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RAINBOW CAPITAL (HK) LIMITED
浤 博 資 本 有 限 公 司

23 December 2024

To the Independent Board Committee of Shanghai Henlius Biotech, Inc.

Shanghai Henlius Biotech, Inc.
11th Floor, B8 Building
188 Yizhou Road
Xuhui District
Shanghai, PRC

Dear Sir or Madam,

(1) PROPOSED PRIVATISATION OF HENLIUS BY FOSUN NEW MEDICINE BY WAY OF MERGER BY ABSORPTION OF HENLIUS AND (2) PROPOSED WITHDRAWAL OF LISTING OF THE H SHARES OF HENLIUS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent H Shareholders in respect of the Merger, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the composite document dated 23 December 2024 jointly issued by the Company and the Offeror (the "**Composite Document**"), of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meaning as those defined in the Composite Document.

On 24 June 2024, the Offeror and the Company entered into the Merger Agreement pursuant to which the Offeror and the Company have agreed to implement the Merger subject to the terms and conditions of the Merger Agreement, including the Pre-Conditions and the Conditions. After completion of the Merger, the Company will be merged into and absorbed by the Offeror in accordance with the PRC Company Law and other applicable PRC Laws.

On 23 August 2024, the Offeror and the Company entered into the Supplemental Merger Agreement pursuant to which the Offeror has exercised the right to offer the Share Alternative, as an alternative settlement method for the Merger.

Pursuant to the Merger Agreement and the Supplemental Merger Agreement, conditional upon the fulfilment (or waiver, as applicable) of the Pre-Conditions and the Conditions, a Shareholder (other than Fosun Pharma Industrial Development and Fosun Industrial) may, in exchange of its Shares, elect (i) the Cash Alternative on the following basis that the Offeror will pay in cash the Cancellation Price in the amount of: (a) HK$24.60 per H Share to the H Shareholders (other than Fosun Industrial) for the cancellation of the H Shares; and (b) RMB22.444794 per Unlisted Share, which is equivalent to the Cancellation Price of each H Share based on the Exchange Rate, to the Unlisted Shareholders (other than the Offeror and Fosun Pharma Industrial Development), for the cancellation of the Unlisted Shares; or (ii) the Share Alternative on the following basis that the Hong Kong Rollover Entity and the PRC Rollover Entity will issue respectively (a) one Hong Kong Rollover Share per H Share; (b) one PRC Rollover Share per Unlisted Share; and (c) upon issuance of the Hong Kong Rollover Shares or PRC Rollover Shares (as the case may be), the Offeror will issue new shares in its share capital to the Hong Kong Rollover Entity or PRC Rollover Entity (as the case may be) on the basis of each 0.233108 shares in the Offeror's share capital for each Share to be cancelled (or 1 share in the Offeror's share capital for each 4.289864016 Shares to be cancelled). The Share Alternative is subject to the Share Alternative Cap. The cancellation of the 25,393,818 Unlisted Shares and 32,331,100 H Shares respectively held by Fosun Pharma Industrial Development and Fosun Industrial is to be settled by the issuance of the Offeror's shares to them on the basis of each share in the share capital of the Offeror issued for the cancellation of each 4.289864016 Shares as held by them upon completion of the Merger.

After completion of the Merger, the Offeror will assume all assets, liabilities, interests, businesses, employees, contracts and all other rights and obligations of the Company from the Implementation Date and the Company will be eventually deregistered in the PRC.

As at the Latest Practicable Date, the Pre-Conditions have been fulfilled.

The Independent Board Committee consisting of all of the independent non-executive Directors, being Mr. So Tak Young, Dr. Chan Lik Yuen, Dr. Zhao Guoping and Dr. Song Ruilin, has been established by the Board to advise the Independent H Shareholders as to: (i) whether the terms of the Merger are fair and reasonable for the purpose of the Takeovers Code; (ii) whether to vote in favour of the Merger at the EGM and the H Shareholders' Class Meeting; and (iii) whether to elect the Cash Alternative or the Share Alternative. None of the Company's non-executive Directors form part of the Independent Board Committee as (i) Mr. Chen Qiyu, Mr. Wu Yifang, Ms. Guan Xiaohui and Mr. Wen Deyong are directors of Fosun Pharma, and (ii) Dr. Wang Xingli is a member of the senior management of the Fosun Pharma Group (apart from the Group). We, Rainbow Capital (HK) Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent H Shareholders in connection with the Merger and such appointment has been approved by the Independent Board Committee in accordance with Rule 2.1 of the Takeovers Code.

We are not associated with the Company, the Offeror, the Offeror Concert Parties, or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. We have acted as the independent financial adviser to the independent board committee and the independent H shareholders of the Company in relation to (i) the connected transaction and continuing connected transactions in relation to the amendment to the license agreement, details of which are set out in the circular of the Company dated 11 August 2023; and (ii) the continuing connected transaction in relation to collaboration arrangements under the HLX01 agreement and HLX03 agreement, details of which are set out in the circular of the Company dated 5 December 2024. Saved as disclosed above, there has been no other engagement between the Group and us in the last two years. Apart from normal professional fees paid or payable to us in connection with this engagement, no other arrangement exists whereby we will receive any fees or benefits from the Company, the Offeror, the Offeror Concert Parties, or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give an independent advice to the Independent Board Committee and the Independent H Shareholders in respect of the Merger.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied on (i) the information and facts contained or referred to in the Initial Joint Announcement, the Second Joint Announcement and the Composite Document; (ii) the annual reports of the Company for the two years ended 31 December 2022 (the "**2022 Annual Report**") and 31 December 2023 (the "**2023 Annual Report**"), respectively, and the interim report of the Company for the six months ended 30 June 2024 (the "**2024 Interim Report**"); (iii) the information supplied by the Directors and the management of the Group; (iv) the Merger Agreement and the Supplemental Merger Agreement; and (v) our review of the relevant public information. We have assumed that all the information provided and representations and opinions expressed to us or contained or referred to in the Composite Document were true and accurate in all material respects as at the date thereof and may be relied upon. We have also assumed that all statements contained and representations made or referred to in the Composite Document are true at the time they were made and continue to be true as at the Latest Practicable Date and all such statements of belief, opinions and intentions of the Directors and the management of the Group and those as set out or referred to in the Composite Document were reasonably made after due and careful enquiry. We have no reason to doubt the truth and accuracy of such information and representations provided to us by the Directors and the management of the Group. We have also sought and received confirmation from the Directors that no material facts have been withheld or omitted from the information provided and referred to in the Composite Document and that all information or representations provided to us by the Directors and the management of the Group are true and accurate in all material respects and not misleading in any material respect at the time they were made and continue to be so until the Latest Practicable Date.

Shareholders will be informed by the Group and us as soon as possible in accordance with Rule 9.1 of the Takeovers Code if there is any material change to the information disclosed in the Composite Document (including the content of this letter) during the Offer Period, in which case we will consider whether it is necessary to revise our opinion and inform the Independent Board Committee and the Independent H Shareholders accordingly.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Composite Document so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided, representations made or opinion expressed by the Directors and the management of the Group, nor have we conducted any form of independent in-depth investigation into the business, affairs, operations, financial position or future prospects of the Group, the Offeror, the Offeror Concert Parties or any of their respective subsidiaries and associates.

PRINCIPAL TERMS AND CONDITIONS OF THE MERGER

Details of the terms of the Merger are set out in the Letter from the Board. The relevant extracts are reproduced below for your reference.

1. Principal terms of the Merger

Pursuant to the Merger Agreement and the Supplemental Merger Agreement, conditional upon the fulfilment (or waiver, as applicable) of the Pre-Conditions and the Conditions, a Shareholder (other than Fosun Pharma Industrial Development and Fosun Industrial) may, in exchange of its Shares, elect:

(i) the Cash Alternative on the following basis that the Offeror will pay in cash the Cancellation Price in the amount of: (a) HK$24.60 per H Share to the H Shareholders (other than Fosun Industrial) for the cancellation of the H Shares; and (b) RMB22.444794 per Unlisted Share, which is equivalent to the Cancellation Price of each H Share based on the Exchange Rate, to the Unlisted Shareholders (other than the Offeror and Fosun Pharma Industrial Development), for the cancellation of the Unlisted Shares; or

(ii) the Share Alternative on the following basis that the Hong Kong Rollover Entity and the PRC Rollover Entity will issue respectively (a) one Hong Kong Rollover Share per H Share; (b) one PRC Rollover Share per Unlisted Share; and (c) upon issuance of the Hong Kong Rollover Shares or PRC Rollover Shares (as the case may be), the Offeror will issue new shares in its share capital to the Hong Kong Rollover Entity or PRC Rollover Entity (as the case may be) on the basis of each 0.233108 shares in the Offeror's share capital for each Share to be cancelled (or 1 share in the Offeror's share capital for each 4.289864016 Shares to be cancelled). The Share Alternative is subject to the Share Alternative Cap (being 43,479,588 Shares, representing 8% of the total number of issued Share in the Company as at the Second Joint Announcement Date).

The Shareholders (other than Fosun Pharma Industrial Development and Fosun Industrial) may elect the Cash Alternative or (subject to the Share Alternative Cap) the Share Alternative as the form of Cancellation Consideration in respect of their entire holdings of Shares (but not, for the avoidance of doubt, a combination of the two). Shareholders who do not make any election or whose elections are invalid will receive the Cash Alternative. The Offeror will take reasonable steps to put in place measures so that a Shareholder (other than Fosun Pharma Industrial Development and Fosun Industrial) is only able to elect one settlement method, i.e. the Cash Alternative or the Share Alternative (but not both).

The cancellation of the 25,393,818 Unlisted Shares and 32,331,100 H Shares respectively held by Fosun Pharma Industrial Development and Fosun Industrial is to be settled by the issuance of the Offeror's shares to them on the basis of each share in the share capital of the Offeror issued for the cancellation of each 4.289864016 Shares as held by them upon completion of the Merger.

The Cancellation Price will not be increased and the Offeror does not reserve the right to do so.

As at the Latest Practicable Date, the Company has not declared any dividend that has not been paid, and has no intention to declare, make or pay any dividend to the Shareholders between the date of the Composite Document and the date on which the Merger becomes effective pursuant to the terms of the Merger Agreement and the Supplemental Merger Agreement, or lapses (as the case may be).

2. Pre-Conditions and Conditions

The implementation of the Merger will be subject to the fulfilment (or waiver, as applicable) of the Pre-Conditions and the Conditions. As at the Latest Practicable Date, the Pre-Conditions have been fulfilled. Details of the Pre-Conditions and the Conditions are set out in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT AND THE SUPPLEMENTAL MERGER AGREEMENT" in the Letter from the Board.

As at the Latest Practicable Date, none of the Conditions to effectiveness and Conditions to implementation had been satisfied or (if applicable) waived. Upon satisfaction of all the Conditions to effectiveness, the Company does not intend to retain its listing on the Stock Exchange and will apply to the Stock Exchange for voluntary withdrawal of the listing of the H Shares from the Stock Exchange pursuant to Rule 6.15(2) of the Listing Rules.

3. Right of a Dissenting Shareholder

According to the Articles, any Dissenting Shareholder may request the Company and/or the Consenting Shareholders to acquire its Shares at a "fair price". If any Dissenting Shareholder exercises its right, the Offeror (if so elected by the Company and/or the Consenting Shareholders) will assume the obligation which the Company and/or the Consenting Shareholders may have towards such Dissenting Shareholder to acquire the Shares held by such Dissenting Shareholder at a "fair price" and the Offeror may liaise with such Dissenting Shareholder in relation to the same, and the Dissenting Shareholder must refund the Cancellation Price received (if any) to the Offeror in order to be entitled to exercise such right. Details of the right of a Dissenting Shareholder are set out in the section headed "3. PRINCIPAL TERMS OF THE MERGER AGREEMENT AND THE SUPPLEMENTAL MERGER AGREEMENT" in the Letter from the Board.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Merger, we have taken into account the following principal factors and reasons:

1. Background information of the Group

The Group is principally engaged in (i) research and development, production and sale of monoclonal antibody (mAb) drugs and the provision of related technical services (except for the development and application of human stem cells, genetic diagnosis and therapy technology) and (ii) the transfer of its own technology and the provision of the related technology consultation services. The H Shares have been listed on the Main Board of the Stock Exchange by way of initial public offering on 25 September 2019 (the "**IPO**").

As at 30 June 2024, 5 products (23 indications) of the Group have been successfully marketed in Mainland China, and 3 products have been successfully approved for marketing in Europe, the United States, Canada, Australia, Indonesia and other countries/regions, benefiting patients worldwide. In addition, the Group has a total of more than 50 molecules in its pipeline and 14 R&D platforms, with the forms of drug covering monoclonal antibody, bispecific antibody, ADC, recombinant protein and small molecule-drug conjugates, etc., and has conducted over 30 clinical studies worldwide.

Set out below are the brief descriptions of the principal activities of the Group for the two years ended 31 December 2023 ("**FY2022**" and "**FY2023**", respectively) and the six months ended 30 June 2024 ("**6M2024**"). The revenue of the Group for FY2022, FY2023 and 6M2024 were substantially generated from (i) the sales of biopharmaceutical products; (ii) the provision of research and development services; and (iii) licensing revenue.

(i) *Sales of biopharmaceutical products*

The Group's primary business is the sale of biopharmaceutical products, which contributed to approximately 83.2%, 84.4% and 90.3% of its total revenue for FY2022, FY2023 and 6M2024, respectively.

Since its inception in 2010, the Group has established, and continued to expand, a comprehensive product pipeline of both biosimilars and bio-innovative drugs. Through the Group's efficient and innovative in-house capabilities, as at 30 June 2024, the Group has commercialised 5 products and developed a diversified, advanced and high-quality pipeline with a focus on oncology and autoimmune diseases. Details of the Group's existing 5 commercially available products are set out below:

(a) HANQUYOU (trastuzumab for injection, European trade name: Zercepac®, US trade name: HERCESSI™) is a therapeutic product for breast cancer and gastric cancer and is commercially available in the domestic market in Mainland China since 2020. It is the core product of the Group in the field of anti-tumour therapy, the first domestic trastuzumab approved for marketing independently developed by the Group, and the first product sold and promoted by the Group's in-house commercialisation team in Mainland China. Since the marketing of HANQUYOU, its efficient market and access provided a strong foundation for the sales growth of HANQUYOU, the flexible dose portfolio of 150mg and 60mg also brings personalised and more economical treatment options for patients with different weight ranges. For oversea markets, Zercepac® was approved by the European Commission for marketing in the EU in July 2020 and HERCESSI™ was approved by the United States Food and Drug Administration (FDA) for marketing in the United States in April 2024. Since then, HANQUYOU has become a monoclonal antibody biosimilar drug approved in Mainland China, Europe, and the United States. With its high international quality standards, HANQUYOU has been approved for marketing in a cumulative total of 48 countries and regions (including the United States, the United Kingdom, Germany, Spain, France, Italy, Switzerland, Australia, Singapore, Argentina, Brazil, Canada, etc.). Furthermore, the Group successfully cooperated with internationally renowned biomedicine enterprises to fully boost market share in Europe, the United States, Canada, and other regions, as well as many emerging markets at country level, covering approximately 100 countries/regions around the world. During FY2023, the Group recorded sales revenue of approximately RMB2,644.4 million attributable to HANQUYOU, representing a rapid increase of approximately RMB950.0 million or approximately 56.1% as compared to FY2022. In addition, Zercepac® recorded revenue of approximately RMB69.5 million and drug substance of trastuzumab recorded sales revenue of approximately RMB23.1 million in international market during FY2023. During 6M2024, the Group recorded sales revenue of approximately RMB1,406.2 million attributable to HANQUYOU and approximately RMB68.2 million attributable to Zercepac®.

(b) HANSIZHUANG (serplulimab injection) is the first self-developed and approved bio-innovative drug of the Group and is commercially available in the domestic market in Mainland China since 2022. In Mainland China, HANSIZHUANG's approved indications include locally advanced or metastatic squamous non-small cell lung cancer (sqNSCLC), extensive-stage small cell lung cancer (ES-SCLC) and PD-L1 positive, unresectable locally advanced/recurrent or metastatic esophageal squamous cell carcinoma (ESCC), etc. It has become the first monoclonal antibody drug targeting PD-1 approved for first-line treatment of ES-SCLC around the world, and its differentiated advantages of focusing on small cell lung cancer are uniquely competitive in the PD-1 market. As at 31 December 2023, HANSIZHUANG has completed the tendering process on the procurement platform in all provinces in Mainland China. With its excellent efficacy and data quality, HANSIZHUANG has also been widely acknowledged in the international market, further benefiting patients worldwide. As its licenses-out covering the United States, Europe, Southeast Asia, the Middle East and North Africa and India, the international commercialisation of HANSIZHUANG has been carried out in an orderly manner. After being approved for marketing in Indonesia in December 2023, HANSIZHUANG was also approved for marketing in Cambodia in April 2024 and Thailand in July 2024 for the treatment of ES-SCLC, continuously expanding its international presence. During FY2023, the Group recorded sales revenue of approximately RMB1,119.8 million attributable to HANSIZHUANG, representing a dramatic increase of approximately RMB780.7 million or approximately 230.2% as compared to FY2022. During 6M2024, the Group recorded sales revenue of approximately RMB676.9 million attributable to HANSIZHUANG.

(c) HANLIKANG (rituximab injection) is a rituximab biosimilar independently developed by the Group and is commercially available in the domestic market in Mainland China since 2019. As the first monoclonal antibody drug approved for marketing under the Guidelines for the R&D and Evaluation of Biosimilars (Trial) (《生物類似藥研發與評價技術指導原則(試行)》) in China in 2019, HANLIKANG has benefited over 260,000 patients in total in Mainland China to date. In May 2024, HANLIKANG (Peruvian trade name: AUDEXA®) received approval for marketing from the Peruvian General Directorate of Medicines, Supplies and Drugs (DIGEMID), becoming the third self-developed and manufactured product of the Group to be approved for overseas marketing after HANQUYOU and HANSIZHUANG. A subsidiary of Fosun Pharma was responsible for the domestic commercial sale of HANLIKANG. During FY2023, the Group recorded sales revenue of approximately RMB518.6 million attributable to HANLIKANG, and licensing income of approximately RMB21.9 million attributable to HANLIKANG under the profit-sharing arrangement with the Group's partners. During 6M2024, the Group recorded sales revenue of approximately RMB227.0 million attributable to HANLIKANG, and licensing income of approximately RMB11.0 million attributable to HANLIKANG under the profit-sharing arrangement with the Group's partners.

(d) HANDAYUAN (adalimumab injection) is the Group's third product marketed in Mainland China and has been approved for all eight indications of originator adalimumab for domestic marketing, including rheumatoid arthritis, ankylosing spondylitis, psoriasis, uveitis, polyarticular juvenile idiopathic arthritis, pediatric plaque psoriasis, Crohn's disease and pediatric Crohn's disease. It is commercially available in the domestic market in Mainland China since 2020. A subsidiary of Fosun Pharma was responsible for the domestic commercial sale of HANDAYUAN. During FY2023, the Group recorded sales revenue of approximately RMB58.6 million attributable to HANDAYUAN under the profit-sharing arrangement with the Group's partners. During 6M2024, the Group recorded sales revenue of approximately RMB13.6 million attributable to HANDAYUAN under the profit-sharing arrangement with the Group's partners.

(e) HANBEITAI (bevacizumab injection) is the fourth biosimilar product of the Group approved for marketing in Mainland China and commercialised by the Group's in-house team. It is commercially available in the domestic market since 2023 and mainly used for the treatment of metastatic colorectal cancer, advanced, metastatic or recurrent non-small cell lung cancer, recurrent glioblastoma, cervical cancer, as well as indications of epithelial ovarian cancer, fallopian tube cancer or primary peritoneal cancer. As at 30

June 2024, HANBEITAI has fully covered the provinces adopting dual-channel medical insurance payment and successfully advanced towards the established commercialisation goals. During FY2023, the Group recorded sales revenue of approximately RMB119.4 million attributable to HANBEITAI. During 6M2024, the Group recorded sales revenue of approximately RMB86.7 million attributable to HANBEITAI.

(ii) ***Research and development services***

For FY2022, FY2023 and 6M2024, the Group's revenue from research and development services accounted for approximately 10.1%, 13.0% and 9.1% of its total revenue, respectively.

Since its establishment, the Group has adhered to an international vision and focused on clinical needs. While deepening the differentiated innovation strategy, the Group has gradually established an international standard quality control system and accumulated extensive experience in international registration in large-scale international multi-centre phase 3 clinical trials. With the continuous implementation of the internationalization and innovation strategy, the Group's influence in the international market is growing, the number and overall amount of licensed-out projects are constantly expanding.

For FY2023, the Group's revenue from research and development services primarily generated from (a) its co-development and commercialisation agreement entered with PT Kalbe Genexine Biologics in September 2019 in relation to HANSIZHUANG; (b) its co-development and exclusive license agreement entered with Essex Bio-Investment Limited and Zhuhai Essex Bio-Pharmaceutical Co., Ltd.* (珠海億勝生物製藥有限公司) in October 2020 in relation to HLX04-O (recombinant humanised anti-VEGF monoclonal antibody injection); (c) its license and supply agreement entered with Organon LLC in June 2022 with respect to the exclusive right to commercialise HLX11 (recombinant anti-HER2 domain II humanised monoclonal antibody injection) and HLX14 (recombinant anti-RANKL human monoclonal antibody injection) worldwide except for China; (d) its license agreement entered with Fosun Pharma Industrial Development in November 2022 with respect to the exclusive commercialisation of HANSIZHUANG in the United States; (e) its technical service contract entered with Shanghai Zhenge Biotech Co., Ltd.* (上海臻格生物技術有限公司) in February 2022 in relation to the study and production of freeze-dried formulation at investigational new drug stage, an antibody drug under development; (f) a technical service contract entered with Shanghai KangaBio Co., Ltd. in September 2022 in relation to CMC services such as cell library construction and toxicology research for an innovative drug being developed by it; (g) a clinical trial research services agreement entered with Henan Genuine Biotech Co., Ltd.* (河南真實生物科技有限公司) and Fosun Pharma Industrial Development in November 2022 in relation to the provision of clinical trial research services; and (h) a CMC technical services framework agreement with Fosun Pharma Industrial Development in June 2023.

For 6M2024, the Group's revenue from research and development services primarily generated from (a) its license and supply agreement with Organon LLC in relation to HLX11 and HLX14; (b) its license agreement with Fosun Pharma Industrial Development in November 2022 with respect to the exclusive commercialisation of HANSIZHUANG in the United States; and (c) CMC service.

(iii) ***Licensing revenue***

For FY2022, FY2023 and 6M2024, the Group's licensing revenue accounted for approximately 6.6%, 2.6% and 0.5% of its total revenue, respectively.

For FY2023, the Group's licensing revenue primarily represented the licensing fee received from (a) the profit-sharing arrangement with Fosun Pharma with respect to HANLIKANG; (b) its license arrangement with Accord Healthcare Limited entered in June 2018 with respect to the exclusive commercialisation rights of HANQUYOU in special territories; and (c) its license agreement entered with Intas Pharmaceuticals Limited in October 2023 with respect to the exclusive developing and commercial rights of HANSIZHUANG in special territories.

For 6M2024, the Group's licensing revenue primarily represented the licensing fee received from (a) the profit-sharing arrangement with Fosun Pharma with respect to HANLIKANG; and (b) its license arrangement with Accord Healthcare Limited entered in June 2018 with respect to the exclusive commercialisation rights of HANQUYOU in special territories

2. Financial information of the Group

The Group recorded qualified opinion for FY2022. As stated in independent auditor's report issued by the Group's reporting accountants Ernst & Young ("**EY**") contained in the 2022 Annual Report, on 25 September 2019, the Company entered into an investment management agreement (the "**IMA**") with AMTD Global Markets Limited ("**AMTD**", now renamed as oOo Securities (HK) Group Limited). Pursuant to the IMA, the Company deposited a total principal amount of USD117,000,000 into its investment portfolio account with AMTD (the "**AMTD Account**") and engaged AMTD to provide investment management services. As at 31 December 2021, the outstanding balance in the AMTD Account amounted to USD86,360,000 (equivalent to RMB550,610,000) and was recorded in restricted cash and bank balances and the provision was recorded in other payables and accruals. The management of the Company represented that during FY2022, the Company entered into notes purchase agreements to purchase promissory notes issued by three private entities (collectively, the "**Notes**") with the total principal amounts of USD86,360,000 (equivalent to RMB550,610,000) through the AMTD Account, which was recorded in financial assets at fair value through profit or loss. The Company has engaged an independent valuer to assess the fair value of the Notes and concluded that the fair value of the Notes as at 31 December 2022 was USD23,000,000 (equivalent to RMB160,186,000) giving rise to a total fair value loss of RMB390,424,000. The management of the Company has provided EY with the AMTD Account statement as at 31 December 2022 obtained from AMTD. However, the management of the Company were unable to provide EY with the signed notes purchase agreements or other adequate evidence to support the existence and valuation of the Notes. EY was not able to obtain the necessary corroborative evidence from the counterparties of the Notes neither. Because of the above scope limitations, and there were no alternative audit procedures that EY could perform, EY issued a qualified opinion in relation to the Group's transactions with AMTD for FY2022. Except for the effects of the matters described above, the EY considered that the consolidated financial statements of the Group for FY2022 gave a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for FY2022 in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

As stated in the 2023 Annual Report, as at 31 December 2023, the outstanding balances of the investment principal in AMTD Account amounted to USD66,360,000 (equivalent to RMB470,015,000). The Company has assessed the expected credit losses based on all the facts and available information, including historical correspondence with AMTD and relevant analysis from the external legal counsel of the Company, etc. As at 31 December 2022, a total expected credit loss amounting to USD63,360,000 (equivalent to RMB441,284,000) was provided in connection with the amount due from AMTD which was reclassified from the total fair value losses on the financial assets at fair value through profit or loss recognised in the previous year. For FY2023, an additional expected credit loss amounting to USD3,000,000 (equivalent to RMB21,249,000) was further recognised. As at 31 December 2023, the total cumulative expected credit losses amounted to USD66,360,000 (equivalent to RMB470,015,000) was fully provided in connection with the amount due from AMTD. In relation to this, certain amounts have been reclassified in the 2023 Annual Report, including (i) in the consolidated statement of financial position as at 31 December 2022, the financial assets at fair value through profit or loss amounting to RMB160,186,000 as at 31 December 2022 were reclassified to prepayments, deposits and other receivables, representing an amount due from AMTD amounting to RMB601,470,000, net of impairment allowance for the expected credit loss in connection with due from AMTD amounting to RMB441,284,000; (ii) in the consolidated statement of profit and loss for FY2022, a loss on fair value adjustment of financial assets at fair value through profit or loss of RMB199,153,000 recorded in other expenses were reclassified to impairment losses on financial assets; and (iii) in the consolidated statement of cash flow for FY2022, "Changes in restricted cash for investments" amounting to RMB550,610,000 were reclassified to "Purchase of investment measured at fair value through profit or loss" amounting to RMB550,610,000. For comparison purpose, the restated financial performance for FY2022 will be used to compare the financial performance for FY2023 in this section.

Set out in the table below is a summary of the consolidated financial performance of the Group for the two years ended 31 December 2023, as extracted from the 2023 Annual Report; and the six months ended 30 June 2023 ("**6M2023**") and 2024, as extracted from the 2024 Interim Report:

(i) ***Financial performance***

	FY2022	**FY2023**	**6M2023**	**6M2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
	(restated)			
Revenue	**3,214,730**	**5,394,909**	**2,500,470**	**2,746,109**
— Sales of biopharmaceutical products	2,675,372	4,553,548	2,152,901	2,479,351
— Research and development services	325,484	698,906	331,452	251,014
— Licensing revenue	211,016	138,953	14,037	14,258
— Others	928	782	746	85
— Gross rental income from operating leases	1,930	2,720	1,334	1,401
Cost of sales	(844,621)	(1,476,112)	(721,638)	(755,414)
Gross profit	**2,370,109**	**3,918,797**	**1,778,832**	**1,990,695**
Other income and gains	105,552	68,914	26,837	24,739
Selling and distribution expenses	(1,049,292)	(1,754,241)	(782,954)	(900,217)
Administrative expenses	(354,038)	(383,840)	(163,708)	(159,949)
Impairment losses on financial assets, net	(200,791)	(30,280)	(729)	—
Research and development expenses	(1,394,514)	(1,118,732)	(547,828)	(482,466)
Other expenses	(65,241)	(20,501)	(12,430)	(14,288)
Finance costs	(105,672)	(110,539)	(54,084)	(62,796)
(Loss)/Profit before tax	**(693,887)**	**569,578**	**243,936**	**395,718**
Income tax expense	(1,372)	(23,559)	(3,956)	(9,417)
(Loss)/Profit attributable to the Shareholders	**(695,259)**	**546,019**	**239,980**	**386,301**

FY2023 as compared to FY2022

The total revenue of the Group amounted to approximately RMB5,394.9 million for FY2023, representing an increase of approximately 67.8% as compared to the total revenue of approximately RMB3,214.7 million for FY2022. Such increase was primarily attributable to (a) the increase in revenue from sales of biopharmaceutical products by approximately 70.2% from approximately RMB2,675.4 million for FY2022 to approximately RMB4,553.5 million for FY2023. With the professional and efficient commercialisation team actively promoting the all-round innovative business operation model, the Group has achieved excellent commercialisation results during FY2023. In particular, HANQUYOU and HANSIZHUANG, the two core products of the Group in the field of anti-tumour therapy that were promoted and sold by the Group's in-house commercialisation team in Mainland China, have achieved rapid revenue growth by approximately 56.1% and 230.2% for FY2023, respectively, as compared to FY2022. In addition, HANBEITAI was commercially available in the domestic market in Mainland China since January 2023, and recorded substantial sales revenue during FY2023; and (b) the increase in revenue from the provision of research and development services by approximately 114.7% from approximately RMB325.5 million for FY2022 to approximately RMB698.9 million for FY2023. With the continuous implementation of the internationalisation and innovation strategy, the Group's influence in the international market was growing, and the number and overall amount of licensed-out projects were constantly expanding. During FY2023, the Group also carried out business cooperation with many partners around the world based on various projects, including intellectual property licensing, joint development, commercial authorisation, etc.

The Group's cost of sales mainly represented reagents and consumables, employee compensation, outsourcing fees, utilities expenses and depreciation and amortisation. The Group's cost of sales increased by approximately 74.8% from approximately RMB844.6 million for FY2022 to approximately RMB1,476.1 million for FY2023, primarily attributable to the increase in the cost of research and development services and the increase of the sales volume of the key commercial product markets during FY2023 as the continuous advancement of research and development services.

The Group's selling and distribution expenses increased by approximately 67.2% from approximately RMB1,049.3 million for FY2022 to approximately RMB1,754.2 million for FY2023, primarily attributable to the enhanced sales efforts made by the Group for the sales growth of HANQUYOU, HANSIZHUANG and HANBEITAI.

The Group's administrative expenses increased by approximately 8.4% from approximately RMB354.0 million for FY2022 to approximately RMB383.8 million for FY2023, primarily attributable to (a) the increase in the cost of the administrative staff with the expansion of the operations and development of the Group; and (b) the corresponding increase in depreciation costs, lease payments, travel expenses and conference expenses to improve operational efficiency.

The Group's net impairment losses on financial assets decreased by approximately 84.9% from approximately RMB200.8 million for FY2022 to approximately RMB30.3 million for FY2023, primarily attributable to the decrease in the investment loss related to the entrusted investment management services by AMTD as the majority of loss was provided in FY2022.

The Group's expensed research and development expenses decreased by approximately 19.8% from approximately RMB1,394.5 million for FY2022 to approximately RMB1,118.7 million for FY2023, primarily attributable to (a) the development expenditures under the contracts being included in cost of research and development services after certain projects were licensed out, thereby reducing the Group's own research and development expenses; and (b) the Group continuing to deploy scientific and efficient research and development strategy, focusing on unmet clinical needs and optimising allocation of pipeline resources.

Owing to the factors as mentioned above, the Group recorded a turnaround from loss attributable to the Shareholders of approximately RMB695.3 million for FY2022 to profit attributable to the Shareholders of approximately RMB546.0 million for FY2023.

6M2024 as compared to 6M2023

The total revenue of the Group amounted to approximately RMB2,746.1 million for 6M2024, representing an increase of approximately 9.8% as compared to the total revenue of approximately RMB2,500.5 million for 6M2023. Such increase was primarily attributable to the increase in revenue from sales of biopharmaceutical products by approximately 15.2% from approximately RMB2,152.9 million for 6M2023 to approximately RMB2,479.4 million for 6M2024 as a result of the enhanced sales efforts made by the Group's in-house commercialisation team in Mainland China for the promotion and sale of HANQUYOU and HANSIZHUANG.

The Group's cost of sales increased by approximately 4.7% from approximately RMB721.6 million for 6M2023 to approximately RMB755.4 million for 6M2024, primarily attributable to the increase in the sales volume of the Group's key commercial products.

The Group's selling and distribution expenses increased by approximately 15.0% from approximately RMB783.0 million for 6M2023 to approximately RMB900.2 million for 6M2024, primarily attributable to the continuous sales growth of HANQUYOU and HANSIZHUANG and the marketing expenses incurred in the marketing and selling of HANBEITAI.

The Group's administrative expenses decreased slightly by approximately 2.3% from approximately RMB163.7 million for 6M2023 to approximately RMB159.9 million for 6M2024, primarily attributable to the Group's overall cost reduction and efficiency improvement, as well as the decrease in third-party consulting expense.

The Group's expensed research and development expenses decreased by approximately 11.9% from approximately RMB547.8 million for 6M2023 to approximately RMB482.5 million for 6M2024, primarily attributable to advancing technology platform innovation, IND application and clinical trials for new drugs to accelerate the Company's innovation and transformation.

The Group's finance costs increased by approximately 16.1% from approximately RMB54.1 million for 6M2023 to approximately RMB62.8 million for 6M2024, primarily attributable to the increase in the Group's interest-bearing bank and other borrowings.

Owing to the factors as mentioned above, the Group recorded an increase in profit attributable to the Shareholders by approximately 61.0% from approximately RMB240.0 million for 6M2023 to approximately RMB386.3 million for 6M2024.

(ii) ***Financial position***

	As at 31 December			As at 30 June
	2022	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
	(un-restated)	(restated)		
Non-current assets	**6,732,766**	**6,732,766**	**7,227,539**	**7,583,198**
Property, plant and equipment	1,817,449	1,817,449	2,237,768	2,319,676
Intangible assets	4,332,283	4,332,283	4,510,729	4,819,859
Right-of-use assets	412,422	412,422	414,886	397,258
Other non-current assets	170,612	170,612	64,156	46,405
Current assets	**2,191,542**	**2,191,542**	**2,676,032**	**2,396,562**
Inventories	757,312	757,312	757,359	783,331
Trade receivables	455,509	455,509	647,828	744,101
Financial assets at fair value through profit or loss	160,186	—	—	—
Prepayments, deposits and other receivables	138,057	298,243	200,761	174,921
Contract assets	—	—	82,419	44,760
Cash and bank balances	680,478	680,478	987,665	649,449
Total assets	**8,924,308**	**8,924,308**	**9,903,571**	**9,979,760**

	As at 31 December			As at 30 June
	2022	**2022**	**2023**	**2024**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(audited)	*(audited)*	*(audited)*	*(unaudited)*
	(un-restated)	(restated)		
Current liabilities	**5,001,578**	**5,001,578**	**5,067,433**	**4,902,950**
Trade payables	713,552	713,552	544,815	617,145
Other payables and accruals	1,443,451	1,443,451	1,255,363	1,066,707
Contract liabilities	322,420	322,420	466,878	381,380
Interest-bearing bank and other borrowings	2,522,155	2,522,155	2,800,377	2,837,718
Non-current liabilities	**2,286,398**	**2,286,398**	**2,643,837**	**2,498,553**
Interest-bearing bank and other borrowings	1,154,940	1,154,940	1,292,674	1,216,371
Other long-term payables	292,370	292,370	172,071	72,801
Contract liabilities	645,594	645,594	949,044	982,201
Deferred income	193,494	193,494	230,048	227,180
Total liabilities	**7,287,976**	**7,287,976**	**7,711,270**	**7,401,503**
Net current liabilities	**(2,810,036)**	**(2,810,036)**	**(2,391,401)**	**(2,506,388)**
Equity attributable to the Shareholders	**1,636,332**	**1,636,332**	**2,192,301**	**2,578,257**

As at 30 June 2024, the total assets of the Group amounted to approximately RMB9,979.8 million, which primarily consisted of property, plant and equipment of approximately RMB2,319.7 million, mainly comprised of the Group's buildings, plant and machinery and construction in progress relating to the Group's biologics manufacturing facilities in Shanghai as well as equipment for its research and development functions. In order to satisfy the expected market demand for drug candidates, the Group is currently constructing a new manufacturing facility in Shanghai, the Henlius Biotech Biopharmaceutical Industrialization Base II (the "**Songjiang Second Plant**"), to significantly increase its overall production capacity. During FY2023, the construction of the Songjiang Second Plant's phase I project was completed and transferred to buildings. As at 30 June 2024, the remaining assets of the Group mainly consisted of (a) intangible assets of approximately RMB4,819.9 million; (b) inventories of approximately RMB783.3 million; (c) trade receivables of approximately RMB744.1 million; and (d) cash and bank balances of approximately RMB649.4 million.

As at 30 June 2024, the total liabilities of the Group amounted to approximately RMB7,401.5 million, primarily consisted of (a) trade payables of approximately RMB617.1 million; (b) other payables and accruals of approximately RMB1,066.7 million, mainly including payrolls and welfare payables and accruals; (c) interest-bearing bank and other borrowings of approximately RMB4,054.1 million, including (1) lease liabilities of approximately RMB263.5 million with effective interest rates from approximately 3.53% to 6.28% per annum; (2) unsecured bank borrowings of approximately RMB2,634.4 million with effective interest rates from approximately 2.80% to 3.95% per annum; and (3) secured bank borrowings of approximately RMB1,156.2 million which carried an effective interest rate of approximately 3.53% per annum and were secured by the Group's right-of-use assets and property, plant and equipment; and (d) contract liabilities of approximately RMB1,363.6 million, representing the advances received from customers in relation to sales of goods as well as the license and research and development services.

As at 30 June 2024, the Group had equity attributable to the Shareholders of approximately RMB2,578.3 million and net current liabilities of approximately RMB2,506.4 million. As disclosed in the 2024 Interim Report, the Group was indebted moderately with gearing ratio of approximately 59.2% as at 30 June 2024.

(iii) ***Prospects of the Group***

As part of its commitment to provide affordable and high-quality biomedicines for patients worldwide, the Group has been dedicated to the continuous improvement of the establishment and layout of the integrated platform of research and development, production and commercialisation since its IPO in September 2019. Leveraging on the foresighted research and development strategy and commercialisation layout, the Group has achieved steady revenue growth for the years/periods under review and recorded full-year net profit for the first time for FY2023.

Despite the continuous business growth, the Group's debt level (i.e. the balance of interest-bearing bank and other borrowings) has increased from approximately RMB3,677.1 million as at 31 December 2022 to approximately RMB4,054.1 million as at 30 June 2024. The increase was mainly due to the substantial capital requirements for (a) progressing the development of the Group's product candidates towards receiving regulatory approval and commencing product commercialisation; (b) expanding the Group's drug candidate portfolio; and (c) constructing new manufacturing facility in Shanghai, the Songjiang Second Plant. In the meantime, the Group's net current liabilities position has also maintained at a high level of approximately RMB2,810.0 million, RMB2,391.4 million and RMB2,506.4 million as at 31 December 2022, 31 December 2023 and 30 June 2024, respectively.

Although the Chinese biopharma market has been dramatically developing in recent years, there are myriads of challenges confronting the industry. Currently, certain monoclonal antibody (mAb) biosimilars (e.g. rituximab) have already been included in the scope of centralised drug procurement at some provincial levels, but no mAb biosimilars have been included at national level. As advised by the management of the Group, in March 2022, HANLIKANG's price was reduced in the provincial centralised procurement in Guangdong Province, the PRC and became the first monoclonal antibody biosimilar drug involved in the provincial centralized procurement in China.

The trend of normalisation of volume-based procurement can largely reduce the financial burden of patients. However, if any of the Group's products or products from the Group's competitors were chosen to participate in tenders or included in centralised volume-based procurement, it may have a negative impact on the pricing of the drugs. In addition, the gradual approval of the competitive biosimilars has intensified the market competition among the Chinese biopharmaceutical companies since 2020, which may dilute the market share of the commercialised products of the Group.

In macro-economic terms, 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. The International Monetary Fund projected that the Chinese economic growth would drop to 4.6% in 2024, down from its 5.2% growth in 2023, and fall further to 3.4% by 2028. Such expected economic decline over the next four years was mainly driven by the rapidly ageing population, increasing unemployment and liquidity concerns in the domestic property sector. 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 the Group's commercialised products and further erode the Group's gross profit margin.

In light of the challenging environment, as advised by the management of the Group, the Group aims to continue to explore new targets and mechanisms and conduct a series of clinical studies worldwide to diversify the product portfolio into new disease fields, which may not bring in immediate return in the short term. Besides, the Group anticipates to increase efforts on commercialisation of new products for the next few years in order to expand the sales and extend its market reach to cover more countries and regions. As advised by the management of the Group, the Group will continue to devote itself to oncology, auto-immune diseases and other fields, and deepen product innovation, market expansion and international cooperation through the following business strategies: (a) the Group will explore more business cooperation possibilities, further expand the commercialised product pipeline, enrich the overall business format of the Group and establish presence in the international market; (b) the Group will continue to leverage international resources and advantages to explore cutting-edge innovative products with clinical value, and deepen the early research and development results; and (c) the Group will promote the construction and operation of the Songjiang Second Plant as soon as possible, which is conducive to further strengthening the Group's research and development capabilities. As such, it is anticipated that constant capital commitment of substantial investments and spending would be required on the Group's product development, commercialisation activities and manufacturing facilities construction, which may negatively impact the Group's financial position and bring volatility to the Group's financial performance in the near term. It is also noted that commercial success was not guaranteed for all product development and sometimes products in the research and development portfolio and the newly commercialised products would encounter unanticipated set-backs during the process.

Taking into account the existing economic and business environment and the aforementioned circumstances, we are of the view that the near-term business prospects of the Group would be generally cautiously optimistic but with uncertainty in its overall future prospects.

3. Information on the Offeror and the future intention of the Offeror

The Offeror is a company incorporated in the PRC with limited liability on 12 September 2008. The business scope of the Offeror as set out in the business registration certificate including, *inter alia*, technology development, technology consulting, technology services and technology transfer of biomedicines, research and development of new medicines, and investment. As at the Latest Practicable Date, the 265,971,569 Unlisted Shares in the Company held by it was its sole asset and the Offeror has no other businesses. It has on 23 July 2024 effected a change in registration in the PRC and was converted into a joint stock limited company.

As at the Latest Practicable Date, the Offeror is wholly owned by Fosun Pharma Industrial Development, which in turn is wholly-owned by Fosun Pharma. Fosun Pharma Industrial Development is principally engaged in industrial investments, medical industry investments, import and export of goods and technologies. The Fosun Pharma Group is a leading healthcare group in the PRC and principally engages in the businesses of pharmaceutical manufacturing, medical devices and medical diagnosis, healthcare services and pharmaceutical distribution and retail.

The Offeror and the Offeror Concert Parties will not be considered as the Independent H Shareholders under the Takeovers Code and accordingly, they will not be entitled to vote at the H Shareholders' Class Meeting.

As disclosed in the Letter from the Board, it is the intention of the Offeror that the Group will continue to carry on its current principal business, and the Offeror does not have specific plans to make any major changes to the business of the Group, following the successful delisting of the Company. As at the Latest Practicable Date, there is no plan to list the Company in the PRC or on any other overseas stock exchange. The Offeror also does not have plans to make redundancies or material changes to the number of employees of the Group.

After completion of the Merger, the Offeror will continue to consider business decisions which best enhance shareholders' value in the long term. The Offeror is also committed to actively working with any Shareholder acquiring Rollover Securities through the Share Alternative to facilitate liquidity proposals for the shares in the Rollover Entities and/or the Offeror, as the case may be. Trade sales and capital market opportunities for such unlisted companies would be seriously considered and proactively facilitated as and when such opportunities arise.

The payment of the total Cancellation Price for the Merger will be financed by internal cash resources and/or external debt financing including loan facilities respectively entered into between the Offeror/Lustrous Star Limited (which is indirectly wholly owned by Fosun Pharma) and China Merchants Bank Co., Ltd. Shanghai Branch.

4. Reasons for and benefits of the Merger

As mentioned in the section headed "2. Financial information of the Group" above, despite the continuous sales growth and the realisation of net profits in recent periods, the Group has maintained a high net current liabilities position of approximately RMB2,810.0 million, RMB2,391.4 million and RMB2,506.4 million as at 31 December 2022, 31 December 2023 and 30 June 2024, respectively. In order to finance the capital requirements of the Group's product development, commercialisation activities, and new manufacturing facilities construction, the Group has increased its interest-bearing bank and other borrowings from approximately RMB3,677.1 million as at 31 December 2022 to approximately RMB4,054.1 million as at 30 June 2024. While the Group did not carry out any equity fund raising activities since the IPO in 2019, as the H Shares have been traded within a relatively low-price range with sluggish trading volume for the most of the time, the Company's ability to raise funds from the equity market is significantly limited. As further investments and capital expenditures are anticipated to be required on the Group's research and development as well as marketing and commercialisation activities in the coming years, these may adversely impact the Group's financial position and bring volatility to the Group's financial performance in the short run.

Although (i) the Group has achieved a steady development since its IPO in 2019; (ii) the Company recorded net profit for the first time for FY2023; and (iii) the Group's commercialisation, product development and research and development expansion plans just began to embark in recent years, the Independent H Shareholders should be aware that (i) the economic and business environment remains uncertain and challenging for the Group; (ii) the trial outcome of the Group's clinical-stage product candidates are uncertain and the regulatory approval processes relating to the marketing of the Group's drug candidates could be lengthy, time-consuming and subject to significant risks; (iii) significant marketing and research and development costs are expected to be incurred which may further increase the Company's debt burden and affect its financial position; and (iv) 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 profits of the Company.

It is also noted that since the IPO in 2019, a combination of factors has weighed on the capital market in Hong Kong and the Company's share price, including global macroeconomic challenges such as geopolitical tensions, lack of investor confidence, as well as ongoing regulatory reform, which have caused the H Shares to be traded at a low-price range during the most of the time since the IPO. Furthermore, the Hang Seng Healthcare Index has declined by approximately 30.10% during the 12-month period immediately prior to and including the last trading day prior to the Second Joint Announcement. In light of the above, as set out in the Letter from the Board, the Cash Alternative represents an opportunity for the Independent H Shareholders to monetise their investments in the Company under a challenging capital market environment. The Cancellation Price under the Cash Alternative represents significant premiums in the range of approximately 30.57% to approximately 81.42% for various periods in the 180 trading days up to and including the last trading day prior to the Initial Joint Announcement Date (the "**Initial Last Trading Date**", i.e. 22 May 2024), as set out in the sub-section headed "5. Cash Alternative — (i) Cancellation Price comparison" below. From the Independent H Shareholders' perspective, the Cash Alternative provides an opportunity for the Independent H Shareholders to dispose of their H Shares for cash at a significant premium over the prevailing market prices of the H Shares without having to suffer any illiquidity discount and settlement risk, and may redeploy the proceeds from accepting the Merger into other investment opportunities.

The trading liquidity of the H Shares has been at a low level over a long period of time. As disclosed in the Letter from the Board, the average daily trading volume of the Shares for the 24 months up to and including the Initial Last Trading Date was approximately 0.18 million Shares per day, representing only approximately 0.11% of the issued H Shares as at the date of the Second Joint Announcement. Given the thin liquidity of the H Shares as mentioned above and our analyses set out in the sub-section headed "5. Cash Alternative — (iii) Historical trading liquidity of the H Shares" below, we concur with the Directors that the Cash Alternative allows the Independent H Shareholders to dispose of their H Shares, particularly for those Independent H Shareholders holding a significant number of the H Shares, without having to suffer significant illiquidity discount or adversely affecting the market prices of the H Shares.

On the other hand, from the Company's perspective, the Company will lose its listing platform and reduces its equity financing capabilities. Nevertheless, we have reviewed the announcements published by the Company and noted that the Company has not carried out any equity fundraising activities since the IPO. As the H Shares have been traded within a low-price range with sluggish trading volume for the most of the time, it may not be in the interests of the Company to carry out equity fundraising activities which would dilute the shareholdings with low issue prices, indicating an apparent limitation in its ability to raise funds from the stock market. Upon the completion of the Merger, the H Shares will be delisted from the Stock Exchange, which may help the Company save the administrative costs and management resources associated with maintaining the Company's listing status and compliance with regulatory requirements and, in turn, allow greater flexibility for the Offeror and the Group to manage the Group's business and focus on its strategic direction and business operations. With reference to the Letter from the Board, the Offeror considers that the depressed share price has not fully reflected the Company's core value as a global biopharmaceutical company with a diversified and high-quality product pipeline, which might be detrimental to its business focus as well as its employee morale. The Merger will help the Offeror and the Group to concentrate on solving critical issues in relation to the core business and operations, free from distractions brought by share price fluctuations. In addition, following the implementation of the Merger, Fosun Pharma Group, as a global innovation-driven pharmaceutical and healthcare industry group, shall be more efficiently and feasibly to provide greater support to the long-term development of the Group.

In addition to the Cash Alternative, the Merger provides the Independent H Shareholders who are also Qualifying Shareholders (the "**Qualifying Independent H Shareholders**") and have confidence in the long-term development of the Company, through the election of the Share Alternative, with an opportunity to remain invested (subject to the Share Alternative Cap) and participated in the Company's biopharmaceutical business, subject to the risk factors as disclosed in the section headed "5. INFORMATION ON THE SHARE ALTERNATIVE — Risk factors" in the Letter from the Board. For our detailed analysis of the Share Alternative, please refer to the section headed "6. Share Alternative" below.

Based on the aforesaid, we consider that the Merger (i) through the Cash Alternative, provides an opportunity for the Independent H Shareholders to dispose of their H Shares at a price significantly above the market prices prior to the issue of the Initial Joint Announcement, without having to suffer any illiquidity discount and settlement risk; (ii) through the Share Alternative, provides an opportunity for the Qualifying Independent H Shareholders who have confidence in the long-term development of the Company to remain invested in the Company; (iii) upon its realisation, will allow the Group to focus its resources in formulating long-term growth strategies and executing its strategies more efficiently and effectively as a private entity, without being subject to regulatory restrictions, compliance obligations, pressure of market expectations and share price fluctuations arising from being a publicly listed company; and (iv) will not materially impact the financing abilities of the Group given the Group's current ability to raise funds from the public equity market is limited and the Fosun Pharma Group would be able to support the Group more efficiently.

5. Cash Alternative

Under the Merger, the Independent H Shareholders can undertake to elect the Cash Alternative at the Cancellation Price of HK$24.60 per H Share. In order to assess the fairness and reasonableness of the Cancellation Price under the Cash Alternative, we have considered the following principal factors:

(i) *Cancellation Price comparison*

The Cancellation Price of HK$24.60 per H Share represents:

(a) a premium of approximately 2.93% over the closing price per H Share of HK$23.90 on the Stock Exchange on the Latest Practicable Date;

(b) a premium of approximately 36.67% over the closing price per H Share of HK$18.00 on the Stock Exchange on the Undisturbed Date;

(c) a premium of approximately 37.28% over the average closing price of HK$17.92 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to and including the Undisturbed Date;

(d) a premium of approximately 40.01% over the average closing price of HK$17.57 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Undisturbed Date;

(e) a premium of approximately 52.04% over the average closing price of HK$16.18 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Undisturbed Date;

(f) a premium of approximately 63.13% over the average closing price of HK$15.08 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Undisturbed Date;

(g) a premium of approximately 82.09% over the average closing price of HK$13.51 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 180 trading days immediately prior to and including the Undisturbed Date;

(h) a premium of approximately 30.57% over the closing price per H Share of HK$18.84 on the Stock Exchange on the Initial Last Trading Date and on the last business day before the Initial Joint Announcement Date (i.e. 21 June 2024);

(i) a premium of approximately 35.31% over the average closing price of HK$18.18 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the five (5) consecutive trading days immediately prior to and including the Initial Last Trading Date;

(j) a premium of approximately 38.75% over the average closing price of HK$17.73 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the ten consecutive trading days immediately prior to and including the Initial Last Trading Date;

(k) a premium of approximately 50.83% over the average closing price of HK$16.31 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 30 trading days immediately prior to and including the Initial Last Trading Date;

(l) a premium of approximately 62.06% over the average closing price of HK$15.18 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 60 trading days immediately prior to and including the Initial Last Trading Date;

(m) a premium of approximately 81.42% over the average closing price of HK$13.56 per H Share based on the daily closing prices of H Shares as quoted on the Stock Exchange for the 180 trading days immediately prior to and including the Initial Last Trading Date;

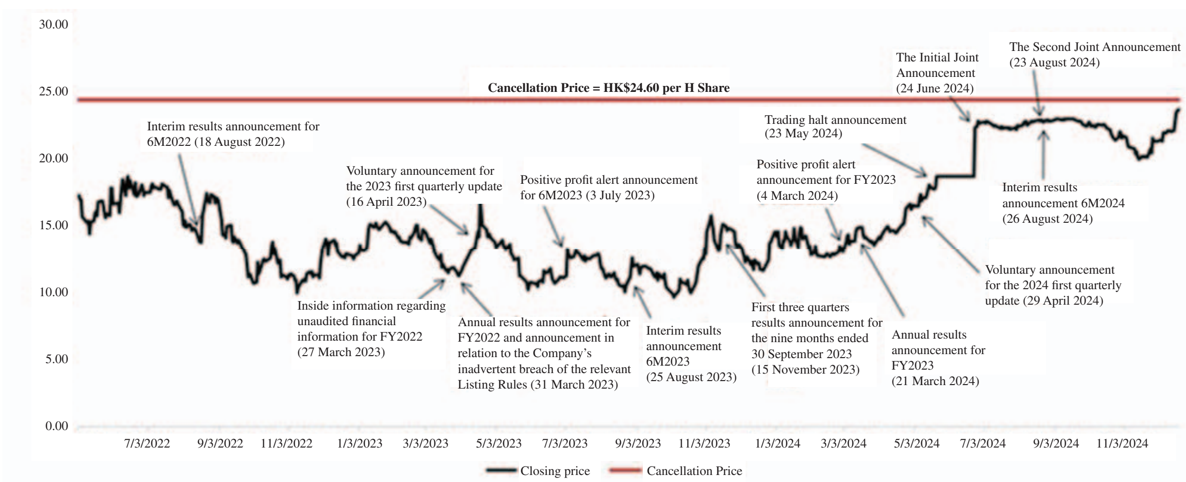
(n) a premium of approximately 6.72% over the closing price per H Share of HK$23.05 on the Stock Exchange on the last trading date prior to the Second Joint Announcement Date (i.e. 22 August 2024);

(o) a premium of approximately 456.43% over the audited consolidated net asset value of the Company as at 31 December 2023 of approximately RMB4.03 per Share (equivalent to approximately HK$4.42 per Share); and

(p) a premium of approximately 373.08% over the unaudited consolidated net asset value of the Company as at 30 June 2024 of approximately RMB4.74 per Share (equivalent to approximately HK$5.20 per Share).

(ii) ***Historical price performance of the H Shares***

Set out below is the chart showing the movement of the daily closing prices of the H Shares as quoted on the Stock Exchange during the period from 3 May 2022 up to the Initial Last Trading Date (the "**Review Period**"), being approximately two years period, and up to the Latest Practicable Date. We consider such Review Period to be fair, reasonable and representative as we consider it a sufficient period to illustrate the general trend and level of movement of the daily closing prices of the H Shares for the purpose of this analysis, which reflects the prevailing market sentiment for conducting a comparison between the closing prices of the H Shares and the Cancellation Price.



Source: the website of the Stock Exchange and Bloomberg

As illustrated in the chart above, during the Review Period, the H Shares traded at an average of approximately HK$13.72, with the highest and lowest closing prices of the H Shares, being HK$18.84 recorded on 22 May 2024 (i.e. the Initial Last Trading Date) and HK$9.70 recorded on 5 October 2023, respectively. The Cancellation Price of HK$24.60 per H Share is higher than the historical closing prices of the H Shares throughout the entire Review Period and represents premiums of approximately 30.57%, 153.61% and 79.30% over the highest closing price, the lowest closing price and the average closing prices of the H Shares during the Review Period, respectively.

The closing prices of the H Shares fluctuated between HK$13.86 per H Share and HK$18.80 per H Share during the period from 3 May 2022 to 18 August 2022 and closed at HK$13.90 per H Share on 18 August 2022. On 18 August 2022, the Company published the interim results announcement for the six months ended 30 June 2022 ("**6M2022**") and announced that the total revenue of the Group increased by approximately 103.5% from approximately RMB633.6 million for the six months ended 30 June 2021 to approximately RMB1,289.4 million for 6M2022. It was noted that such increase in total revenue was primarily attributable to the significant increase in sales revenue of HANQUYOU by during 6M2022. Subsequent to the aforesaid announcement, the closing prices of the H Shares surged to HK$17.52 on 23 August 2022 but soon entered a declining trend and dropped to HK$10.02 per H Share on 10 November 2022. Thereafter, the closing prices of the H Shares fluctuated between HK$10.22 per H Share and HK$16.90 per H Share from 11 November 2022 to 3 July 2023.

On 3 July 2023, the Company published a positive profit alert announcement for 6M2023 and announced that based on the preliminary assessment of the Group's unaudited consolidated management accounts for 6M2023, it was expected that the Group would record a profit of approximately RMB200 million for 6M2023, as compared to the loss of approximately RMB252.1 million for 6M2022, which was the first time for the Group to achieve half-year profits. Such turnaround from loss to profit of the Group during 6M2023 was primarily attributable to (a) the profitability of HANQUYOU has been enhanced during the period; (b) the sales revenue of HANSIZHUANG has continued to increase since its approval for marketing in March 2022; and (c) the Group continued to strengthen its meticulous management measures and achieved results in respect of cost control. Subsequent to the aforesaid announcement, the closing prices of the H Shares generally exhibited an upward trend from HK$11.28 per H Share on 3 July 2023 and reached the highest closing price of HK$18.84 per H Share on 22 May 2024 (i.e. the Initial Last Trading Date). Except for the aforesaid positive profit alert announcement, such general increasing trend in the closing prices of the H Shares may also be due to the Company's publication of (a) the first three quarters results announcement for the nine months ended 30 September 2023 on 15 November 2023 which announced the increase in the Group's total revenue by approximately 84.0% and the turnaround from loss to profit for the nine months ended 30 September 2023 as compared to the previous period in 2022; (b) the positive profit alert announcement and annual results announcement for FY2023 published on 4 March 2024 and 21 March 2024, respectively, which announced the Group's turnaround from loss to profit for FY2023 as compared to FY2022, which was the first time for the Group to achieve full-year profits; and (c) the 2024 first quarterly update voluntary announcement published on 29 April 2024 which announced the Group's promising operating income in the first quarter of 2024.

Trading in the H Shares was suspended with effect from 9:00 a.m. on 23 May 2024 pending the issue of the Initial Joint Announcement. Subsequent to the publication of the Initial Joint Announcement, the closing price of the H Shares surged to HK$22.50 per H Share. During the period from the first trading day after the publication of the Initial Joint Announcement and up to the Latest Practicable Date (i.e. from 25 June 2024 to 20 December 2024) (the "**Post-Initial Joint Announcement Period**"), the closing prices of the H Shares had been trading below the Cancellation Price within a narrow band of between HK$20.15 and HK$23.9, which is significantly above the average closing H Shares price of approximately HK$13.72 per H Share during the Review Period.

The closing prices of the H Shares during the Review Period might reflect the market perception and expectation on the Group's financial performance (it is uncertain as to whether the H Shares prices will rise to a level above the Cancellation Price in the future) and the Cancellation Price is higher than the closing prices of the H Shares in all trading days during the entire Review Period. From the Independent H Shareholders' perspective, the Cancellation Price represents an immediate uplift in the Shareholders' value as compared to the recent H Shares prices. We are of the view that the aforesaid surge in the H Shares prices during the Post-Initial Joint Announcement Period was driven by the announcement of the Merger, in particular, the Cancellation Price of HK$24.60 per H Share. However, the Independent H Shareholders should note that the H Shares were still traded below the Cancellation Price during the Post-Initial Joint Announcement Period and the prevailing H Shares prices may not be sustained if the Merger is not approved or otherwise lapses.

(iii) *Historical trading liquidity of the H Shares*

The following table sets out the average daily trading volume of the H Shares for each month or period and the percentages of such average daily trading volume to the total number of H Shares in issue and held by the public during the period from 3 May 2022 to the Latest Practicable Date:

	Number of trading days *(Note 1)*	**Approximate average daily trading volume of the H Shares**	**Approximate percentage of average daily trading volume to the total number of H Shares in issue** *(Note 2)*	**Approximate percentage of average daily trading volume to the total number of H Shares held by the public** *(Note 3)*
2022				
May	20	133,589	0.0817%	0.1044%
June	21	62,401	0.0382%	0.0488%
July	20	33,726	0.0206%	0.0264%
August	23	62,954	0.0385%	0.0492%
September	21	35,910	0.0220%	0.0281%
October	20	128,187	0.0784%	0.1002%
November	22	242,178	0.1482%	0.1893%
December	20	87,676	0.0536%	0.0685%
2023				
January	18	136,646	0.0836%	0.1068%
February	20	98,823	0.0605%	0.0773%
March	23	72,068	0.0441%	0.0563%
April	17	293,729	0.1797%	0.2297%
May	21	79,617	0.0487%	0.0622%
June	21	62,094	0.0380%	0.0485%
July	20	165,995	0.1016%	0.1298%
August	23	223,882	0.1370%	0.1750%
September	19	361,108	0.2210%	0.2823%
October	20	300,554	0.1839%	0.2350%
November	22	470,480	0.2879%	0.3678%
December	19	198,034	0.1212%	0.1548%

	Number of trading days *(Note 1)*	Approximate average daily trading volume of the H Shares	Approximate percentage of average daily trading volume to the total number of H Shares in issue *(Note 2)*	Approximate percentage of average daily trading volume to the total number of H Shares held by the public *(Note 3)*
2024				
January	22	228,970	0.1401%	0.1790%
February	19	129,918	0.0795%	0.1016%
March	20	179,505	0.1098%	0.1403%
April	20	363,310	0.2223%	0.2841%
May	14	606,011	0.3708%	0.4738%
June	4	5,894,916	3.6070%	4.6089%
July	22	713,266	0.4364%	0.5577%
August	22	310,102	0.1897%	0.2425%
September	19	386,430	0.2365%	0.3021%
October	21	209,749	0.1283%	0.1640%
November	21	204,006	0.1248%	0.1595%
From 1 December to the Latest Practicable Date	15	404,170	0.2473%	0.3160%

Source: the website of the Stock Exchange and Bloomberg

Notes:

1. Number of trading days of the H Shares represents number of trading days during the month or period which excludes any trading day on which trading of the H Shares on the Stock Exchange was suspended for the whole trading day (if applicable).

2. Based on the total number of H Shares in issue at the end of each month or period as disclosed in the monthly return of the Company.

3. Based on the number of H Shares held by the public Shareholders as calculated by deducting the number of Shares held by the Offeror and the Offeror Concert Parties as at the Latest Practicable Date.

As illustrated in the above table, the trading of the H Shares was generally inactive during the Review Period. The monthly average daily trading volume of the H Shares for the respective month or period during the Review Period ranged from approximately 33,726 H Shares in July 2022 to approximately 606,011 H Shares in May 2024, representing approximately 0.0206% to 0.3708% of the total issued H Shares and approximately 0.0264% to 0.4738% of the issued H Shares held by the public. Since the publication of the Initial Joint Announcement, there has also been a surge in trading volume of the H Shares, reflecting the initial positive market reaction to the Merger. The monthly average daily trading volume of the H Shares for the respective month or period during the Post-Initial Joint Announcement Period ranged from approximately 204,006 H Shares in November 2024 to approximately 5,894,916 H Shares in June 2024, representing approximately 0.1248% to 3.6070% of the total issued H Shares and approximately 0.1595% to 4.6089% of the issued H Shares held by the public. We consider that the active trading activities of the H Shares in June 2024 was mainly due to the initial positive market reaction to the Merger and the limited trading days of the H Shares in June 2024 (i.e. a total of 4 days) and hence not being representative.

In view of the above, we consider that the trading of the H Shares was generally inactive. Given the historical thin liquidity of the H Shares, it may be difficult for the Independent H Shareholders to dispose of a significant number of H Shares within a short period in the market without exerting downward pressure on the market prices of the H Shares. In addition, the higher level of trading volume of the H Shares after the publication of the Initial Joint Announcement may not be sustained if the Merger lapses. As such, we consider that the Cash Alternative represents an opportunity for the Independent H Shareholders, especially those with relatively sizeable shareholdings, to exit at the fixed cancellation prices which are substantially above the prevailing trading price.

(iv) ***Dividend history***

The Company had not paid or declared any dividend in the period from its listing date in September 2019 on the Stock Exchange to the Latest Practicable Date. Given there are other companies whose shares are listed on the Stock Exchange that offer higher dividend yields, the Independent H 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 Merger.

(v) ***Comparable companies***

The Group is principally engaged in the research, development, production and sales of monoclonal antibody products. Although the Group has successfully achieved international coverage, its principal place of operation is Mainland China, which generated over 80% of the Group's total revenue for the three years ended 31 December 2023.

Price-to-earnings ("**P/E(s)**"), price-to-book ("**P/B(s)**") and price-to-sale ("**P/S(s)**") multiples are the three most commonly used benchmarks in valuing a company. Given that (a) the Group was profit making for FY2023; (b) the Group recorded net assets position as at 30 June 2024; and (c) the Group recorded volatile revenue for the two years ended 31 December 2023, we consider the valuation methodology using P/E and P/B is more appropriate in valuing the Group. Based on (a) the Cancellation Price of HK$24.60 per H Share; (b) 543,494,853 Shares (including both of the H Shares and Unlisted Shares) in issue as at the Latest Practicable Date; (c) profit attributable to the Shareholders of approximately RMB546.0 million for FY2023; (d) equity attributable to the Shareholders of approximately RMB2,578.3 million as at 30 June 2024; and (e) the exchange rate of HK$1= RMB0.9 for illustrative purpose, the P/E and P/B implied by the Cancellation Price are approximately 22.04 times and 4.67 times, respectively (the "**Implied P/E**" and the "**Implied P/B**", respectively).

In assessing the fairness and reasonableness of the Cancellation Price, we consider that it is relevant to assess the Cancellation Price by marking reference to market valuation for companies listed in Hong Kong which are principally engaged in business similar to those of the Group. We have, based on our search on Bloomberg and the website of the Stock Exchange, identified an exhaustive list of companies (the "**Comparable Companies**") which (a) are principally engaged in biopharmaceutical business in the PRC; (b) have their shares listed and traded on the Main Board of the Stock Exchange; (c) have generated revenue from product sales during the latest financial year; and (d) have market capitalisation ranging from HK$1.0 billion to HK$20.0 billion on the Initial Last Trading Date. Based on the aforesaid criteria, we have identified 16 Comparable Companies, which represents an exhaustive list. We consider that the Comparable Companies are fair and representative for comparison purpose as (a) all of them are principally engaged in the biopharmaceutical sector as the Group does; (b) all of them generated over 50% of total revenue from the PRC; (c) all of them have generated revenue from product sales indicating they are in the similar business stage as the Group; and (d) their sizes are generally comparable to that of the Group in terms of market capitalisation implied by the Cancellation Price.

The following table set out the details of the Comparable Companies:

Company name (stock code)	**Principal business**	**Market capitalisation as at the Initial Last Trading Date** *(HK$ million)*	**P/E** *(Note 1)* *(times)*	**P/B** *(Note 2)* *(times)*
3SBIO INC. (1530.HK)	Development, production, marketing and sale of biopharmaceutical products	15,389.6	8.94	0.99
Shanghai Haohai Biological Technology Co., Ltd. (6826.HK)	Research and development, manufacturing and sales of biomedical materials	15,162.6	32.79	2.42
InnoCare Pharma Limited (9969.HK)	Research and development, production and commercialization of biopharmaceuticals	9,679.4	Net loss	1.22
AIM Vaccine Co., Ltd. (6660.HK)	Research and development, manufacturing and commercialization of vaccine products for human use	9,204.1	Net loss	2.27
CanSino Biologics Inc. (6185.HK)	Develop, manufacture and commercialiasation of vaccines	9,133.3	Net loss	1.56
Everest Medicines Limited (1952.HK)	Licensing, clinical development and commercialisation of therapies to address critical unmet medical needs	7,711.6	Net loss	1.40
Ascentage Pharma Group International (6855.HK)	Developing novel therapies for cancers, hepatitis B virus and certain age-related diseases	5,862.5	Net loss	87.33 *(excluded as outlier)*
ImmuneOnco Biopharmaceuticals (Shanghai) Inc. (1541.HK)	Research and development of testing biotechnology	5,410.3	Net loss	6.51
Ocumension Therapeutics (1477.HK)	Discovering, developing and commercializing ophthalmic therapies	4,751.5	Net loss	1.46

Company name (stock code)	Principal business	Market capitalisation as at the Initial Last Trading Date *(HK$ million)*	P/E *(Note 1)* *(times)*	P/B *(Note 2)* *(times)*
Alphamab Oncology (9966.HK)	Research, development, manufacture, and commercialization of innovative tumour immunobiology macromolecular targeted drugs	4,727.7	Net loss	2.54
Cutia Therapeutics (2487.HK)	Research and development and manufacture of dermatological biological drugs	2,303.8	Net loss	1.54
3D Medicines Inc. (1244.HK)	Research and development and commercialization of biopharmaceuticals	1,853.9	Net loss	1.78
CStone Pharmaceuticals (2616.HK)	Development, manufacturing and sales of biopharmaceutical products	1,823.6	Net loss	3.59
TOT BIOPHARM International Company Limited (1875.HK)	Developing and commercializing innovative oncology drugs and therapies	1,499.2	Net loss	1.96
Mabpharm Limited (2181.HK)	Research, development and production of monoclonal antibody drugs for cancers and autoimmune diseases	1,484.7	Net loss	6.52
Ascletis Pharma Inc. (1672.HK)	Research, development, production, marketing and sales of pharmaceutical products	1,347.0	Net loss	0.52
		Maximum	32.79	6.52
		Minimum	8.94	0.52
		Average	20.87	2.42
		Median	20.87	1.78
	The Company	**13,370.0 implied by the Cancellation Price**	**22.04** ***(Note 3)***	**4.67** ***(Note 4)***

Source: the website of the Stock Exchange and Bloomberg

Notes:

1. For each of the Comparable Companies, its P/E is calculated based on (a) the market capitalisation as at the Initial Last Trading Date; (b) the profit attributable to its shareholders for the latest financial year; and (c) the exchange rate of HK$1=RMB0.9 for illustrative purpose;

2. For each of the Comparable Companies, its P/B is calculated based on (a) the market capitalisation as at the Initial Last Trading Date; (b) the equity attributable to its shareholders as at the end of the latest financial year; and (c) the exchange rate of HK$1=RMB0.9 for illustrative purpose;

3. Being the Implied P/E; and

4. Being the Implied P/B.

As shown in the table above, out of the 16 Comparable Companies selected, 14 of them have incurred net losses in the latest financial year. The P/Es of the Comparable Companies have a significant disparity ranging from approximately 8.94 times to approximately 32.79 times on the Initial Last Trading Date. As such, the P/Es of the Comparable Companies may not be directly comparable to the Company and shall be used as a reference only.

Excluding Ascentage Pharma Group International as an outlier as its P/B on the Initial Last Trading Date was abnormally high, the P/Bs of the Comparable Companies ranged from approximately 0.52 time to approximately 6.52 times, with an average and a median of approximately 2.42 times and 1.78 times, respectively, on the Initial Last Trading Date. The Implied P/B of approximately 4.67 times is significantly higher than the average and median of those of the Comparable Companies and lies towards the high end of the P/Bs of the Comparable Companies.

Taking into account that (a) for reference only, the Implied P/E lies in the middle of those of the Comparable Companies; and (b) the Implied P/B is significantly higher than the average and median of those of the Comparable Companies, we consider the Cancellation Price was determined with reference to the prevailing market valuation of the Comparable Companies, which we consider to be fair and reasonable as far as the Independent H Shareholders are concerned.

(vi) ***Privatisation precedents***

In order to further assess the fairness and reasonableness of the Cancellation Price, we have reviewed privatisation precedents of companies listed on the Main Board of the Stock Exchange based on the following selection criteria: (a) the privatisation was announced during the period from 1 June 2022 (being approximately 2 years period prior to the date of the Initial Joint Announcement) and up to the date of the Initial Joint Announcement; (b) the privatisation involved cash consideration; and (c) the privatisation has been completed or approved by disinterested shareholders or the required acceptance level was achieved as at the date of the Initial Joint Announcement. Based on the aforesaid criteria, we have identified, on a best effort basis, an exhaustive list of 19 privatisation precedents (the "**Privatisation Precedents**"). We consider that a review period of 2 years is adequate and appropriate to (a) capture the recent successful market practice involving privatisation with cash consideration under the prevailing market conditions; and (b) provide a sufficient and reasonable sample for comparison with the Merger.

Although the issuers involved in the Privatisation Precedents have different principal activities and market capitalisations as compared to those of the Company, taking into account that (a) the Privatisation Precedents would provide us with the recent and relevant information to demonstrate the pricing of successful privatisation of the Main Board listed companies in Hong Kong; and (b) the review period is adequate and appropriate as discussed above, we consider the Privatisation Precedents to be a fair and representative sample which can serve as a useful reference to the recent market pricings of privatisation proposals in the Hong Kong capital market, so as to determine whether the Cancellation Price is in line with market practices. We consider that the Privatisation Precedents are fair, representative and exhaustive samples for our assessment of the Cancellation Price for illustrative purpose.

The table below illustrates the premiums/discounts of the cancellation/offer prices offered by the Privatisation Precedents over/to the prevailing share prices prior to the last trading day as well as the net asset value per share of the Privatisation Precedents:

Date of initial announcement	Company (stock code)	Principal activities	Cancellation/ offer price	Premium/ (discount) of the cancellation/ offer price over/to the closing price on the last trading day *(Notes 1&2)*	Premium of the cancellation/ offer price over the average closing price for the last 10 consecutive trading days up to and including the last trading day *(Notes 1&2)*	Premium of the cancellation/ offer price over the average closing price for the last 30 consecutive trading days up to and including the last trading day *(Notes 1&2)*	Premium/ (discount) of the cancellation/ offer price over/to the average closing price for the last 60 consecutive trading days up to and including the last trading day *(Notes 1&2)*	Premium/ (discount) of the cancellation/ offer price over/to the average closing price for the last 180 consecutive trading days up to and including the last trading day *(Notes 1&2)*	Premium/ (discount) of the cancellation/ offer price over/to the latest/ reassessed net asset value per share *(Note 1)*
28 March 2024	SciClone Pharmaceuticals (Holdings) Limited (6600.HK)	Developing and commercialising its portfolio with potential in its focused therapeutic areas including oncology and severe infection	HK$18.8	33.90%	36.23%	47.47%	47.93%	67.06%	228.35% *(Note 3)*
14 December 2023	Sinosoft Technology Group Limited (1297.HK)	Businesses covering government big data software and related services and low carbon and ecology software and related Services	HK$0.33	29.41%	31.21%	31.13%	22.48%	14.23%	(78.85%) *(Note 3)*
4 December 2023	Weiqiao Textile Company Limited (2698.HK)	Production, sales and distribution of cotton yarn, grey fabric and denim; and the electricity and steam business	HK$3.50	104.68%	102.66%	111.10%	142.89%	144.93%	(78.34%) *(Note 4)*
6 October 2023	Haitong International Securities Group Limited (665.HK)	Provision of brokerage and retail margin financing, corporate finance, investment management, fixed income, currency and commodities as well as structured financing products and services	HK$1.52	114.08%	108.22%	126.53%	122.22%	110.53%	(39.32%) *(Note 3)*
6 October 2023	Pine Care Group Limited (1989.HK)	Provision of residential care homes for the elderly and senior care services	HK$0.89	(1.11%)	0.91%	1.48%	8.94%	43.78%	(7.87%) *(Note 4)*
15 September 2023	Lansen Pharmaceutical Holdings Limited (503.HK)	Pharmaceutical businesses	HK$1.80	26.76%	22.45%	20.00%	15.13%	23.29%	(22.08%) *(Note 3)*
1 September 2023	CST Group Limited (985.HK)	(a) Exploration, development and mining of mineral resources; (b) investments in financial instruments; (c) property investments; and (d) money lending	HK$1.00	61.29%	21.36%	36.61%	(1.38%)	(33.82%)	(60.68%) *(Note 3)*
27 June 2023	Dali Foods Group Company Limited (3799.HK)	A food and beverage company	HK$3.75	37.87%	39.41%	30.21%	21.75%	12.99%	151.68% *(Note 3)*
27 June 2023	Poly Culture Group Corporation Limited (3636.HK)	Art business and auction, performance and theatre management and cinema investment and management	HK$8.88	77.60%	125.15%	133.13%	129.81%	138.38%	(30.91%) *(Note 3)*
11 June 2023	Mason Group Holdings Limited (273.HK)	(a) Provision of wealth and asset management, financial brokerage and related services; (b) trading of securities investments; (c) provision of financing services; and (d) manufacture of infant formula and nutritional products	HK$0.0338	20.71%	19.43%	19.01%	16.15%	19.01%	(60.09%) *(Note 3)*
28 May 2023	Golden Eagle Retail Group Limited (3308.HK)	Lifestyle centre and stylish department store chain development and operation, property development and hotel operation	HK$6.88	63.42%	61.50%	55.30%	49.89%	45.15%	(47.40%) *(Note 4)*
8 May 2023	Hailan Holdings Limited (2278.HK)	Development and sales of properties as well as development and lease of properties	HK$3.36	5.00%	5.00%	5.00%	5.11%	3.79%	(60.19%) *(Note 4)*
21 February 2023	Jiangnan Group Limited (1366.HK)	Manufacture of wires and cables for power transmission, distribution systems and electrical equipment	HK$0.40	12.68%	89.93%	101.44%	99.55%	77.48%	(63.78%) *(Note 3)*
17 February 2023	AAG Energy Holdings Limited (2686.HK)	Coalbed methane exploration and development	HK$1.85	10.12%	9.27%	10.78%	24.16%	25.85%	27.45% *(Note 3)*
24 October 2022	Kingston Financial Group Limited (1031.HK)	Operation of entertainment and financial services businesses	HK$0.30	47.78%	47.57%	39.41%	33.27%	10.99%	(80.24%) *(Note 3)*

Date of initial announcement	Company (stock code)	Principal activities	Cancellation/ offer price	Premium/ (discount) of the cancellation/ offer price over/to the closing price on the last trading day *(Notes 1&2)*	Premium of the cancellation/ offer price over the average closing price for the last 10 consecutive trading days up to and including the last trading day *(Notes 1&2)*	Premium of the cancellation/ offer price over the average closing price for the last 30 consecutive trading days up to and including the last trading day *(Notes 1&2)*	Premium/ (discount) of the cancellation/ offer price over/to the average closing price for the last 60 consecutive trading days up to and including the last trading day *(Notes 1&2)*	Premium/ (discount) of the cancellation/ offer price over/to the average closing price for the last 180 consecutive trading days up to and including the last trading day *(Notes 1&2)*	Premium/ (discount) of the cancellation/ offer price over/to the latest/ reassessed net asset value per share *(Note 1)*
8 August 2022	EVOC Intelligent Technology Company Limited (2308.HK)	Research, development, manufacture and distribution of special computer products and the trading of electronic products and accessories	HK$1.75	15.13%	44.63%	44.63%	50.86%	47.43%	(55.41%) *(Note 4)*
5 August 2022	Lifestyle International Holdings Limited (1212.HK)	Operation of department stores, property development and investment	HK$5.00	62.34%	81.88%	70.11%	58.66%	30.01%	(52.83%) *(Note 4)*
9 June 2022	China VAST Industrial Urban Development Company Limited (6166.HK)	(a) Planning, development and operation of large-scale industrial town projects through cooperation with local governments; (b) property development; and (c) property leasing	HK$2.40	30.43%	28.82%	31.39%	36.90%	30.66%	(41.89%) *(Note 4)*
2 June 2022	Xiamen International Port Co., Ltd (3378.HK)	(a) Container, bulk and general cargo loading and unloading and storage businesses; (b) comprehensive port logistics services, including port-related logistics, shipping agency, tugboat berthing and unberthing services, tallying; and (c) trading of merchandise	HK$2.25	55.17%	100.89%	134.21%	150.00%	158.62%	(14.77%) *(Note 3)*
			Maximum	114.08%	125.15%	134.21%	150.00%	158.62%	228.35%
			Minimum	(1.11%)	0.91%	1.48%	(1.38%)	(33.82%)	(80.24%)
			Average	42.49%	51.40%	55.21%	54.44%	51.07%	(20.38%)
			Median	33.90%	39.41%	39.41%	36.90%	30.66%	(47.40%)
	The Company	**The Cancellation Price based on**	**Undisturbed Date**	**36.67%**	**40.01%**	**52.04%**	**63.13%**	**82.09%**	**456.43%**
			Initial Last Trading Date	**30.57%**	**38.75%**	**50.83%**	**62.06%**	**81.42%**	**456.43%**

Source: the website of the Stock Exchange and Bloomberg

Notes:

1. Subject to rounding differences.

2. Up to and including the last trading day/unaffected price date of the shares prior to the publication of the first announcement pursuant to Rule 3.5 or Rule 3.7 of the Takeovers Code (where applicable).

3. Based on the latest net asset value per share extracted from the relevant scheme document/offer document of the Privatisation Precedents.

4. Based on the latest re-assessed net asset value per share extracted from the relevant scheme document/offer document of the Privatisation Precedents.

The comparison of the cancellation price to market prices, in our view, serves to demonstrate the premium over market prices in successful privatisations in Hong Kong in the past, i.e. how much the shareholders are being offered and the level of premium that is acceptable to shareholders in terms of historical share price ranges.

As shown in the table above, the premiums represented by the Cancellation Price over the Undisturbed Date, 10, 30, 60 and 180 consecutive trading days average closing prices are all within the ranges of the Privatisation Precedents. In particular, the premiums represented by the Cancellation Price over the Undisturbed Date, 10, 30, 60 and 180 consecutive trading days average closing prices of approximately 36.67%, 40.01%, 52.04%, 63.13% and 82.09%, respectively, are generally more favourable than the median premiums of the Privatisation Precedents. In respect of the average premiums of the Privatisation Precedents, the premiums represented by the Cancellation Price over the Undistributed Date are generally more favourable than the average premiums of the Privatisation Precedents for the longer period comparisons (i.e. 60-day and 180-day) while comparatively less favourably with shorter period comparisons (i.e. last trading day, 10-day and 30-day).

Furthermore, the premiums represented by the Cancellation Price over the Initial Last Trading Date, 10, 30, 60 and 180 consecutive trading days average closing prices are also all within the ranges of the Privatisation Precedents and are generally more favourable than or close to both of the median and average premiums of the Privatisation Precedents in most types of comparisons (i.e. 30-day, 60-day and 180-day), except it lagged behind both of the median and average premiums of the Privatisation Precedents in the last trading day and 10-day comparisons. It is worth mentioning that all of the Privatisation Precedents were successfully completed or approved by disinterested shareholders, indicating that the terms of the privatisation proposals in the Privatisation Precedents were accepted by the market. In other words, if the premiums represented by the Cancellation Price are within the range and close to the medians of those of the Privatisation Precedents, the terms of the Cash Alternative are suggested to be no less favourable than some of the Privatisation Precedents that were accepted by the market.

The Cancellation Price represents a significant premium of approximately 456.43% over the audited consolidated net asset value per Share as at 31 December 2023, which is better than all of the Privatisation Precedents. For reference purpose, the Cancellation Price represents a significant premium of approximately 373.08% over the unaudited consolidated net asset value per Share as at 30 June 2024, which is better than all of the Privatisation Precedents as well.

In view of (a) the premiums represented by the Cancellation Price, especially over the closing H Share prices on, and for different periods up to and including, the Undisturbed Date and the Initial Last Trading Date, are generally favourable compared to those of the Privatisation Precedents; and (b) the significant premium represented by the Cancellation Price over the latest audited consolidated net asset value per Share is better than all of the Privatisation Precedents, we consider that the Cancellation Price is in line with the market practice, and is fair and reasonable.

6. Share Alternative

Under the Merger, apart from the Cash Alternative, the Qualifying Independent H Shareholders are also offered to elect the Share Alternative. Under the Share Alternative, the Qualifying Shareholders are offered (i) one Hong Kong Rollover Share per H Share; (ii) one PRC Rollover Share per Unlisted Share; and (iii) upon issuance of the Hong Kong Rollover Shares or PRC Rollover Shares (as the case may be), the Offeror will issue new shares in its share capital to the Hong Kong Rollover Entity or PRC Rollover Entity (as the case may be) on the basis of each 0.233108 shares in the Offeror's share capital for each Share to be cancelled (or 1 share in the Offeror's share capital for each 4.289864016 Shares to be cancelled).

The maximum number of Shares to be exchanged for Rollover Securities (including both of the Hong Kong Rollover Shares and the PRC Rollover Shares) pursuant to the election to receive the Share Alternative shall not exceed the Share Alternative Cap (being 43,479,588 Shares, representing 8% of the total number of issued Share in the Company as at the Second Joint Announcement Date). In the event that aggregate number of Shares underlying all elections for the Share Alternative by Share Alternative Holders which comply with the eligibility requirements regarding the Share Alternative set out in the Composite Document and the Election Form exceeds the Share Alternative Cap, the number of Shares to be settled by the Share Alternative (with each such H Share being exchanged for one Hong Kong Rollover Share and each such Unlisted Share being exchanged for one PRC Rollover Share) for each Share Alternative Holder shall be reduced under the *Pro Rata* Downward Adjustment Mechanism, and the consideration for the remaining portion of each such Share Alternative Holder's respective Shares will be settled in cash at the Cancellation Price. Only Shares held by registered Shareholders who are Qualifying Shareholders will be eligible for the Share Alternative.

For details of the Share Alternative, please refer to the section headed "5. INFORMATION ON THE SHARE ALTERNATIVE" in the Letter from the Board.

(i) *Restriction and rights of the Hong Kong Rollover Shares*

The Hong Kong Rollover Entity is established for the purpose of issuing the Hong Kong Rollover Shares under the Share Alternative. Although shareholders of the Hong Kong Rollover Entity will not benefit from the protection afforded by the Listing Rules and the Takeovers Code (assuming the Hong Kong Rollover Entity is not determined by the Executive to be a "public company in Hong Kong" as defined in the Takeovers Code), their rights and obligations in relation to the Hong Kong Rollover Entity will be governed by the provisions of the articles and associations of the Hong Kong Rollover Entity, which are detailed in Appendix VI in the Composite Document.

If the Qualifying Independent H Shareholders wish to consider the Share Alternative, they are recommended to read the information carefully, particularly the section headed "5. INFORMATION ON THE SHARE ALTERNATIVE" in the Letter from the Board. Risks which the Qualifying Independent H Shareholders should consider in evaluating the Share Alternative are set out in the sub-section headed "(iii) Risk factors of holding the Hong Kong Rollover Shares" below.

(ii) ***Valuation of the Hong Kong Rollover Shares***

As aforementioned, under the Share Alternative, each Qualifying Shareholder is offered to (a) one Hong Kong Rollover Share per H Share; (b) one PRC Rollover Share per Unlisted Share; and (c) upon issuance of the Hong Kong Rollover Shares or PRC Rollover Shares (as the case may be), the Offeror will issue new shares in its share capital to the Hong Kong Rollover Entity or PRC Rollover Entity (as the case may be) on the basis of each 0.233108 shares in the Offeror's share capital for each Share to be cancelled (or 1 share in the Offeror's share capital for each 4.289864016 Shares to be cancelled). The Hong Kong Rollover Shares will be shares of the Hong Kong Rollover Entity which is newly incorporated and unlisted. The value of the Hong Kong Rollover Share will be primarily determined by the value of the Offeror after completion of the Merger. The full text of the estimate of value of the SPV Shares (including both the Hong Kong SPV Shares and the PRC SPV Shares) (the "**Estimate of Value**") is set out in Appendix V to the Composite Document (the "**Letter from CICC**"). On the basis of, and subject to, the assumptions and methodologies in the Letter from CICC, the Estimate of Value ranged between HK$17.22 and HK$24.60 for each SPV Share. Under the Share Alternative, Qualifying Shareholders are offered one Hong Kong SPV Share for each H Share cancelled or one PRC SPV Share for each Unlisted Share cancelled. The Qualifying Independent H Shareholders should note that it is expressed in the Letter from CICC that such Estimate of Value is not necessarily indicative of, among others, the price at which the SPV Shares might actually trade at any future date.

We have reviewed and discussed with CICC the methodologies used, and the bases and assumptions adopted, for the Estimate of Value. It is noted that CICC has made several major assumptions, including but not limited to, (a) as at the Latest Practicable Date, the Merger has become or been declared effective and the Company is a wholly-owned subsidiary of the Offeror; (b) the SPV Shares issued in connection with the Merger comprise the entire issued share capital of the Rollover Entities and no person has any right to acquire or subscribe for any share or loan capital of the Rollover Entities other than the SPV Shares issued in connection with the Merger; (c) the Shares subject to the Merger comprise the entire issued share capital of the Company and, no person other than the Offeror has any right to acquire or option to subscribe for any share or loan capital of the Company and no share capital of the Company is disposed of nor any right granted over or in respect of it at any future date; (d) the Offeror, the Rollover Entities and the Company exist on a continuing basis; and (e) the Company and its subsidiaries will continue to operate in the ordinary course as a going concern and are not subject to any material adverse event; the assets and liabilities of the Company (on a consolidated basis) are fairly reflected in the 2023 Annual Report and the 2024 Interim Report; neither the Company nor any of its subsidiaries disposes of any asset for less than its fair value (as reflected in the Last Accounts) nor suffers or incurs any liability, other than in the ordinary course of business.

Set out below is a summary of the scenario illustrating the calculations of the Estimate of Value:

		Assuming the maximum number of Shares to be exchanged for Rollover Securities pursuant to the election to receive the Share Alternative reach the Share Alternative Cap
Cancellation Price per Share	A	HK$24.60
Total number of the outstanding shares	B	126,692,792
Number of Shares to be cancelled for 1 share in the Offeror's share capital	C	4.289864016
The estimated value of all of the outstanding Shares	D = A × B × C	HK$13,369,973,297
Rollover Entities' aggregate percentage of shareholding in the Company	E	8.00%
Total value of the New Shares issued by the Rollover Entities	**F = D × E**	**HK$1,069,597,864**
Number of the SPV Shares in issue	G	43,479,588
Top end value per SPV Share	H = F / G	HK$24.60
Bottom end value per SPV Share (assuming a 30% discount for non-marketability of the SPV Shares)		HK$17.22

As advised by the CICC, the Estimate of Value is based on the Cancellation Price of HK$24.60 per Share under the Cash Alternative and has been derived under one scenario which is assuming the Share Alternative is settled up to the Share Alternative Cap, the Offeror will be owned by Fosun Pharma Industrial Development and Fosun Industrial as to 92.0% in aggregate and the Rollover Entities as to 8.0% in aggregate following the Merger becoming effective. As shown on the table above, the main difference between the top end and bottom end of the range is the assumption on discount for the non-marketability of the SPV Shares. For the bottom end value, 30% discount on the value of the SPV Shares was applied, and there was no discount applied on the top end value. CICC believes that such range of discounts is an appropriate assumption to use for this purpose as it is consistent with the approach taken in recent market privatisation precedents in Hong Kong which involves unlisted shares being offered as an alternative transaction consideration and which adopts an illiquidity discount methodology to assess the value of the unlisted shares. Based on the above, the Estimate of Value would be within a range of HK$17.22 and HK$24.60 per SPV Share.

In view that the SPV Shares are illiquid with consideration restriction and limited shareholders' rights, we consider applying a discount to the SPV Shares is reasonable. In order to further assess the fairness and reasonableness of the level of discount, we have reviewed the successful privatisation precedents of companies listed on the Main Board of the Stock Exchange which (a) involved the valuation of unlisted shares; and (b) were published in the respective composite document and/or scheme document since 2019. Based on the aforesaid criteria, we have identified, on a best effort basis, an exhaustive list of 7 precedents. We consider that a review period of 5 years is sufficient and representative to provide an overview of the general market practice in relation to the valuation of unlisted shares with the lack of marketability and shareholders' rights.

Date of scheme/ composite document	**Company (stock code)**	**Discount applied**
2 July 2024	L'Occitane International S.A. (973.HK)	30%
22 September 2023	Trigiant Group Limited (1300.HK)	30%
4 May 2022	Suchuang Gas Corporation Limited (1430.HK)	30%
10 November 2021	Lee Hing Development Limited (68.HK)	30%
3 August 2021	Clear Media Limited (100.HK)	30%
26 January 2021	Huifu Payment Limited (1806.HK)	30%
20 June 2019	China Power Clean Energy Development Company Limited (735.HK)	30%

As shown in the table above, we noted that a lack of marketability/shareholders' rights discount of 30% were applied in all of the successful privatisation precedents.

Having considered that the SPV Shares under the Share Alternative are unlisted and illiquid, we are of the view that the methodologies adopted by CICC is a reasonable approach in establishing the Estimate of Value and is in line with the commonly adopted approaches in similar privatisation cases for share alternatives in Hong Kong. We also consider that it is not practicable to estimate a discount to reflect lack of marketability and limited shareholders' rights (from the Independent H Shareholders' perspective) very precisely, as it depends on different circumstances. On the basis of the above, we consider that a range of 0% to 30% adopted by CICC in its estimate, to be acceptable.

For further details of the methodologies, bases, assumptions and computations of the Estimate of Value, please refer to the Letter from CICC set out in Appendix VI to the Composite Document which should be read in its entirety.

(iii) ***Risk factors of holding the Hong Kong Rollover Shares***

The Qualifying Independent H Shareholders should bear in mind the risk factors of holding the Hong Kong Rollover Shares and indirect ownership of the Company (after the Company is delisted) through the Hong Kong Rollover Entity as disclosed in the section headed "5. INFORMATION ON THE SHARE ALTERNATIVE" in the Letter from the Board, in particular the following:

(a) the Hong Kong Rollover Shares are securities in a private and unlisted company incorporated in and governed by the laws of Hong Kong, and as at the Latest Practicable Date, the Hong Kong Rollover Entity has no intention for these securities to be listed or admitted to trading on any exchange or market, or be quoted on any inter-dealer system. Accordingly, these securities will be illiquid and it is unlikely that an active trading market will develop for the Hong Kong Rollover Shares;

(b) your interest in the Hong Kong Rollover Shares will be that of a minority shareholder with limited shareholder protection rights and you will not have the benefits and protections of the Listing Rules;

(c) the value of the Hong Kong Rollover Entity and your Hong Kong Rollover Shares in the future remains uncertain and can be adversely affected by changes in the business and economic environment, and competition in the global biopharmaceutical industry, and there can be no assurance that your Hong Kong Rollover Shares can be sold in the future for a value that is at least the same as the Cancellation Price;

(d) dividend payments in respect of the Hong Kong Rollover Shares will not be guaranteed or secured. Payment of dividends on the Hong Kong Rollover Shares (if any) would solely depend on whether such payment is recommended or declared by the Hong Kong Rollover Entity' board of directors and/or shareholders' meeting and subject to the Hong Kong Rollover Entity's constitutional documents and applicable laws; and

(e) the Hong Kong Rollover Entity and the Offeror may not be "public companies" under the Takeovers Code, in which case, the protections under these codes will not be applicable or afforded to Share Alternative Holders.

The Qualifying Independent H Shareholders should note that given (i) the nature of the Hong Kong Rollover Shares; (ii) the risks and restrictions associated with the Hong Kong Rollover Shares as set out in the section headed "5. INFORMATION ON THE SHARE ALTERNATIVE" in the Letter from the Board and highlighted above in this section; (iii) the illiquid nature of the Hong Kong Rollover Shares; and (iv) the uncertainty over the dividend payment by the Hong Kong Rollover Entity and future value of the Hong Kong Rollover Entity and the Hong Kong Rollover Shares, we consider the Share Alternative to be suitable principally for sophisticated Qualifying Independent H Shareholders only, and we do not consider it suitable for the general Qualifying Independent H Shareholders who are not accustomed to holding unlisted shares.

Before deciding whether to accept the Share Alternative, aside from the specific features of the Share Alternative and the associated risks of holding the Hong Kong Rollover Shares, the Qualifying Independent H Shareholders should also consider (i) the background of the Offeror; and (ii) the future prospects and profitability of the Group.

RECOMMENDATION AND OPINION

In arriving at our recommendation in respect of the Merger, we have considered the principal factors and reasons as discussed above and in particular the following (which should be read in conjunction with and interpreted in the full context of this letter):

- *The Merger provides an opportunity for the Independent H Shareholders to dispose of their H Shares for cash at significant premiums over the closing prices of the H Shares prior to the issue of the Initial Joint Announcement without having to suffer any illiquidity discount and settlement risk*

  The premiums as represented by the Cancellation Price were approximately 30.57%, 50.83%, 62.06% and 81.42% over the closing price on the Initial Last Trading Date, and the average closing prices for the periods of 30, 60 and 180 trading days up to and including the Initial Last Trading Date, respectively. The premiums as represented by the Cancellation Price were also approximately 36.67%, 52.04%, 63.13% and 82.09% over the closing price on the Undisturbed Date, and the average closing prices for the periods of 30, 60 and 180 trading days up to and including the Undisturbed Date, respectively.

  Subsequent to the publication of the Initial Joint Announcement, the closing price of the H Shares surged to HK$22.5 per H Share. Nevertheless, the closing prices of the H Shares had remained trading below the Cancellation Price within a narrow band during the Post-Initial Joint Announcement Period. The H Shares closed at HK$23.9 as at the Latest Practicable Date. We consider such price hike is due to the announcement of the Merger and there is no assurance that the prevailing H Share prices will remain at the current level if the Merger is not approved or otherwise lapses.

  The monthly average daily trading volume of the H Shares during the Review Period has been generally thin. During the Post-Initial Joint Announcement Period, the trading volume of the H Shares has been active in June 2024, which we consider was mainly due to the initial positive market reaction to the Merger and the limited trading days of the H Shares in June 2024 (i.e. a total of 4 days), and hence not being representative. Given the thin liquidity of the H Shares in general, from the Independent H Shareholders' perspective, in particular those holding large blocks of the H Shares, the Merger will provide a good opportunity for the Independent H Shareholders to realise their holdings at significant premium over the prevailing market price, which would not normally be available through the market.

- *The prospects of the Group's business and financial performance*

  Leveraging on the foresighted research and development strategy and commercialisation layout, the Group has achieved steady revenue growth for the two years ended 31 December 2023 and 6M2024 and recorded full-year net profit for the first time for FY2023. Despite the continuous business growth, the Group's debt level (i.e. the balance of interest-bearing bank and other borrowings) has increased from approximately RMB3,677.1 million as at 31 December 2022 to approximately RMB4,054.1 million as at 30 June 2024, in order to finance the substantial capital requirements for (i) progressing the development of the Group's product candidates towards receiving regulatory approval and commencing product commercialisation; (ii) expanding the Group's drug candidate portfolio; and (iii) constructing new manufacturing facility in Shanghai, the Songjiang Second Plant. In the meantime, the Group's net current liabilities position has also maintained at a high level of approximately RMB2,810.0 million, RMB2,391.4 million and RMB2,506.4 million as at 31 December 2022, 31 December 2023 and 30 June 2024, respectively

  In light of the challenging environment, the Group aims to continue to explore new targets and mechanisms and conduct a series of clinical studies worldwide to diversify the product portfolio into new disease fields. However, the diversification is not expected to bring in immediate return to the Group in the short term. Besides, the Group anticipates to increase efforts on commercialisation of new products for the next few years in order to expand the sales and extend its market reach to cover more countries and regions. As such, it is anticipated that constant capital commitment of substantial investments and spending would be required on the Group's product development, commercialisation activities and manufacturing facilities construction, which may negatively impact the Group's financial position and bring volatility to the Group's financial performance in the near term. Given the above, we consider that while the near-term business prospects of the Group would be generally cautiously optimistic, there is still uncertainty in its overall future prospects.

- *The Cancellation Price is fair and reasonable*

  For the evaluation of the Cancellation Price, we have taken into consideration of the following:

  (i) the Cancellation Price is higher than the closing prices of the H Shares in all trading days during the entire Review Period;

  (ii) the Implied P/B is significantly higher than the average and median of those of the Comparable Companies on the Initial Last Trading Date;

(iii) the premiums represented by the Cancellation Price, especially over the closing H Share prices on, and for different periods up to and including, the Undisturbed Date and the Initial Last Trading Date, are generally favourable compared to those of the Privatisation Precedents; and

(iv) the Cancellation Price represents a significant premium of approximately 456.43% over the audited consolidated net asset value per Share as at 31 December 2023 and approximately 373.08% over the unaudited consolidated net asset valuer per Share as at 30 June 2024, which is better than all of the Privatisation Precedents;

- *The Cash Alternative vs the Share Alternative*

The Merger comprises the Cash Alternative and the Share Alternative. The Share Alternative will enable the Qualifying Independent H Shareholders to remain indirect shareholding in the Company on the basis of one Hong Kong Rollover Share per H Share. The maximum number of Shares to be exchanged for Rollover Securities (including both of the Hong Kong Rollover Shares and the PRC Rollover Shares) pursuant to the election to receive the Share Alternative shall not exceed the Share Alternative Cap (being 43,479,588 Shares, representing 8% of the total number of issued Share in the Company as at the Second Joint Announcement Date). In the event that aggregate number of Shares underlying all elections for the Share Alternative by Share Alternative Holders which comply with the eligibility requirements regarding the Share Alternative set out in the Composite Document and the Election Form exceeds the Share Alternative Cap, the number of Shares to be settled by the Share Alternative (with each such H Share being exchanged for one Hong Kong Rollover Share and each such Unlisted Share being exchanged for one PRC Rollover Share) for each Share Alternative Holder shall be reduced under the *Pro Rata* Downward Adjustment Mechanism, and the consideration for the remaining portion of each such Share Alternative Holder's respective Shares will be settled in cash at the Cancellation Price. Only Shares held by registered Shareholders who are Qualifying Shareholders will be eligible for the Share Alternative.

As set out in the Letter from CICC, the Estimate of Value is HK$17.22 (if a 30% discount for non-marketability is applied) or HK$24.60 (the same as the Cancellation Price under the Cash Alternative) per SPV Share. The Hong Kong Rollover Shares are subject to certain risks and restrictions, in particular, (i) the Hong Kong Rollover Shares are unlisted with no ready market; (ii) the holders of the Hong Kong Rollover Shares, being minority shareholders of the Offeror, will only have limited shareholder protection rights; and (iii) dividends on the Hong Kong Rollover Shares will not be guaranteed. On this basis, we consider the Share Alternative to be suitable principally for the sophisticated Qualifying Independent H Shareholders only, and we do not consider it suitable for the general Qualifying Independent H Shareholders without experience in, for example, investing as minorities in unlisted investment vehicles.

Based on the above, we consider that the terms of the Merger (including the Cancellation Price) are fair and reasonable so far as the Independent H Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent H Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM and the H Shareholders' Class Meeting to approve and implement the Merger.

We recommend the Qualifying Independent H Shareholders (other than the sophisticated Qualifying Independent H Shareholders) to accept the Cash Alternative of HK$24.60 per H Share and not to take the Share Alternative, which we consider to be suitable only for the sophisticated Qualifying Independent H Shareholders who have knowledge of and experience in investing as minority shareholders of privately held companies. In our opinion, only those Qualifying Independent H Shareholders who are particularly attracted by the background of the Offeror and are optimistic about the future prospects and profitability of the Group and have carefully studied the specific features of the Share Alternative and the associated risks of holding the Hong Kong Rollover Shares should consider taking the Share Alternative.

Yours faithfully,
For and on behalf of
Rainbow Capital (HK) Limited

Danny Leung
Managing Director

Mr. Danny Leung is a licensed person and a responsible officer of Rainbow Capital (HK) Limited registered with the Securities and Futures Commission to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO. He has over ten years of experience in the corporate finance industry.