THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Luye Pharma Group Ltd., you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

LUYE PHARMA GROUP LTD.

绿叶制药集团有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 02186)

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF EQUITY INTEREST IN SHANDONG BOAN AND NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser to Luye Pharma Group Ltd.

UBS

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders of Luye Pharma Group Ltd.

Gram Capital Limited
嘉林資本有限公司

A letter from the Independent Board Committee is set out on pages 24 to 25 of this circular. A letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 36 of this circular. A notice convening the SGM to be held at Taishan Room, Level 5, Island Shangri-La, Supreme Court Road, Central, Hong Kong on Wednesday, 22 January 2020 at 10:00 a.m. is set out on pages 68 to 69 of this circular. Whether or not you are able to attend and/or vote at the SGM in person, you are encouraged to complete the enclosed form of proxy and return it to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjournment thereof (as the case may be) should you so wish.

6 January 2020

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Unless the context requires otherwise, the following expressions have the following meanings in this circular:

"4 Boan Biosimilars"	LY01008, LY06006 and two other biosimilar products of Shandong Boan, being LY01011 and LY09004
"Acquisition"	the proposed acquisition by Shandong Luye of the Equity Interest held by LIG in accordance with the terms of the Sale and Purchase Agreement
"Acquisition Announcement"	the announcement of the Company dated 1 December 2019 in relation to the Acquisition
"Boan Minority Shareholder"	Thinktank Capital Management Holdings Limited (智庫資本管理集團有限公司), a company incorporated under the laws of Hong Kong with limited liability in December 2014
"Board"	the board of Directors
"CAGR"	compounded annual growth rate
"CDE"	中國國家藥品監督管理局藥品審評中心 (China Centre For Drug Evaluation of National Medical Products Administration)
"Company"	Luye Pharma Group Ltd., a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition
"Directors"	the directors of the Company
"Equity Interest"	98.0% equity interest in Shandong Boan held by LIG to be sold to Shandong Luye pursuant to the Sale and Purchase Agreement
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	an independent board committee of the Company comprising all the independent non-executive Directors, formed for the purpose of advising the Independent Shareholders in respect of the Acquisition

"Independent Financial Adviser" or "Gram Capital"	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, and being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition
"Independent Shareholders"	Shareholders other than Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, and their respective associates
"Independent Third Party"	a third party independent of the Company and its connected persons
"Initial Payment"	the initial payment of the Purchase Price, being RMB723,366,420 (approximately US$102.9 million)
"Latest Practicable Date"	2 January 2020
"LIG"	綠葉投資集團有限公司 (Luye Investment Group Co. Ltd.), a limited liability company established in the PRC and owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, who are executive Directors
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"LY01008"	a biosimilar product under research and development by Shandong Boan. See "Information of Shandong Boan — Historical transactions" for further information
"LY01008 Payment"	RMB361,683,210 (approximately US$51.45 million), being one of the Subsequent Payments of the Purchase Price
"LY06006"	a biosimilar product under research and development by Shandong Boan. See "Information of Shandong Boan — Historical transactions" for further information
"LY06006 Payment"	RMB361,683,210 (approximately US$51.45 million), being one of the Subsequent Payments of the Purchase Price
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PRC"	the People's Republic of China (for the purpose of this circular, excluding Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan)

"Purchase Price"	the purchase price for the Equity Interest, comprising the Initial Payment and the Subsequent Payments
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the Sale and Purchase agreement dated 1 December 2019 entered into between Shandong Luye and LIG in relation to the sale and purchase of the Equity Interest
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting to be held by the Company to consider and, if thought fit, approve, the Sale and Purchase Agreement and the transactions contemplated thereunder
"Shandong Boan"	山東博安生物技術有限公司 (Shandong Boan Biological Technology Co. Ltd.)
"Shandong Luye"	山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co. Ltd.), a company with limited liability established in the PRC, and a wholly-owned subsidiary of the Company
"Shareholders"	holders of the Shares
"Shares"	ordinary shares of US$0.02 each in the issued share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsequent Payments"	the LY01008 Payment and the LY06006 Payment
"UBS"	UBS AG Hong Kong Branch, a registered institution under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO, the financial adviser to the Company in relation to the Acquisition. UBS AG is incorporated in Switzerland with limited liability
"United States"	the United States of America
"USD" or "US$"	US dollars, the lawful currency of the United States

"Valuation Report"	the valuation report dated 6 January 2020 prepared by the Valuer and commissioned by the Company in respect of Shandong Boan
"Valuer"	CHFT Advisory and Appraisal Ltd., the valuer in respect of Shandong Boan in relation to the Acquisition

In this circular, the terms "associate", "connected person", "controlling shareholder", "percentage ratios" and "subsidiary" have the meanings given to such terms in the Listing Rules, unless the context otherwise requires.

English translations for the Chinese names of the PRC entities, authorities or facilities in this circular are for reference only. In the event of any discrepancies between the Chinese names of these PRC entities, authorities or facilities and their respective English translations, the Chinese version shall prevail.

Unless otherwise specified, this circular contains certain translations for the convenience of the reader at the exchange rate of US$1 to RMB7.0298. These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in RMB or US$ can be converted at the above rate or any other rates or at all.

LUYE PHARMA GROUP LTD.
绿叶制药集团有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 02186)

Executive Directors:
Mr. Liu Dian Bo
Mr. Yang Rong Bing
Mr. Yuan Hui Xian
Ms. Zhu Yuan Yuan

Non-executive Director:
Mr. Song Rui Lin

Independent Non-executive Directors:
Mr. Zhang Hua Qiao
Professor Lo Yuk Lam
Mr. Leung Man Kit
Mr. Choy Sze Chung Jojo

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business in Hong Kong:
Unit 3207, 32/F, Champion Tower
3 Garden Road
Central
Hong Kong

6 January 2020

To the Shareholders,

Dear Sir or Madam

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF EQUITY INTEREST IN SHANDONG BOAN

INTRODUCTION

Reference is made to the Acquisition Announcement. On 1 December 2019, Shandong Luye (a wholly-owned subsidiary of the Company) and LIG entered into the Sale and Purchase Agreement pursuant to which Shandong Luye has conditionally agreed to purchase and LIG has conditionally agreed to sell its 98.0% equity interest in Shandong Boan.

LIG is owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director. Accordingly, LIG is a connected person of the Company, and the Acquisition under the Sale and Purchase Agreement constitutes a connected transaction of the Company under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are summarised below:

Date

1 December 2019

Parties

(1) Shandong Luye, as the buyer; and

(2) LIG, as the seller.

LIG is owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director. Accordingly, LIG is a connected person of the Company.

Assets being acquired

Pursuant to the Sale and Purchase Agreement, Shandong Luye has agreed to acquire, and LIG has agreed to sell to Shandong Luye, 98.0% of the equity interest in Shandong Boan.

Minority interest in Shandong Boan

The remaining 2.0% equity interest in Shandong Boan has been transferred by LIG to the Boan Minority Shareholder, as a result of which Shandong Boan has become a sino-foreign joint venture company (中外合資經營企業). Being a sino-foreign joint venture company (as against a pure domestic company), Shandong Boan (and accordingly, the Company, as Shandong Boan's majority shareholder) is expected to benefit from the more straightforward merger rules under applicable PRC laws, which should help facilitate any potential capital transactions in the future. While the merger of a PRC domestic company is potentially subject to the approval of the Ministry of Commerce of the People's Republic of China ("**MOFCOM**") under the Provisions of the Ministry of Commerce on M&A of a Domestic Enterprise by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the "**M&A Rules**"), the merger of a sino-foreign joint venture company such as Shandong Boan generally would fall outside the M&A Rules and such merger shall be filed with the MOFCOM under the Interim Measures for the Recordation Administration of the Formation and Modification of Foreign-Funded Enterprises (2018 Amendment) (《外商投資企業設立及變更備案管理暫行辦法(2018修正)》).

The Boan Minority Shareholder's principal business includes investment management, consulting and financial advisory. The Boan Minority Shareholder is wholly owned by Double Apex Limited, a company incorporated under the laws of the British Virgin Islands, which is in turn wholly owned by Mr. Chen Yang (陳陽), an individual resident in Hong Kong who has held positions in various corporations, investment institutions and private equity funds in the PRC. To the best of the Directors' knowledge, (i) the Boan Minority Shareholder and its ultimate beneficial owner are Independent Third Parties; and (ii) the Boan Minority Shareholder and its ultimate beneficial owner do not have any relationship (business or otherwise) with the Company and its connected persons, other than the interest in Shandong Boan.

Set out below is a summary of the principal terms of the transfer of 2.0% interest in Shandong Boan to the Boan Minority Shareholder:

Date of agreement	:	16 November 2019
Date of transfer	:	5 December 2019
Consideration	:	US$4.2 million, which values Shandong Boan on the same basis as the Acquisition.

Following the completion of this transfer, the Boan Minority Shareholder is entitled to exercise rights as shareholder in respect to its 2.0% interest in Shandong Boan under the constitution of Shandong Boan and the laws of the PRC. As agreed under the relevant transfer agreement, the board of directors of Shandong Boan would comprise of three directors, and LIG and the Boan Minority Shareholder are entitled to nominate two directors and one director, respectively. Pursuant to the requirements of the Yantai Market Supervision Authority of the Administration for Industry and Commerce (煙台市工商局（市場監管局)), Shandong Boan as a sino-foreign joint venture is required to have a director appointed by the "foreign" party. For such compliance reasons, the Company considers that the right of the Boan Minority Shareholder (being the "foreign" party) to nominate one director is in compliance with the applicable law. Apart from the aforementioned rights, there is no other special right that the Boan Minority Shareholder is entitled to exercise in respect to its 2.0% interest in Shandong Boan and the Equity Interest. Save as disclosed above, (i) there are no nominee arrangements or other agreements or arrangements entered into between Shandong Luye and the Boan Minority Shareholder as shareholders of Shandong Boan; and (ii) the Boan Minority Shareholder is not entitled to any special rights (such as veto rights) over the corporate actions of Shandong Boan.

Purchase Price

Shandong Luye has conditionally agreed to purchase and LIG has conditionally agreed to sell its 98.0% equity interest in Shandong Boan for a total purchase price of up to RMB1,446.7 million (approximately US$205.8 million).

The total Purchase Price for the Acquisition comprises the following payments:

(1)	the Initial Payment, which is payable by the Group in cash within 10 business days after Shandong Luye receives notice of payment following the satisfaction of all conditions	RMB723,366,420 (approximately US$102.90 million)
(2)	the LY01008 Payment, which is contingent and only payable by the Group in cash upon the grant by the competent authority in China of the marketing authorisation for LY01008	RMB361,683,210 (approximately US$51.45 million)
(3)	the LY06006 Payment, which is contingent and only payable by the Group in cash upon the grant by the competent authority in China of the marketing authorisation for LY06006	RMB361,683,210 (approximately US$51.45 million)

The relevant competent authority in China which grants marketing authorisation for new drugs is CDE under the National Medical Products Administration. At present, Shandong Boan expects the marketing authorisation in China for LY01008 and LY06006 will be obtained around 2021 and 2022, respectively. See "Information of Shandong Boan — Historical transactions" for further information on LY01008 and LY06006. The Purchase Price is expected to be settled in RMB in the PRC.

The Purchase Price and payment schedule was determined after arm's length negotiations between Shandong Luye and LIG taking into account, among other factors, the entire equity interest value of 100% of Shandong Boan as at 30 June 2019 as appraised by CHFT Advisory and Appraisal Ltd., an independent valuer, of RMB1,491 million, the overall valuation, payment terms and structure of the Group's acquisition of the 4 Boan Biosimilars as announced by the Company on 4 August 2017 and 21 December 2018 respectively, the business nature and financial position of Shandong Boan, the current market value of comparable listed biotech companies, the product pipeline, business prospects of Shandong Boan and the general market conditions of the biopharmaceutical industry in the PRC.

When determining the payment terms of the Purchase Price, Shandong Luye and LIG have agreed to a payment schedule by stages, with the Initial Payment of RMB723,366,420 (approximately US$102.90 million) payable within 10 business days after Shandong Luye receives notice of payment following the satisfaction of all conditions and the Subsequent Payments being contingent in nature and payable in the future. The Subsequent Payments are further divided into the LY01008 Payment of RMB361,683,210 (approximately US$51.45 million) which is payable upon the grant by the competent authority in China of the marketing authorisation for LY01008, and the LY06006 Payment of RMB361,683,210 (approximately US$51.45 million) which is payable upon the grant by the competent authority in China of the

marketing authorisation for LY06006. If Shandong Boan were not to be successful in obtaining the relevant marketing authorisation approvals for LY01008 or LY06006, the Group is not liable to pay the relevant Subsequent Payment.

The Group has previously acquired from Shandong Boan the 4 Boan Biosimilars (which include LY01008 and LY06006) for a total purchase price of RMB950 million (approximately US$135.1 million) which is payable in stages upon achievement of certain milestones. The purchase price attributable to each of the 4 Boan Biosimilars is as follows:

	Purchase price for the 4 Boan Biosimilars
LY01008	RMB250 million (approximately US$35.6 million)
LY06006	RMB200 million (approximately US$28.5 million)
LY01011	RMB300 million (approximately US$42.7 million)
LY09004	RMB200 million (approximately US$28.5 million)

Further, a royalty representing 10% of the revenue generated from the sale of LY01008 and LY06006 products is payable to Shandong Boan should such products eventually obtain marketing authorisation and sale therefor commence.

As at the Latest Practicable Date, all 4 Boan Biosimilars are still under development and the Group has so far paid a total of RMB390 million (approximately US$55.5 million) to Shandong Boan as part payment of the purchase price. The outstanding amount of the purchase price for the 4 Boan Biosimilars of RMB560 million (approximately US$79.7 million) is payable upon the successes of all three phases of the clinical trials for the respective 4 Boan Biosimilars. The following table summarises the amount of purchase price paid and the outstanding amount of the purchase price for each of the 4 Boan Biosimilars as at the Latest Practicable Date:

	Purchase price for the 4 Boan Biosimilars paid	**Outstanding amount of the purchase price**	**Total**
LY01008	RMB50 million (approximately US$7.1 million)	RMB200 million (approximately US$28.5 million)	RMB250 million (approximately US$35.6 million)
LY06006	RMB40 million (approximately US$5.7 million)	RMB160 million (approximately US$22.8 million)	RMB200 million (approximately US$28.5 million)
LY01011	RMB180 million (approximately US$25.6 million)	RMB120 million (approximately US$17.1 million)	RMB300 million (approximately US$42.7 million)
LY09004	RMB120 million (approximately US$17.1 million)	RMB80 million (approximately US$11.4 million)	RMB200 million (approximately US$28.5 million)

Given the outstanding amount (including future royalties) for the 4 Boan Biosimilars represents expected, future earned income for Shandong Boan, the amount of the Purchase Price takes into account such outstanding amount, the timing of the purchase price payable by the Group, the deferred and contingent nature of such payments for the 4 Boan Biosimilars, the projected R&D expenditures for the 4 Boan Biosimilars and the valuation of the remaining products owned by Shandong Boan.

Following Completion, Shandong Boan will become a subsidiary of the Company and such outstanding purchase price, including royalties, will no longer be payable to any external party outside of the Group. Intra-group adjustments and/or arrangements will be made with respect to the financial treatment of such amounts. The Company considers that the aforementioned changes do not constitute an amendment to the previous agreements. See "Information on Shandong Boan — Historical transactions" below for further information on the Group's acquisition of the 4 Boan Biosimilars, and the "Valuation of Shandong Boan" and Appendix I below for further information on the appraised valuation by the Independent Valuer. In the event that the Acquisition does not proceed to Completion, the Group will continue to be liable for the payment to Shandong Boan of the outstanding amount of the purchase price for the 4 Boan Biosimilars of RMB560 million upon the successes of all three phases of the clinical trials and the royalty payment for the sale of LY01008 and LY06006 products should such products eventually obtain marketing authorisation and sale therefor commence.

Having taken into consideration the timing of the Initial Payment and the Subsequent Payments, the Group intends to finance such payments though using its internal resources.

Completion

Completion is conditional upon:

(a) Shandong Boan having completed the filing with the relevant authority in respect of the transfer of the Equity Interest contemplated under the Sale and Purchase Agreement;

(b) Shandong Boan having obtained all its internal approvals for the transactions contemplated under the Sale and Purchase Agreement;

(c) the Boan Minority Shareholder holding 2.0% equity interest having provided its written consent waiving its pre-emptive rights in respect of the Equity Interest; and

(d) the Sale and Purchase Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders at the SGM.

If any of the conditions above is not satisfied or waived on or before 31 March 2020, the Sale and Purchase Agreement will lapse automatically, without prejudice to the rights and liabilities of any party accrued prior to such lapse. The Sale and Purchase Agreement provides

that payment of the Purchase Price be subject to satisfaction or waiver of all the conditions. The conditions can be waived by mutual agreement. As at the Latest Practicable Date, none of the conditions set out above has been satisfied or waived, and the Company has not received any notice of intention to waive any of the conditions. A shareholder of a PRC company is generally entitled to pre-emptive rights over the other shareholders' equity interest in case of a sale. The Company expects the Boan Minority Shareholder will waive its rights to exercise such pre-emptive rights in the context of the Acquisition.

Completion will take place following LIG notifying Shandong Luye that all conditions have been satisfied. Upon Completion, Shandong Boan will become a 98%-owned subsidiary of the Company.

INFORMATION OF THE GROUP AND LIG

The Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in China, the United States, Europe and other countries or jurisdictions, namely (1) oncology, (2) central nervous system (CNS), (3) cardiovascular system, and (4) alimentary tract and metabolism. The Group's product portfolio consists of more than 30 products and centres around seven key products, five of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases, diabetes and CNS diseases.

LIG is an investment holding company established in the PRC.

INFORMATION OF SHANDONG BOAN

Background

Shandong Boan is a fully integrated biopharmaceutical company established in 2013. It specialises in therapeutic antibody development with a focus on oncology, central nervous system (CNS), diabetes and immune disease. At present, Shandong Boan is engaged in biologic product development in China, the United States and the European Union markets. Over the last several years, Shandong Boan has developed expertise in antibody generation and lead optimisation, cell line development and process development, pilot scale production and commercial manufacturing. Shandong Boan's antibody discovery activities are organised around three platforms, namely Human Antibody Transgenic Mouse Technology, Phage Display Technology and Nanobody Platform. Through efficient and innovative in-house capabilities, Shandong Boan has developed a diversified and high-quality drug pipeline, which includes biosimilar and innovative biologic products.

Historical transactions

Previously, the Group has announced the acquisition from Shandong Boan of the following 4 Boan Biosimilars and their respective technologies, data and all rights attaching to such products including but not limited to the clinical trials approval:

	LY01008	**LY06006**	**LY01011**	**LY09004**
Market comparable	*Biosimilar to Avastin*	*Biosimilar to Prolia*	*Biosimilar to Xgeva*	*Biosimilar to Eylea*
Description	recombinant anti-VEGF humanized monoclonal antibody injection (dosage 100mg/bottle) (重組抗VEGF人源化單克隆抗體注射液(規格為100mg/瓶))	recombinant anti-RANKL whole human monoclonal antibody injection (dosage 60 mg/bottle) (重組抗RANKL全人單克隆抗體注射液(規格為60mg/瓶))	Recombinant anti-RANKL full-body monoclonal antibody injection (dosage 120mg/bottle) (重組抗RANKL 全人單克隆抗體注射液(規格為120mg/瓶))	Recombinant Human Vascular Endothelial Growth Factor Receptor Antibody Fusion Protein Ophthalmic Injection (dosage 11.12mg/bottle) (重組人血管內皮生長因數受體-抗體融合蛋白眼用注射液(規格為11.12mg/瓶))
Indication	Colorectal cancer and non-small cell lung cancer	Osteoporosis among postmenopausal women; reducing the risk of vertebral, non-vertebral and hip fractures; Treatment to increase bone mass in men at high risk for fracture receiving androgen deprivation therapy for nonmetastatic prostate cancer	Multiple Myeloma and Bone Metastasis from Solid Tumors; Giant cell tumor of bone; Hypercalcemia	Neovascular (Wet) Age-Related Macular Degeneration (AMD); Macular Edema Following Retinal Vein Occlusion (RVO); Diabetic Macular Edema (DME) and Diabetic Retinopathy (DR) in Patients with Diabetic Macular Edema
Status(Note)	Phase III clinical trials	Phase III clinical trials	Phase I clinical trials	Phase I clinical trials
Targeted launch date	Around 2021	Around 2022	Around 2023	Around 2023

Note: Phase I clinical trials generally aim to test the safety of a new drug. Phase II clinical trials generally test a new drug on a larger group of patients, in order to gather information on whether the new drug works and how well the new drug works in the short-term. Phase III clinical trials are generally only for a new drug that has already passed Phases I and II clinical trials, and is tested in larger groups of patients, and compared against an existing treatment or a placebo to see if the new drug works better in practice and if the new drug has any serious side effects.

For further details of the Acquisition, please refer to the announcements of the Company dated 4 August 2017, 20 November 2017 and 21 December 2018 respectively and the shareholders' circular dated 10 December 2017.

Financial information of Shandong Boan

The net liabilities of Shandong Boan as at 31 December 2018 was approximately RMB363.1 million. For the financial years ended 31 December 2017 and 2018, Shandong Boan recorded net loss of RMB135.8 million and RMB176.4 million both before and after tax and extraordinary items, respectively, according to its financial statements prepared under the accounting principles generally accepted in the PRC.

Shandong Boan was established by 山東國際生物科技園發展有限公司 (Shandong International Biotech Park Development Co., Ltd.) ("**Biotech Park Development**"), a company owned as to 67.0% indirectly by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian and as to the remaining 33.0% by Yantai Gaoxin State-Owned Assets Management Company Limited (煙台高新國有資產管理有限公司) ("**Yantai Gaoxin**") in 2013. Yantai Gaoxin is a PRC local government instrumentality and to the best of the Directors' knowledge, Yantai Gaoxin and its ultimate beneficial owners are Independent Third Parties.

Upon its establishment, Shandong Boan had a registered capital of RMB10 million, of which 67.0% was contributed by LIG and its affiliates and 33.0% by Yantai Gaoxin. Thereafter, LIG and its affiliates had consistently been the principal provider of funding to Shandong Boan through shareholder loans, whereas Yantai Gaoxin played a relatively passive role in terms of funding contributions and management.

Shandong Boan has undergone various changes in shareholding pursuant to reorganisation steps designed to prepare Shandong Boan for its continued business development:

(1) In 2014, LIG and its affiliates provided further funding to Shandong Boan through shareholder loans amounting to RMB78,572,963.24.

(2) In 2015, LIG and its affiliates provided further funding to Shandong Boan through shareholder loans amounting to RMB49,735,657.63.

(3) In 2016, LIG and its affiliates provided further funding to Shandong Boan through shareholder loans amounting to RMB28,218,839.56.

(4) In 2017, LIG and its affiliates provided further funding to Shandong Boan through shareholder loans amounting to RMB59,390,000.

(5) In 2018, the shareholder loan amounts were reduced by RMB55,562,500 to RMB160,354,960.53 through repayment by Shandong Boan of part of the shareholders' loans.

(6) In light of the development plans for Shandong Boan and expected need for further increased funds in the future, Yantai Gaoxin decided to exit from Shandong Boan. In July 2019, the parties agreed that 100% interest in Shandong Boan be transferred interest in Shandong Boan be transferred to 煙台綠創生物科技有限公司 (Yantai Luchua Biotech Co., Ltd.) (the "**July 2019 Transfer**"), a company owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, for RMB20 million, which amount was determined after arm's length negotiations.

(7) The shareholder loans from LIG and its affiliates (amounting to RMB172,745,260 in aggregate at the relevant time) were terminated and repaid in July 2019. The consideration for the transfer of Shandong Boan to Yantai Luchuang Biotech Co., Ltd. primarily reflects the past contributions, in terms of funding commitment as well as management, by LIG and its affiliates.

(8) In October 2019, Yantai Luchuang Biotech Co., Ltd. transferred the entire equity interest in Shandong Boan to LIG (the "**October 2019 Transfer**").

(9) Pursuant to an agreement dated 16 November 2019, details of which are set out in "The Sale and Purchase Agreement — Minority Interest in Shandong Boan" in the Announcement, 2.0% equity interest in Shandong Boan has been transferred by LIG to the Boan Minority Shareholder (being a foreign party), upon which Shandong Boan has become a sino-foreign joint venture company.

The provision of shareholder loans referred to in items (1) to (4) above did not increase the net asset value of Shandong Boan because such funds were applied for uses such as funding Shandong Boan's operating and research and development costs. As such costs were expended when they were incurred, they would not increase the net asset value of Shandong Boan.

Taking into consideration that the capital structure of Shandong Boan has undergone various capital injections and shareholder loan transactions as stipulated above since its inception, the Directors consider the consideration involved in the July 2019 Transfer and October 2019 Transfer (which, together with the conversion to sino-foreign joint venture company, form part of the reorganisation steps for the purpose of facilitating the long-term strategic development and potential future capital markets transactions of Shandong Boan) to be of limited reference value when considering the Purchase Price.

In considering the Purchase Price under this Acquisition, the Directors have taken into account, among other factors, the entire equity interest value of 100% of Shandong Boan as at 30 June 2019 as appraised by CHFT Advisory and Appraisal Ltd., an independent valuer, of RMB1,491 million, the overall valuation, payment terms and structure of the Group's acquisition of the 4 Boan Biosimilars as announced by the Company on 4 August 2017 and 21 December 2018 respectively, the business nature and financial position of Shandong Boan, the current market value of comparable listed biotech companies, the product pipeline, business prospects of Shandong Boan

and the general market conditions of the biopharmaceutical industry in the PRC. The Directors consider that the Purchase Price of RMB1,446.7 million is fair and reasonable, and is in the interest of the Company and the Shareholders as a whole.

VALUATION OF SHANDONG BOAN

The Company commissioned CHFT Advisory and Appraisal Ltd., an independent valuer, to prepare the Valuation Report which provides for a valuation of the entire equity interest of Shandong Boan. The appraised value of the entire equity interest of Shandong Boan as at 30 June 2019 under the Valuation Report is RMB1,491 million, and was prepared using the income approach for Shandong Boan's biosimilar products based on the discounted cash flow method (the "**Forecast**") and the cost approach for Shandong Boan's novel antibody products. As a result, the Forecast constitutes a profit forecast under Rule 14.61 of the Listing Rules and this circular is subject to the requirements under Rule 14A.70(9) of the Listing Rules.

As required under Rule 14.62(1) of the Listing Rules, details of the key assumptions underlying the Forecast are set out below:

(1) Shandong Boan has sufficient funds and capabilities to support the continued R&D of its pipeline products.

(2) Shandong Boan will continue to conduct R&D, clinical trials and apply for and obtain the relevant approvals as planned and on schedule for drug candidates forecasted in the Valuation Report.

(3) Successful results in earlier studies in the pre-clinical/clinical development process are predictive of favourable future trial results, and applying a suitable and appropriate risk-weighting that reflects the probability of success to a product is adequate to capture the potential risks in products currently still undergoing clinical trials.

(4) Shandong Boan's sales, marketing and commercialisation infrastructure and workforce can be reasonably established internally or via external partners as and when drug candidates obtain marketing approval.

(5) The various prices, costs, tax, working capital and capital expenditure assumptions relied on in the Forecast are based on Shandong Boan's best estimates that reflect the business model of a typical clinical biopharmaceutical company.

(6) There will be no material changes to the existing laws, regulations, guidelines and industry practices in relation to the clinical trial, marketing authorisation approval and sales and marketing process for Shandong Boan's products in the markets Shandong Boan which currently operates and in the markets that Shandong Boan is projected to expand into.

(7) There will be no material unforeseeable factors and/or events that cause global demographics and prevalence of certain conditions to change materially, that will in turn affect the total addressable market and overall efficacy of Shandong Boan's products.

(8) There will be no material unforeseeable changes to the overall political, economic or social environment that would cause an adverse change in industry demand and/or market conditions.

(9) The projected sales of Shandong Boan's biosimilar pipeline products are derived from (a) direct sales revenues from Shandong Boan's biosimilar pipeline portfolio outside of the 4 Boan Biosimilars, as well as (b) royalty income and (c) rights transfer income as per the previous acquisition agreements in relation to the 4 Boan Biosimilars.

(10) Shandong Boan's novel antibody drug candidates currently in pre-clinical trials will not be valued through the income approach and will instead be valued at R&D and investment cost.

Ernst & Young, acting as the reporting accountants of the Company, has examined the calculations of the Forecast in which the Valuation Report is based, which do not involve the adoption of accounting policies in its preparation. The Directors confirm that the Forecast used in the Valuation Report has been made after due and careful enquiry. A letter from Ernst & Young is included in Appendix II to this circular for the purpose of Rule 14.60A of the Listing Rules.

UBS, the financial adviser of the Company with respect of the Acquisition, has reviewed the Valuation Report and has discussed with the Directors about the principal assumptions upon which the Forecast is based. UBS has also considered the letter from Ernst & Young regarding the calculations of the discounted cash flow forecast. On the basis of the foregoing, UBS has confirmed that it is satisfied that the Forecast has been made by the Directors after due and careful enquiry. A letter from UBS is set out in Appendix II to this circular for the purpose of Rule 14.60A of the Listing Rules.

Save for the interests disclosed under the section headed "6. Qualifications of Experts" in Appendix III to this circular, neither Ernst & Young (certified public accountants) nor UBS have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in any member of the Group. To the best of the Directors' knowledge, information and belief, each of Ernst & Young and UBS is an Independent Third Party. Each of Ernst & Young and UBS has given and has not withdrawn its written consent to the publication of this circular with inclusion of its letter and all references to its name in the form and context in which it is included.

REASONS FOR AND BENEFITS OF THE ACQUISITION

As the Group looks towards its next stage of development and evolve into a global innovative pharmaceutical company, the Group believes that continued investment in innovative and advanced technologies is imperative to the Group's long-term success. Through the strategic acquisition of Shandong Boan, a company with a proven track record in the R&D of biosimilars and innovative drugs, the Group hopes to not only further expand and diversify its pipeline portfolio, but also further accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

Biopharmaceuticals represent one of the fastest growing and most innovative sub-segments in the pharmaceutical sector today. According to public sources, the size of the global biopharmaceutical market is estimated to be at US$228 billion in 2019, and is expected to further increase to US$323 billion by 2023E, representing a CAGR of 7% during this period. In part due to its growth potential, the biopharmaceuticals sub-segment has been considered one of the most valuable areas of investment in the pharmaceutical sector in recent years. As such, the Group has identified the biopharmaceuticals sub-segment as a key, untapped opportunity for further growth in the coming years, and views the acquisition of Shandong Boan, including its product pipeline and R&D platform, to help the Group further accelerate its growth and evolution into a leading global pharmaceutical company.

Shandong Boan possesses a strong product pipeline that covers several research and development stages, including a combination of biosimilars, which have relatively less clinical risks due to its proven targets and mechanism, and innovative drugs, which have the potential to be first-in-class and/or best-in-class in their respective product and/or indication categories.

Product Pipeline: Biosimilars

Therapy	Projects	Indications	Region	PC	IND	Phase I/II	Phase III	BLA	Expected Launch for Products in Clinic[1]
Oncology	LY01008: Avastin Biosimilar[2]	CC, NSCLC	CN						*2021*
	LY01011: Xgeva Biosimilar[3]	Bone metastases from solid tumors	CN						*2023*
			US						
			EU						
	LY01012: Zaltrap Biosimilar	Metastatic colorectal cancer	CN						*2026*
	LY01015: Opdivo Biosimilar	NSCLC, liver cancer, gastric cancer, HDC, melanoma, RCC, bladder cancer, glioblastoma, etc	CN						
Orthopedics	LY06006: Prolia Biosimilar[2]	Osteoporosis	CN						*2022*
			US						
			EU						
			JP						
Metabolic	LY05008: Trulicity Biosimilar	Type 2 Diabetes	CN						
Ophthalmology	LY09004: Eylea Biosimilar[3]	wAMD, RVO, DME	CN						*2023*
			US						
		DR, mCNV	EU						
Immunology	TS1808: Cosentyx Biosimilar	Psoriasis, AS, PA	Global						

PC = Pre-Clinical; pre-clinical studies that test a drug on non-human subjects in order to gather efficacy, toxicity, pharmacokinetic and safety information and to decide whether the drug is ready for clinical trials

IND = Investigational New Drug or Investigational New Drug Application, also known as clinical trial application in the PRC

BLA = Biologic License Application

Notes:

1. The expected launch for products in clinic reflects the best estimates of Shandong Boan based on its current clinical progress, and may be affected by various unforeseen events that could otherwise influence the anticipated timeline of these products.

2. LY01008 and LY06006 were acquired by the Group in December 2017 for a total consideration of RMB450 million to be paid in installments based on milestones. As of the Last Practicable Date, RMB360 million remained outstanding and will be paid within five days after the completion of Phase III clinical trials (RMB225 million), within five days of submitting the marketing approval application to the CDE (RMB90 million) and within five days following CDE's grant of the marketing authorisation of the products (RMB45 million). Shandong Boan will also receive a royalty fee equivalent to 10% of the sales revenues of the products. Following Completion, these outstanding amounts will no longer be payable.

3. LY01011 and LY09004 were acquired by the Group in December 2018 for a total consideration of RMB500 million to be paid in installments based on milestones. As of the Last Practicable Date, RMB200 million remained outstanding and will be paid within five days after the completion of Phase III clinical trials (RMB100 million) and within five days following CDE's grant of the marketing authorisation of the products (RMB100 million). Following Completion, these outstanding amounts will no longer be payable.

Within Shandong Boan's pipeline of eight biosimilar drugs, five biosimilar drug candidates have reached clinical stages, including two currently undergoing Phase III clinical trials (LY01008 and LY06006) and three currently undergoing Phase I/II clinical trials (LY01011, LY09004 and LY01012). Should the clinical stages proceed as the Group and Shandong Boan anticipate, these products are expected to receive market approval in the coming years. Provided that the relevant marketing authorisations are obtained, LY01008 and LY06006 are expected to be used for the treatment of Colorectal Cancer/Non-Small Cell Lung Cancer and Osteoporosis respectively, while LY01011, LY09004 and LY01012 are expected to be used for Bone Metastasis from Solid Tumors, Neovascular (Wet) Age-Related Macular Degeneration (AMD) and other indications and Metastatic Colorectal Cancer, respectively. Shandong Boan's three other pre-clinical biosimilar candidates are expected to be indicated for various tumour/oncological indications (LY01015), type II diabetes (LY05008) and psoriasis (TS1808), provided that the relevant marketing authorisations are obtained in the future. Strategically chosen to address currently unmet medical needs and indications with large addressable markets in both China and across the world, these products, as previously disclosed, will enhance the Group's expansion efforts into different strategic therapeutic areas, including orthopedics and ophthalmology. These biosimilar product candidates also utilise therapeutic targets and mechanisms that have already been proven to be effective and widely used around the world through their respective comparable, originator drugs. The Board believes that Shandong Boan's portfolio of biosimilar and innovative products are highly complementary to the Group's existing core strengths in the central nervous system, oncology, cardiovascular and metabolism sub-segments, and its acquisition will assist the Group in maintaining its position as a leading pharmaceutical player in China.

Product Pipeline: Novel Antibodies

Therapy	Projects ID	Drug	Indication	Lead Identity	PoC	Pre-Clinical	Clinical Trial[1]	BLA
Cancer	TS1804	Anti-4-1BB antibody	Hematoma, Solid tumor				*2020 Q4 IND*	
	TS1901	Anti-Claudin 18.2 antibody	Gastric/Pancreatic/ Esophageal cancer				*2021 Q1 IND*	
	TS1905	Anti-PDL1/TGF-β bifunctional fusion protein	NSCLC, HPV+ cancer, Cholangiocarcinoma, Gastric cancer				*2021 Q1 IND*	
	TS1904	Anti-CD25 antibody	Solid tumor				*2021 Q2 IND*	
	TS0001 (15)	Anti-B7H4 antibody	Hepatocellular carcinoma, Breast cancer, Endometrial cancer, Ovarian cancer					
Hyperlipidemia	TS0001 (17)	Anti-ANGPTL3 antibody	Hypercholesterolemia				*2021 Q4 IND*	
Allergic disease	TS0001 (3)	Anti-IL4R antibody	Asthma, Atopic dermatitis, Sinusitis, Food allergies					
Chronic Pain	TS1903	Anti-CGRP antibody	Migraine				*2021 Q2 IND*	
	TS1502	Anti-β-NGF antibody	Osteoarthritis, Chronic back pain, Cancer pain				*2021 Q2 IND*	

PoC = Proof of Concept (an early stage of clinical drug development designed to show the drug is active on a pathophysiologically relevant mechanism and preliminary evidence of efficacy in a clinically relevant endpoint)

BLA = Biologic License Application

Notes:

1. The expected IND timetable reflects the best estimates of Shandong Boan based on its current developmental progress, and may be affected by various unforeseen events that could otherwise influence the anticipated timeline of these products.

In addition to Shandong Boan's biosimilar product candidates, Shandong Boan currently has over 10 innovative biologic product candidates in its novel antibody pipeline. These products have the potential to be best-in-class and/or first-in-class products in their respective product and/or indication categories. Provided that the relevant marketing authorisations are obtained, Shandong Boan's novel antibody product portfolio is expected to further broaden the Group's portfolio by acquiring a diversified set of product candidates with indications ranging from solid tumours to asthma. The Board believes that these novel antibody products have the potential to provide the Group with numerous excellent growth opportunities in the longer term.

Beyond Shandong Boan's pipeline, the Board believes that the Acquisition will further bolster the Group's R&D and manufacturing capabilities following the integration of Shandong Boan's proprietary technological platforms into the Group. Shandong Boan has intellectual property patents in human antibody transgenic mouse technology, phage display technology and nanobody platform, all of which the Group views to be highly complementary to the Group's existing technological capabilities, particularly in the R&D of future potential new antibody drug candidates. In total, as of the Latest Practicable Date, Shandong Boan and its subsidiaries have submitted three patent applications in the PRC for the protection of the preparation process in respect of its biosimilar products LY01008 and LY09004, 22 patent applications in the PRC for the protection of the preparation process in respect of its innovative products and jointly owned one patent with Biotech Park Development in relation to the preparation method of transgenic animal capable of expressing human antibody. Furthermore, the Board believes that the integration of Shandong Boan's team of research scientists and academics, as well as its end-to-end manufacturing platform will further strengthen the Group's existing R&D and manufacturing capabilities. As Shandong Boan's manufacturing facility is currently able to meet the capacity requirements for both Shandong Boan's clinical manufacturing and future commercialisation needs, the Group believes that the acquisition of Shandong Boan's manufacturing platform will improve the Group's manufacturing capabilities and efficiency, and as a whole, provide a multitude of benefits in supply chain integration. In addition to leading the development of Shandong Boan's existing pipeline products, the Group believes that Shandong Boan's R&D platforms have the capabilities to potentially discover and develop the next generation of pharmaceutical products in conjunction with the Group.

The Board views the Acquisition as consistent with the Group's stated strategy of accelerating the growth of the Group's business and product portfolio through acquisitions, with the ultimate objective to become a leading pharmaceutical company globally. In recent years, a number of Chinese pharmaceutical companies have announced their development or investment in antibody products, including applications for marketing authorisation and commencement of relevant clinical trials. As such, in order to maintain the Group's leading position in this sub-segment and ensure long-term sustainable growth, the Group previously acquired the LY01008, LY06006, LY01011 and LY09004 in order to continue building up its pipeline of biological antibodies, and is now pursuing

an acquisition to both further broaden its portfolio of innovative biological antibody candidates and enhance its existing R&D and manufacturing capabilities within the sub-segment. Given the complementary nature of Shandong Boan's products and technologies with the Group, the Board also believes that there are a number of areas in which the two companies are able to collaborate and achieve a substantial level of synergies, including but not limited to sales and marketing of drugs with similar or common indications and R&D. As a whole, the Board views the Acquisition as being in line with the Group's historical growth strategy, and the Board believes that the Acquisition will provide value to the Company and its Shareholders.

The Directors consider that the valuation approaches are fair and reasonable for the following reasons:

(i) The valuation was derived through a combination of the income approach (for products with reasonable visibility of future profitability) and the cost approach (for products by which market approval and profit visibility remains in progress), which is in line with standard industry practices.

(ii) The assumptions used in the income approach are based on reasonable estimates commensurate to a clinical-stage biopharmaceutical company, taking into consideration, among others, previous acquisition agreements for the 4 Boan Biosimilars, projections performed and published by reputable, professional sources, the financial results of comparable companies and Shandong Boan's best and fair internal estimates.

(iii) The valuation derived from the income approach takes into consideration the clinical risks involved with products that have yet to obtain market authorisation by applying a success rating on these products. This approach, as well as the success rating used, is in line with the methodology used by professional sources, including but not limited to licensed equity research analysts, corporate advisory professionals and academics.

The Directors (including the independent non-executive Directors) have considered that the terms of the Sale and Purchase Agreement, including the basis of the Purchase Price, are fair and reasonable, on normal commercial terms and conducted in the ordinary and usual course of business of the Group; and the Acquisition is in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

LIG is owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director. Accordingly, LIG is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under the Listing Rules. As one or more of the applicable percentage ratios as calculated under Rule 14.07 of the Listing Rules in respect of the Acquisition exceeds 5%, the Acquisition constitutes a connected transaction of the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the Acquisition exceeds 5% but all applicable percentage ratios are less than 25%, the Acquisition also constitutes a discloseable transaction subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each being an executive Director of the Company, have abstained from voting on the resolutions of the Board approving the Sale and Purchase Agreement and the transactions contemplated thereunder. As of the Latest Practicable Date, LuYe Pharmaceutical Investment Co., Ltd. held 1,517,113,930 Shares, representing approximately 46.41% of the issued share capital of the Company carrying voting power. LuYe Pharmaceutical Investment Co., Ltd., a company indirectly owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, will abstain from voting on the resolution to be proposed at the SGM to approve the Acquisition.

THE SGM

The SGM will be convened to consider and approve the terms of the Sale and Purchase Agreement and the transactions contemplated thereunder. A notice to convene the SGM is set out on pages 68 to 69 of this circular. The SGM will be held at Taishan Room, Level 5, Island Shangri-La, Supreme Court Road, Central, Hong Kong on Wednesday, 22 January 2020 at 10:00 a.m.. The form of proxy for use by the Shareholders at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are encouraged to complete the accompanying form of proxy, in accordance with the instructions printed thereon and deposit the same at the office of the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time scheduled for the holding of the SGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof (as the case may be).

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders whether the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder are conducted in the ordinary and usual course of business of the Group, and whether the terms of the Sale and Purchase Agreement are on normal commercial terms and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Gram Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of the letter from Gram Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 26 to 36 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 24 to 25 of this circular.

The Directors (including independent non-executive Directors) considered that the terms of the Sale and Purchase Agreement are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the (i) letters from the Independent Board Committee and from Gram Capital, which are respectively set out on pages 24 to 25 and pages 26 to 36 of this circular; (ii) the Valuation Report set out in Appendix I; (iii) the letter from Ernst & Young to the Directors confirming it has examined the calculations of the Forecast for the Valuation Report, and the letter from UBS confirming that the Forecast has been made after due and careful enquiry, both dated 1 December 2019, set out in Appendix II; and (iv) the general information set out in Appendix III.

Yours faithfully,
By order of the Board
LUYE PHARMA GROUP LTD.
Liu Dian Bo
Chairman

The following is the text of the letter of recommendation from the Independent Board Committee to Independent Shareholders in relation to the Acquisition prepared for the purpose of incorporation in this circular.

LUYE PHARMA GROUP LTD.
绿叶制药集团有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 02186)

6 January 2020

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF EQUITY INTEREST IN SHANDONG BOAN

We refer to the circular dated 6 January 2020 (the "**Circular**") of the Company of which this letter forms part. Terms defined in the Circular have the same meanings when used herein unless the context requires otherwise.

We, being the independent non-executive Directors constituting the Independent Board Committee, are writing to advise you as a Shareholder whether the Independent Board Committee are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable, on normal commercial terms insofar as the Independent Shareholders are concerned; and whether the terms of the Sale and Purchase Agreement are in the interests of the Company and the Shareholders as a whole and whether the entering into of the Sale and Purchase Agreement and the transactions contemplated thereunder are in the ordinary and usual course of business of the Group. Gram Capital has been appointed as the Independent Financial Adviser to advise you and us in this respect.

We wish to draw your attention to the letter from the Board as set out on pages 5 to 23 of the Circular and the letter from Gram Capital as set out on pages 26 to 36 of the Circular and the appendices thereto which contains, *inter alia*, its advice and recommendation to us regarding the terms of the Sale and Purchase Agreement with the principal factors and reasons for its advice and recommendation.

RECOMMENDATION

Having taken into account the principal reasons and factors considered by, and the advice of, Gram Capital, we are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable so far as the Independent Shareholders are concerned, on normal commercial terms and in the ordinary and usual course of business of the Group, and the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee of
Luye Pharma Group Ltd.

Zhang Hua Qiao **Lo Yuk Lam**
Leung Man Kit **Choy Sze Chung Jojo**
Independent Non-executive Directors

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and Independent Shareholders in respect of the Acquisition for the purpose of inclusion in this circular.

Gram Capital Limited
嘉林資本有限公司

Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

6 January 2020

To: The Independent Board Committee and the Independent Shareholders of Luye Pharma Group Ltd.

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF EQUITY INTEREST IN SHANDONG BOAN

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board (the "**Board Letter**") contained in the circular dated 6 January 2020 issued by the Company to the Shareholders (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

With reference to the Board Letter, Shandong Luye (a wholly-owned subsidiary of the Company) and LIG entered into the Sale and Purchase Agreement on 1 December 2019. Pursuant to the Sale and Purchase Agreement, Shandong Luye has conditionally agreed to purchase, and LIG agreed to sell to Shandong Luye its 98.0% equity interest in Shandong Boan (i.e. the Equity Interest) at the Purchase Price of up to RMB1,446.7 million.

With reference to the Board Letter, the Acquisition constitutes a discloseable and connected transaction of the Company under Chapter 14 and Chapter 14A of the Listing Rules and is subject to the notification, reporting, announcement, circular and Independent Shareholders' approval requirements under the Listing Rules.

The Independent Board Committee comprising Mr. Zhang Hua Qiao, Professor Lo Yuk Lam, Mr. Leung Man Kit and Mr. Choy Sze Chung Jojo, being all of the independent non-executive Directors, has been formed to advise the Independent Shareholders on (i) whether the terms of the Acquisition are on normal commercial terms and are fair and reasonable; (ii) whether the Acquisition is in the interests of the Company and the Shareholders as a whole and is conducted in

the ordinary and usual course of the business of the Company; and (iii) how the Independent Shareholders should vote in respect of the resolution to approve the Acquisition at the SGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

INDEPENDENCE

We were not aware of any relationships or interests between Gram Capital and the Company during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there is no undisclosed private agreement/arrangement or implied understanding with anyone concerning the Acquisition. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made any independent evaluation or appraisal of the assets and liabilities of Shandong Boan, and we have not been furnished with any such evaluation or appraisal, save as and except for the Valuation Report on Shandong Boan as prepared by CHFT Advisory and Appraisal Ltd. (the "**Valuer**"), which is set out in Appendix I to the Circular. Since we are not experts in business valuation, we have relied solely upon the Valuation Report for the equity interest value of Shandong Boan.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no

other matters the omission of which would make any statement therein or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Shandong Luye, LIG, Shandong Boan or their respective subsidiaries or associates (if applicable), nor have we considered the taxation implication on the Group or the Shareholders as a result of the Acquisition. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

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

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

Information on the Group

With reference to the Board Letter, the Group focuses on developing, producing, marketing and selling innovative pharmaceutical products in four of the largest and fast growing therapeutic areas in the PRC, the United States, Europe and other countries or jurisdictions, namely (1) oncology, (2) central nervous system (CNS), (3) cardiovascular system, and (4) alimentary tract and metabolism. The Group's product portfolio consists of more than 30 products and centres around seven key products, five of which have patent protection and are indicated for the treatment or prevention of high prevalence medical conditions, including cancer, cardiovascular diseases, diabetes and CNS diseases.

Set out below are the consolidated financial information of the Group for the two years ended 31 December 2018 and the six months ended 30 June 2019 (with comparative figures) as extracted from the Company's annual report for the year ended 31 December 2018 (the "**2018 Annual Report**") and the Company's interim report for the six months ended 30 June 2019 (the "**2019 Interim Report**") respectively:

	For the year ended 31 December 2018	**For the year ended 31 December 2017**	**Change from 2017 to 2018**
	RMB'000	*RMB'000*	*%*
Revenue	5,173,385	3,814,842	35.61
Gross profit	4,049,414	2,963,358	36.65
Profit attributable to owners of the parent	1,303,373	981,372	32.81

	For the six months ended 30 June 2019	**For the six months ended 30 June 2018**	**Change from 2018 to 2019**
	RMB'000	*RMB'000*	*%*
Revenue	3,130,894	2,203,775	42.07
Gross profit	2,431,888	1,756,494	38.45
Profit attributable to owners of the parent	766,616	562,879	36.20

As illustrated by the table above, the Group's revenue, gross profit and profit attributable to owners of the parent increased substantially during the year ended 31 December 2018 ("**FY2018**") as compared to those for the year ended 31 December 2017 ("**FY2017**"). With reference to the 2018 Annual Report, the aforesaid increase in the Group's revenue (i) was mainly attributable to the sales from newly acquired product Seroquel and sales growth of the Group's key products; and (ii) led to the increase in the Group's gross profit and profit attributable to owners of the parent for FY2018 as compared to those for FY2017.

The Group's revenue, gross profit and profit attributable to owners of the parent continued to increase substantially during the six months ended 30 June 2019 as compared to those for the corresponding period in 2018. With reference to the 2019 Interim Report, the aforesaid increase in the Group's revenue (i) was mainly attributable to the sales growth of the Group's key products; and (ii) led to the increase in the Group's gross profit and profit attributable to owners of the parent for the six months ended 30 June 2019 as compared to those for the corresponding period in 2018.

With reference to the 2019 Interim Report, for the six months ended 30 June 2019, the Group continued to introduce measures to improve its profitability and enhance efficiency in key aspects of its operations. With respect to its sales and marketing activities, the Group will continue to

undertake a series of changes and initiatives to enable it to focus its marketing and promotion resources on the regions and products where marketing and promotion expenditure yields higher returns, thereby increasing its overall sales efficiency. The Group also intends to increase its profitability through production efficiency and to continuously upgrade its production facilities. In addition, the Group intends to further strengthen its research and development (R&D) capabilities and develop its product candidates.

Information on LIG

With reference to the Board Letter, LIG is an investment holding company established in the PRC. LIG is owned by Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director. Accordingly, LIG is a connected person of the Company.

Information on Shandong Boan

With reference to the Board Letter, Shandong Boan is a fully integrated biopharmaceutical company established in 2013. It specialises in therapeutic antibody development with a focus on oncology, central nervous system (CNS), diabetes and immune disease. At present, Shandong Boan is engaged in biologic product development in the PRC, the United States and the European Union markets. Over the last several years, Shandong Boan has developed expertise in antibody generation and lead optimisation, cell line development and process development, pilot scale production and commercial manufacturing. Shandong Boan's antibody discovery activities are organised around three platforms, namely Human Antibody Transgenic Mouse Technology, Phage Display Technology and Nanobody Platform. Through efficient and innovative in-house capabilities, Shandong Boan has developed a diversified and high-quality drug pipeline, which includes biosimilar and innovative biologic products.

The Group has previously acquired from Shandong Boan the 4 Boan Biosimilars (which include LY01008 and LY06006) for a total purchase price of RMB950 million which is payable in stages upon achievement of certain milestones. Further, a royalty is payable to Shandong Boan in respect of LY01008 and LY06006 should such products eventually obtain marketing authorisation and sale therefor commence. As at the Latest Practicable Date, all 4 Boan Biosimilars are still under development and the Group has so far paid a total of RMB390 million to Shandong Boan as part payment of the purchase price. The outstanding amount of the purchase price for the 4 Boan Biosimilars of RMB560 million is payable upon the successes of all three phases of the clinical trials for the respective 4 Boan Biosimilars. Following Completion, Shandong Boan will become a subsidiary of the Company and these outstanding purchase price, including royalties, will no longer be payable to any external party outside the Group.

Set out below is a summary of the financial information of Shandong Boan for the two years ended 31 December 2018 as extracted from the Board Letter:

	For the year ended 31 December 2018 *RMB million*	For the year ended 31 December 2017 *RMB million*
Net loss before and after taxation and extraordinary items	176.4	135.8

	As at 31 December 2018 *RMB million*
Net liabilities	363.1

Reasons for and benefits of the Acquisition

With reference to the Board Letter, as the Group looks towards its next stage of development and evolve into a global innovative pharmaceutical company, the Group believes that continued investment in innovative and advanced technologies is imperative to the Group's long-term success. Through the strategic acquisition of Shandong Boan, a company with a proven track record in the R&D of biosimilars and innovative drugs, the Group hopes to not only further expand and diversify its pipeline portfolio, but also further accelerate its growth and penetration in the fast-growing biopharmaceutical sub-segment.

Biopharmaceuticals represent one of the fastest growing and most innovative sub-segments in the pharmaceutical sector today. In part due to its growth potential, the biopharmaceuticals sub-segment has been considered one of the most valuable areas of investment in the pharmaceutical sector in recent years. As such, the Group has identified the biopharmaceuticals sub-segment as a key, untapped opportunity for further growth in the coming years, and views the acquisition of Shandong Boan, including its product pipeline and R&D platform, to help the Group further accelerate its growth and evolution into a leading global pharmaceutical company.

The Board views the Acquisition as consistent with the Group's stated strategy of accelerating the growth of the Group's business and product portfolio through acquisitions, with the ultimate objective to become a leading pharmaceutical company globally. In recent years, a number of Chinese pharmaceutical companies have announced their development or investment in antibody products, including applications for marketing authorisation and commencement of relevant clinical trials. As such, in order to maintain the Group's leading position in this sub-segment and ensure long-term sustainable growth, the Group previously acquired 4 Boan Biosimilars in order to continue building up its pipeline of biological antibodies, and is now pursuing an acquisition to

both further broaden its portfolio of innovative biological antibody candidates and enhance its existing R&D and manufacturing capabilities within the sub-segment. Given the complementary nature of Shandong Boan's products and technologies with the Group, the Board also believes that there are a number of areas in which the two companies are able to collaborate and achieve a substantial level of synergies, including but not limited to sales and marketing of drugs with similar or common indications and R&D. As a whole, the Board views the Acquisition as being in line with the Group's historical growth strategy, and the Board believes that the Acquisition will provide value to the Company and its Shareholders.

Having considered the above and that the Acquisition can facilitate the Group's business growth, we concur with the Directors that the Acquisition is conducted under the ordinary and usual course of the business of the Company and is in the interests of the Company and its Shareholders as a whole.

Principal terms of the Sale and Purchase Agreement

Summarised below are the principal terms for the Sale and Purchase Agreement, details of which are set out under the section headed "THE SALE AND PURCHASE AGREEMENT" of the Board Letter.

Date:

1 December 2019

Parties:

(i) Shandong Luye, a wholly-owned subsidiary of the Company, as the buyer

(ii) LIG, as the seller.

Assets being acquired

Pursuant to the Sale and Purchase Agreement, Shandong Luye has agreed to acquire, and LIG has agreed to sell to Shandong Luye 98.0% of the equity interest in Shandong Boan (i.e. the Equity Interest).

Upon Completion, Shandong Boan will become a 98%-owned subsidiary of the Company.

The remaining 2.0% equity interest in Shandong Boan has been transferred by LIG to the Boan Minority Shareholder and Shandong Boan has become a sino-foreign joint venture company. Information on the Board Minority Shareholder is set out under the sub-section headed "THE SALE AND PURCHASE AGREEMENT" — Minority interest in Shandong Boan" of the Board Letter.

Purchase Price

Shandong Luye has conditionally agreed to purchase and LIG has conditionally agreed to sell its 98.0% equity interest in Shandong Boan for the total Purchase Price of up to RMB1,446.7 million.

The total Purchase Price for the Acquisition comprises the following payments:

(1)	the Initial Payment, which is payable by the Group in cash within 10 business days after Shandong Luye receives notice of payment following the satisfaction of all conditions	RMB723,366,420
(2)	the LY01008 Payment, which is contingent and only payable by the Group in cash upon the grant by the competent authority in China of the marketing authorisation for LY01008	RMB361,683,210
(3)	the LY06006 Payment, which is contingent and only payable by the Group in cash upon the grant by the competent authority in China of the marketing authorisation for LY06006	RMB361,683,210

The relevant competent authority in the PRC which grants marketing authorisation for new drugs is CDE under the National Medical Products Administration. At present, Shandong Boan expects the marketing authorisation in China for LY01008 and LY06006 will be obtained around 2021 and 2022, respectively.

The Purchase Price and payment schedule was determined after arm's length negotiations between Shandong Luye and LIG taking into account, among other factors, the entire equity interest value of 100% of Shandong Boan as at 30 June 2019 (the "**Valuation Date**") as appraised by the Valuer, of RMB1,491 million (the "**Equity Valuation**"), the overall valuation, payment terms and structure of the Group's acquisition of the 4 Boan Biosimilars as announced by the Company on 4 August 2017 and 21 December 2018 respectively, the business nature and financial position of Shandong Boan, the current market value of comparable listed biotech companies, the product pipeline, business prospects of Shandong Boan and the general market conditions of the biopharmaceutical industry in the PRC.

We consider the payment schedule by stages to be justifiable given that:

(i) The Purchase Price represents discount of approximately 1% to "98% of the Equity Valuation" whereas the Equity Valuation (a) reflects the present value of entire equity interest value of 100% of Shandong Boan as at 30 June 2019; and (b) took into account success rate of products launch (including LY01008 and LY06006).

(ii) If Shandong Boan were not to be successful in obtaining the relevant marketing authorisation approvals for LY01008 or LY06006, the Group is not liable to pay the relevant Subsequent Payment.

(iii) The Group previously acquired from Shandong Boan the 4 Boan Biosimilars (which include LY01008 and LY06006) for a total purchase price of RMB950 million (approximately US$135.1 million) which is payable in stages upon achievement of certain milestones.

(iv) We noticed from the announcement of YiChang HEC ChangJiang Pharmaceutical Co., Ltd. (stock code: 1558) ("**YiChang HEC**") dated 25 February 2019 that YiChang HEC entered into an agreement on 25 February 2019 to acquire the intellectual property rights, industrial property rights and ownership rights in relation to 27 pharmaceutical products within the PRC. The consideration of the aforesaid acquisition is payable in stages, part of which was according to the milestones of the 27 pharmaceutical products to be acquired.

(v) We noticed from the announcement of Shanghai Henlius Biotech, Inc. (stock code: 2696) ("**SH Henlius**") dated 30 September 2019 that SH Henlius (as licensor) entered into an exclusive license agreement to grant a licensee exclusive rights to (a) use and reference the dossiers (technical, medical and scientific submissions, applications, registrations, authorizations and approvals, all related correspondence with the regulatory authority and all documents referenced in the complete regulatory chronology) of certain pharmaceutical products and related intellectual property and know-how of the Licensor to apply for marketing approvals in each country in the Territory; and (b) commercialise the such pharmaceutical products in specified territory. The payments for the aforesaid license are also in stages, part of which was according to the milestones of the licensed products.

(vi) We noticed from YiChang HEC's announcement dated 13 November 2019 that YiChang HEC entered into an agreement on 13 November 2019 to acquire two pharmaceutical products and all interests, benefits attached and all rights legally entitled, and all obligations assumed in accordance with laws within the PRC thereon. The consideration of the aforesaid acquisition is payable in stages, part of which was according to the milestones of the two pharmaceutical products to be acquired.

The Valuation Report

To assess the fairness and reasonableness of the Purchase Price, we obtained the Valuation Report prepared by the Valuer and noted that the Equity Valuation is RMB1,491 million as at 30 June 2019. Details of the Valuation Report are set out in Appendix I to the Circular.

For our due diligence purpose, we reviewed and enquired into (i) the terms of engagement of the Valuer with the Company; (ii) the Valuer's qualification in relation to the preparation of the Valuation Report; and (iii) the steps and due diligence measures taken by the Valuer for conducting the Valuation Report. From the mandate letter and other relevant information provided by the Valuer and based on our interview with them, we were satisfied with the terms of engagement of the Valuer as well as their qualification for preparation of the Valuation Report. The Valuer also confirmed that they are independent to the Group, LIG and Shandong Boan.

The Valuer adopted both income approach (for Shandong Boan's biosimilar products) and cost approach (for Shandong Boan's innovative products) in preparing the Valuation Report. Upon our enquiry, the Valuer advised us that, after having assessed the appropriateness of possible methodologies for different valuation approaches and circumstances and facts specific to Shandong Boan, the Valuer considered that income approach and cost approach are the most appropriate valuation methodologies in the case of Shandong Boan given that:

(i) As Shandong Boan has not made any profits up to the Valuation Date, there is no suitable financial metric to calculate the equity interest value through the market approach. As such, the Valuer determined that the market approach is not applicable for the valuation of Shandong Boan.

We noted that Shandong Boan recorded net loss before and after taxation and extraordinary items for the year ended 31 December 2018 and net liabilities as at 31 December 2018. Accordingly, it is impracticable to perform price to earnings ratio and price to book ratio analyses which are commonly used trading multiple analyses under the market approach.

(ii) The income approach was used for the valuation of Shandong Boan's biosimilar products as (a) the Valuer believes the cost approach to be insufficient to reflect the value of Shandong Boan's biosimilar products as they have made remarkable R&D progress; (b) the income-producing ability of Shandong Boan's biosimilar products is a critical element affecting value; and (c) reliable projections of the amount and timing of future income are available for Shandong Boan's biosimilar products.

(iii) The cost approach was used for the valuation of Shandong Boan's innovative products as (a) Shandong Boan's innovative products are currently in early stages, and contain a high degree of uncertainty in regards to their development; and (b) reliable projections of the amount and timing of future income are not available for Shandong Boan's innovative products.

In light of the above, we did not cross-check the Equity Valuation with other valuation methodologies.

We further reviewed and enquired into the Valuer on the methodology adopted and the basis and assumptions adopted in the Valuation Report in order for us to understand the Valuation Report. We also discussed the key assumptions and parameters under the Valuation Report, including: projected revenue (comprising (a) sales revenue based on market size, market share, success rate of products launch; (b) royalty income; and (c) rights transfer income), cost of sales, operating expense, effective tax rate, capital expenditure, discount rate (derived by weighted average cost of capital), terminal value, discount for lack of marketability, etc. Details of the above are set out in Appendix I to the Circular.

During our discussion with the Valuer, we did not identify any major factor which caused us to doubt the fairness and reasonableness of the methodology, principal bases, assumptions and parameters adopted for the Valuation Report.

From Appendix II to the Circular, we noted that in the Company's auditors' opinion, so far as the arithmetical accuracy of the calculations of the discounted cash flow forecast which the Valuation Report is based on (the "**Forecast**") is concerned, the Forecast has been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors. From Appendix II to the Circular, we noted that the Company's financial adviser to the Acquisition is of the opinion that the Forecast has been made by the Directors after due and careful enquiry in accordance with the bases and assumptions as set out in the Valuation Report.

Having considered the above and that the Purchase Price represents discount of approximately 1% to "98% of the Equity Valuation", we are of the view that the Purchase Price is fair and reasonable.

Other terms

Other terms of the Sale and Purchase Agreement are set out in the section headed "THE SALE AND PURCHASE AGREEMENT" in the Board Letter.

Taking into account the principal terms of the Sale and Purchase Agreement as set out above, we consider the terms of the Acquisition to be fair and reasonable.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Sale and Purchase Agreement and the Acquisition are on normal commercial terms and are fair and reasonable; and (ii) the Acquisition is conducted in the ordinary and usual course of the business of the Company and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Acquisition and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

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

The following is the report prepared for the purpose of incorporation in this circular received from CHFT Advisory and Appraisal Ltd., an independent valuer, in connection with its valuation as at 30 June 2019.

Date: 6 January 2020

Luye Pharma Group Ltd.
Suite 3207, Champion Tower,
3 Garden Road, Central,
Hong Kong

Attn.: Board of Directors

Dear Sirs/Madams

RE: Valuation of 100% Equity Interest of Shandong Boan Biological Technology Co. Ltd

In accordance with an instruction from Luye Pharma Group Ltd (the "**Instructing Party" or "Luye Group**"), we hereby provide a valuation on the market value basis of 100% Equity Interest (the "**Equity Interest**") of Shandong Boan Biological Technology Co. Ltd (the "**Company**" or the "**Shandong Boan**") as at 30 June 2019 (the "**Valuation Date**").

We confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Equity Interest of the Company. This valuation is complied with the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors ("**RICS**") and International Valuation Standards ("**IVS**") published by the International Valuation Standards Council.

1. BACKGROUND OF THE COMPANY

The purpose of this report is to express an independent opinion on the market value of the Equity Interest of Shandong Boan as at the Valuation Date. This report outlines our latest findings and valuation conclusion, and is prepared solely for the management of the Instructing Party for its public circular purpose.

2. SCOPE OF WORK

In conducting this valuation exercise and under our scope of work, we have:

- Co-ordinated with Shandong Boan's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of Shandong Boan, including the legal documents, licenses, financial projection etc. made available to us;

- Discussed with the management of Instructing Party and Shandong Boan to understand the history, research status, research plan etc. of the major products for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Investigated into the information of major products made available to us and considered the basis and assumptions of our conclusion of value;
- Designed an appropriate valuation model to analyze the market data and derived the estimated market value of the target products; and
- Compiled a report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the target products should be provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Instructing Party, Shandong Boan and their respective authorized representatives.

3. BACKGROUND OF THE COMPANY AND PRODUCTS

Shandong Boan Biological Technology Co. Ltd, a company with limited liability, is incorporated in 2013 in the People's Republic of China. It focuses on the clinical research as well as development and commercialization of biosimilar and innovative drugs.

As at the valuation date, the major pipelines of Company consist of biosimilar products and innovative products. They are all under research and development stage. The detailed information of major pipelines is described as below:

Biosimilar Products

Pipeline products	Originator	Current stage
LY01008	Avastin	Phase III clinical trials
LY06006	Prolia	Phase III clinical trials
LY01011	Xgeva	Phase I clinical trials
LY09004	Eylea	Phase I clinical trials
LY05008	Trulicity	Preclinical development
LY01015	Opdivo	Preclinical development
LY01012	Zaltrap	Phase I clinical trials
TS1808	Cosentyx	Preclinical development

Note: LY01008, LY06006, LY01011 and LY09004 have been transferred to Shandong Luye. As per the previous acquisition agreements, Shandong Boan will receive royalties for LY01008 and LY06006 and will also receive the remaining consideration upon the completion of certain milestones.

On 4 August 2017, Shandong Luye Pharmaceutical Co. Ltd ("**Shandong Luye**"), a wholly-owned subsidiary of the Instructing Party, and the Shandong Boan (as Seller) entered into the Asset Transfer Agreements, pursuant to which Shandong Luye has agreed to acquire and the Seller has agreed to transfer to Shandong Luye, two biological antibody drugs under research and development, being LY01008 and LY06006 for a total consideration of RMB450 million, which is payable by stages (the "**2017 Transfer**").

Other than the consideration, Shandong Luye has agreed to pay royalties representing 10% of the revenue generated from the sale of such products to the Shandong Boan. Shandong Boan is responsible for all three phases of the clinical trials of the products and Shandong Luye will not be responsible for the costs related to the undertaking of such clinical trials.

On 20 December 2018, Shandong Luye, and the Shandong Boan (as Seller) entered into the Asset Transfer Agreements, pursuant to which Shandong Luye has agreed to acquire and the Seller has agreed to transfer to Shandong Luye, two biological antibody drugs under research and development, being LY01011 and LY09004 for a total consideration of RMB500 million, which is payable by stages (the "**2018 Transfer**").

There is no royalty payable to the seller. The seller is responsible for all three phases of the clinical trials of the products and Shandong Luye will not be responsible for the costs related to the undertaking of such clinical trials.

LY01008, LY06006, LY01011, LY09004 are collectively referred to as **Transferred Products**. Their introduction information is set out as below:

- LY01008 (biosimilar to Avastin, bevacizumab) is a recombinant anti-VEGF humanized monoclonal antibody injection, used in the treatment of colorectal cancer or non-small cell lung cancer. The status of LY01008 is currently undergoing phase III clinical trials and is targeted for launch in around 2021.

- LY06006 (biosimilar to Prolia, denosumab) is a recombinant anti-RANKL whole human monoclonal antibody injection, used in the treatment of osteoporosis among postmenopausal women and for reducing the risk of vertebral, non-vertebral and hip fractures. The status of LY06006 is currently undergoing phase III clinical trials and is targeted for launch in around 2022.

- LY01011 (biosimilar to Xgeva, denosumab) is a recombinant anti-RANKL whole human monoclonal antibody injection, used in the prevention of skeletal-related events in patients with multiple myeloma and in patients with bone metastases from solid tumors. It also can be used in treatment of adults and skeletally mature adolescents with giant cell tumor of bone that is unrespectable or where a surgical

resection is likely to result in severe morbidity, as well as in the treatment of hypercalcemia of malignancy refractory to bisphosphonate therapy. LY01011 is currently undergoing phase I clinical trials.

- LY09004 (biosimilar to Eylea, aflibercept) is a recombinant human vascular endothelial growth factor receptor-antibody fusion protein ophthalmic injection, used in the treatment of wet age-related macular degeneration ("**AMD**"), diabetic macular edema, macular edema from retinal vein occlusion ("**RVO**"), diabetic retinopathy. LY09004 is currently undergoing in phase I clinical trials.

LY05008, LY01015, LY01012, TS1808, are biosimilars currently developed by Shandong Boan. They are all collectively referred to as **Remaining Products**, and their introduction information is set out as below:

- LY05008 (biosimilar to Trulicity) is a GLP-1 drug used in the treatment of type II diabetes by way of injection to be administered on a weekly basis. LY05008 is currently undergoing preclinical trials.

- LY01015 (biosimilar to Opdivo, Nivolumab) is used in the treatment of wide variety of cancers, including lung cancer, kidney cancer, liver cancer, colorectal cancer, melanoma, head and neck squamous cancer and others. LY01015 is currently undergoing preclinical trials.

- LY01012 (biosimilar to Zaltrap, Aflibercept) is an inhibitor of VEGF used with chemotherapy to treat metastatic colorectal cancer. LY01012 is currently undergoing phase I clinical trials.

- TS1808 (biosimilar to Cosentyx, Secukinumab) is an IL-17A antibody drug used for the treatment of psoriasis, psoriatic arthritis and ankylosing spondylitis. TS1808 is currently undergoing preclinical trials.

Innovative Products

In addition to biosimilars, Shandong Boan is also developing innovative products, most of which are currently in the early stages.

We have obtained a breakdown of the incurred R&D cost of innovative products from the management of Shandong Boan. The incurred R&D cost by innovative products is set out as below.

Innovative Products	Incurred R&D
TS1804	173
TS1901	4,735
TS1905	4,650
TS1904	4,650
TS0001(15)	3,061
TS0001(17)	5,083
TS0001(3)	4,650
TS1903	5,489
TS1502	6,110
Others	31,250
Sum	69,850

Unit: RMB'000

As biosimilar and innovative products constitute the major assets under Shandong Boan, we have determined Shandong Boan's 100% equity interest value mainly through calculating the value of Shandong Boan's biosimilar and innovative products' value.

4. VALUATION METHODOLOGY

There are three generally accepted valuation approaches in this equity interest valuation. The valuation approaches are sourced from International Valuation Standards 105 — Valuation Approaches and Methods.

4.1 Cost Approach

The cost approach provides an indication of value by using the economic principle that a buyer will pay no more for an asset than the cost to obtain an asset of equal utility, whether by purchase or by construction, unless undue time, inconvenience, risk or other factors are involved. The approach provides an indication of value by calculating the current replacement or reproduction cost of an asset and making deductions for physical deterioration and all other relevant forms of obsolescence.

The cost approach should be used as the primary basis for a valuation under the following circumstances:

- market participants would be able to recreate an asset with substantially the same utility as the subject asset, without regulatory or legal restrictions, and the asset could be recreated quickly enough that a market participant would not be willing to pay a significant premium for the ability to use the subject asset immediately;

- the asset is not income-generating (directly or indirectly) and the unique nature of the asset makes using an income approach or market approach unfeasible, and
- the basis of value being used is fundamentally based on replacement cost, such as reinstatement value.

4.2 Market Approach

The market approach provides an indication of value by comparing the asset with identical or comparable (that is similar) assets for which price information is available. When reliable, verifiable and relevant market information is available, the market approach is the preferred valuation approach.

The market approach should be used as the primary basis for a valuation under the following circumstances:

- the asset has recently been sold in a transaction appropriate for consideration under the basis of value;
- the asset or substantially similar assets are actively publicly traded; and
- there are frequent or recent observable transactions in substantially similar assets.

4.3 Income Approach

The income approach provides an indication of value by converting the company's future cash flows into a single present day value. Under the income approach, the value of an asset is determined by reference to the value of income, cash flow or cost savings generated by the asset.

The income approach should be used as the primary basis for a valuation under the following circumstances:

- the income-producing ability of the asset is the critical element affecting value from a market participant perspective; and
- reliable projections of the amount and timing of future income are available for the subject asset, and there are few, if any, relevant market comparables.

4.4 Selection of Assessment Methodology

As Shandong Boan has not made any profits to date, there are no suitable financial metrics to calculate the equity interest value through the market approach. As such, we determined that the market approach is not applicable for the valuation of Shandong Boan.

Biosimilar Products

The income approach was used for the valuation of the biosimilar products. We believe the cost approach to be insufficient to reflect the value of biosimilar products given they have made remarkable R&D progress. Specifically, we have chosen the Discounted Cash-flow Method (the "**DCF Method**") in order to determine the value of Shandong Boan's biosimilar products.

The DCF Method revolves around the concept that the value of a company is determined through calculating the present value of all future benefits that flow to the shareholder by applying an appropriate discount rate. These future benefits consist of current income distributions, appreciation in the asset, or a combination of both. In essence, this valuation method requires a forecast to be made on cash flows, and extending the forecasts into the future until the company reaches an assumed stabilization state. This methodology assumes that the forecasted income/cash flow will not necessarily be stable in the near term, but will eventually stabilize in the future.

Innovative Products

As the innovative products are currently in early stages, and contain a high degree of uncertainty in regards to their development, we have chosen to use the cost approach in order to assess their value.

5. DISCUSSION OF FINANCIAL FORECAST

Forecast Period

During the course of the valuation, we have performed our assessment based on the financial forecast provided by the management of the Company. As most of the Remaining Products are expected to launch in 2027, the Company management provided financial forecast from the Valuation Date to 2036 (the "**Forecast Period**"), representing the period commencing from the valuation date to 10 years after the launch of the Remaining Products.

Projected Revenue

As per our discussions with the management of the Company, there are three primary sources of revenue for Shandong Boan, consisting of 1) sales revenue, 2) royalty income and 3) right transfer income.

Sales Revenue

Sales Revenue refers to the revenue derived from direct sales of the Remaining Products after Remaining Products are launched into the market.

The sales revenue of the products, including for LY01008 and LY06006 with respect to the royalty income, is determined with reference to market size projections of the products' respective drug generics and market share projections.

With respect to the market size projections, we note that Shandong Boan's management has primarily referenced data from Meritco Services (久謙咨詢), a growth consulting company founded by former McKinsey consultants, as well as IQVIA, one of the largest biopharmaceutical development, commercial outsourcing services and health information technology companies globally. Certain market data was also derived from public sources including industry overview sections of published prospectuses of biotech companies including those available on the HKEx website.

Domestic market size

For products where the domestic market size of the originator in China cannot be observed directly due to the fact that the originator's product may not be approved for sale in China yet, the market size is projected based on the target indication and epidemiology, taking into account several factors as detailed in the following.

For products that treat non-cancer diseases (LY05008, TS1808), the number of target patients is estimated based on factors such as the total general population, prevalence of the disease, treatment rate, etc. For illustration purposes, general population data has generally been sourced from the National Bureau of Statistics of China. Meanwhile, the prevalence rate of psoriasis (one of indications for TS1808) was sourced from the Global Report on Psoriasis published by the World Health Organization. On the other hand, the prevalence rate of ankylosing spondylitis (one of indications for TS1808) was sourced based on the prevalence rate published by the Chinese Journal of Rheumatology.

For products that treat cancer diseases (LY01015, LY01012), the number of target patients is estimated based on the population of different types of cancer diseases, and the proportion of the target indication in the respective population of cancer patients. As an example for illustration purposes, the estimation for target patients of LY01015 and LY01012 was based on the population data of Chinese lung cancer patients and colorectal cancer patients sourced from publications including the Cancer Statistics in China, 2015 and the Chinese Journal of Oncology.

For products whereby the market size of the originator's products can be directly observed from public sources, management has referred to the published information. As an example for illustration purposes, the market size of Avastin (bevacizumab) in China was sourced from the prospectus of a recently listed biotech company in Hong Kong, where the data was in turn, attributed to an independent market research and consulting company.

Overseas market size

Based on its current development plan and sales strategy, we note that Shandong Boan's management expects to market and sell TS1808 and LY06006 outside of China after obtaining the relevant marketing approvals in the respective regions. The projected overseas market sizes used in this valuation analysis takes reference to the historical sales record in the relevant markets as reported by IQVIA and extrapolated in the future years based on both the overall population and the indication's historical growth rates.

Market share

With respect to market share projections, the Shandong Boan management has estimated its future market share based on a number of factors, including the latest published R&D progress of other competing products currently undergoing clinical trials.

For products in which information on potential competitor products is available, academic research published in peer reviewed journals has indicated that, if a product's properties, price, and marketing strength are comparable, the order of market entry should in general determine their respective future market share. As such, the market share assumptions used in this valuation have referenced the results published by academic research, which we believe to be fair and reasonable.

For products at earlier stages in which competitor information is not available and the order of market entry is difficult to determine, the overall market share has been divided across the predicted number of competitors based on the current and potential competitive landscape of other biosimilars.

In addition to the order of market entry, market share can also be affected by a company's commercialization capabilities. As Shandong Boan is affiliated with the Luye Group and the Luye brand, Shandong Boan is expected to be able to leverage on the Luye Group's marketing and commercialization capabilities. In light of Luye Group's track record and market network in China, we believe the market share assumptions applied by Shandong Boan's management team for this valuation is fair and reasonable.

Success rate

A 50% success rate for the Remaining Products is applied to reflect the uncertainty for the launch of the products. This success rate is primarily determined through referencing the rates applied to pre-clinical biosimilars by the equity research divisions of reputable global and local financial services firms that have been active in publishing independent investment research on Chinese biotech companies listed on The Stock Exchange of Hong Kong Limited. The success rate is also supported by publicly available articles from peer-reviewed clinical journals and healthcare and life science-focused advisory firms that have conducted research on the typical success rate of biosimilar development. As part of our diligence process, we have also conducted background research, such as reviewing published academic articles on

clinical success rates and conducting expert interviews with members of the Shandong Boan R&D team, on historical biosimilar developmental success rates, the overall mechanism for developing biosimilars and Shandong Boan's internal view on the clinical risk and probabilities involved with their products in order to ensure that the assumption is fair and reasonable.

Sales projections

In 2026, we project Shandong Boan's sales of the Remaining Products to reach approximately RMB97 million, mainly derived from the sales of LY01015 and LY01012, and increasing to RMB834 million in 2027, mainly due to the launch of LY05008 and TS1808. In the following years, sales of the Remaining Products is projected to grow incrementally year-over-year based on the Company management's best estimates until it reaches its projected peak market share through the methodology as described above. This translates to growth in sales of Remaining Products between 10% and 27% in 2027–2031, and is projected to eventually reach peak sales of RMB1,818 million in 2031. In 2036, sales of the Remaining Products is expected to reach RMB1,723 million, and we have projected sales of this segment to maintain 3% perpetual growth rate from 2036 onwards.

Royalty Income

Royalty Income refer to the royalties as stipulated in the 2017 Transfer, being 10% of the revenue generated from the sale of LY01008 and LY06006.

The sales revenue of LY01008 and LY06006 is determined with reference to projection of market size and market share with respect of each product.

A 95% and 90% success rate are applied to LY01008 and LY06006 respectively, to reflect the uncertainty of the launch for these products. These success rates are determined after taking into consideration LY01008 and LY06006's current R&D stages and the success rates of biosimilars in general when they reach phase III clinical trials.

As such, we forecast Royalty Income to increase from RMB9.88 million in 2021 to a peak sales value of RMB360 million in 2036. The growth in Royalty Income is due to an increase in both market size and market share. From 2036 onwards, we have projected Shandong Boan's royalty income to maintain a 3% perpetual growth rate.

Right Transfer Income

Right Transfer Income refers to the remaining consideration to be received in relation to the 2017 Transfer and 2018 Transfer.

The total consideration for 2017 Transfer was RMB450 million, and 20% of total consideration has been received. The remaining consideration is payable by stages as follows.

- 50% of the total consideration is payable for completion of Phase III clinical trials;

- 20% of the total consideration is payable following the submission of the application for the marketing authorization; and

- 10% of the total consideration is payable following the CDE's grant of the marketing authorization.

The total consideration for 2018 Transfer was RMB500 million, and 60% of the total consideration has been received. The remaining consideration is payable by Shandong Luye by stages as follows.

- 20% of the total consideration is payable for the completion of Phase III clinical trials; and

- 20% of the total consideration is payable for CDE's grant of the marketing authorization.

As per our discussions with management regarding the outstanding consideration as well as the R&D schedule of the Transferred Products, we anticipate Shandong Boan to receive the remaining RMB200 million, RMB160 million, RMB80 million, and RMB120 million in 2021, 2022, 2023 and 2024, respectively.

Total sales of Shandong Boan

Based on the discussion above, we estimate Shandong Boan to begin recording total sales of approximately RMB209 million in 2021. Excluding the Rights Transfer Income, Shandong Boan's total sales is expected to reach a peak of RMB2,153 million in 2031. In 2036, we estimate Shandong Boan's total sales to reach approximately RMB2,084 million and maintains a perpetuate growth rate of 3% from 2036 onwards.

Cost of Sales

As per our discussions with the management of the Company, Shandong Boan's cost of sales consists of 1) manufacturing cost of the Remaining Products and 2) R&D cost of the Transferred Products.

Shandong Boan's management estimates that the manufacturing cost for the Remaining Products accounts for 14% of sales revenue. The ratio of manufacturing cost to sales revenue is determined with reference to the ratio of Shanghai Junshi Biosciences Co., Ltd.

Among the comparable companies listed below, (comprised of Luye Pharma, BeiGene, Innovent Biologics, Junshi Biosciences, CStone Pharmaceuticals, Hua Medicine, Mabpharm and Henlius; please refer to Section 6 — Discount Rate and Other Adjustments of this Valuation Report), only Luye Pharma, Junshi Biosciences and Innovent Biologics have reported revenues from product sales (excluding revenue from licensing fee or other sources) as of June 2019. Given the other comparable companies are pre-revenue biotech companies and therefore lack reference points in relation to gross profit margins, we have determined that

Junshi Biosciences and Innovent Biologics are the most suitable to be used as reference, considering they represent the most comparable companies in terms of their biologic drug pipeline. Of the two companies, Junshi Biosciences' cost of sales was chosen as a reference point, as according to our discussions with management, the margin profile would be the most representative of Shandong Boan going forward.

An additional RMB 670 million in R&D expenditures is estimated to be required commencing from the Valuation Date to the launch date of all Transferred Products. The figure was based on Shandong Boan's internal budgeting estimates, based on their expected costs required for future clinical trials and other costs for continued development, including but not limited to the clinical trial cost, process characterization cost, process verification and other associated costs. The total estimated R&D expenditures for the Transferred Products is consistent with the cost estimated for the Transferred Products in the 2017 Transfer and 2018 Transfer.

Operating Expense

As per our discussions with the management, operating expenses mainly consist of 1) sales expenses and 2) R&D expenses for Remaining Products.

Prior to 2026, as all of the Remaining Products is expected to be undergoing clinical trials, no corresponding sales expenses were estimated for Shandong Boan. According to Company management, a total of RMB 698 million in R&D expenses will be required for the Remaining Products from the valuation date to 2026.

After 2026, sales expenses and R&D expenses are expected to account for 49% of sales revenue of Remaining Products. We have reviewed the ratio of sales expenses (including R&D) to revenue for Luye Group in 2018, which is around 49%. This value was determined after discussions with the relevant Shandong Boan's sales teams on its future sales and marketing strategy and requirements, in which we believe to be fair and reasonable.

Effective Tax Rate

According to discussions with management, Shandong Boan expects to obtain the qualification of High and New Technology Enterprises in 2021, and as such a 15% corporate tax rate is applied.

Capital Expenditure

The capital expenditure (the "**Capex**") measures the amount of cash flow invested by the Company in particularly property, plant and equipment ("**PP&E**") and intangible assets.

Shandong Boan currently operates a 1,200 sq.m. GMP-compliant pilot plant. As per our discussions with the management of the Company, additional capital expenditures are required to meet the projected operational needs of business. The annual capital expenditures for PPE and intangible assets are projected to be around RMB10 million in order to counter the depreciation and amortization and maintain a stable PP&E level within the Forecast Period.

The fixed asset and intangible assets is depreciated and amortized over 10 years with a straight-line basis.

Debt

As at the Valuation Date, Company has recorded RMB100 million in long-term loan and RMB99.5 million in short-term loan. In July 2019, the Company has raised RMB300 million via long-term loan with an interest rate of 6.18%.

According to the R&D forecasts provided by the management, the Company expects to borrow an additional RMB895 million by 2025 to support the Company's R&D expenditure. The corresponding borrowings are expected to be repaid between 2026 and 2028.

Required Net Working Capital

Required working capital of Company includes accounts receivable, notes receivable, inventory, prepayments, and accounts payable.

The amount of notes receivable is RMB10 million, equivalent to the Rights Transfer Income of the Transferred Products and it is expected to be received in the near future.

Accounts receivable, inventory, and accounts payable are calculated based on the corresponding turnover rate. The detail is set out as follows:

- *Accounts Receivable*

  Accounts receivable is projected with reference to the average collection days of sales revenue. The average collection days is projected to be about 60 days in the Forecast Period, which is in line with the finance policy to be executed by the Company.

- *Inventory*

  Inventory is projected with reference to the days of inventory turnover and manufacturing cost of Remaining Products. The days of inventory turnover is expected to be about 60 days.

- *Prepayments*

  Prepayments mainly refers to the clinical trial fees prepaid to the clinical trial providers, etc. Shandong Boan has estimated prepayment to be around RMB40 million at the end of 2019, which accounts for around 18% of R&D cost in 2019. During the Forecast Period, prepayment is projected with reference to this ratio of prepayment to R&D cost and R&D cost as estimated.

- *Accounts Payable*

  Accounts payable is projected with reference to the days of accounts payable turnover and manufacturing cost of Remaining Products. The average days of accounts payable turnover is projected to be about 60 days in the Forecast Period, which is in line with the finance policy to be executed by the Company.

6. DISCOUNT RATE AND OTHER ADJUSTMENTS

We adopted the weight average cost of capital (the "**WACC**") as the benchmark discount rate in valuing the Equity Interest of the Company. WACC comprises two components: cost of equity and cost of debt. Cost of equity was developed using Capital Asset Pricing Model (the "**CAPM**"). The CAPM states that an investor requires excess returns to compensate systematic risks and an efficient market provides no excess return for other risks. Cost of debt was developed with reference to the long-term prime lending rate.

We have selected a group of comparable companies listed on stock exchanges respectively to provide a reasonable reference in order to evaluate the industry's beta and capital structure used.

Discount Rate for the Company

For Shandong Boan, we have selected the following comparable companies ("**Peer Group Companies**") based on the following criteria:

- Primarily engaged in innovative biopharmaceuticals or related businesses;
- Have its primary operations in China; and
- Contains Relevant Information that is both available and publicly disclosed;

As we have conducted an exhaustive search for all companies that meet the criteria set out above, we believe that the adopted comparable companies are representative, fair and reasonable comparisons to Shandong Boan.

Luye Pharma Group Ltd ("**Luye Pharma**") has been included in the Peer Group Companies as Luye Pharma already has obtained partial income rights to the Transferred Products from Shandong Boan through the previous 2017 Transfer and 2018 Transfer. As such, the biosimilar business of Luye Pharma is closely related to Shandong Boan.

Nevertheless, we have also tested that if Luye Pharma were to be excluded from the Peer Group Companies; the calculated WACC (13.62%, whereas 14% was adopted in our valuation) which would cause no change to our current applied WACC value.

As companies that fit the criteria above, as well as those that have successfully listed on the Hong Kong Stock Exchange under the Chapter 18A biotech listing rules, have a wide range of market capitalisation despite having relatively similar business operations and products, we have primarily focused on selecting Peer Group Companies based on the their business nature and operations, geographic presence and availability of information to be used for comparison, and believe that the differences in market capitalisation do not affect their ability to be comparable to Shandong Boan. Nevertheless, a size premium was included in the calculation of WACC in order to take into account the size effect between Shandong Boan and other companies with a larger market capitalisation.

Peer Group Companies

Ticker	Company Name	Market Capitalisation[1]	Debt to Equity	Unleveraged Beta
2186-HK	Luye Pharma Group Ltd.	HK$18,536 million	78.6%	0.97
6160-HK	BeiGene, Ltd.	HK$58,418 million	11.4%	1.79
1801-HK	Innovent Biologics, Inc.	HK$30,418 million	18.9%	0.58
1877-HK	Shanghai Junshi Biosciences Co., Ltd.	HK$5,464 million	17.2%	0.43
2616-HK	CStone Pharmaceuticals	HK$11,658 million	0.0%	0.17
2552-HK	Hua Medicine Ltd.	HK$7,437 million	0.0%	0.45
2181-HK	Mabpharm Limited	HK$6,186 million	42.1%	N/A
2696-HK	Shanghai Henlius Biotech, Inc.	N/A	41.3%	N/A
Mean			26.2%	0.73

Note 1: Market capitalisation as of 30 June 2019.

Principal Business of Comparable Companies

- Luye Pharma Group Ltd. is an investment holding company, which engages in the developing, producing, marketing, and selling pharmaceutical products. It operates through the following segments: Oncology Drugs, Cardiovascular System Drugs, Alimentary Tract and Metabolism Drugs, and Others. The company was founded on 8 June 1994 and is headquartered in Yantai, China.

- BeiGene Ltd. is a commercial-stage biopharmaceutical company, which engages in the development and commercialization of innovative molecularly targeted and immuno-oncology drugs for the treatment of cancer. It focuses on Zanubrutinib

(BGB-3111), Tislelizumab (BGB-A317), and Pamiparib (BGB-290). The company was founded by Xiao Dong Wang and John V. Oyler on 28 October 2010 and is headquartered in Beijing, China.

- Innovent Biologics, Inc. is an investment company, which engages in the development and manufacture of biopharmaceutical products. Its products include sintilimab (IBI-308), a novel PD-1 antibody; IBI-305, the bevacizumab (Avastin) biosimilar; IBI-301, the rituximab (MabThera/Rituxan) biosimilar; and IBI-303, the (Humira) biosimilar. The company was founded by De Chao Yu, Kevin Chen, and Scott M. Wheelwright on 28 April 2011 and is headquartered in Suzhou, China.

- Shanghai Junshi Biosciences Co., Ltd. engages in the research and development of biomedicine. It discovers and develops monoclonal antibody drugs and provides related technology development services. The company was founded on 27 December 2012 and is headquartered in Shanghai, China.

- Cstone Pharmaceuticals Co. Ltd. engages in the research and development of highly complex biopharmaceutical products. It offers cancer therapeutics with a special focus on immuno-oncology based combination therapies. The company was founded on 2 December 2015 and is headquartered in Shanghai, China.

- Hua Medicine Ltd. provides drug discovery and development services. It offers drugs for diabetes and Central Nervous System disorders. Its products include Dorzagliatin HMS552, Dorzagliatin+Metformin, Dorzagliatin+DPPIV, Dorzagliatin +SGLT-2, Dorzagliatin+Insulin, Dorzagliatin+GLP-1 and mGLUR5 NAM. The company was founded by Chen Li on 10 November 2009 and is headquartered in Shanghai, China.

- Mabpharm Ltd. engages in the research, development, and manufacture of monoclonal antibody drugs for the treatment of cancer and autoimmune diseases. The company was founded on 1 June 2018 and is headquartered in Hong Kong.

- Shanghai Henlius Biotech, Inc. engages in the development and production of monoclonal antibody drugs. Its products include monoclonal antibodies biosimilar drugs, bio-betters, and novel monoclonal antibodies. The company was founded by Wei Dong Jiang and Shi Gao Liu in December 2009 and is headquartered in Shanghai, China.

WACC calculation for Shandong Boan is shown as below table:

Component	**Shandong Boan**	**Notes**	**Formula**
Debt to equity ratio	26.2%	*1*	*a*
Unleveraged beta	0.73	*2*	*b*
Risk free rate	3.30%	*3*	*c*
Equity risk premium	6.94%	*4*	*d*
Leveraged beta	0.89	*5*	*e*
Size premium	3.58%	*6*	*f*
Company specific premium	3.00%	*7*	*g*
Cost of equity	16.08%		*h=c+d*e+f+g*
Pre-tax cost of debt	4.90%	*8*	*i*
Effective tax rate	15.00%		*j*
After tax Cost of debt	4.17%		*k=i*(1–j)*
WACC	13.61%		*l=h/(1+a)+k/(1+a)*a*
Adopted WACC	14.0%		

Notes to the WACC parameters are as follows:

1. The debt to equity ratio is derived from a set of peer group companies.

2. Unleveraged beta is derived from a set of peer group companies.

3. The risk-free rates are determined with reference to the China 10-Year Benchmark bond yield, sourced from Factset.

4. The equity risk premium is the China Equity Risk Premium, sourced from Aswath Damodaran, a Professor of Finance at the Stern School of Business at New York University and a reputable and oft-cited source on equity valuations.

5. Leveraged beta is derived from leveraging a set of peer group companies' unleveraged beta.

6. The size premium is added to reflect the effect of firm size on returns, sourced from Duff & Phelps 2016 Valuation Handbook, a guidebook published by US consultancy firm Duff & Phelps, a reputable and oft-cited source on equity valuations.

7. Company specific premiums are designed to account for additional risk specific to the Company, including but not limited to competition, early R&D stage for some products etc. The exact premium used is partly subjective, and we take reference that a number of published biotech valuations conducted by the research divisions investment banks have not included a specific risk premium, in part due to the fact that the valuation of the company has already accounted for the risk-adjustment through success rates. For the purposes of this valuation, we believe a 3% company specific premium is sufficiently conservative when assessing the valuation of Shandong Boan.

8. The pre-tax cost of debt is advised by the management of the Company, which is in line with the long term prime lending rate in China.

Terminal Value

Since the Equity Interest is assessed on an on going basis, we determined the terminal value of the Company by the perpetual growth method. As per our discussions with management, the perpetual growth rate is estimated at 3%. This growth rate is based on the projection of long term global GDP growth rate. The perpetual growth year begins in 2037.

Discount for Lack of Marketability

We have adopted a discount for lack of marketability of 20% in the valuation of the Equity Interest to compensate for the potential difficulty of selling the equity shares, which are not traded on a stock exchange, compared with those of the peer companies that are traded publicly in stock exchange markets.

The 20% discount is source from 2016 edition of the FMV Restricted Stock Study Companion Guide, which was published by FMV Opinions, Inc., one of the preeminent firms offering a broad range of financial advisory services to private and public companies. The result is concluded based on 736 observed transactions

7. PREMISE OF VALUATION AND BASIS OF VALUATION

Our valuation is based on market value basis and market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

7.1 Source of Information

Our investigation covers the discussion with the Company and the Instructing Party's representatives, the collection of information including the details of the Company.

We assume that the data obtained in the course of the valuation, along with the opinions and representations provided to us by the Company were prepared in reasonably care.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

7.2 Assumptions and Factors Considered

The assumptions considered in this valuation included, but were not limited to, the following:

- Shandong Boan has sufficient fund to support the R&D of pipeline products;

- Shandong Boan will continue its development and clinical trials of drug candidates;
- Shandong Boan's products will be developed as schedule;
- Successful results in earlier studies in the pre-clinical/clinical development process is assumed to be predictive of favorable future trial results;
- Prior to obtaining the marketing authorization, there will be no major changes in regulation and guidelines in relation to the product, and
- Shandong Boan is capable to establish and expand its sales, marketing and commercialization infrastructure and workforce when the drug candidates obtain marketing approval.

The factors considered in this valuation included, but were not limited to, the following:

- The nature and history of Shandong Boan;
- The financial conditions of Shandong Boan;
- Operation and financial risks of Shandong Boan;
- Environmental policies set by the government that pertains to Shandong Boan;
- Market-derived investment returns of entities engaged in similar lines of business; and
- The financial and business risks of Shandong Boan including the continuity of income and the projected future results.

8. DISCLAIMER AND LIMITATION

Our findings or conclusion of values of the subject in this report are valid only for the stated purpose and at the Valuation Date, and for the sole use of the Instructing Party.

Our liability for loss or damage shall be limited to such sum as we ought reasonably to pay having regard to our responsibility for the same on the basis that all other consultants and specialists, where appointed, shall be deemed to have provided to the Instructing Party contractual undertakings in respect of their services and shall be deemed to have paid to the Instructing Party such contribution as may be appropriate having regard to the extent of their responsibility for such loss or damage.

Our liability for any loss or damage arising out of the action or proceedings aforesaid shall, notwithstanding the preceding provisions, in any event be limited to a sum not exceeding ten (10) times of the amount of our agreed fee(s) for this engagement or HK$500,000, whichever the lower. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, loss of profits, opportunity cost, etc.), even if it has been

advised of their possible existence. For the avoidance of doubt our liability shall never exceed the lower of the sum calculated in accordance with the preceding provisions and the sum provided for in this clause.

The Instructing Party are required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our engagement except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence, misconduct, willful default or fraud of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

We reserve the right to include your company/firm name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

Any decision to purchase, sell or transfer any interest in the valuation subjects shall be the owners' sole responsibility, as well as the structure to be utilized and the price to be accepted. The selection of the price to be accepted requires consideration of factors beyond the information we will provide or have provided. An actual transaction involving the subject business might be concluded at a higher value or at a lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivations of the buyers and sellers at that time.

9. CONCLUSION

The conclusion of value is based on the accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

While the assumptions and consideration of such matters are considered to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Instructing Party and/or CHFT Advisory And Appraisal Ltd.

Based on the valuation methodology adopted, we are of the opinion that the market values of 100% Equity Interest of Shandong Boan Biological Technology Co. Ltd., as at 30 June 2019, was in the sum of **RMB1,491,000,000** (RENMINBI ONE BILLION FOUR HUNDRED AND NINETY-ONE MILLION).

We hereby certify that we have neither present nor prospective interests in the Instructing Party or the value(s) reported.

Yours faithfully,
For and on behalf of
CHFT Advisory and Appraisal Ltd
Ross Wang, CFA
Director

Note: Mr. Ross Wang is a CFA charterholder. He has over 9 years' experience in providing the business valuation services in Hong Kong, the PRC and Asian region.

In compliance with Rule 14.60A of the Listing Rules, the text of each of the report from Ernst & Young to the Directors confirming it has examined the calculations of the Forecast for the Valuation Report, and the letter from UBS confirming that the Forecast has been made after due and careful enquiry, both dated 1 December 2019, for the purpose of, among other things, inclusion in this circular are reproduced below:

PART A — REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF EQUITY INTEREST IN SHANDONG BOAN BIOLOGICAL TECHNOLOGY CO. LTD.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Luye Pharma Group Ltd.

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the "**Forecast**") on which the valuation dated 16 November 2019 prepared by CHFT Advisory and Appraisal Ltd. in respect of Shandong Boan Biological Technology Co. Ltd. (the "**Target**") as at 30 June 2019 is based. The valuation is set out in the announcement of Luye Pharma Group Ltd. (the "**Company**") dated 1 December 2019 (the "**Announcement**") in connection with the acquisition of the Target. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' responsibilities

The directors of the Company (the "**Directors**") are solely responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the "**Assumptions**"), the completeness, reasonableness and validity of which are the sole responsibility of the Directors. The Assumptions are set out in the section headed "VALUATION OF SHANDONG BOAN" of the Announcement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' responsibilities

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

1 December 2019

PART B — LETTER FROM UBS

1 December 2019

The Board of Directors
Luye Pharma Group Ltd.
Clarendon House
2 Church Street Hamilton
HM 11 Bermuda

Dear Sirs,

Luye Pharma Group Ltd. (the "Company")
Discloseable and Connected Transaction

We refer to the discounted future cash flows of Shandong Boan Biological Technology Co. Ltd. (the "**Forecast**") underlying the valuation report prepared by CHFT Advisory and Appraisal Ltd. (the "**Independent Valuer**") in relation to the valuation of the entire equity interest of 山東博安生物技術有限公司 (Shandong Boan Biological Technology Co. Ltd.) ("**Shandong Boan**") (the "**Valuation Report**"), the valuation of which constitutes a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

We have reviewed the Forecast upon which the Valuation Report has been made, for which you as the directors of the Company are solely responsible. We have also considered the report from Ernst & Young (the "**Auditor**") dated 1 December 2019 addressed solely to and for the sole benefit of the directors of the Company regarding the calculations upon which the Forecast have been made as set out in Appendix I to the announcement of the Company dated 1 December 2019 (the "**Announcement**") regarding the Forecast.

The Forecast has been prepared using a set of assumptions that include hypothetical assumptions about future events and other assumptions that may or may not necessarily be expected to occur and, as such, the Forecast may not be appropriate for purposes other than for deriving the Valuation Report. Even if the events anticipated under the hypothetical assumptions occur, actual results are still likely to differ from the Forecast since such anticipated events frequently may or may not occur as expected and the variation may be material.

We have not independently verified the computations leading to the Independent Valuer's determination of the market value of Shandong Boan. We have had no role or involvement and have not provided and will not provide any assessment of the market value of Shandong Boan and, accordingly, we take no responsibility and express no views therefor. We have assumed, without independent verification, that all information, materials and representations so supplied, including all information, materials and representations referred to or contained in the Announcement, for which you as directors of the Company are wholly responsible, were true, accurate, complete and not misleading at the time they were supplied or made and that no material fact or information has

been omitted from the information and materials supplied. No representation or warranty, expressed or implied, is made by us on the accuracy, truth or completeness of such information, materials, opinions and/or representations referred to or contained in the Announcement, and we have not assumed any responsibility or liability therefor. Circumstances could have developed or could develop in the future that, if known to us at the time of this letter, would have altered our assessment and review.

On the basis of the foregoing and without giving any opinion on the reasonableness of the valuation methods, bases and assumptions selected by the Independent Valuer and the Company for which the Independent Valuer and the Company are responsible, we are of the opinion that the Forecast has been made by you after due and careful enquiry in accordance with the bases and assumptions as set out in the Valuation Report.

The work undertaken by us in giving the above opinion has been undertaken for the purpose of reporting solely to you under Rule 14.62(3) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Yours faithfully,
For and on behalf of
UBS AG Hong Kong Branch

Patrick Tsang	**Yao Chong**
Managing Director	*Managing Director*

UBS AG is incorporated in Switzerland with limited liability.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors or chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange pursuant to Model Code, are as follows:

(a) Interest in the Company

Name of Director	Nature of interest	Number of Shares interested in	Approximate percentage of shareholding
Liu Dian Bo[(1) and (2)]	Founder of a discretionary trust	1,517,113,930(L) 72,701,950(S)	46.41% 2.22%
Zhang Hua Qiao[(3)]	Beneficial owner	250,000(L)	0.01%
Lo Yuk Lam[(3)]	Beneficial owner	250,000(L)	0.01%
Leung Man Kit[(3)]	Beneficial owner	250,000(L)	0.01%
Choy Sze Chung Jojo[(3)]	Beneficial owner	250,000(L)	0.01%
Song Rui Lin[(3)]	Beneficial owner	250,000(L)	0.01%

Remark: The letter "L" denotes long position in such securities and "S" denotes short position in such securities.

Notes:

1. Mr. Liu Dian Bo through his controlled corporations, namely Shorea LBG, Ginkgo (PTC) Limited, Nelumbo Investments Limited, Luye Life Sciences Group Ltd., Luye Pharma Holdings Ltd., LuYe Pharmaceutical International Co., Ltd. and LuYe Pharmaceutical Investment Co., Ltd., is deemed to be interested in 1,517,113,930 Shares and 72,701,950 short position in the Company held by LuYe Pharmaceutical Investment Co., Ltd. Nelumbo Investments Limited holds 70% of the issued share capital of Luye Life Sciences Group Ltd.

2. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo. Ginkgo (PTC) Limited is wholly-owned by Shorea LBG whose sole shareholder is Mr. Liu Dian Bo.

3. These represent the interests in underlying Shares in respect of the awarded shares granted by the Company under a share award scheme. Please refer to the Company's announcement dated 10 January 2017 for details of the share award scheme.

(b) Interest in associated corporations

Name of Director	Associated corporation	Nature of Interest	Number of shares held	Approximate percentage in the registered capital of the associated corporation
Liu Dian Bo	Luye Life Sciences Group Ltd.	Founder of a discretionary trust	8,400(L)	70%
	Ginkgo (PTC) Limited	Founder of a discretionary trust	1(L)	100%
	Luye Pharma Holdings Ltd.	Founder of a discretionary trust	1,136,852(L)	100%
	LuYe Pharmaceutical International Co., Ltd.	Founder of a discretionary trust	202,180,988(L)	100%
	LuYe Pharmaceutical Investment Co., Ltd.	Founder of a discretionary trust	1(L)	100%
	Nelumbo Investments Limited	Founder of a discretionary trust	1(L)	100%
Yang Rong Bing	Luye Life Sciences Group Ltd.	Beneficial owner	1,800(L)	15%
Yuan Hui Xian	Luye Life Sciences Group Ltd.	Beneficial owner	1,800(L)	15%

Remark: The letter "L" denotes long position in such securities.

Notes:

1. The entire issued share capital of Nelumbo Investments Limited is held by Ginkgo (PTC) Limited as trustee of the family trust of Mr. Liu Dian Bo.

2. Luye Life Sciences Group Ltd. holds the entire issued ordinary share capital of Luye Pharma Holdings Ltd. LuYe Pharmaceutical International Co., Ltd. is wholly-owned by Luye Pharma Holdings Ltd. and LuYe Pharmaceutical Investment Co., Ltd. is wholly-owned by LuYe Pharmaceutical International Co., Ltd.

Save as disclosed above, none of the Directors and chief executive of the Company has any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) recorded in the register required to be kept under section 352 of the SFO, or (ii) otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

3. FURTHER INFORMATION CONCERNING DIRECTORS

(a) Directors' service agreements

As at the Latest Practicable Date, none of the Directors had entered into, or proposed to enter into, a service contract with any member of the Group which does not expire or is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

(b) Competing interests

As at the Latest Practicable Date, Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian, each an executive Director, are indirectly interested in the equity of LIG, accordingly, they were considered to have interests in the business of 蕪湖綠葉製藥有限公司 (Wuhu Luye Pharmaceutical Co. Ltd.) which competes or may compete, either directly or indirectly, with the businesses of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder of the Company.

蕪湖綠葉製藥有限公司 (Wuhu Luye Pharmaceutical Co. Ltd.) is a company with limited liability established in the PRC and is owned as to 90% by LIG and 10% by 蕪湖長榮醫藥科技資訊諮詢有限責任公司 (Wuhu Changrong Pharmaceutical Technology Information Consulting Co. Ltd.), an Independent Third Party. Wuhu Luye Pharmaceutical Co. Ltd. is primarily engaged in the production and sale of Chinese medicine covering a number of therapeutic areas including cardio-cerebral vascular, neurology, neuropsychiatry and hepatology, which competes or is likely to compete, either directly or indirectly, with the Group's business.

As the Group operates independently of the board of Wuhu Luye Pharmaceutical Co. Ltd., the Group operates its business independently of the business of Wuhu Luye Pharmaceutical Co. Ltd. and the Group is capable of carrying on its business independently of, and at arms' length from, the business as described above.

Save as disclosed above, none of the Directors and his respective close associates had any competing interests (as would be required to disclose under Rule 8.10 of the Listing Rules as if each of them was a controlling shareholder).

(c) Directors' interest in assets, contracts or arrangement

As at the Latest Practicable Date, save for the interest of Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian in the Sale and Purchase Agreement and the transactions contemplated thereunder as disclosed in this circular, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of or leased to any member of the Group.

By virtue of their interests in Shandong Boan, Mr. Liu Dian Bo, Mr. Yang Rong Bing and Mr. Yuan Hui Xian were considered to have interests in the Group's acquisition of the 4 Boan Biosimilars as announced by the Company on 4 August 2017 and 21 December 2018. Save as disclosed above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is material in relation to the business of the Group.

4. LITIGATION

As at the Latest Practicable Date, the Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company.

In the ordinary course of business of the Group, the Group may from time to time be involved in legal proceedings. As at the Latest Practicable Date, the Group was involved in the following legal proceedings: the previous distributor of "Seroquel" in Mainland China has commenced arbitration against the Group disputing the Group's basis of terminating the distribution agreement with such distributor. Based on the information currently available to the Group and its preliminary assessment, the Board does not expect the above-mentioned legal proceedings would have any material adverse impact on the existing business operations and financial position of the Group taken as a whole.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, the date to which the latest published audited accounts of the Company have been made up.

6. QUALIFICATION OF EXPERTS

The following are the qualification of the experts or professional advisers who have given opinion or advice contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
CHFT Advisory and Appraisal Ltd.	Independent Professional Valuer
Ernst &Young	Certified public accountants
UBS	UBS AG Hong Kong Branch, a registered institution under the SFO to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, UBS AG (i) was interested in Shares representing no more than 1.4% of the issued share capital of the Company; and (ii) held certain interest in the convertible bonds of the Company representing no more than 0.3% of the existing issued share capital of the Company.

As at the Latest Practicable Date, save as disclosed above, each of Gram Capital, the Valuer, Ernst & Young and UBS:

(a) did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(b) did not have any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group, since 31 December 2018, the date to which the latest audited financial statements of the Group was made up; and

(c) has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report and reference to its name in the form and context in which it appears.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's principal place of business in Hong Kong at Unit 3207, 32/F, Champion Tower, 3 Garden Road, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the SGM on 22 January 2020 (being not less than 14 days):

(a) the memorandum of association and the bye-laws of the Company;

(b) the Sale and Purchase Agreement;

(c) the letter from the Independent Board Committee;

(d) the letter from Gram Capital;

(e) the Valuation Report;

(f) the report from Ernst & Young;

(g) the letter from UBS;

(h) the written consent from the Independent Financial Adviser, the Valuer, Ernst & Young and UBS referred to in the paragraph headed "Qualification of Experts" in this appendix; and

(i) this circular.

LUYE PHARMA GROUP LTD.
绿叶制药集团有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 02186)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of Luye Pharma Group Ltd. (the "**Company**") will be held at Taishan Room, Level 5, Island Shangri-La, Supreme Court Road, Central, Hong Kong on Wednesday, 22 January 2020 at 10:00 a.m. or at any adjournment thereof for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**:

(a) the execution and delivery of and the performance of the obligations under the Sale and Purchase Agreement dated 1 December 2019 (the "**Sale and Purchase Agreement**") in respect of the acquisition of 98.0% equity interest in 山東博安生物技術有限公司 (Shandong Boan Biological Technology Co. Ltd.) (the "**Acquisition**") entered into between 綠葉投資集團有限公司 (Luye Investment Group Co., Ltd.) and the 山東綠葉製藥有限公司 (Shandong Luye Pharmaceutical Co. Ltd.) (a copy of the Sale and Purchase Agreement has been tabled at the meeting and marked "**A**" for the purpose of identification) and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one director of the Company be and is hereby authorised to sign, agree, ratify, perfect, execute or deliver (including under seal where applicable) such documents and to do or authorise doing all such acts and things incidental to the Acquisition and the transactions contemplated under the Sale and Purchase Agreement as he may in his absolute discretion consider necessary, desirable or expedient and in the best interest of the Company in connection with the implementation of, giving effect to or completion of the Acquisition under the Sale and Purchase Agreement and the transactions contemplated thereunder."

By Order of the Board
LUYE PHARMA GROUP LTD.
Liu Dian Bo
Chairman

Hong Kong, 6 January 2020

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal Place of Business in Hong Kong:
Unit 3207, 32/F, Champion Tower
3 Garden Road
Central
Hong Kong

Notes:

(1) Any shareholder of the Company entitled to attend and vote at the SGM is entitled to appoint one or more separate proxies to attend and, subject to the provisions of the bye-laws of the Company, to vote on his/her behalf. A proxy need not be a shareholder of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.

(2) In the case of joint holders of any Share, any one of such persons may vote at the above SGM, either personally or by proxy, in respect of such Share as if he/she were solely entitled thereto. However, if more than one of such joint holders be present at the above SGM personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and for this purpose seniority shall be determined as that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

(3) In order to be valid, a proxy form in the prescribed form together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of authority, must be deposited at the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the SGM or any adjournment thereof.

(4) The transfer books and register of members of the Company will be closed from 17 January 2020 to 22 January 2020, both days inclusive, to determine the entitlement of shareholders to attend and vote at the Special General Meeting, during which period no share transfers can be registered. All transfers accompanied by the relevant share certificates must be lodged with the Hong Kong share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 16 January 2020.

(5) Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and in such event, the relevant form of proxy shall be deemed to be revoked.

(6) The resolution as set out in this notice will be taken by poll.

As at the date of this notice, the executive directors of the Company are Mr. LIU Dian Bo, Mr. YANG Rong Bing, Mr. YUAN Hui Xian and Ms. ZHU Yuan Yuan; the non-executive director is Mr. SONG Rui Lin; and the independent non-executive directors are Mr. ZHANG Hua Qiao, Professor LO Yuk Lam, Mr. LEUNG Man Kit and Mr. CHOY Sze Chung Jojo.