive Plan or the Post-IPO Option Plan that are not exercised or (if applicable) cancelled pursuant to the acceptance of the Option Offer (other than, in respect of Share Options granted under the Option Incentive Plan, the right to receive payment of the “see-through” price from the Option Trustee) will automatically lapse upon the Scheme becoming effective.

No Option Offer will be made to the 16,337,000 Share Options granted under the Option Incentive Plan as an equivalent number of Shares were already issued to the Option Trustee. The Option Trustee Held Shares (being the 16,337,000 Shares held by the Option Trustee) shall form part of the Scheme Shares and be cancelled upon the Scheme becoming effective. Conditional upon the Scheme becoming effective, the Offeror shall pay the aggregate Cancellation Price for the Option Trustee Held Shares to the Option Trustee, which will then pay the “see-through” price (being the Cancellation Price minus the relevant exercise price in case of the Share Options) to the holders of the Share Options.

Further information on the Option Offer is set out in the form of Option Offer Letter which is set out in Appendix VI to the Scheme Document.

2. Total consideration

Taking into account that the Rollover Shares will not constitute Scheme Shares, and on the assumption that (i) all Subject Share Options (apart from the Subject Share Options which are held by Mr. Zhao and Ms. Pan) as at the Scheme Record Date are exercised and all the Optionholders of such Subject Share Options become holders of Scheme Shares on or before the Scheme Record Date, (ii) Mr. Zhao and Ms. Pan will not exercise any Subject Share Options held by them in accordance with the Irrevocable Undertaking and will only be entitled to the “see-through” price under the Option Offer, and (iii) there is no other change in the issued share capital of the Company and no Share Options will be granted by the Company on or before the Scheme Record Date, the Proposal will involve the cancellation of 448,110,959 Scheme Shares, in exchange for the Cancellation Price of HK\$18.8 per Scheme Share in cash and the cancellation of the Subject Share Options held by Mr. Zhao and Ms. Pan at the “see-through” price per Subject Share Option

in cash as set out in the paragraph headed “Option Offer” under the section headed “2. Terms of the Proposal” in the Explanatory Memorandum. Therefore, the maximum amount of cash consideration payable under the Proposal would be approximately HK\$8,758,580,608.30.

Based on the Cancellation Price of HK\$18.8 per Scheme Share and 629,268,032 Shares in issue on the Latest Practicable Date, the Company’s entire issued share capital under the Proposal is valued at approximately HK\$11,830.2 million.

3. Conditions of the Proposal and the Scheme

The implementation of the Proposal is, and the Scheme will become effective and binding on the Offeror, the Company and all Scheme Shareholders regardless of how (or whether) they voted at the Court Meeting or EGM, subject to the fulfilment or waiver (as applicable) of the Conditions set out in the section headed “3. Conditions of the Proposal” in the Explanatory Memorandum, on or before the Long Stop Date (i.e. 31 October 2024 or such other date as the Company and the Offeror may agree or, to the extent applicable, as the Grand Court may direct and in all cases, as permitted by the Executive), failing which the Proposal and the Scheme will lapse.

Disinterested Shareholders’ attention is drawn to the key Conditions which include: (i) the approval of the Scheme (by way of poll) by the holders of Scheme Shares, representing not less than 75% in value of the Scheme Shares held by the holders of Scheme Shares present and voting either in person or by proxy at the Court Meeting; (ii) the approval of the Scheme (by way of poll) by Disinterested Shareholders holding at least 75% of the votes attaching to the Scheme Shares held by Disinterested Shareholders that are voted either in person or by proxy at the Court Meeting, provided that the number of votes cast (by way of poll) by the Disinterested Shareholders present and voting either in person or by proxy at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Scheme Shares held by all Disinterested Shareholders; and (iii) (a) the receipt of an opinion from us confirming that the Rollover Arrangements are fair and reasonable so far as the Disinterested Shareholders are concerned; (b) the passing of an ordinary resolution by the Disinterested Shareholders at the EGM to approve the Rollover Arrangements; and (c) the grant of consent under Rule 25 of the Takeovers Code from the Executive in respect of the Rollover Arrangements.

Details of the Conditions are set out in the section headed “3. Conditions of the Proposal” in the Explanatory Memorandum. As at the Latest Practicable Date, none of the Conditions had been fulfilled or waived (as applicable).

4. Rollover Arrangements

The Offeror proposes that (i) the RSU Trustee will roll over the RSU Trustee Rollover Shares (being 2,001,113 Shares, representing approximately 0.32% of the issued share capital of the Company as at the Latest Practicable Date) and (ii) Convergence will roll over the Shares held by it (being 11,979,690 Shares, representing approximately 1.90% of the issued share capital of the Company as at the Latest Practicable Date), each through Topco after the Scheme becomes effective. Accordingly, the RSU Trustee Rollover Shares and the Shares held by Convergence will not form part of the Scheme Shares. The abovementioned arrangements between the Offeror and each of the RSU Trustee and Convergence under the Trustee Rollover Agreement and the Convergence Rollover Agreement are known as the Rollover Arrangements with details set out below:

Trustee Rollover Agreement

As at the Latest Practicable Date, the RSU Trustee holds 3,384,023 Shares, amongst which 1,228,450 Shares (representing approximately 0.20% of the issued share capital of the Company as at the Latest Practicable Date) are to be used to satisfy the share awards granted to directors and employees of the Group, 154,460 Shares (representing approximately 0.02% of the issued share capital of the Company as at the Latest Practicable Date) are underlying the granted share awards that were lapsed after the date of the Announcement and the remaining 2,001,113 Shares (representing approximately 0.32% of the issued share capital of the Company as at the Latest Practicable Date) are to be used to satisfy future grants of share awards.

The RSU Trustee Rollover Shares (being the 2,001,113 Shares held by the RSU Trustee) will not form part of the Scheme Shares, but the RSU Trustee Scheme Shares (being the 1,382,910 Shares held by the RSU Trustee) shall form part of the Scheme Shares and be cancelled upon the Scheme becoming effective.

The Offeror, Topco and the RSU Trustee have entered into the Trustee Rollover Agreement on 28 March 2024, pursuant to which:

- (a) subject to Condition (f) in the section headed “3. Conditions of the Proposal” in the Explanatory Memorandum and the Scheme becoming effective, the RSU Trustee will remain as a Shareholder until the Scheme becomes effective, the RSU Trustee Rollover Shares will not constitute Scheme Shares and all Shares held by the RSU Trustee will not be voted on the Scheme at the Court Meeting or the Rollover Arrangements at the EGM; and

- (b) upon the Scheme becoming effective, the RSU Trustee Rollover Shares will then be transferred to the Offeror in consideration for an aggregate of 2,001,113 shares to be issued by Topco to the RSU Trustee credited as fully paid at the Cancellation Price. After completion of the Scheme and the transfers of the RSU Trustee Rollover Shares, the RSU Trustee will, through Topco, hold an indirect interest in the Company.

The Trustee Rollover Agreement will be terminated if the Scheme lapses or is withdrawn, terminated, rescinded by the Offeror or is finally dismissed, refused or rejected by the Grand Court.

Convergence Rollover Agreement

The Offeror, Topco and Convergence have entered into the Convergence Rollover Agreement on 28 March 2024, pursuant to which:

- (a) subject to Condition (f) in the section headed “3. Conditions of the Proposal” in the Explanatory Memorandum and the Scheme becoming effective, Convergence will remain as a Shareholder until the Scheme becomes effective, the Shares held by Convergence will not constitute Scheme Shares and will not be voted on the Scheme at the Court Meeting or the Rollover Arrangements at the EGM;
- (b) upon the Scheme becoming effective, the Shares held by Convergence will then be transferred to the Offeror in consideration for an aggregate of 11,979,690 shares to be issued by Topco to Convergence credited as fully paid at the Cancellation Price. After completion of the Scheme and the transfers of the Shares held by Convergence, Convergence will, through Topco, hold an indirect interest in the Company;
- (c) Convergence has undertaken, to the extent permitted under the Takeovers Code, the Listing Rules and applicable laws and regulations, to exercise, or, as the case may be, to procure the exercise of the voting rights in respect of the Shares owned by it directly on resolutions in relation to the implementation of the Scheme in accordance with the Offeror’s directions, and in the absence of any such directions, to vote in favour of all resolutions which are necessary to implement the Scheme proposed at the EGM, and that it shall be bound by, and take all actions necessary to implement the Scheme; and
- (d) Convergence has further undertaken that it shall not, directly or indirectly, sell, transfer, charge, encumber, grant any option over or otherwise dispose of any interest in any of the Shares held by it, nor will it accept any other offer in respect of all or any of such Shares.

The Convergence Rollover Agreement will be terminated if the Scheme lapses or is withdrawn, terminated, rescinded by the Offeror or is finally dismissed, refused or rejected by the Grand Court.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regards to the Proposal, the Scheme, the Option Offer and the Rollover Arrangements, we have taken into account the following principal factors and reasons:

1. Business information, financial performance and prospects of the Group

A. Business of the Group

General background

The Company is an exempted company incorporated in the Cayman Islands with limited liability whose Shares have been listed on the Main Board of the Stock Exchange by way of initial public offering (the “**IPO**”) on 3 March 2021 (the “**Listing Date**”). The Group is principally engaged in developing and commercialising its portfolio with potential in its focused therapeutic areas including oncology and severe infection.

The Group implements what it calls the “two-wheel drive” strategy — deploying commercialisation expertise and cultivating product development capabilities. In commercialisation, the Group focuses on offline and online marketing activities to generate market demand and build brand recognition for the Group’s proprietary, in-licensed and promotion products which are capable of generating strong cash inflows for the Group. “Go-To-Patient” (“**GTP**”) model and product life-cycle management are the two key components of the Group’s commercialisation capabilities. In product development, the Group focuses on building an innovative pipeline with first-in-class/best-in-class drug candidates potential through in-licensing model. The Group acquires licenses and conducts product development process from various stages, ranging from Investigational New Drug (“**IND**”) filing for some of its early-stage pipeline products, to pivotal clinical trials for some of its late-stage pipeline products.

Commercialisation

The Group primarily engages in the sales of its proprietary product Zadaxin, its in-licensed products and promotion products on behalf of its business partners in the PRC. Zadaxin is the first branded thymalfasin (胸腺法新) drug in the PRC and is formulated as an injection to treat liver cancer, pancreatic cancer, lymphoma, hepatitis B, sepsis, SARS and COVID-19. The Group

developed Zadaxin in the early 1990s and obtained the approval for its sales in the Chinese market in 1996. Revenue contributed by the sales of Zadaxin accounted for approximately 78.5%, 78.9%, 83.4% of the Group's revenue in FY2021, FY2022 and FY2023, respectively.

The Group generates revenue of Zadaxin primarily through the sales to the Group's exclusive importer and distributor in the PRC and the Group also conducts all the sales and marketing activities. In compliance with the "two-invoice system" (兩票制), after the Group's sales of Zadaxin to the exclusive importer, it clears the products through customs of the PRC as an imported drug and distributes further to hospitals and pharmacies. In November 2021, the Company entered into an import and distribution agreement to engage Shanghai Pharmaceutical Lin-gang Special Area Co., Ltd. (上藥國際供應鏈有限公司), one of the Company's non-substantial shareholders, as the Group's exclusive importer and distributor of Zadaxin in the PRC. For Zadaxin's overseas sales, such as in South Korea, Thailand, Argentina, Italy and Cambodia, the Group primarily relies on overseas partners to handle marketing, promotion, sales and distribution.

The Group has been operating the GTP model since 2015 to connect physicians and patients directly through the Group's digital portal and deliver the Group's products to patients through more channels. Under GTP model, patients are able to upload prescriptions to the online platform or get electronic prescriptions from Hi-Doctor Internet Hospital and drugs will be delivered to them directly. GTP is also a platform for the Company to provide value added services to patients such as comprehensive academic and patient education.

Under product life-cycle management, the Group conducts ongoing clinical studies and academic promotions to expand the clinical adoptions of the Group's marketed products.

Product development

As disclosed in the 2023 Annual Report, the Company's product development has revolved around several pipeline drug candidates via the in-licensing approach. This strategy involves acquiring licenses and engaging in the product development lifecycle at various phases. The Group's involvement spans from the IND filing stage for some of its early-stage pipeline products to conducting pivotal clinical trials for some of its late-stage pipeline products.

As at the Latest Practicable Date, the Group had built a portfolio of ten pipeline drug candidates, six of which were in phase III or later stages overseas with a fast-to-market strategy in the PRC, and four were in earlier stages from pre-clinical to phase II clinical trials overseas or in the PRC. For technical details, the development status and pipeline milestones of each of the

pipeline drug candidates, please refer to the paragraph headed “Product Development” (pages 13 to 20) in the 2023 Annual Report. We note that the following late-stage drug candidates are highlighted by the Company in the 2023 Annual Report together with the milestones achieved recently:

(i) Orserdu

Orserdu is the “first and only” treatment specifically indicated for patients with estrogen receptor 1 (ESR1) mutations in estrogen receptor-positive (ER+), human epidermal growth factor receptor 2-negative (HER2-), advanced or metastatic breast cancer (mBc) (i.e. certain breast cancer variations) with the approval from the United States Food and Drug Administration (the “FDA”) under its priority review and fast track designation in January 2023, and subsequently from the European Commission in September 2023.

The Company and Berlin-Chemie AG, Menarini Group (“Menarini”) entered into a license and collaboration agreement, granting the Group the exclusive right to develop and commercialise Orserdu in the PRC, under Menarini’s head license agreement with Radius Health, Inc.

Under the relevant license agreement, the Group will utilise its development capability to proceed with clinical trials and employ its sales, marketing and regulatory expertise to distribute Orserdu, upon approval in the PRC. Following the signing of the relevant license agreement in November 2023, the Company commenced the preparation of clinical applications within the PRC and it will explore pilot launch opportunities in Bo’ao of Hainan and the Greater Bay Area.

(ii) Vaborem

Vaborem is a fixed-dose combination of a carbapenem and a novel boronic acid β -lactamase inhibitor of class A and Class C serine β -lactamase. Vaborbactam can inhibit various class A and class C β -lactamases, so it protects meropenem from degradation by serine carbapenemases, restoring meropenem’s activity against carbapenem-resistant strains. Vaborem has been specifically developed to inhibit carbapenem-resistant enterobacterales (“CRE”) including the commonly found *Klebsiella pneumoniae* carbapenemase-producing bacteria. CRE has become a public health threat worldwide, which the World Health Organisation has listed as one of the three critical pathogens in need of new antimicrobial options. Currently Vaborem has been granted marketing authorisations in the United States and the European Union, among other countries and regions, for adults with complicated urinary tract infections (“cUTI”) including pyelonephritis. In select territories, it has also been approved for the treatment of complicated intra-abdominal infections, hospital-acquired bacterial pneumonia and ventilator-associated bacterial pneumonia.

In August 2022, the Group and a subsidiary of Menarini entered into a license and collaboration agreement granting the Group the exclusive right to develop and commercialise Vaborem in the PRC under such entity's head license agreement with Melinta Therapeutics.

Following the signing of the relevant license agreement in August 2022, the China National Medical Products Administration (the "NMPA") approved the Company's IND application for Vaborem in March 2023. The relevant IND application consists of a Phase III clinical trial to evaluate the efficacy and safety of Vaborem in Chinese patients with cUTI including pyelonephritis, as well as a pharmacokinetic study in healthy volunteers in the PRC to evaluate the pharmacokinetic profile of Vaborem. These two clinical studies in the PRC are to bridge foreign clinical trial data and eventually support the New Drug Application (the "NDA") of Vaborem in the PRC. The first subject was dosed in the Phase III clinical trial in July 2023, and the Company completed subject enrollment by the end of January 2024. The Company currently plans to submit NDA in the PRC for Vaborem in 2024.

(iii) Danyelza (naxitamab)

Danyelza is the first humanised, monoclonal antibody targeting GD2, a tumor antigen on the cell surface of neuroblastoma. It was approved by the FDA in November 2020 based on a phase II clinical trial in 22 patients ("**Study 201**") and by the NMPA in December 2022 for the treatment, in combination with granulocyte-macrophage colony-stimulating factor ("**GM-CSF**"), of pediatric patients of 1 year of age and older and adult patients with relapsed or refractory high-risk neuroblastoma in the bone or bone marrow who have demonstrated a partial response, minor response, or stable disease to prior therapy (the "**Study 201 Indication**").

With respect to Danyelza for the Study 201 Indication: (a) in December 2020, the Company in-licensed Danyelza from Y-mAbs Therapeutics, Inc. ("**Y-mAbs**"); (b) in January 2023, the Company submitted the Biologics License Application ("**BLA**") of Danyelza in Hong Kong; (c) in June 2023, the Company obtained the BLA approval for Danyelza in Macau; and (d) in July 2023, Danyelza was officially commercialised in the PRC by the Group. It has been included in approximately 50 special drug lists under Hui Min Bao (惠民保) across various provinces and cities in the PRC, providing supplement coverage on top of the basic medical insurance for severe diseases.

On top of the Study 201 Indication, Y-mAbs is also expanding Danyelza's other indications such as naxitamab and GM-CSF in combination with irinotecan and temozolomide (IT) in patients with high-risk neuroblastoma ("**Study 203**") and relapsed second-line osteosarcoma. The Phase II trials for these two indications are ongoing. Study 203 is an international single-arm, multi-centre, Phase III clinical trial to explore the combined treatment of immunotherapy (Danyelza and GM-CSF) and chemotherapy drugs (irinotecan and temozolomide), and it differs from Study 201 in

respect of stages of neuroblastoma and target patient group. In June 2022, the Company obtained the IND approval for Study 203 from the NMPA. The Company initiated patient enrollment for Study 203 during 2023 and plans to complete patient enrollment for Study 203 in 2024.

B. Financial information of the Group

Set forth below is a summary of the audited consolidated financial information of the Group for FY2021, FY2022 and FY2023 as extracted from the 2023 Annual Report and the 2022 Annual Report. Further details of the financial information of the Group are set out in Appendix I to the Scheme Document.

Table 1: Summary of the consolidated financial performance of the Group

	FY2021 (Audited)	FY2022 (Audited)	FY2023 (Audited)
	<i>RMB million</i>		
Revenue	2,518.5	2,749.7	3,155.6
— Proprietary product	1,978.0	2,168.3	2,630.7
— Promotion products for business partners	357.2	358.9	379.0
— In-licensed product	183.3	222.5	145.9
Cost of revenue	(585.5)	(679.2)	(799.4)
Gross profit	1,933.0	2,070.5	2,356.2
Sales and marketing expenses	(579.2)	(627.8)	(712.8)
Administrative expenses	(206.4)	(225.0)	(257.3)
Research and development (“R&D”) expenses	(134.4)	(123.9)	(170.7)
Other income	42.8	12.1	41.8
Other expenses	(16.8)	—	—
Other (losses)/gains — net	19.1	(155.4)	(52.1)
Operating profit	1,058.1	950.6	1,205.1
Finance income	8.0	36.1	70.5
Finance costs	(40.2)	(46.6)	(58.2)
Profit before income tax	1,025.9	940.1	1,217.4
Income tax expense	(102.5)	(84.7)	(95.5)
Profit for the year attributable to the Shareholders	923.4	855.4	1,121.9
Core net profit (Note 1)	980.5	1,035.4	1,236.9

Sources: the 2023 Annual Report and the 2022 Annual Report

Notes:

1. Core net profits are the net profit adjusted for one-off change in fair value and impairment losses.
2. Totals and sub-totals may not add up to the nearest RMB0.1 million due to rounding.

FY2022 vs FY2021

The Group's total revenue was approximately RMB2,749.7 million for FY2022, representing an increase of approximately 9.2% as compared to the total revenue of approximately RMB2,518.5 million for FY2021 which was mainly attributable to: (i) sales of the Group's proprietary product Zadaxin; and (ii) commercial launch of in-licensed products. The revenue from sales of Zadaxin increased from approximately RMB1,978.0 million for FY2021 to approximately RMB2,168.3 million for FY2022, representing an increase of approximately 9.6%. By integrating internet hospitals to the Group's unique GTP model, the Group was able to improve direct connection between physicians and patients through the digital portal and continue to increase the accessibility, which drove the revenue growth of Zadaxin. The revenue from in-licensed product for FY2021 was approximately RMB183.3 million, increased by approximately 21.4% compared to approximately RMB222.5 million for FY2022. Revenue from sales of promotion products for business partners was approximately RMB358.9 million, increased by approximately 0.5% compared to approximately RMB357.2 million for FY2022, which was largely due to the lingering effect of COVID-19 pandemic (the "**Pandemic**") in FY2022.

Cost of revenue increased from approximately RMB585.5 million for FY2021 to approximately RMB679.2 million for FY2022, representing an increase of approximately 16.0% which was due to (i) the rise of product costs followed the growth of sales of Zadaxin and Zometa (an in-licensed product indicated for the treatment of patients with multiple myeloma and patients with documented bone metastases from solid tumors); (ii) the increase of freight costs mainly due to the shipping disruption by war in Ukraine and the hike of fuel prices; and (iii) the increase of amortisation of intangible assets resulted from commercial or pilot launch of the Group's in-licensed products.

Owing to the changes in revenue and cost of revenue as stated above, the Group's gross profit increased by approximately 7.1% from approximately RMB1,933.0 million for FY2021 to approximately RMB2,070.5 million for FY2022. However, the gross profit margin slightly decreased from approximately 76.8% for FY2021 to approximately 75.3% for FY2022 due to the increase in cost as abovementioned.

Sales and marketing expenses of the Group for FY2022 amounted to approximately RMB627.8 million, representing an increase of approximately 8.4% from approximately RMB579.2 million for FY2021. It was primarily due to the net effects of: (i) the rise of employee salaries and sales incentive bonus in total amounting to RMB70.7 million along with the expansion of the Group's sales and marketing team and sales growth; offset by (ii) the decline of marketing and promotion expenses and travel and meeting expenses during 2022 when business promotion activities were interrupted by the new waves of the Pandemic outbreak in the PRC.

The Group's administrative expenses for FY2022 increased by approximately 9.0% to approximately RMB225.0 million from RMB206.4 million for FY2021, which was primarily attributable to the addition of impairment loss of approximately RMB42.3 million against the related intangible assets considering the uncertainty of their further developments, offset by the reduction of employee benefits by approximately RMB18.8 million as the share-based compensation expenses of Pre-IPO Share Option were absorbed in the downtrend based on the cost recognition.

R&D expenses during FY2022 decreased by approximately 7.8% from approximately RMB134.4 million for FY2021 to approximately RMB123.9 million for FY2022 which was mainly due to the delay and suspension on some testing and clinical trials during 2022 when the new waves of the Pandemic outbreak in the PRC.

During FY2022, the Group completed the conversion of distributor of Zometa in all provinces from Novartis to the Group in the second half of FY2021 and recognised all product revenue and amortisation of Zometa in the cost of revenue, which resulted in substantial reduction of other income from approximately RMB42.8 million for FY2021 to approximately RMB12.1 million for FY2022.

We note net other losses of the Group increased significantly during FY2022 by as much as approximately RMB174.5 million, which was mainly due to one-off factors including, among others, (i) the change in fair value loss of the Group's investment in a biotech company of approximately RMB80.5 million, with the investee went into insolvency procedures due to the refinancing difficulties in the globally industry market sell-off, valuation plunge and deals suspension; and (ii) the net foreign exchange loss of approximately RMB85.3 million for FY2022 compared to net exchange gain of approximately RMB14.9 million for FY2021 resulted from the translation of RMB monetary assets into US\$ functional currency by a subsidiary of the Company.

During FY2022, the Group recorded net finance costs of approximately RMB10.5 million, which represented substantial decrease from approximately RMB32.2 million in FY2021. It was primarily due to the increase of finance income along with the higher interest rates and larger cash pool kept by the Group.

Owing to the aforesaid factors, the profit attributable to the Shareholders decreased by approximately 7.4% from approximately RMB923.4 million for FY2021 to approximately RMB855.4 million for FY2022. Excluding the impacts of the change in fair value loss and impairment loss, core net profit of the Group for FY2022 increased by approximately 5.6% to approximately RMB1,035.4 million as compared to that of FY2021.

FY2023 vs FY2022

The Group's total revenue was approximately RMB3,155.6 million for FY2023, representing an increase of approximately 14.8% as compared to the total revenue of approximately RMB2,749.7 million for FY2022 which was mainly attributable to: (i) sales of the Group's proprietary product Zadaxin; and (ii) sales of promotion products for business partners. The revenue from sales of Zadaxin increased from approximately RMB2,168.3 million for FY2022 to approximately RMB2,630.7 million for FY2023, representing an increase of approximately 21.3%. With increased prevalence in infectious diseases in 2023, there was an uptick in demand for Zadaxin during FY2023. The expansion of clinical adoptions through product life-cycle management, the strengthened public perception of Zadaxin during the Pandemic period, the increased recognition of clinical benefits from physicians and the upgrade of the online healthcare service through GTP model, facilitated the continued growth of Zadaxin during FY2023. The revenue from sales of promotion products for business partners increased from approximately RMB358.9 million for FY2022 to approximately RMB379.0 million for FY2023. For FY2023, the Group's revenue of in-licensed products decreased to approximately RMB145.9 million, down from approximately RMB222.5 million in FY2021. The decrease was primarily attributed to a juxtaposition of factors: the performance of Zometa has experienced a decline following the execution of the seventh batch of volume-based procurement ("VBP") since the final quarter of 2022, while sales of Danyelza increased due to its official commercialisation on 1 July 2023.

Cost of revenue increased from approximately RMB679.2 million for FY2022 to approximately RMB799.4 million for FY2023, representing an increase of approximately 17.7% which was due to (i) rising product revenue; and (ii) the effects of high inflation rates in Europe, in particular, a surge in inflation in Italy during the last quarter of 2022 significantly elevated the Group's manufacturing costs in FY2023. Owing to the changes in revenue and cost of revenue as stated above, the Group's gross profit rose by approximately RMB285.7 million, or 13.8%, reaching approximately RMB2,356.2 million for FY2023, up from approximately RMB2,070.5 million for FY2022. However, the gross profit margin for FY2023 slightly decreased from approximately 75.3% for FY2022 to approximately 74.7% for FY2023, which was primarily affected by cost increase as outlined above.

The Group's sales and marketing expenses increased by RMB85.1 million, or 13.5%, to RMB712.8 million in FY2023 from RMB627.8 million in FY2022, which was mainly due to: the rise in employee salaries and sales incentive bonuses, collectively totalling RMB33.6 million or a 8.6% increase, coupled with the growth of the Group's sales and marketing team and an uptick in sales; and the expansion of travel and meeting expenses by RMB31.3 million attributed to the resurgence of business promotion activities following the lifting of COVID-19 restrictions in the PRC.

The Group's administrative expenses for FY2023 increased by approximately RMB32.3 million, or 14.4% to approximately RMB257.3 million from approximately RMB225.0 million for FY2022, which was primarily attributable to the increase of staff cost and travel and meeting expenses during FY2023.

R&D expenses during FY2023 rose by 37.8% to RMB170.7 million, up from RMB123.9 million for FY2022, which was driven by the progression of several key product development projects and the expansion of product development team.

The Group recorded a growth of other income of approximately RMB41.8 million for FY2023 from approximately RMB12.1 million for FY2022, which was mainly due to the one-off compensations for certain promotion products newly brought in at around late FY2023. In FY2023, net other losses of the Group reduced by approximately RMB103.3 million, or 66.5%, to approximately RMB52.1 million from approximately RMB155.4 million for FY2022 which was primarily due to: (i) the RMB80.5 million fair value loss on the abovementioned investment in a biotech company amid a declining market in FY2022 did not repeat in FY2023; and (ii) the foreign exchange loss reduced by approximately RMB45.2 million as RMB experienced a slight appreciation against the US\$ in FY2023 when compared with FY2022.

During FY2023, the Group recorded net finance income of approximately RMB12.3 million, which shifted from the net finance costs of approximately RMB10.5 million in FY2022. It was primarily driven by an increase in finance income from higher interest rates and larger cash pool in the high interest rate environment.

Owing to the factors above mentioned, profit attributable to the Shareholders increased by approximately 31.2% from approximately RMB855.4 million for FY2022 to approximately RMB1,121.9 million for FY2023. Excluding one-off change in fair value and impairment losses, core net profit of the Group for FY2023 was approximately RMB1,236.9 million, up by approximately 19.5% compared to that of FY2022.

Table 2: Summary of the consolidated financial position of the Group

	As at 31 December	
	2023	2022
	<i>(Audited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	
ASSETS		
Non-current assets		
Right-of-use assets	32,403	18,829
Property, plant and equipment	7,018	9,796
Intangible assets	396,039	542,241
Financial assets at fair value through profit or loss	4,033	19,806
Financial assets at fair value through other comprehensive income	106,604	123,295
Deferred tax assets	—	651
Other assets	7,046	5,301
Total non-current assets	553,143	719,919
Current assets		
Inventories	308,285	140,560
Trade receivables	867,954	780,962
Other current assets	274,201	804,435
Financial assets at fair value through profit or loss	187,476	202,701
Cash and cash equivalents	1,809,191	1,671,829
Total current assets	3,447,107	3,600,487
LIABILITIES		
Non-current liabilities		
Borrowings	—	414,682
Deferred tax liabilities	16,963	14,570
Lease liabilities	19,768	7,355
Other non-current liabilities	208	205
Total non-current liabilities	36,939	436,812

	As at 31 December	
	2023	2022
	<i>(Audited)</i>	<i>(Audited)</i>
	<i>RMB'000</i>	
Current liabilities		
Trade and other payables	623,100	418,752
Lease liabilities	13,064	12,714
Borrowings	—	417,876
Current tax liabilities	62,080	42,090
Total current liabilities	698,244	891,432
Equity attributable to the Shareholders		
Share capital	216	237
Share premium	1,014,517	1,710,429
Other equity	(8)	(7)
Other reserves	410,564	347,484
Retained earnings	1,839,778	934,019
Total equity/net asset value (“NAV”) attributable to the Shareholders	3,265,067	2,992,162

Source: the 2023 Annual Report

Note: Totals and sub-totals may not add up to the nearest RMB0.1 million due to rounding.

As disclosed in the 2023 Annual Report, the Group’s total assets as at 31 December 2023 and 2022 were mainly consisted of: (i) cash and cash equivalents; (ii) trade receivables; (iii) intangible assets; and (iv) inventories. The total assets of the Group as at 31 December 2023 recorded a decrease of approximately RMB320.2 million or 7.4% which was mainly attributable to the decrease in the intangible assets, other current assets and financial assets at fair value through profit or loss as at 31 December 2023, while partially offset by the increase in cash and cash equivalents, inventories and trade receivables as at 31 December 2023.

The Group’s total liabilities as at 31 December 2023 and 2022 were mainly consisted of: (i) borrowings; (ii) trade and other payables; and (iii) current tax liabilities. The total liabilities of the Group recorded a decrease of approximately RMB593.1 million or 44.7% as at 31 December 2023 which was mainly attributable to the repayment of bank loans amounting to approximately RMB832.6 million as at 31 December 2022, while partially offset by the increase in the trade and other payables as at 31 December 2022.

The NAV attributable to the Shareholders increased slightly by approximately RMB272.9 million or 9.1%, from approximately RMB2,992.2 million as at 31 December 2022 to approximately RMB3,265.1 million as at 31 December 2023.

C. Prospects of the Group

We note it was stated in the section headed “9. Reasons for and benefits of the Proposal” in the Explanatory Memorandum that, one of the key reasons leading to the Proposal is that the Company will be pursuing a strategic transformation amid the challenging external environment. It is further stated that since the IPO, a combination of factors have weighed on the capital market and the Company’s share price, including global macroeconomic challenges such as geopolitical tensions, supply chain disruptions, lack of investor confidence, as well as industry changes including VBP of drugs in the PRC and ongoing regulatory reform. These factors, of which some have affected the Company’s operations, have caused the Company’s share price to underperform since the IPO. Since the majority of the Group’s revenue is currently contributed by a single product Zadaxin, the Company stated that it anticipates to pursue strategies to further diversify product portfolio and increase efforts on commercialisation of new products for the next few years in order to optimise the Group’s revenue structure. The objective of the relevant strategies, as explained by the Company in the section headed “9. Reasons for and benefits of the Proposal” in the Explanatory Memorandum, is that the Company needs to ensure a continuous and efficient launch of new products and therefore the Company aims to strategically focus on enhancing core competencies of product R&D. As such, additional investment and spending is expected on product development, R&D and marketing and commercialisation activities, which may bring volatility to the Company’s financial performance.

Based on our own assessment, we note the Group has achieved steady development since the IPO in March 2021 and demonstrated resilient growth in FY2023 despite the complex and challenging macro-environment. In particular, a double-digit increase was recorded for its profit attributable to the Shareholders and core net profit of the Group for FY2023. Nonetheless, we note that the increased demand for Zadaxin during FY2023 was partly driven by the prevalence in infectious disease during such financial period. Significant fluctuations were also seen in the Group’s other income, other losses and net finance income/costs from FY2021 to FY2023 and had a considerable bearing on the financial performance of the Group for the relevant financial periods.

In addition, approximately 83.4% of the Group’s revenue for FY2023 was contributed by a single product Zadaxin and the Group’s core patents (patents for invention) on Zadaxin had already expired as of the Latest Practicable Date and the six patents of Zadaxin the Group currently holds in the PRC will expire between 2024 and 2030. As disclosed in the 2023 Annual Report, the Group is committed to accelerating product pipeline and bolstering its R&D

capabilities, and it expects to continue to devote more resources on this front in the future. Such disclosed plan of the Group is broadly in line with the disclosures made in relation to the strategic transformations mentioned in the section headed “9. Reasons for and benefits of the Proposal” in the Explanatory Memorandum as discussed above. In this connection, from our discussion with the Management, we were given to understand that the Group aims to drive the strategic transformations by: (i) pursuing strategies to further diversify its product portfolio (for instance, building a pipeline with potential in its focused therapeutic areas including oncology and severe infection, via continued investments in R&D, license-in and acquisition of innovative products and actively seeking to acquire licenses of new pipeline drug candidates and increase investment in developing products with first/best-in-class potential) and increase efforts on commercialisation of new products for the next few years in order to optimise the Group’s revenue structure; and (ii) enhancing core competencies of commercial team as well as R&D team for the purpose of ensuring a continuous and efficient launch of new products. We also note from the section headed “Outlook” of the 2023 Annual Report, the Company has highlighted eight areas of priorities that it aims to take action during FY2024, including, among others, (i) continuously expand marketing channels and strengthen investment in market promotion and commercialisation activities; (ii) drive clinical evidence analysis and publication on Zadaxin in infectious diseases, including adjuvant for vaccines (such as the COVID-19 vaccine) in the United States, and expand therapy indications in oncology through combination therapy with PD-1/PDL1; (iii) submit NDA in the PRC of Vaborem for cUTI including pyelonephritis; and (iv) explore pilot launch opportunities of Orserdu in Bo’ao of Hainan and the Greater Bay Area.

We note that the implementation of the Group’s strategic transformation discussed above requires the Group’s constant commitment of substantial financial resources to its product development and R&D expansion plans. It has already been demonstrated by the increase in the Company’s R&D expenses for FY2023 by over 37% as compared to FY2022. In the next few years, the Company is expected to incur incremental R&D expenses related to Orserdu which was licensed in at around late FY2023. It should also be noted that not all product development guarantees commercial success and sometimes products in the R&D portfolio and the newly commercialised products would encounter set-backs. As advised by the Management, the Group has recorded impairment losses of approximately RMB57 million, RMB99 million and RMB100 million, respectively, on the intangible assets associated with these products during FY2021, FY2022 and FY2023. Based on the above, we are of the view that while the aforesaid product development and R&D expansion plans may contribute to the Group’s sustainable growth in the long term, it may also bring volatility to the Group’s business and financial performance.

From a macro perspective, in recent years, the shadow of inflationary pressures, interest rate hikes in an environment already burdened by mounting international geopolitical tensions and military conflicts have presented, and are expected to continue to present, formidable challenges to the Group’s business in the near term. While global inflation is forecast by the International

Monetary Fund to decline steadily, from 6.8% in 2023 to 5.9% in 2024 and 4.5% in 2025, with advanced economies returning to their inflation targets sooner than the developing economies, persistent inflation has prompted Mr. Jerome Powell, the Chairman of the Board of Governors of the Federal Reserve System (the “**Federal Reserve**”), in a recent public appearance in April 2024, to suggest that higher interests may be in place for a longer period. During the most recent meeting of the Federal Open Market Committee of the Federal Reserve held on 30 April to 1 May 2024, federal funds interest rates have been kept unchanged at 5.25% to 5.50%. A globally high inflation and high interest rate environment as well as foreign exchange volatility in the near term can potentially add to the cost of goods sold of Zadaxin and further erode the Group’s gross margin.

We have discussed the prospects of the Group with the Management, including but not limited to the product development and R&D expansion plans of the Group discussed above. Taking into account the historical financial performance of the Group and the product development and R&D expansion plans discussed above, the Management considers, and we concur, that the near-term business prospects of the Group are cautiously optimistic, although the future financial performance cannot be ascertained now with certainty. However, Disinterested Shareholders should be aware that, although (i) the Group has achieved steady development since its IPO in 2021; (ii) the Company’s prospects from the sale of its proprietary product Zadaxin is generally positive; and (iii) the Group’s product development and R&D expansion plans may fuel the future growth of the Group which may in turn contribute to the future value of the Group, from the perspective of Group’s product development and R&D expansion plans: (i) the trial outcome of the Group’s clinical-stage product candidates is uncertain and the success of these products is subject to significant risks; (ii) significant R&D costs will be incurred; (iii) even if the clinical trials of the Group’s clinical-stage product candidates are successful, such successful clinical trials will not guarantee commercial success and may not translate into higher profits or market capitalisation/valuation of the Company; (iv) acquisition(s) of innovative product(s) and/or license(s) of new pipeline drug candidate(s) can be costly and significant time and resources will be required with or without any certainty on guaranteed investment pay-backs and/or returns; and (v) the Company’s shareholder value may be adversely affected in the short- to medium-term. Therefore, the possible effects of the implementation of the Group’s product development and R&D expansion plans on the future value of the Group cannot be ascertained now with certainty.

For the avoidance of doubt, no statement herein should be interpreted to mean that the earnings or financial performance of the Group for the future year(s) will necessarily match or exceed the historical or published earnings or financial performance of the Group, respectively.

2. Analysis on the terms of the Proposal and the Scheme

As set out in the paragraph headed “Comparison of Value” under section headed “2. Terms of the Proposal” in the Explanatory Memorandum, the Cancellation Price of HK\$18.8 per Scheme Share has been determined (by the Offeror) on an arm’s length commercial basis after taking into account the prices of the Shares traded on the Stock Exchange and with reference to other privatisation transactions in Hong Kong in recent years. We note the Cancellation Price of HK\$18.8 is that same as the offer price of the Shares at the IPO.

We have dedicated the following sub-sections A to F to analyse and comment on whether the Cancellation Price of HK\$18.8 per Share can indeed be regarded as arm’s length, fair and reasonable and on normal commercial terms so far as the Disinterested Shareholders’ are concerned:

A. Cancellation Price comparisons

The Cancellation Price of HK\$18.8 represents:

- (a) a premium of approximately 33.90% over the closing price of HK\$14.04 per Share as quoted on the Stock Exchange on the Undisturbed Date;
- (b) a premium of approximately 36.03% over the average closing price of approximately HK\$13.82 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Undisturbed Date;
- (c) a premium of approximately 47.47% over the average closing price of approximately HK\$12.75 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Undisturbed Date;
- (d) a premium of approximately 47.93% over the average closing price of approximately HK\$12.71 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Undisturbed Date;
- (e) a premium of approximately 58.06% over the average closing price of approximately HK\$11.89 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Undisturbed Date;
- (f) a premium of approximately 67.06% over the average closing price of approximately HK\$11.25 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Undisturbed Date;

- (g) a premium of approximately 17.21% over the closing price of HK\$16.04 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (h) a premium of approximately 30.81% over the average closing price of approximately HK\$14.37 per Share based on the daily closing prices as quoted on the Stock Exchange for the 5 trading days up to and including the Last Trading Day;
- (i) a premium of approximately 45.72% over the average closing price of approximately HK\$12.90 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;
- (j) a premium of approximately 47.61% over the average closing price of approximately HK\$12.74 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;
- (k) a premium of approximately 57.34% over the average closing price of approximately HK\$11.95 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;
- (l) a premium of approximately 66.60% over the average closing price of approximately HK\$11.28 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;
- (m) a premium of approximately 2.62% over the closing price of HK\$18.32 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (n) a premium of approximately 228.35% to the Group's NAV attributable to Shareholders of approximately HK\$5.73 per Share pursuant to the latest audited consolidated financial statements of the Company as at 31 December 2023, calculated based on the audited consolidated NAV attributable to the Shareholders of RMB3,265,067,000 (based on the exchange rate of HK\$1: RMB0.90622, the central parity rate published by the People's Bank of China on its website as at 29 December 2023 for illustrative purposes) as at 31 December 2023 and the Shares in issue as at the Latest Practicable Date.

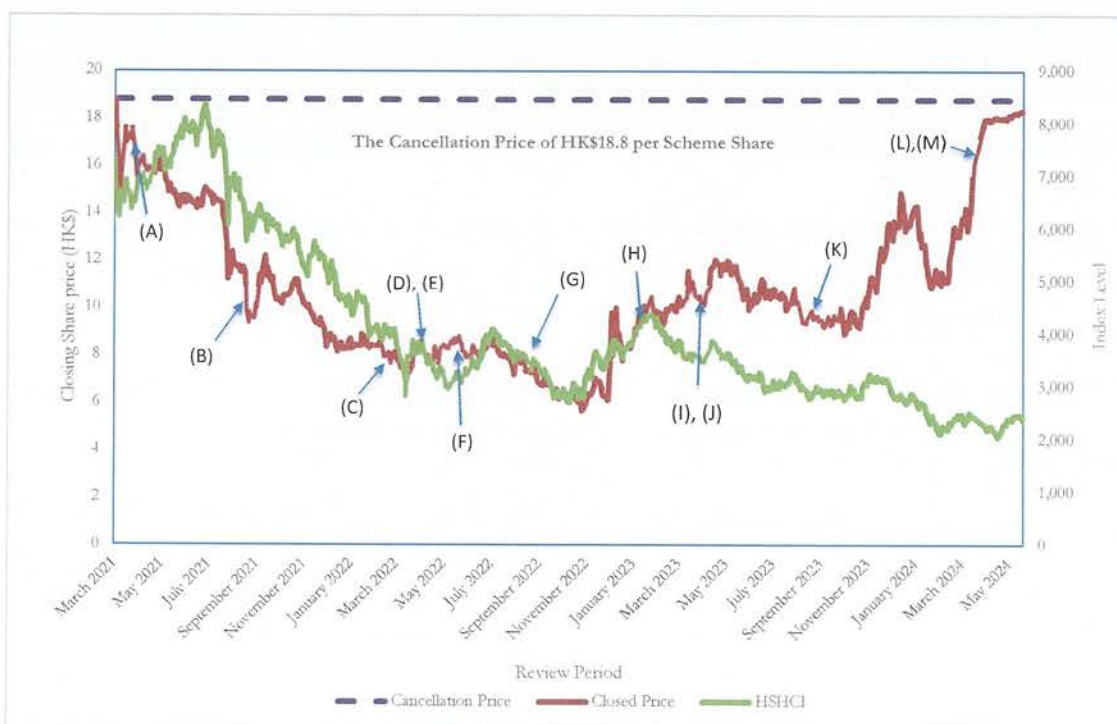
B. Historical price performance of the Shares

Set out below is the chart showing the daily closing Share prices as quoted on the Stock Exchange and the index movement of the Hang Seng Healthcare Index (the "HSHCI"), which the Company is also one of the constituents, during the period commencing from 3 March 2021 (i.e. the Listing Date), up to and including the Latest Practicable Date (the "Review Period"), being:

(i) a three-year period prior to and including the Last Trading Day (the “**Pre-announcement Period**”); and (ii) the period subsequent to the Last Trading Day up to and including the Latest Practicable Date (the “**Post-announcement Period**”). In determining the length of the Review Period, given this is the entire period since the IPO of the Company, the length of the Review Period is neither too short or too long, and thus we consider the Review Period adopted to be fair and representative which reflects the prevailing market sentiment for conducting a reasonable comparison between the closing prices of the Shares and the Cancellation Price.

The chart below shows the relative historical price performance of the Shares and the index movement of the HSHCI during the Review Period.

Chart 1: Relative historical price performance of the Shares and index movement of the HSHCI



Source: Website of the Stock Exchange and Bloomberg

During the Review Period, the Company published a number of announcements (as summarised below) that we consider may have influenced the market prices of the Shares.

Table 3: Notable announcements of the Company during the Review Period

Item	Date of announcement	Description of the event
(A)	26 March 2021	Annual results announcement of the Company for FY2020
(B)	20 August 2021	Interim results announcement of the Company for six months ended 30 June (“HY”) 2021
(C)	25 February 2022	Positive profit alert announcement for FY2021
(D)	24 March 2022	Annual results announcement of the Company for FY2021
(E)	25 March 2022	Voluntary announcement regarding proposed on-market share repurchase plan
(F)	20 May 2022	Voluntary announcement regarding updated on-market share repurchase plan
(G)	19 August 2022	Interim results announcement of the Company for HY2022
(H)	6 January 2023	Announcement regarding the conditional cash offer to buy-back Shares and application for whitewash waiver
(I)	30 March 2023	Annual results announcement of the Company for FY2022
(J)	30 March 2023	Voluntary announcement regarding proposed on-market share repurchase plan
(K)	17 August 2023	Interim results announcement of the Company for HY2023
(L)	28 March 2024	Annual results announcement of the Company for FY2023
(M)	28 March 2024	The Announcement

Source: Website of the Stock Exchange

During the Review Period, the Shares traded between a range of the lowest of HK\$5.68 apiece on 28 October 2022 to the highest of HK\$18.80 apiece on 3 March 2021 (being the Listing Date) with an average closing Share price of approximately HK\$10.68 per Share. The Cancellation Price is higher than the closing Share prices throughout the entire Review Period and represents premiums of approximately 230.99%, 0.00% and 76.01% over the lowest, highest and the average closing Share prices respectively during the Review Period. Disinterested Shareholders should note the highest closing Share price of HK\$18.80 only appeared for one day on the Listing Date, and the closing Share price fell gradually since then.

We have reviewed the Share price movement during the earlier parts of the Review Period and noted that it generally followed a downward trend, falling from HK\$18.80 per Share on the Listing Date, and reached its bottom at HK\$5.68 per Share on 28 October 2022 over a period of 20 months. The falling Share prices during the Review Period might have been due to the general negative sentiment felt by the Hong Kong capital market amidst the negative impacts of the Pandemic on all walks of life, military conflict in Europe, geopolitical tensions, global supply chain disruption and world-wide record high inflation. None of the significant announcements during this period was able to avert the fall of the Share prices, neither the positive profit alert announcement for FY2021 published on 25 February 2022 nor the proposed on-market share repurchased plan announced on 25 March 2022 (the “**2022 Share Repurchase Announcement**”) were able to substantially move up the Share prices. We note that the 2022 Share Repurchase Announcement had provided some support on the Share prices with the closing Share price increased from HK\$7.23 per Share on 18 March 2022 to HK\$8.46 per Share on 25 March 2022. According to the 2022 Share Repurchase Announcement, the Board considered that the trading price of the Shares at that time did not reflect the intrinsic value and the actual business prospects of the Company. After the release of the 2022 Share Repurchase Announcement, the closing Share price bounced back and reached its interim peak of HK\$8.78 per Share on 23 May 2022.

Thereafter, the closing Share price decreased from HK\$8.78 per Share on 23 May 2022 to HK\$5.68 per Share on 28 October 2022, being the lowest point of the Share prices during the Review Period. We did not notice any notable events which might have caused such decrease in closing Share price from 23 May 2022 to 28 October 2022, other than, according to the interim results announcement of the Company for HY2022 published on 19 August 2022, the revenue of the Group increased approximately 10.8% from approximately RMB1,331.3 million for HY2021 to approximately RMB1,475.1 million for HY2022, while the profit attributable to the Shareholders decreased by approximately 14.5% from approximately RMB622.7 million for HY2021 to approximately RMB532.2 million for HY2022.

In general, we noted the fall and the sluggish performance of the Share prices since the Listing Date in much of 2021 and 2022 are in line with the fall of share prices with most of listed Chinese healthcare companies. During the same period we have also seen the drastic fall of the HSHCI and the Shares are not immune from such reduction in value.

The Share price regained ground in November and December 2022 with increased trading volume with the Share price ascended from the bottom of HK\$5.68 per Share on 28 October 2022 and reached HK\$10.00 per Share on 12 December 2022. During such period, we did not notice any notable events which might have caused such increase in closing Share price. We are of the view that this might have been due to both the speculation and realisation of the PRC's COVID reopening at the time.

Unlike the HSHCI, the Share price then experienced a major boost on 6 January 2023 and started to diverge from the index movement of the HSHCI, when the Company announced its HK\$780 million voluntary conditional cash offer (the “**Share Buy-back**”) to buy-back up to 77,534,791 Shares (the “**Share Buy-back Cap**”) at HK\$10.06 per Share, representing approximately 11.16% of the Company's total issued share capital at the time. The Shares tendered by the accepting Shareholders under the Share Buy-back exceeded the Share Buy-back Cap by over 240%. As a result, the total number of Shares to be bought-back by the Company from each accepting Shareholder under the Share Buy-back was substantially scaled down by over 50%. Though not a like-for-like comparison since the Share Buy-back is not akin to the Proposal, Disinterested Shareholders should note that the Proposal represents a complete exit opportunity and the Cancellation Price of HK\$18.8 per Scheme Share represents a significant premium over the offer price of the Share Buy-back by approximately 86.9%. In our opinion, this feature of the Proposal can be viewed favourably by the Disinterested Shareholders.

Following completion of the Share Buy-back and the release of the Company's annual results announcement for FY2022, the Share price oscillated upwards and reached HK\$12.04 per Share on 19 April 2023. The closing Share price then decreased from HK\$12.04 per Share on 19 April 2023 to HK\$8.91 per Share on 4 October 2023. Despite that the revenue increased approximately 8.7% from approximately RMB1,475.1 million for HY2022 to approximately RMB1,603.3 million for HY2023, and the profit attributable to the Shareholders increased approximately 18.4% from approximately RMB532.2 million for HY2022 to approximately RMB630.2 million for HY2023 according to the interim results announcement of the Company for HY2023 published on 17 August 2023, the closing Share prices continued the decreasing trend till 4 October 2023.

The closing Share prices fluctuated wildly between October 2023 and March 2024, which increased from HK\$8.91 per Share on 4 October 2023 to HK\$14.86 per Share on 15 December 2023 while sharply fell back to HK\$10.86 per Share on 24 January 2024. The closing Share price then increased from HK\$10.86 per Share on 24 January 2024 to HK\$16.04 per Share on the Last

Trading Day. Save for the irregular movements in volumes and price of the Shares immediately prior to 18 March 2024 which resulted in the trading halt of the Shares between 19 March 2024 and 28 March 2024, pending the release of the Announcement that was jointly issued by the Company and the Offeror in relation to the Proposal, we did not notice any notable event which might have caused such fluctuation in the Share price during this period.

During the Post-announcement Period, the closing Share prices had been trading below the Cancellation Price within a narrow band of between HK\$17.88 per Share and HK\$18.32 per Share. This price range is significantly above the average closing Share price during the Pre-announcement Period of HK\$10.36 per Share. We believe the price hike of the Shares since the Undisturbed Date is a result of the announcement of the Proposal and should the Proposal lapse, such price hike is unlikely to be sustained. Disinterested Shareholders should note that there is no assurance that the Share price will remain at the current level if the Proposal and the Scheme lapse. In addition, as can be seen from the chart above, Disinterested Shareholders should also note that, the closing Share price diverged from the HSHCI since the beginning of 2023 and followed a general upward trend (from HK\$8.83 as at close of trading on 6 January 2023 (being the last trading day before the announcement of the Share Buy-back) to HK\$14.20 at close of trading on 14 March 2024 (being the last trading day before the Undisturbed Date), representing a substantial increase of approximately 60.8%), while on the other hand the HSHCI had experienced a sustained decline which saw its index value fell from approximately 4,023 to 2,462 during the corresponding period, representing a substantial decrease of approximately 38.8%. The Cancellation Price represents a substantial uplift in shareholders' value as compared to the closing Share prices throughout the entire Review Period, and it also compares favourably against the HSHCI from a relative valuation perspective.

C. Trading liquidity of the Shares

The following table sets out the trading volume of the Shares during the Review Period:

Table 4: Trading volume of the Company

	Total trading volume <i>(No. of Shares)</i>	No. of trading days	Average daily trading volume <i>(No. of Shares)</i>	Average daily trading volume to the total number of Shares in issue <i>(Approximate) (Note 1)</i>	Average daily trading volume to the number of Shares held by public Shareholders <i>(Approximate) (Note 2)</i>
2021					
March	112,349,616	21	5,349,982	0.7892%	3.1555%
April	6,296,950	19	331,418	0.0489%	0.1955%
May	6,865,900	20	343,295	0.0506%	0.2025%
June	6,813,379	21	324,447	0.0479%	0.1914%
July	5,951,974	21	283,427	0.0418%	0.1672%
August	6,283,500	22	285,614	0.0421%	0.1685%
September	6,634,966	21	315,951	0.0466%	0.1864%
October	2,537,000	18	140,944	0.0208%	0.0831%
November	7,112,374	22	323,290	0.0474%	0.1868%
December	5,358,402	22	243,564	0.0357%	0.1408%
2022					
January	4,845,500	21	230,738	0.0339%	0.1333%
February	5,103,000	17	300,176	0.0440%	0.1731%
March	13,462,915	23	585,344	0.0854%	0.3307%
April	6,291,000	18	349,500	0.0510%	0.1974%
May	5,240,000	20	262,000	0.0383%	0.1496%
June	6,961,300	21	331,490	0.0485%	0.1892%
July	4,860,780	20	243,039	0.0356%	0.1387%
August	10,799,500	23	469,543	0.0685%	0.2644%
September	3,800,500	21	180,976	0.0264%	0.1019%
October	14,919,000	20	745,950	0.1087%	0.4199%
November	51,649,000	22	2,347,682	0.3429%	1.3309%
December	403,677,934	20	20,183,897	2.9052%	10.6609%

	Total trading volume <i>(No. of Shares)</i>	No. of trading days	Average daily trading volume <i>(No. of Shares)</i>	Average daily trading volume to the total number of Shares in issue <i>(Approximate)</i> <i>Note 1</i>	Average daily trading volume to the number of Shares held by public Shareholders <i>(Approximate)</i> <i>Note 2</i>
2023					
January	128,441,890	18	7,135,661	1.0276%	3.7763%
February	66,074,331	20	3,303,717	0.4757%	1.8261%
March	67,179,748	23	2,920,859	0.4734%	1.6297%
April	43,786,908	17	2,575,700	0.4166%	1.4265%
May	26,561,366	21	1,264,827	0.2045%	0.7000%
June	22,914,566	21	1,091,170	0.1764%	0.7352%
July	15,881,431	20	794,072	0.1288%	0.5421%
August	27,930,177	23	1,214,356	0.1969%	0.8285%
September	17,844,488	19	939,184	0.1523%	0.6408%
October	21,313,529	20	1,065,676	0.1731%	0.7329%
November	69,372,381	22	3,153,290	0.5115%	2.1560%
December	76,988,567	19	4,052,030	0.6463%	1.8537%
2024					
January	64,661,485	22	2,939,158	0.4686%	1.3434%
February	42,459,944	19	2,234,734	0.3562%	1.0208%
March	51,699,045	12	4,308,254	0.6864%	1.9649%
April	163,153,481	20	8,157,674	1.2974%	3.7005%
May (up to and including the Latest Practicable Date)	33,508,645	13	2,577,588	0.4101%	1.1709%

Source: Website of the Stock Exchange

Notes:

1. The calculation is based on the average of the daily trading volume of the Shares divided by the total number of Shares in issue in the relevant period.
2. The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by the public Shareholders (i.e. Shareholders other than the substantial shareholders of the Company).

As illustrated in the table above, the average daily trading volume for the respective month/period during the Review Period ranged from 140,944 Shares to 20,183,897 Shares, representing: (i) approximately 0.02% to approximately 3.21% of the total number of issued Shares; and (ii) approximately 0.06% to approximately 9.17% of the number of Shares held by public Shareholders. The average daily trading volume during the Review Period was 2,094,100 Shares.

The average daily trading volume during the Pre-announcement Period was 1,923,798 Shares, representing approximately 0.87% of the Shares held by the public Shareholders. The highest daily trading volume was recorded on 8 December 2022, when the trading volume reached over 75.00 million Shares, representing approximately 39.62% of the number of Shares held by the public Shareholders at the time.

On the first trading day after the release of the Announcement on 2 April 2024, the daily trading volume of the Shares increased to approximately 43.2 million Shares from approximately 9.7 million Shares as recorded on the Last Trading Day, representing approximately 19.59% of the number of Shares held by public Shareholders. This increase in the trading volume of the Shares would have been the initial market reaction to the Announcement. Although the trading volume of the Shares was active on 2 April 2024, it plunged significantly to approximately 19.1 million Shares on the next trading day (i.e. 3 April 2024), representing approximately 8.66% of the number of Shares held by public Shareholders. The average daily trading volume during the Post-announcement Period was approximately 5,959,458 Shares, representing: (i) approximately 0.95% of the total number of issued Shares; and (ii) approximately 2.71% of the number of Shares held by the public Shareholders.

Given the thin trading liquidity of the Shares during most of the Review Period, in particular, the Pre-announcement Period, it is uncertain whether there would be sufficient liquidity in the trading of the Shares for the Disinterested Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price. To provide the Disinterested Shareholders some perspective on the implications of thinly traded Shares, given the fact that there were 448,110,959 Scheme Shares in issue as at the Latest Practicable Date and the average daily trading volume during the Review Period was 2,094,100 Shares, it would take the Disinterested Shareholders approximately 214 trading days to liquidate their entire shareholding positions. We therefore consider that the Proposal provides the Disinterested Shareholders, particularly those who hold a large number of Shares, with an assured exit to dispose of all of their Shares at the Cancellation Price if they wish to (subject to the Conditions of the Proposal being satisfied).

The high level of trading volume during the Post-announcement Period resulting from, among others, the Proposal and the Scheme may not be sustainable if the Proposal and the Scheme lapse. The Proposal and the Scheme, therefore, provide an opportunity for the Disinterested Shareholders, especially those holding a large block of the Shares, to dispose of their entire holdings at a fixed cash price.

D. Dividend history

Total dividend per Share for FY2021, FY2022 and FY2023 were HK35 cent, HK39 cent and nil respectively. No interim dividends were declared for HY2021, HY2022 and HY2023. The Company's implied dividend yield based on the Cancellation Price of HK\$18.8 for each Scheme Share and the total dividend of the Company of HK39 cent per Share for FY2022 (being the latest year that Company had paid out dividends) is approximately 2.1%. Given there are other companies whose shares are listed on the Stock Exchange that offer similar or higher dividend yields, Disinterested Shareholders who favour dividend-paying listed issuers that can offer a higher dividend yield and/or dividend growth may consider switching their investments to other listed issuers that offer higher dividend yields. Accordingly, the dividend history of the Company can be considered as a factor in support of the Proposal.

E. Industry Comparables

The Group is principally engaged in developing and commercialising its portfolio with potential in its focused therapeutic areas including oncology and severe infection. Through Bloomberg, we have filtered and identified listed peers of the Company which meet the following selection criteria:

- i. whose shares are listed on the Main Board of Stock Exchange (excluding any dually listed companies in other stock markets);
- ii. which are principally involved in the biotechnology and pharmaceutical industry (excluding those specialising in traditional Chinese medicines);
- iii. which are not pre-revenue Biotech Companies (as defined under Chapter 18A of the Listing Rules) that are yet to be able to meet Rule 8.05 of the Listing Rules and with a stock name that ends with the marker "B";
- iv. which are profit-making in their respective most recent financial year; and
- v. whose market capitalisation were between HK\$5,000 million and HK\$20,000 million as at the Last Practicable Date.

Based on the information extracted from the Bloomberg and the abovementioned selection criteria, we have exhaustively identified nine comparable companies (the “**Industry Comparables**”). After considering that (i) the Industry Comparables are in a comparable industry to that of the Company; (ii) the shares of the Company and the Industry Comparables are both listed on the Main Board of the Stock Exchange; (iii) the number of Industry Comparable is nine, which is a fair sample size large enough to provide statistically distributed results, we consider that the sample to be fair and representative for the purpose of our analysis.

In conducting our analysis, we compared the price-to-sales multiple (“**P/S Multiple**”), price-to-earnings multiple (“**P/E Multiple**”) and price-to-book multiple (“**P/B Multiple**”) of the Company implied by the Cancellation Price against those of the Industry Comparables using the latest publicly available financial information. For the selection of the valuation multiples, given the fact that (i) P/S Multiple is a commonly-used valuation multiple which shows how much investors are willing to pay per dollar of sales; (ii) P/E Multiple is another commonly-used valuation multiple to analyse companies which have a track record of generating profits; and (iii) P/B Multiple is also a commonly-used valuation multiple which provides an indication of how much the company is valued relative to its shareholders’ equity (i.e. assets minus debt), we consider that P/S Multiple, P/E Multiple and P/B Multiple are appropriate valuation multiples for our analysis.

We acknowledge there are no single Industry Comparable which has identical business model, scale of operations, pharmaceutical product mix, research pipeline, outlook and prospects, target markets and capital structure as the Group and we have not conducted any in-depth investigation into the businesses and operations of the Industry Comparables save for the abovementioned selection criteria. We are of the view that the Industry Comparables we selected based on the relevant selection criteria is appropriate to serve as targeted reference for our analysis. Details of the Industry Comparables with their corresponding P/S Multiples, P/E Multiples and P/B Multiples are summarised below:

Table 4: List of Industry Comparables

No.	Name	Stock code	Principal business activities	Revenue from the PRC ^{Note 1}	Market Capitalisation (HK\$' million) ^{Note 2}	P/S Multiple ^{Note 3}	P/E Multiple ^{Note 4}	P/B Multiple ^{Note 5}
1.	China Medical System Holdings Ltd.	867	The company manufactures pharmaceutical and medical products primarily in the PRC.	100%	17,311.0	2.0	6.6	1.0
2.	The United Laboratories International Holdings Limited	3933	The company produces and distributes pharmaceutical products. The company's products include finished products, active pharmaceutical ingredients, intermediates, and capsules.	81.0%	17,734.2	1.2	6.0	1.3
3.	SSY Group Ltd.	2005	The Company researches, develops, manufactures, and sells a wide range of pharmaceutical products. The Company sells non-PVC soft bags, PP plastic bottles, and glass bottle infusions.	89.8%	13,954.5	2.2	10.6	2.0
4.	3SBio Inc.	1530	The company is a biotechnology company located in the PRC. The company focuses on mammalian cell-based biopharmaceuticals in the biotechnology industry. The company also develops, manufactures and markets biopharmaceutical products globally.	97.2%	15,438.4	1.8	9.2	1.0

No.	Name	Stock code	Principal business activities	Revenue from the PRC ^{Note 1}	Market Capitalisation (HK\$' million) ^{Note 2}	P/S Multiple (x) ^{Note 3}	P/E Multiple (x) ^{Note 4}	P/B Multiple (x) ^{Note 5}
5.	Grand Pharmaceutical Group Ltd.	512	The company operates as an international pharmaceutical company. The company develops anti-tumor and cardiovascular emergency pharmaceutical products, cerebro-cardiovascular intervention medical devices, bio-health products, and more.	82.8%	17,818.8	1.7	9.5	1.2
6.	Sincere Pharmaceutical Group Limited	2096	The company operates as a pharmaceutical company. The company develops and sells central nervous system disease drugs, autoimmune disease therapeutic drugs, and other products. The company markets its products primarily throughout the PRC.	100%	14,823.4	2.1	19.1	1.9
7.	Luye Pharma Group Ltd.	2186	The company focuses on the R&D, production, and sales of pharmaceutical drugs for orthopedics, neurology, gastroenterology, and hepatology. The company also sells active ingredients, R&D results, and patents of new drugs, as well as providing research services on a contractual basis.	81.9%	10,344.6	1.5	17.9	0.8
8.	YiChang HEC ChangJiang Pharmaceutical Co., Ltd.	1558	The company develops a variety of drugs. The company develops and sells drugs for anti-virus, metabolic diseases, cardiovascular, and more.	100%	9,204.5	1.3	4.2	1.1

No.	Name	Stock code	Principal business activities	Revenue from the PRC ^{Note 1}	Market Capitalisation (HK\$' million) ^{Note 2}	P/S Multiple (x) ^{Note 3}	P/E Multiple (x) ^{Note 4}	P/B Multiple (x) ^{Note 5}
9.	Shanghai Henlius Biotech, Inc.	2696	The company develops and produces drugs. The company develops and produces monoclonal antibody biosimilar drugs, bio betters, novel monoclonal antibodies, and other drugs.	89.2%	9,782.9	1.7	16.5	4.1
				Maximum		2.2	19.1	4.1
				Minimum		1.2	4.2	0.8
				Average		1.7	11.1	1.6
				Median		1.7	9.5	1.2
	The Proposal	6600		96.7%	11,830.2 <i>Note 6</i>	3.4 <i>Note 7</i>	9.7 <i>Note 8</i>	3.3 <i>Note 9</i>

Sources: Website of the Stock Exchange and Bloomberg

Notes:

1. Revenue from the PRC of the Industry Comparables and that of the Company was sourced from Bloomberg.
2. The market capitalisation is as at the Latest Practicable Date.
3. The P/S Multiples of the Industry Comparables are calculated by dividing their respective market capitalisation as at the Latest Practicable Date as per note 2 above by the most recently published full financial year revenue of the Industry Comparables. Revenue figures reported in RMB are converted into HK\$ based on an exchange rate of HK\$1.0 = RMB0.92 for illustrative purposes.
4. The P/E Multiples of the Industry Comparables are calculated by dividing their respective market capitalisation as at the Latest Practicable Date as per note 2 above by the most recently published full financial year profit attributable to the shareholders of the Industry Comparables. Profit figures reported in RMB are converted into HK\$ based on an exchange rate of HK\$1.0 = RMB0.92 for illustrative purposes.
5. The P/B Multiples of the Industry Comparables are calculated by dividing their respective market capitalisation as at the Latest Practicable Date as per note 2 above by the most recently published NAV attributable to the shareholders of the Industry Comparables. NAV figures reported in RMB are converted into HK\$ based on an exchange rate of HK\$1.0 = RMB0.92 for illustrative purposes.

6. The implied market capitalisation of the Company (the “**Implied Market Value**”) under the Proposal of approximately HK\$11,830.2 million is calculated by multiplying the Cancellation Price of HK\$18.8 per Scheme Share with 629,268,032 issued Shares as at the Latest Practicable Date.
7. The implied P/S Multiple (the “**Implied P/S Multiple**”) of 3.4 times is calculated by dividing the Implied Market Value by the revenue for FY2023 as at 31 December 2023 which was reported in RMB and converted into HK\$ based on an exchange rate of HK\$1.0 = RMB0.92 for illustrative purposes.
8. The implied P/E Multiple (the “**Implied P/E Multiple**”) of 9.7 times is calculated by dividing the Implied Market Value by the profit attributable to the Shareholders for FY2023 which was reported in RMB and converted into HK\$ based on an exchange rate of HK\$1.0 = RMB0.92 for illustrative purposes.
9. The implied P/B Multiple (the “**Implied P/B Multiple**”) of 3.3 times is calculated by dividing the Implied Market Value by the NAV attributable to the Shareholders as at 31 December 2023 which was reported in RMB and converted into HK\$ based on an exchange rate of HK\$1.0 = RMB0.92 for illustrative purposes.

As shown in the table above, the P/S Multiples of the Industry Comparables ranged from approximately 1.2 times to approximately 2.2 times with average and median P/S Multiples of approximately 1.7 times and 1.7 times respectively. The Implied P/S Multiple of 3.4 times is higher than the upper bound of the P/S Multiples of the Industry Comparables and is approximately 100% higher than both the average and median P/S Multiples of the Industry Comparables.

The P/E Multiples of the Industry Comparables ranged from approximately 4.2 times to approximately 19.1 times with average and median P/E Multiples of approximately 11.1 times and 9.5 times respectively. The Implied P/E Multiple of 9.7 times is within the range and is slightly higher than the median P/E Multiple while lower than the average P/E Multiple of the Industry Comparables.

The P/B Multiples of the Industry Comparables ranged from approximately 0.8 times to approximately 4.1 times with average and median P/B Multiples of approximately 1.6 times and 1.2 times respectively. The Implied P/B Multiple of 3.3 times is lower than the upper bound of the P/B Multiples of the Industry Comparables and is approximately 106% and 175% higher than each of the average and median P/B Multiples of the Industry Comparables respectively.

F. Privatisation Comparables

In addition, as a commonly adopted procedure, we have reviewed successful privatisation proposals to identify comparable privatisation transactions (the “**Privatisation Comparables**”) in order to assess the fairness and reasonableness of the Cancellation Price.

After considering that: (i) the Cancellation Price was determined with reference to other privatisation transactions in Hong Kong in recent years; (ii) the Company is listed on the Main Board; and (iii) the Proposal is by way of a scheme of arrangement, we have researched for the Privatisation Comparables: (i) of which the shares of the target company were listed on the Main Board of the Stock Exchange; (ii) which was also conducted by way of a scheme of arrangement; and (iii) which were announced during the period from 1 January 2022 up to and including the Last Trading Day and were successfully privatised on or before the Latest Practicable Date, representing a period more than two years.

Based on the above selection criteria, we have exhaustively identified fifteen Privatisation Comparables. It should be noted that the subject companies in the Privatisation Comparables were involved in industries which are not identical to that of the Company. As such, the analysis should not be considered on an isolated basis but should be taken into account in totality with other factors for considering whether to accept the Proposal. Nevertheless, we are of the view that the Privatisation Comparables would be able to provide us with a fair and representative reference of the recent market pricings of privatisation proposals in the Hong Kong capital market. The table below illustrates the premiums or discounts of the cancellation prices offered by the corresponding offerors in each of the Privatisation Comparables over/to the respective last trading day/unaffected price date and respective last 5, 30, 60, 120 and 180 trading days average share prices in respect of such Privatisation Comparables:

No.	Date of the Rule 3.5 announcement	Company name and stock code	Principal business activities	Premium/(discount) of cancellation price over/to closing share price/average share price on/over					
				Last trading day/unaffected price date	Last 5 trading days	Last 30 trading days	Last 60 trading days	Last 120 trading days	Last 180 trading days
				(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)
1.	14 December 2023	Sinosoft Technology Group Limited (1297)	The company is a provider of application software products and solutions. The company principally develops and markets export tax software and related services, carbon management solutions, e-Government solutions.	29.41%	30.43%	31.13%	22.48%	11.39%	14.23%
2.	6 October 2023	Haitong International Securities Group Limited (665)	The company provides brokerage and retail margin financing, corporate finance, investment management, fixed income, currency and commodities as well as structured financing products and services to domestic and international institutional clients and individual investors.	114.08%	111.11%	126.53%	122.22%	125.19%	110.53%
3.	6 October 2023	Pine Care Group Limited (1989)	The company is an elderly care company in Hong Kong. The company operates care and attention homes for elderly and provides related services.	(1.11%)	0.68%	1.48%	8.94%	29.97%	43.78%
4.	15 September 2023	Lansen Pharmaceutical Holdings Limited (503)	The company is a pharmaceutical holding company. The company's subsidiaries produce and sell rheumatic specialty prescription western pharmaceuticals in the PRC.	26.76%	24.14%	20.00%	15.37%	21.23%	23.29%
5.	1 September 2023	CST Group Limited (985)	The company operates as an investment holding company. The company, through its subsidiaries, engages in e-logistics and mining businesses. The company also offers copper mining services.	61.29%	24.38%	36.61%	(1.38%)	(24.01%)	(33.82%)

No.	Date of the Rule 3.5 announcement	Company name and stock code	Principal business activities	Premium/(discount) of cancellation price over/to closing share price/average share price on/over					
				Last trading day/unaffected price date	Last 5 trading days	Last 30 trading days	Last 60 trading days	Last 120 trading days	Last 180 trading days
				(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)
6.	27 June 2023	Dali Foods Group Company Limited (3799)	The company is a snack food and beverage company. The company is actively expanding its products offering and distributes its products through retailers.	37.87%	36.36%	30.21%	21.75%	14.60%	12.99%
7.	11 June 2023	Mason Group Holdings Limited (273)	The company is a health and wealth solutions conglomerate. The company provides financial services in Hong Kong, including financial brokerage, leveraged and acquisition financing, asset and wealth management and mortgages business. The company provides health solutions through its healthcare business, mother-infant-child business and dairy products business.	20.71%	20.71%	19.15%	16.15%	13.90%	19.18%
8.	28 May 2023	Golden Eagle Retail Group Limited (3308)	The company operates department stores in the PRC. The company's stores target mid-range and high-end market segments in the PRC, and contain various functions and amenities such as dining, entertainment, beauty and personal care, cinemas, and preschool education in addition to their core function as an international department store.	40.41%	62.03%	54.87%	49.61%	49.21%	45.36%

No.	Date of the Rule 3.5 announcement	Company name and stock code	Principal business activities	Premium/(discount) of cancellation price over/to closing share price/average share price on/over					
				Last trading day/unaffected price date	Last 5 trading days	Last 30 trading days	Last 60 trading days	Last 120 trading days	Last 180 trading days
				(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)
9.	21 February 2023	Jiangnan Group Limited (1366)	The company manufactures wires and cables for power transmission, distribution systems and electrical equipment in the PRC. The company's products are used in power and other general industries, including metals and mining, oil and gas, transportation, shipbuilding, construction and others.	12.68%	72.27%	101.44%	99.55%	82.65%	77.48%
10.	17 February 2023	AAG Energy Holdings Limited (2686)	The company is an energy exploration and development company. The company engages in coalbed methane exploration and development.	10.12%	10.38%	10.69%	23.97%	25.74%	26.09%
11.	24 October 2022	Kingston Financial Group Limited (1031.HK)	The company operates entertainment and financial services businesses. The company operates casinos and hotels in Macau, and offers investment banking, securities trading, and financing services.	47.78%	48.37%	39.41%	33.27%	26.64%	10.99%
12.	5 August 2022	Lifestyle International Holdings Limited (1212)	The company operates lifestyle department store and other retail outlets. The company also owns most of the properties at which its department store is situated. At present, the company operates the Sogo store, Nufront, and Daiso Land Ten-dollar Shop in Hong Kong.	62.34%	75.93%	70.11%	58.66%	38.72%	30.01%

No.	Date of the Rule 3.5 announcement	Company name and stock code	Principal business activities	Premium/(discount) of cancellation price over/to closing share price/average share price on/over							
				Last trading day/unaffected price date	Last 5 trading days	Last 30 trading days	Last 60 trading days	Last 120 trading days	Last 180 trading days		
				(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)	(Notes 1 and 2)		
13.	9 June 2022	China VAST Industrial Urban Development Company Limited (6166)	The company focuses on industrial town development businesses in the PRC. The company also develops and invests in residential, commercial, and industrial properties.	30.43%	29.17%	31.39%	36.90%	45.78%	30.66%		
14.	6 May 2022	Yashili International Holdings Ltd. (1230) ("Yashili")	The company produces dairy products. The company operates milk processing plants in Guangdong, Heilongjiang, Shanxi and Henan Provinces in the PRC.	Unaffected price date: 160.87% Last trading day: 30.43%	153.16%	138.49%	134.22%	124.37%	114.65%		
15.	14 January 2022	AKM Industrial Company Limited (1639)	The company manufactures and sells flexible printed circuit, which is used in communication, consumer electrical and electronic appliances such as mobile phones, laptop computers and cameras. The company's products include single-sided, double-sided, and multi-layer flexible printed circuit.	15.19%	22.15%	25.57%	28.44%	50.33%	60.00%		
				Unaffected price date	Maximum	160.87%	153.16%	138.49%	134.22%	125.19%	114.65%
					Minimum	(1.11%)	0.68%	1.48%	(1.38%)	(24.01%)	(33.82%)
					Average	44.59%	48.08%	49.14%	44.68%	42.38%	39.03%
					Median	30.43%	30.43%	31.39%	28.44%	29.97%	30.01%
				Last trading day	Maximum	114.08%	111.11%	126.53%	122.22%	125.19%	110.53%
					Minimum	(1.11%)	0.68%	1.48%	(1.38%)	(24.01%)	(33.82%)
					Average	35.89%	40.14%	42.02%	39.84%	39.95%	37.80%
					Median	30.43%	30.43%	31.39%	28.44%	29.97%	30.01%
	28 March 2024	The Proposal (6600)	The Cancellation Price based on								
			Undisturbed Date	33.90%	36.03%	47.47%	47.93%	58.06%	67.06%		
			Last Trading Day	17.21%	30.81%	45.72%	47.61%	57.34%	66.60%		

Sources: Website of the Stock Exchange and Bloomberg

Notes:

1. Up to and including the last trading day/unaffected price date of the shares (where applicable).
2. Premium/(discount) of cancellation price over/to closing share price/average share price on/over such number of trading days prior to and including the last trading day/unaffected price date.

As shown in the table above, the premiums represented by the Cancellation Price over the Undisturbed Date are all within ranges and generally more favourable than the median premiums of the Privatisation Comparables in all types of comparisons (i.e. last trading day, 5-day, 30-day, 60-day, 120-day and 180-day). However, given the case of Yashili where significant premiums of cancellation price over the relevant unaffected price date and the relevant average share prices were recorded, the overall average premiums of the Privatisation Comparables have been lifted and the premiums represented by the Cancellation Price over the Undisturbed Date are generally more favourable than the average premiums of the Privatisation Comparables for the longer period comparisons (i.e. 60-day, 120-day and 180-day) while compares less favourably with shorter period comparisons (i.e. last trading day and 5-day).

Further, the premiums represented by the Cancellation Price over the Last Trading Day are all within ranges and generally more favourable than both the median and average premiums of the Privatisation Comparables in most types of comparisons (i.e. 30-day, 60-day, 120-day and 180-day, except it lagged behind both the average and median premiums represented by the cancellation prices of the Privatisation Comparables over the respective share prices of the Privatisation Comparables on the last trading day before the announcement).

We consider the premiums represented by the Cancellation Price, especially over the closing Share prices on, and for different periods up to and including, the Undisturbed Date and the Last Trading Day, are generally favourable compared to those of the Privatisation Comparables.

3. Analysis on the Rollover Arrangements

Background and key terms of the Rollover Arrangements

The Offeror proposes that (i) the RSU Trustee will roll over the RSU Trustee Rollover Shares (being 2,001,113 Shares, representing approximately 0.32% of the issued share capital of the Company as at the Latest Practicable Date) and (ii) Convergence will roll over the Shares held by it (being 11,979,690 Shares, representing approximately 1.90% of the issued share capital of the Company as at the Latest Practicable Date), each through Topco after the Scheme becomes effective. Accordingly, the RSU Trustee Rollover Shares and the Shares held by Convergence will not form part of the Scheme Shares. After completion of the Scheme: (i) the RSU Trustee will,

through Topco, hold an indirect interest in the Company following the completion of the transfers of the RSU Trustee Rollover Shares; and (ii) Convergence will, through Topco, hold an indirect interest in the Company following the completion of the transfers of the Shares held by Convergence. The Rollover Arrangements will be terminated if the Scheme lapses or is withdrawn, terminated, rescinded by the Offeror or is finally dismissed, refused or rejected by the Grand Court.

As the Rollover Arrangements are not offered to all Shareholders, the Rollover Arrangements constitute a special deal under Rule 25 of the Takeovers Code and require the Executive's consent. The Offeror has applied for the Executive's consent to the Rollover Arrangements subject to and conditional on, among others, (i) we as the Independent Financial Adviser confirming that the Rollover Arrangements are fair and reasonable so far as the Disinterested Shareholders are concerned; and (ii) the passing of an ordinary resolution by the Disinterested Shareholders at the EGM to approve the Rollover Arrangements. Details of the Rollover Arrangements are set out in the section headed "5. Special Deal Relating to Rollover Arrangements" in the Explanatory Memorandum.

Information on the RSU Trustee and Convergence and rationale for the Rollover Arrangements

The RSU Trustee is a professional trustee corporation appointed by the Company for the administration of the Post-IPO RSU Plan. As at the Latest Practicable Date, the RSU Trustee holds 3,384,023 Shares, amongst which 1,228,450 Shares are to be used to satisfy the share awards granted to directors and employees of the Group, 154,460 Shares are underlying the granted share awards that were lapsed after the date of the Announcement and the remaining 2,001,113 Shares are to be used to satisfy future grants of share awards. Under the terms of the Post-IPO RSU Plan, the RSU Trustee shall not exercise the voting rights in respect of any Shares held under the Post-IPO RSU Plan.

Convergence was set up as a shareholding platform for the core management of the Group for the purpose of building up an incentive mechanism, attracting and cultivating talent, maintaining steady development of the Group and aligning the interests of the core management of the Group with those of the Shareholders. The Offeror is of the view that it is important for Convergence to retain its stake in the Company in order to continue to provide long-term incentives to these core management after completion of the Scheme for alignment with the development of the Group.

We understood from the Management that the reasons for the retention of the Rollover Shareholders, in particular the RSU Trustee and Convergence, as indirect shareholders of the Company after completion of the Scheme, is mainly due to their representation of the long-term incentives for the core management, directors and employees of the Group.

Assessment

To assess whether the Rollover Arrangements are fair and reasonable, we have examined the following principal factors:

(A) Reliance on the beneficiaries of the Rollover Arrangements for the development of the Group after the privatisation

The purposes of the Rollover Arrangements are, among others, to motivate the Rollover Shareholders to continue to serve the Group and to maintain their economic interests in the Group after the implementation of the Scheme so that the Rollover Shareholders will be incentivised to contribute to the future development and growth of the Group. The Rollover Shareholders in question are: (i) the RSU Trustee, being a professional trustee corporation appointed by the Company for the administration of the Post-IPO RSU Plan which holds Shares for satisfying the share awards granted to directors and employees of the Group; and (ii) Convergence, being a shareholding platform for the core management of the Group for the purpose of building up an incentive mechanism, attracting and cultivating talent, maintaining steady development of the Group and aligning the interests of the core management of the Group with those of the Shareholders.

As stated in the section headed “5. Special Deal Relating to Rollover Arrangements” in the Explanatory Memorandum, these core management members are involved in the day-to-day operation of the Group and have extensive operational expertise in R&D, marketing, human resources and business operations and an in-depth understanding of the Group’s business and development. The prospects and future performance of the Group would therefore, to a large extent and among other things, hinge on the capabilities and performance of its core management, directors and employees which are indirectly represented by the relevant Rollover Shareholders. The Rollover Arrangements can provide long-term incentives for the beneficiaries of the Rollover Arrangements to continue contributing to the growth of the Group after the Scheme becomes effective.

In contrast, even if the Disinterested Shareholders were given the opportunity to participate in the Rollover Arrangements (the “**Hypothetical Scenario**”), the participating Disinterested Shareholders may not have the in-depth knowledge of the strategic directions of the Group and would unlikely be able to shape important strategic decisions and to take part in the future development of the Group.

(B) Different risk profiles for the Disinterested Shareholders and the beneficiaries of the Rollover Arrangements

The beneficiaries of the Rollover Arrangements are directors, core management and employees of the Group, who possess expertise in the biopharmaceutical industry and/or are involved in the management and day-to-day operations of the Group. Therefore, they shall be able to fully evaluate, and form an informed view of, the merits and risks of remaining as stakeholders in the Company after the Scheme becomes effective.

On the contrary, in our view, from the perspective of the Disinterested Shareholders, participation in the Rollover Arrangements would involve relatively greater risks. Under the Hypothetical Scenario, after the Scheme becomes effective, the participating Disinterested Shareholders' interests in the Company would no longer be safeguarded by regulations applicable to listed companies on the Stock Exchange that afford minority shareholders protection. In particular, minority shareholder protection requirements under the general principles of the Listing Rules (including the fair and equal treatment of all shareholders), information rights for shareholders under the Listing Rules (such as the release of financial results/reports), the existing shareholder approval requirements under Chapter 14 and Chapter 14A of the Listing Rules regarding notifiable transactions and connected transactions and the anti-dilution requirements under the Listing Rules would no longer apply to the Company so far as the Disinterested Shareholders are concerned. In addition, the Takeovers Code would only remain applicable to the Company should the Company remain a public company in Hong Kong. In the event that the Company ceases to be a public company, for example due to having fewer than 50 members, it would no longer be subject to the Takeovers Code. In that case, the interests of the Disinterested Shareholders would be primarily safeguarded by the constitutional documents of the Company and the Offeror and the Topco, provisions regarding the protection of minority shareholders' rights under the Companies Act and at common law (but not by the Listing Rules and the Takeovers Code).

(C) Investment risks associated with holding the shares of the Topco as a private and illiquid investment

Apart from the risk resulting from the reduced shareholders' protection for the Disinterested Shareholders above, the participating Disinterested Shareholders might also find it difficult to realise their shareholdings in the Topco in the Hypothetical Scenario as no public trading in the shares of the Topco would be available. It could be particularly difficult for individual Disinterested Shareholders to find potential buyers for their shares in Topco through private transactions. In the event of committing to the Hypothetical Scenario, the Disinterested Shareholders would need to forego an imminent and complete exit opportunity whereby they can realise their investment in the Company at the Cancellation Price which represents premiums over

(i) the offer price of HK\$10.06 per Share for the Share Buy-back a year ago, during which scale-down for acceptance applied to tendered Shares; (ii) the average closing Share price seen in the Pre-announcement Period (i.e. HK\$10.36 per Share); and (iii) a range of other closing Share price averages as discussed in this letter above, upon completion of the Scheme. In other words, under the Hypothetical Scenario, the Disinterested Shareholders may be left with the shares of the Topco that are highly illiquid and difficult to dispose of.

DISCUSSION AND ANALYSIS

In respect of the Proposal and the Scheme

From the perspective of the Group's business and financial performance: Cautiously optimistic near-term business prospects coupled with uncertain future diversification efforts

The Group has achieved steady development since the IPO in March 2021 and demonstrated resilient growth in FY2023 despite the complex and challenging macro-environment. In FY2023, the Group's total revenue was approximately RMB3,155.6 million, representing an increase of approximately 14.8% as compared to the total revenue of approximately RMB2,749.7 million for FY2022. The growing historical financial performance of the Group during FY2023 when compared to that of FY2022 was largely due to the increased sales recorded for the Group's proprietary product Zadaxin. With increased prevalence in infectious diseases in 2023, there was an uptick in demand for Zadaxin. The expansion of clinical adoptions through product life-cycle management, the strengthened public perception of Zadaxin during the Pandemic period, the increased recognition of clinical benefits from physicians and the upgrade of the online healthcare service through GTP model, facilitated the continued growth of Zadaxin during FY2023. Owing to the growing revenue and to a certain extent significant positive fluctuation in the Group's other income, other losses and net finance income/costs, the Group's profit attributable to the Shareholders increased by approximately 31.2% from approximately RMB855.4 million for FY2022 to approximately RMB1,121.9 million for FY2023. Excluding one-off change in fair value and impairment losses, core net profit of the Group for FY2023 was approximately RMB1,236.9 million, up by approximately 19.5% compared to that of FY2022. Between FY2021 and FY2023, the Group's core net profit achieved a compound annual growth rate of approximately 12.3%. Given that approximately 83.4% of the Group's revenue for FY2023 was contributed by the Group's proprietary product Zadaxin, as disclosed in the section headed "9. Reasons for and benefits of the Proposal" in the Explanatory Memorandum and briefly outlined by the Company in the 2023 Annual Report, the Company will be pursuing a strategic transformation amid the challenging external environment and the Group is committed to accelerating product pipeline and bolstering its R&D capabilities, and it expects to continue to devote more resources on this front in the future. For more details of the strategic transformation and the Group's product development

and R&D expansion plans, please refer to the sub-paragraph headed “Product development” and paragraph headed “A. Business of the Group” under the section headed “1. Business information, financial performance and prospects of the Group” in this letter above.

Taking into account the historical financial performance of the Group and the product development and R&D expansion plans discussed above, the Management considers, and we concur, that the near-term business prospects of the Group are cautiously optimistic, although the future financial performance cannot be ascertained now with certainty. However, Disinterested Shareholders should be aware that, although (i) the Group has achieved steady development since its IPO in 2021; (ii) the Company’s prospects from the sale of its proprietary product Zadaxin is generally positive; and (iii) the Group’s product development and R&D expansion plans may fuel the future growth of the Group which may in turn contribute to the future value of the Group, from the perspective of Group’s product development and R&D expansion plans: (i) the trial outcome of the Group’s clinical-stage product candidates is uncertain and the success of these products is subject to significant risks; (ii) significant R&D costs will be incurred; (iii) even if the clinical trials of the Group’s clinical-stage product candidates are successful, such successful clinical trials will not guarantee commercial success and may not translate into higher profits or market capitalisation/valuation of the Company; (iv) acquisition(s) of innovative product(s) and/or license(s) of new pipeline drug candidate(s) can be costly and significant time and resources will be required with or without any certainty on guaranteed investment pay-backs and/or returns; and (v) the Company’s shareholder value may be adversely affected in the short- to medium-term. Therefore, the possible effects of the implementation of the Group’s product development and R&D expansion plans on the future value of the Group cannot be ascertained now with certainty.

From the perspective of the trading of the Shares: Generally low Share prices as compared to the Cancellation Price coupled with generally low trading liquidity

The Share price of the Company was generally low, as compared to the Cancellation Price of HK\$18.8, during the Review Period. Except that on the Listing Date, the Share price has never attained the price level at par with the Cancellation Price (and also the offer price of the IPO). The Cancellation Price represents a substantial uplift in shareholder value compared to the average closing Share price seen in the Pre-announcement Period (i.e. HK\$10.36 per Share), and it also compares favourably against the HSHCI from a relative valuation perspective. The Cancellation Price also represents a significant premium over the offer price of the Share Buy-back by approximately 86.9%. We believe the price hike of the Shares since the Undisturbed Date is a result of the announcement of the Proposal and should the Proposal lapses, such price hike is unlikely to be sustained. Disinterested Shareholders should note that there is no assurance that the Share price will remain at the current level if the Proposal and the Scheme lapse.

In our view, the trading liquidity of the Shares has been thin. From the Disinterested Shareholders' perspective, in particular those holding large blocks of the Shares, the Cancellation Price will provide a good opportunity if the Scheme is approved so that the Disinterested Shareholders can realise their holdings through a cash exit which would not normally be available through the market. Otherwise, it would take the Disinterested Shareholders a prolonged period of time to liquidate their entire shareholding positions.

From the perspective of relative market values: The Cancellation Price compares favourably against market peers and successful privatisation precedents generally

The Implied P/S Multiple implied by the Cancellation Price is higher than the upper bound and is significantly higher than the average and median P/S Multiples of the Industry Comparables. The P/E Multiple implied by the Cancellation Price is within the range of P/E Multiples and generally in line with the average and median P/E Multiples of the Industry Comparables. The P/B Multiple implied by the Cancellation Price is within the range of P/B Multiples and is significantly higher than the average and median P/B Multiples of the Industry Comparables.

While the business nature and scale of companies in the Privatisation Comparables vary, the Privatisation Comparables provide, in our view, a comparison between the cancellation price and the then market prices of successful privatisation proposals. We consider the premiums represented by the Cancellation Price, especially over the closing Share prices on, and for different periods up to and including, the Undisturbed Date and the Last Trading Day, are generally favourable compared to those of the Privatisation Comparables.

In respect of the Option Offer

As at the Latest Practicable Date, there are (i) 36,737,842 Share Options (all of which are vested) granted under the Option Incentive Plan, comprising (a) 20,400,842 Share Options entitling the holders to subscribe for 20,400,842 new Shares and (b) 16,337,000 Share Options entitling the holders to receive 16,337,000 existing Shares from the Option Trustee; and (ii) 30,785,690 Share Options (21,761,890 of which are vested) granted under the Post-IPO Option Plan entitling the holders to subscribe for 30,785,690 new Shares. The Company will not grant any further Share Options under the Option Incentive Plan or the Post-IPO Option Plan before the Long Stop Date or the lapse, withdrawal or termination of the Scheme (whichever is earlier). The exercise of all the Subject Share Options in full would result in the issue of 51,186,532 new Shares, representing approximately 8.13% of the issued share capital of the Company as at the Latest Practicable Date and approximately 7.52% of the issued share capital of the Company as enlarged by the issue of such new Shares. Acceptance of the Option Offer by the Optionholders will result in the cancellation of those outstanding Subject Share Options, together with all rights attaching thereto.

For assessing the terms of the Option Offer, we recognise that it is a common market practice to adopt a “see-through” price as the minimum cancellation price for any convertible instrument in conjunction with a general offer/privatisation proposal for ordinary shares. We consider such basis of determining the Option Offer Price to be acceptable. We note from the Option Offer Schedule that under the Option Offer, the Offeror is offering the Optionholders the corresponding “see-through” prices for the relevant Subject Share Options depending on the relevant exercise prices per Subject Share Option held by the Optionholders.

Given our view that the Proposal is fair and reasonable, and we also consider the terms of the Option Offer, in particular the Option Offer Price is based on the “see-through” principle and premised on the Cancellation Price, which is normally adopted in Hong Kong for option offers, are fair and reasonable so far as the Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend the Optionholders to accept the Option Offer.

Any Share Options granted under the Option Incentive Plan or the Post-IPO Option Plan that are not exercised or (if applicable) cancelled pursuant to the acceptance of the Option Offer (other than, in respect of Share Options granted under the Option Incentive Plan, the right to receive payment of the “see-through” price from the Option Trustee) will automatically lapse upon the Scheme becoming effective.

In respect of the Rollover Arrangements

The Proposal will be conditional upon the fulfilment or waiver (as applicable) of the Conditions which include, among others, Condition (f). Considering that, among others, (i) under the Hypothetical Scenario, the Disinterested Shareholders may not enjoy the same kind of minority protections which are applicable to companies listed on the Stock Exchange under the Listing Rules and Takeovers Code; (ii) the retention of the shares in Topco by the Disinterested Shareholders as a private investment would arguably not represent a sound investment decision and would inevitably expose them to future investment risks; (iii) the Disinterested Shareholders under the Hypothetical Scenario would likely not have the in-depth knowledge of the strategic directions of the Group and would likely not be able to shape important strategic decisions and to take part in the future development of the Group; and (iv) should they approve the Scheme at the Court Meeting, the Disinterested Shareholders are offered an opportunity to realise their holdings for an imminent pay-out at premiums over market, whereas the Rollover Shareholders will not be enjoying the same kind of imminent pay-out under the Scheme, such that we are of the view that the Rollover Arrangements are fair and reasonable. After taking into account the above considerations, we are of the view that the Rollover Arrangements are fair and reasonable so far as the Disinterested Shareholders are concerned.

Disinterested Shareholders should note that the effectiveness of the Scheme is subject to the implementation of the Scheme, which in turn is conditional upon, among others, the approval by the Disinterested Shareholders of the Rollover Arrangements as a special deal at the EGM and the consent from the Executive to the Rollover Arrangements, otherwise the Proposal will not be implemented, and the Scheme will not become effective.

OPINION AND RECOMMENDATION

Based on the above principal factors and reasons, we consider the terms of the Proposal, the Scheme and the Rollover Arrangements are fair and reasonable so far as the Disinterested Shareholders and the terms of the Option Offer are fair and reasonable so far as the Optionholders are concerned. Accordingly, we recommend the Independent Board Committee to recommend:

- (1) at the Court Meeting, the Disinterested Shareholders to vote in favour of the resolution to approve the Scheme; and
- (2) at the EGM:
 - (i) the Shareholders to vote in favour of the special resolution to: (i) approve and give effect to any reduction of the share capital of the Company as a result of the cancellation and extinguishment of the Scheme Shares; and (ii) contemporaneously therewith maintain the issued share capital of the Company at the amount prior to the cancellation of the Scheme Shares by applying the reserve created as a result of the aforesaid cancellation of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled as a result of the Scheme, credited as fully paid, for issuance to the Offeror; and
 - (ii) the Disinterested Shareholders to vote in favour of the ordinary resolution to approve the Rollover Arrangements which constitutes a special deal under Rule 25 of the Takeovers Code; and
- (3) the Optionholders to accept the Option Offer.

OTHER REMINDERS

Although it is noted that the Shares have been traded below the Cancellation Price since the Last Trading Day and up to the Latest Practicable Date, there is still possibility that the Share price may nevertheless exceed the Cancellation Price by 19 June 2024, being the date of the Court Meeting and the EGM. Accordingly, the Disinterested Shareholders and the Optionholders are reminded to closely monitor the trading price and liquidity of the Shares during the period up to

19 June 2024, being the date of the Court Meeting and the EGM and should, having regard to their own circumstances, for the Disinterested Shareholders, consider selling their Shares in the open market and, for the Optionholders, exercising their vested Subject Share Options and selling their Shares to be issued upon such exercise in the open market instead of accepting the Option Offer, respectively, if the net proceeds obtained from such disposal of the Shares (after deducting all transaction costs) would be higher than the net proceeds expected to be received under the Scheme and from accepting the Option Offer respectively. However, the Optionholders are reminded that there will be a time lag between the exercise of the Subject Share Options and the receipt of the Shares to be issued upon such exercise due to the time required for the administrative procedures for exercising the Subject Share Options. Accordingly, the Optionholders who wish to exercise their Subject Share Options should be mindful of the possible price fluctuations of the Shares during the aforesaid time lag.

Further details regarding the procedures of the Proposal and the Scheme are set out in the Explanatory Memorandum. Disinterested Shareholders are urged to act according to the timetable set out in the Scheme Document if they wish to qualify for entitlements under the Scheme.

Yours faithfully,
For and on behalf of
Opus Capital Limited



Cheung On Kit Andrew
Executive Director

Mr. Cheung On Kit Andrew is an Executive Director of Opus Capital and is licensed under the SFO as a Responsible Officer to conduct Type 6 (advising on corporate finance) regulated activity. Mr. Cheung has over 16 years of corporate finance experience in Asia Pacific and has participated in and completed various financial advisory and independent financial advisory transactions.

* *For identification purpose only*