17 April 2020

To: the Independent Board Committee

Dear Sirs,

(1) PROPOSED PRIVATISATION OF BBI LIFE SCIENCES CORPORATION BY THE OFFEROR BY WAY OF A SCHEME OF ARRANGEMENT (UNDER SECTION 86 OF THE COMPANIES LAW); AND
(2) PROPOSED WITHDRAWAL OF LISTING

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the Proposal. Details of the Proposal are contained in the document to the Shareholders dated 17 April 2020 (the "**Scheme Document**"), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Scheme Document unless the context otherwise requires.

On 20 January 2020, the Offeror and the Company jointly announced that on 14 January 2020, the Offeror requested the Board to put forward the Proposal to the Scheme Shareholders for the proposed privatisation of the Company by way of a scheme of arrangement under Section 86 of the Companies Law. Upon completion of the Scheme and the share transfer pursuant to the SPA, the Company will become a wholly-owned subsidiary of the Offeror and the listing of the Shares will be withdrawn from the Stock Exchange.

The Independent Board Committee, which comprises all non-executive Directors who are not interested in the Proposal, namely, Mr. Zhou Mi, Mr. Xia Lijun, Mr. Ho Kenneth Kai Chung and Mr. Liu Jianjun, has been established by the Board to advise (i) whether the terms of the Proposal are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the action that should be taken by the Independent Shareholders as regards voting at the Court Meeting and the EGM. The Independent Board Committee has approved our appointment as the Independent Financial Adviser to advise the Independent Board Committee on these matters.

We are not associated or connected with (i) the Company; (ii) LJ Peace, the controlling shareholder of the Company; (iii) the Offeror; (iv) HoldCo; (v) any party acting, or presumed to be acting in concert with any of the above (including but not limited to HoldCo, LJ Hope, LJ Peace, LJ Venture, a substantial shareholder of the Company, Wang J Family Trust, Wang L Family Trust, Mr. Wang Qisong, Ms. Wang Luojia, Ms. Wang Jin, Mr. Benjamin Mai and Ms. Claire Si-Jia Lu); and (vi) any company controlled by any of them. We are considered eligible to give independent advice on the Proposal. Apart from normal professional fees payable to us in connection with this appointment or other similar appointments, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have reviewed, among other things, (i) the Announcement; (ii) the annual reports of the Company for the two years ended 31 December 2018; (iii) the annual results of the Company for the year ended 31 December 2019; (iv) the Scheme Document; and (v) the prospectus of the Company dated 16 December 2014.

We have also relied on the information and facts supplied, and the opinions expressed, by the Directors and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of this letter. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor to doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

We have not considered the tax and regulatory implications on the Independent Shareholders of acceptance or non-acceptance of the Proposal, since these are particular to their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

PRINCIPAL TERMS OF THE PROPOSAL

The principal terms of the Proposal and the Scheme which are set out in detail in the "Letter from the Board", the "Explanatory Statement" and Appendix IV contained in the Scheme Document are summarised below:

1. The Proposal and the Scheme

The Proposal will be implemented by way of the Scheme. The Scheme will provide that, if it becomes effective, the Scheme Shares will be cancelled and extinguished in exchange for the Cancellation Price of HK$3.50 in cash for every Scheme Share. Under the Scheme, the total consideration payable for the Scheme Shares will be payable by the Offeror. Upon completion of the Scheme and the share transfer pursuant to the SPA, the Company will become a wholly-owned subsidiary of the Offeror and the listing of the Shares will be withdrawn from the Stock Exchange.

2. Cancellation Price of HK$3.50 per Scheme Share

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

As stated in the "Letter from the Board" contained in the Scheme Document, the Cancellation Price has been determined on a commercial basis after taking into account, among other things, the prices of the Shares traded on the Stock Exchange, the trading multiples of comparable companies listed on the Stock Exchange, the financial information of the Group including the financial position of the Group as at 30 June 2019 and with reference to other privatisation transactions in Hong Kong in recent years.

3. Conditions of the Proposal and the Scheme

The implementation of the Proposal is, and the Scheme will become effective and binding on the Company and all Scheme Shareholders, subject to the fulfilment or waiver (as applicable) of a number of Conditions as set out in the "Explanatory Statement" contained in the Scheme Document, being:

(i) the approval of the Scheme (by way of poll) by a majority in number of the Independent Shareholders representing not less than 75% in value of the Shares held by the Independent Shareholders present and voting, either in person or by proxy, at the Court Meeting, provided that:

(a) the Scheme is approved (by way of poll) by the Independent Shareholders holding at least 75% of the votes attaching to the Shares held by the Independent Shareholders that are voted, either in person or by proxy, at the Court Meeting; and

(b) the number of votes cast (by way of poll) by the Independent Shareholders present and voting, either in person or by proxy, at the Court Meeting against the resolution to approve the Scheme at the Court Meeting is not more than 10% of the votes attaching to all Shares held by all Independent Shareholders;

(ii)

(a) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, either in person or by proxy, at the EGM to approve and give effect to the reduction of the issued share capital of the Company by cancelling and extinguishing the Scheme Shares;

(b) the passing of a special resolution by a majority of not less than three-fourths of the votes cast by the Shareholders present and voting, either in person or by proxy, at the EGM to approve the withdrawal of the listing of the Shares on the Stock Exchange upon the Scheme becoming effective; and

(c) the passing of an ordinary resolution by a simple majority of the votes cast by the Shareholders present and voting, either in person or by proxy, at the EGM to immediately thereafter increase the issued share capital of the Company to the amount prior to the cancellation and extinguishment of the Scheme Shares and apply the reserve created as a result of the aforesaid cancellation and extinguishment of the Scheme Shares to pay up in full at par such number of new Shares as is equal to the number of Scheme Shares cancelled and extinguished as a result of the Scheme, credited as fully paid, for issuance to the Offeror;

(iii) the sanction of the Scheme (with or without modification) and the confirmation of the reduction of the issued share capital of the Company by the Grand Court and the delivery of a copy of the order of the Grand Court to the Registrar of Companies in the Cayman Islands for registration;

(iv) to the extent necessary, the compliance with the procedural requirements of sections 15 and 16 of the Companies Law in relation to the reduction of the issued share capital of the Company;

(v) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals (if any) in connection with the Proposal or the Scheme having been obtained from, given by or made with (as the case may be) the Relevant Authorities in the Cayman Islands, Hong Kong and any other relevant jurisdiction;

(vi) all necessary authorisations, registrations, filings, rulings, consents, opinions, permissions and approvals in connection with the Proposal or the Scheme remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authority which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme becomes effective;

(vii) no government, governmental, quasi-governmental, statutory or regulatory body, court or agency in any jurisdiction having taken or instituted any action, proceeding, suit, investigation or enquiry, or enacted, made or proposed, and there not continuing to be outstanding, any statute, regulation, demand or order that would make the Proposal or the Scheme or its implementation in accordance with its terms void, unenforceable, illegal or impracticable (or which would impose any material and adverse conditions or obligations with respect to the Proposal or the Scheme or its implementation in accordance with its terms), other than such actions, proceedings, suits, investigations or enquiries as would not have a material adverse effect on the legal ability of the Offeror to proceed with the Proposal or the Scheme; and

(viii) each member of the Group remaining solvent and not being subject to any insolvency or bankruptcy proceedings or likewise and no liquidator, receiver or other person carrying out any similar function having been appointed anywhere in the world in respect of the whole or any substantial part of the assets or undertakings of any member of the Group up to and at the time when the Scheme becomes effective, in each case which is material and adverse in the context of the Group taken as a whole.

With reference to the conditions referred to in paragraphs (v) and (vi) above, save as disclosed, the Company and the Offeror were not aware of and did not reasonably foresee any such authorisation, registration, filing, rulings, consent, opinion, permission and approval as at the Latest Practicable Date. The Offeror reserves the right to waive conditions (v) through (viii) either in whole or in part, either generally or in respect of any particular matter. Conditions (i) through (iv) cannot be waived in any event.

Pursuant to Note 2 to Rule 30.1 of the Takeovers Code, the Offeror may only invoke any or all of the Conditions as a basis for not proceeding with the Scheme if the circumstances which give rise to a right to invoke any such Condition are of material significance to the Offeror in the context of the Proposal.

All of the Conditions will have to be fulfilled or waived, as applicable, on or before the Long Stop Date (being 28 September 2020, or such later date as the Offeror and the Company may agree or, to the extent applicable, as the Grand Court may direct and, in all cases, as permitted by the Executive), failing which the Proposal and the Scheme will lapse. As at the Latest Practicable Date, none of the Conditions has been fulfilled or waived.

When the Conditions are fulfilled or waived, as applicable, the Scheme will become effective and binding on the Offeror, the Offeror Concert Parties, the Company and all the Scheme Shareholders (irrespective of whether or not they attended or voted at the Court Meeting or the EGM).

Upon the Scheme becoming effective, all Scheme Shares will be cancelled and extinguished and the share certificates in respect of the Scheme Shares will thereafter cease to have effect as documents or evidence of title. The Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange in accordance with Rule 6.15(2) of the Listing Rules, with effect from 4:00 p.m. on Monday, 8 June 2020.

The Scheme will lapse if any of the Conditions has not been fulfilled or waived, as applicable, on or before the Long Stop Date. The listing of the Shares on the Stock Exchange will not be withdrawn if the Scheme does not become effective or the Proposal otherwise lapses, in which case the Board expects that the Company will continue to meet the minimum public float requirements under the Listing Rules given that there will be no cancellation of Scheme Shares (assuming there will be no change in the shareholding of the Company). If the Scheme is not approved or the Proposal otherwise lapses, there are restrictions under the Takeovers Code on making subsequent offers, to the effect that neither the Offeror nor any person who acted in concert with it in the course of the Proposal (nor any person who is subsequently acting in concert with it) may, within 12 months from the date on which the Scheme is not approved or the Proposal otherwise lapses, announce an offer or possible offer for the Company, except with the consent of the Executive.

4. The Irrevocable Undertakings

The Offeror received the Irrevocable Undertakings from the IU Shareholders (being Grandeur Peak, QVP II, QVP II-C, QMDF and BGI Tech), pursuant to which each IU Shareholder has undertaken to, among other things, exercise (or procure the exercise of) all voting rights attached to the relevant IU Shares held or owned by it at the Court Meeting and the EGM in favour of all the resolutions to approve the Proposal and any matters in connection with the Proposal (where applicable). The 99,432,176 IU Shares held in aggregate by the IU Shareholders, which are the subject of the Irrevocable Undertakings, represented approximately 17.74% of the total issued share capital of the Company as at the Latest Practicable Date. Further, each IU Shareholder has undertaken not to deal in the relevant IU Shares (including, without limitation, not to (i) sell, transfer or otherwise dispose of the IU Shares held or owned by it or (ii) enter into any arrangement which would or might impede giving effect to the Scheme or the undertaking given by it under the relevant Irrevocable Undertaking (as the case may be)).

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the Proposal, we have taken into account the principal factors and reasons set out below.

1. Information and prospect of the Group

(i) Information on the background of the Group

The Company is a company incorporated in the Cayman Islands with limited liability and the Shares have been listed on the Main Board of the Stock Exchange since 30 December 2014. The Group is principally engaged in the development, manufacture and sale of various life science products used in scientific research, and the provision of life science related services. The products and services of the Company include (i) DNA synthesis products; (ii) genetic engineering services; (iii) life sciences research consumables; (iv) protein and antibody related products and services; and (v) third party detection services. The Company is a DNA synthesis product provider in the PRC and its products and services are offered under the brands of "Sangon" or "BBI". The principal production facilities of the Group are located in Shanghai and Wuhan while there are 14 cities in the PRC with domestic production outlets coverage including namely Beijing, Guangzhou, Chengdu, Zhengzhou, Xian, Shanghai, Kunming, Nanjing, Qingdao, Changchun and etc. and overseas countries including Britain, Singapore, the Netherlands, Korea, the United States of America and Canada.

(ii) Financial information of the Group

Details of the financial information of the Group are set out in Appendix I to the Scheme Document. We have reviewed such information and other financial reports of the Company and discussed with the management of the Company (the "**Management**") the financial information of the Group. Details of the Group's historical financial information are set out below.

(a) Financial performance

The following is a summary of the financial results of the Group for the three years ended 31 December 2017 ("**FY2017**"), 2018 ("**FY2018**") and 2019 ("**FY2019**") (extracted from the Company's FY2017 and FY2018 annual reports and the annual results announcement for FY2019 respectively).

	FY2017 *RMB'000* *(Audited)*	**FY2018** *RMB'000* *(Audited)*	**FY2019** *RMB'000* *(Audited)*
Revenue	462,403	581,600	703,774
Gross profit	230,779	283,281	348,670
Gross profit margin	49.9%	48.7%	49.5%
Other gains / (losses) - net	1,541	1,130	2,580
Selling and distribution costs	(88,816)	(111,012)	(149,976)
Administrative expenses	(74,191)	(89,401)	(99,950)
Finance income / (expenses) - net	2,771	4,166	(1,125)
Share of loss of associates	(957)	(735)	(592)
Profit before income tax	71,127	87,429	99,607
Income tax expenses	(9,854)	(11,483)	(13,578)
Profit after tax for the year	61,273	75,946	86,029
Profit attributable to equity holders of the Company	64,446	79,104	88,093
Basic earnings per share (RMB)	0.118	0.145	0.161
Diluted earnings per share (RMB)	0.117	0.144	0.160
Dividend per Share (HK$)	0.014	0.034	-
Dividend pay-out ratio [Note 1]	9.52%	20.07%	-
Dividend yield [Note 2]	0.36%	1.48%	-
Dividend yield implied by Cancellation Price [Note 3]	0.40%	0.97%	-

Notes:

1. *Dividend pay-out ratio is calculated by dividing dividend per Share by basic earnings per Share for the year at HK$1:RMB0.8023 and HK$1:RMB0.8560 for FY2017 and FY2018, respectively.*
2. *Dividend yield is calculated by dividing the annual dividend paid per Share by the year end closing price of the Shares for the relevant year.*
3. *Dividend yield implied by the Cancellation Price is calculated by dividing the annual dividends per Share for FY2017 or FY2018 by the Cancellation Price.*

(i) Revenue

The following table sets out the breakdown of revenue by business segments during three years ended 31 December 2019:

	FY2017 *RMB'000* *(Audited)*	FY2018 *RMB'000* *(Audited)*	FY2019 *RMB'000* *(Audited)*
DNA synthesis products	181,866	217,620	267,135
Genetic engineering services	95,269	126,570	162,937
Life sciences research consumables	137,833	180,799	209,534
Protein and antibody related products and services	47,435	56,611	63,249
Third party detection services	-	-	919
Total	462,403	581,600	703,774

Revenue increased from approximately RMB462.4 million for FY2017 to approximately RMB581.6 million for FY2018 and further to approximately RMB703.8 million for FY2019, representing a 2017-2019 compound annual growth rate ("**CAGR**") of approximately 23.4%. Such increase in revenue is attributable to increases in sales of products and services of all business segments during the years under review.

As advised by the Management, customers of the Group primarily include colleges, universities, research institutes, hospitals and pharmaceutical and biotech companies, as well as government testing and diagnostic centres in the PRC and overseas.

Set out below is the performance of each business segment of the Group during the years under review:

DNA synthesis products

Revenue generated from sales of DNA synthesis products including oligonucleotide synthesis products and gene synthesis products contributed over one-third of the total revenue of the Group during the years under review. DNA synthesis is needed for the vast majority of life sciences research projects, from basic molecular biology research to even broader areas such as animal and plant studies, disease research, medical diagnosis, drug development, food industry and agriculture.

During the years under review, revenue of this segment recorded a 2017-2019 CAGR of approximately 21.2%, which is primarily attributable to increases in orders resulting from upgrade of key technological processes and construction of automated production lines by the Group on a continuous basis.

Genetic engineering services

Revenue generated from provision of genetic engineering services, services which are related to the manipulation and analysis of the genes of organisms including DNA sequencing, next-generation sequencing and molecular biology services, contributed over 20% of the total revenue of the Group during the years under review. Genetic engineering services have wide applicability in agriculture, in the study of diseases using animal models, and in the detection, diagnosis, and prognosis of diseases.

This segment's revenue recorded a 2017-2019 CAGR of approximately 30.8%. The growth was primarily due to increase in services rendered by the Group as a result of (i) expansion of its domestic production outlets in second and third tier cities in the PRC such as Zhengzhou, Xian, Kunming, Nanjing, Qingdao, Changchun and etc.; and (ii) continuous improvement in quality of services. The number of cities in the PRC with domestic service outlets coverage increased from 5 in FY2017 to 14 in FY2019.

Life sciences research consumables

Revenue of this segment is generated from sales of life science research consumables include research kits and labware to life science research laboratories. Life sciences research consumables are needed by life sciences research laboratories to carry out research projects. This segment contributed nearly 30% of the total revenue of the Group during the years under review.

This segment's revenue recorded a 2017-2019 CAGR of approximately 23.3%. Such increase is mainly attributable to increase in orders due to (i) expansion of overseas markets to Korea and Singapore in FY2017 by the Group; and (ii) improvement in delivery speed and accuracy for its products resulting from optimisation of production and logistics models in the PRC on a continuous basis.

Protein and antibody related products and services

Revenue of this segment is generated from sales or provision of protein related products and services including polypeptide, which are primarily used for protein production and analysis such as proteomics studies. Antibody related products and services are primarily used for immunology experiments. This segment contributed around 10% of the total revenue of the Group during the years under review.

Revenue of this segment recorded a 2017-2019 CAGR of approximately 15.5%, which is mainly due to the increase in orders driven by expansion of product and service portfolio offered by the Group.

Third party detection services

Revenue of this segment is generated from provision of medical-related detection, diagnosis and scientific research services. The Group commenced this business segment during FY2019 and this segment contributed only less than 1% of total revenue of the Group.

(ii) Gross profit and gross profit margin

In tandem with the growth in revenue, gross profit also increased from approximately RMB230.8 million for FY2017 to approximately RMB283.3 million for FY2018 and further to approximately RMB348.7 million for FY2019, representing a 2017-2019 CAGR of approximately 22.9%.

Gross profit margin of the Group remained relatively stable at around 49% during the years under review.

(iii) Selling and distribution costs

Selling expenses increased from approximately RMB88.8 million for FY2017 to approximately RMB111.0 million for FY2018 and further increased to approximately RMB150.0 million for FY2019. Selling expenses represented approximately 38.4%, 39.2% and 43.0% of the gross profit for FY2017, FY2018 and FY2019, respectively.

As advised by the Management, the increases in the ratio of the selling expenses to the gross profits in FY2018 and FY2019 was mainly attributable to the outsourcing of marketing functions of the Group to professional marketing services providers since second half of FY2018 and the Group incurred marketing expenses of around RMB17.3 million and RMB30.2 million for FY2018 and FY2019, respectively (FY2017: Nil).

(iv) Administrative expenses

Administrative expenses increased from approximately RMB74.2 million for FY2017 to approximately RMB89.4 million for FY2018 and further increased to approximately RMB100.0 million in 2019. Administrative expenses represented approximately 32.1%, 31.6% and 28.7% of the gross profit for FY2017, FY2018 and FY2019, respectively.

Save for salaries and staff benefits, the most significant component of administrative expenses of the Group are the research and development ("**R&D**") expenses. In order to maintain its market share and keep pace with the market demand, the Group has spent considerable amount on R&D during the years under review. Set out below is the breakdown of R&D expenses during the years under review:

	FY2017 *RMB'000* *(Audited)*	FY2018 *RMB'000* *(Audited)*	FY2019 *RMB'000* *(Audited)*
R&D Expenses	30,764	35,993	35,884

R&D expenses increased from approximately RMB30.8 million for FY2017 to approximately RMB35.9 million for FY2019, primarily due to the automation of the production lines of the Group on a continuous basis.

(v) Net profit attributable to equity holders of the Company

Net profits attributable to equity holders of the Group increased by approximately 22.7% from approximately RMB64.4 million for FY2017 to approximately RMB79.1 million for FY2018. Such increase was in line with the increase in revenue during the corresponding year.

Net profits attributable to equity holders of the Company increased from approximately RMB79.1 million for FY2018 to approximately RMB88.1 million for FY2019 primarily due to the combined effect of (i) increase in revenue for FY2019 as discussed above; and (ii) the increase in marketing expenses as a result of outsourcing marketing functions of the Group as discussed above.

(vi) Earnings per share

During the years under review, increase in earnings per share of the Group is generally in line with the increase in net profits attributable to equity holders of the Company, with an amount of approximately RMB0.161 per Share for FY2019.

(vii) Dividends

Dividend pay-out ratio and dividend yield went up from 9.52% and 0.36% for FY2017 to 20.07% and 1.48% for FY2018. As advised by the Management, the high dividend declared by the Company for FY2018 was a gesture towards the Shareholders for their continued support to the Company. The dividend yield of the Company implied by the Cancellation Price of 0.97% for FY2018 is higher than that of FY2017. No dividend was declared by the Company for FY2019 as the Company is implementing the Proposal.

(b) Financial position

Set out below is a summary of the audited consolidated statement of financial position of the Group as at 31 December 2017, 2018 and 2019.

	As at 31 December 2017 *(Audited)* *RMB'000*	**As at 31 December 2018** *(Audited)* *RMB'000*	**As at 31 December 2019** *(Audited)* *RMB'000*
Non-current assets	499,720	607,274	825,404
Current assets	403,418	410,738	420,426
Total assets	**903,138**	**1,018,012**	**1.245,830**
Non-current liabilities	8,687	8,307	4,293
Current liabilities	207,940	239,527	359,399
Total liabilities	**216,627**	**247,834**	**363,692**
Net asset value ("NAV") attributable to the equity holders of the Company	**687,620**	**774,657**	**857,692**
Non-controlling interests	**(1,109)**	**(4,479)**	**24,446**

NAV attributable to the equity holders of the Company amounted to approximately RMB687.6 million, RMB774.7 million and RMB857.7 million at the end of FY2017, FY2018 and FY2019, respectively. The increase in NAV attributable to the equity holders of the Company as at 31 December 2019 as compared with that as at 31 December 2018 was mainly attributable to the profits recorded for FY2019. Based on the 560,522,623 number of Shares in issue as at the Latest Practicable Date, the NAV per Share as at 31 December 2019 was approximately RMB1.53.

As at 31 December 2019, total assets of the Group amounted to approximately RMB1,245.8 million. Major components of the total assets include (i) the sum of property, plant and equipment and rights-in-use assets (representing the rights to use the assets under lease arrangements, prepaid land premium and land use rights) of approximately RMB776.7 million, representing approximately 78% (31 December 2018: RMB 567.3 million; 55.7%) of the total assets, which, as advised by the Company, were mainly composed of production facilities, laboratories and office buildings in the PRC, Canada, the United States and Korea; (ii) trade and bills receivables of approximately RMB140.8 million, representing approximately 11.3% (31 December 2018: RMB116.6 million; 11.4%) of the total assets; (iii) financial assets at fair value through profit or loss ("**FVPL**") of approximately RMB95.8 million, representing approximately 7.7% (31 December 2018: RMB6.9 million; 0.7%) of the total assets; and (iv) cash and cash equivalents of approximately RMB59.4 million, representing approximately 4.8% (31 December 2018: RMB133.5 million; 13.1%) of the total assets. As advised by the Management, the increase in the sum of property, plant and equipment was mainly attributable to the capital expenditure of approximately RMB199.14 million for the upgrade of production facilities in Shanghai (the "**Shanghai Upgrade**") while the increase in trade receivables was mainly attributable to the increase in revenue for FY2019. Further, the increase in FVPL and the decrease in cash and cash equivalents were mainly due to the acquisition of fixed return investment products of approximately RMB90 million in December 2019 by cash.

As at 31 December 2019, total liabilities of the Group amounted to approximately RMB363.7 million, which mainly consisted of (i) accrual and other payables of approximately RMB268.6 million, representing approximately 73.9% (31 December 2018: RMB216.2 million; 87.2%) of total liabilities; and (ii) borrowings of approximately RMB56.6 million, representing approximately 15.6% (31 December 2018: RMB6.6 million; 2.7%) of total liabilities. As advised by the Management, the loan of approximately RMB56.6 million as at 31 December 2019 was drawn for the Shanghai Upgrade. In addition, as advised by the Management, the increase the accrual and other payables as at the latest financial year end was mainly attributable to (i) the increase in advances from customers of approximately RMB30.2 million (31 December 2019: RMB 170.1 million; 31 December 2018: RMB139.9 million) and (ii) the increase in payable for the purchase of property, plant and equipment in relation to the Shanghai Upgrade.

The Group did not have any material contingent liabilities as at 31 December 2019. The capital commitments of the Group are mainly capital expenditure contracted for purchase of property, plant and equipment for the production facilities in Shanghai of approximately RMB24.2 million as at 31 December 2019.

An independent valuation on the Group's property interests have been performed by Asia-Pacific Consulting and Appraisal Limited ("**APCA**"), details of which are discussed in the section headed "5. Valuation of the property interests and adjusted NAV" of this letter below.

(c) Prospects of the Group

Revenue and results of the Group has been improving during the years under review. As advised by the Management, customers of the Group primarily include colleges, universities, research institutes, hospitals and pharmaceutical and biotech companies, as well as government testing and diagnostic centres in the PRC and overseas. Fluctuations in the research and development budgets of life sciences researchers and scientists based in these establishments in which products and services of the Group are used could have a significant effect on the demand for products and services of the Group.

During the years under review, over 70% of revenue of the Group are generated from businesses in the PRC. As discussed with the Management, (i) the PRC government policy; and (ii) the PRC's overall expenditure on R&D, which affect the research and development budgets of the target customers of the Group, are the key revenue drivers of the PRC life science industry in which the Group operates.

In addition, as advised by the Management, the China-US trade relations and the pandemic of the COVID-19 virus may also affect the businesses of the Group, details of which will be discussed below.

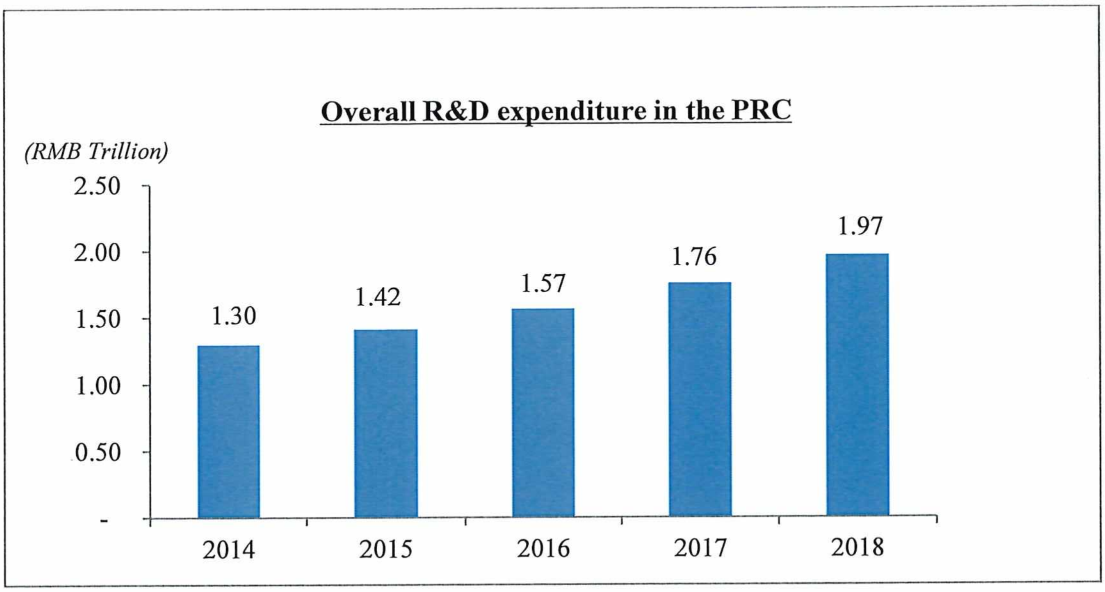
(i) The PRC government policy

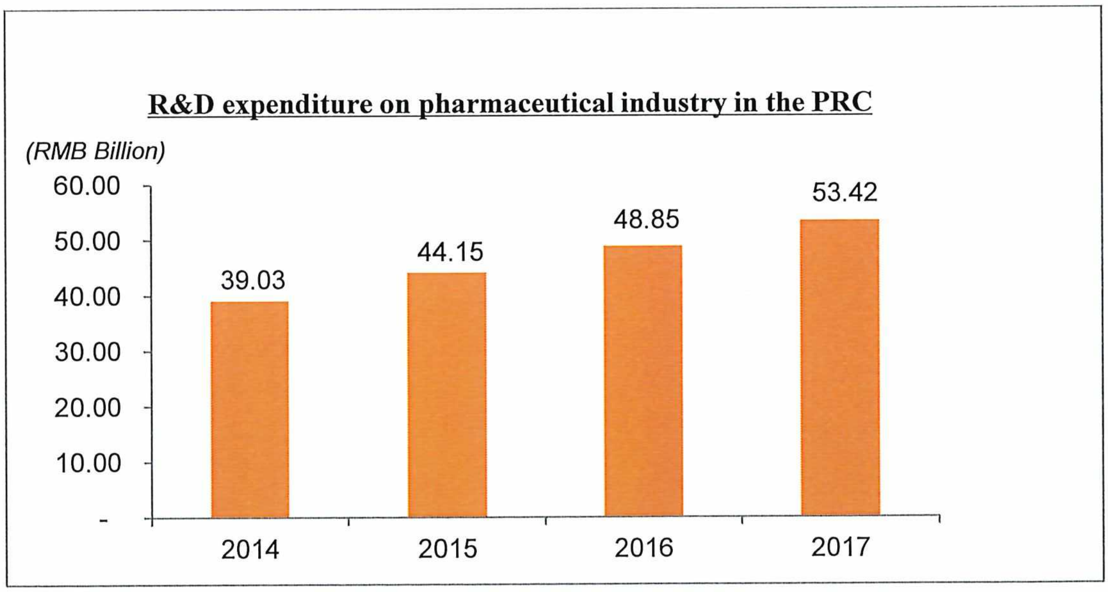
According to the "Development Plan for Bio-industry during the 13th five year period" (the "**Development Plan**") issued by the PRC government on 20 December 2016, the production scale of the Bio-industry, which is considered as one of the pillar industries of the PRC, will be expected to increase from RMB3.5 trillion in 2015 to a range of RMB8 trillion to RMB10 trillion in 2020, representing an estimated 2015-2020 minimum CAGR of around 14.8%. It is expected the production scale of Bio-industry will represent over 4% of the gross domestic product of the PRC in 2020. The Development Plan also aims to achieve genetic sequencing coverage of 50% for all the newborns in the PRC by that time.

With the current support from the PRC government policy, it is expected the prospect of the PRC life science industry remains positive in near future. However, the financial performance of the Group would be affected if the PRC Government changes its plan or policy which would in turn affect the budgets of the major customers of the Group in the PRC.

(ii) The overall expenditure on research and development

Set out below is the information about the overall R&D expenditure and the R&D expenditure on pharmaceutical industry in the PRC:





Note: The above data are extracted from national statistic report on science and technology expenses (全国科技经费投入统计公报) published by National Bureau Statistics. The latest 2018 report was published on 30 August 2019 and no information regarding the R&D expenditures on pharmaceutical industry for 2018 was included in such report.

As set out in the above charts, both the overall R&D expenditure and the R&D expenditure on pharmaceutical industry in the PRC showed a modest growing momentum in the recent years. As set out in the national statistic report on science and technology expenses (全国科技经费投入统计公报) published by National Bureau Statistic, the overall R&D expenditure in the PRC recorded 2014-2018 CAGR of around 10.95% while the R&D expenditure on pharmaceutical industry in the PRC recorded a 2014-2017 CAGR of around 11.03%. As discussed with the Management, it is expected that the R&D expenditure on pharmaceutical industry in the PRC will continue to grow in forthcoming years. We acknowledge that the data in respect of the R&D expenditure on pharmaceutical industry in the PRC was up to 2017 only, which is the latest available information published by National Bureau Statistic, but we consider such information is relevant as it indicated a steady growth of the R&D expenditure in the recent years.

(iii) China-US trade relations

We understand from the Management that the recent China-US trade war may drive the demand for the pharmaceutical products produced in the PRC. Certain research institutes, laboratories and universities in the PRC have been sourcing the DNA synthesis products from well-known US suppliers such as Thermo Fisher Scientific, Illumina, Inc. and Integrated DNA Technologies, Inc.. We understand from the Management that additional 10% to 15% tariffs have been imposed on the pharmaceutical products importing from US as a results of the China-US trade war. It is believed that the imposition of additional tariffs would weaken the competiveness of the products imported from the US. Some of the target customers may switch to source the pharmaceutical products produced in China, and the Group may be benefited from it should the China-US trade relationship remain stagnant. However, the prolonged China-US trade war may cast uncertainties on the PRC's economic fundamentals which may adversely affect the Group's business. We consider the recent China-US trade war present both opportunities and challenge to the Group's business.

(iv) The pandemic of the COVID-19 virus

We understand from the Management that one of the Group's principal production facilities in Wuhan has been temporarily closed since 23 January 2020 but so far the Group still manages to deliver its products and services to customers on time. However, as a result of the pandemic of the COVID-19, the PRC Government may allocate more resources to alleviate the situation and the major customers of the Group including colleges, universities and research institutes in the PRC may also adjust their budgets which would in turn affect the financial results of the Group. As advised by the Management, the demand for the Group's offerings of genetic engineering services segment and the protein and antibody related products and services segment in the first quarter of 2020 decreased as compared with the corresponding period in FY2019 given the colleges, universities and research institutes in the PRC, which are the major customers of the Group, were temporarily closed as a result of the pandemic of the COVID-19 virus. However, the demand for products and services of the DNA synthesis products segment and life sciences research consumables in the first quarter of 2020 increased as compared with the corresponding period in FY2019 as these products are used as reagent in testing for COVID-19 virus and consumables for anti-epidemic materials. We also understand from the Management the procurement of raw materials for anti-epidemic products may become challenging due to the temporary shortage of materials resulting from the pandemic of the COVID-19 virus and may cast uncertainty on the Group's future business and operations. The Management has been closely monitoring the situation and assessing the impact on the businesses of the Group. We concurred with the Management's view that the pandemic may affect the business of the Group and it is still premature and impracticable to assess its overall impact on the Group at this stage.

Based on our discussion with the Management, together with our review of the historical financial information of the Group and the available public market information, we consider the market fundamental of the PRC life science industry is still strong. With the uncertainty of the prolonged China-US trade war, the Group has the capabilities to face the fast changing business and economic environment and to implement necessary changes to the operating strategies if necessary. We also concur with the Management that the financial impact of the pandemic of the COVID-19 virus is yet to known and it may cast uncertainties on the Group's future prospects.

2. Reasons for and benefits of the Proposal

As set out in the section headed "Reasons for and benefits of the Proposal" in the "Letter from the Board" contained in the Scheme Document, the reasons for and the benefits of the Proposal are as follows:

(i) Facilitate long-term growth

Implementation of the Proposal will permit the Offeror and the Company to make strategic decisions focused on long-term growth and benefits, free from regulatory constraints, the pressure of market expectations and share price fluctuations which arise from being a publicly listed company. The Offeror believes that the Company will benefit from the flexibility which a non-listed company enjoys, including access to additional growth capital from investors, without exposure to market volatility. Prices of the Shares have not been satisfactory since the Company's listing on the Stock Exchange in 2014, which the Offeror considers to not only have a negative impact on Company's public image but more importantly, the depressed valuation of the Company also limits its fund raising opportunities on the secondary market with an appropriate valuation, especially the expected significant value to be created through the Company's planned strategies to be implemented as mentioned below. It is the Offeror's view that with the Proposal and the delisting, the Company will be able to access additional growth capital from investors and business partners without burdens of depressed valuation and undesired stock volatility, thus enhancing its fund raising opportunities.

The Proposal, which entails the delisting of the Company, is also expected to reduce the administrative costs and management resources associated with maintaining the Company's listing status and compliance with regulatory requirements and, in turn, allow greater flexibility for the Offeror and the Company to manage the Group's business.

Further, as detailed in the Company's annual report for the year ended 31 December 2018, the pharmaceutical industry saw an acceleration in the launching of policies such as the approval of the innovative drug, the establishment of Super National Healthcare Security Administration, "4+7" city centralised purchasing and Diagnosis Related Groups pilot scheme. In order to reposition itself in such dynamic business environment, the Offeror intends to implement strategies to support the Group's long-term growth, including the entering into of cooperative relationships with investors and downstream business partners (such as renowned pharmaceutical companies) so as to expand and broaden the Group's sales channels and product portfolio. The Offeror believes that after its delisting and the lifting of its depressed valuation, the Company will be better positioned to explore business opportunities and form strategic alliance with such investors and business partners.

(ii) Low liquidity of Shares

The liquidity of Shares has been at a relatively low level over a prolonged period of time, with an average daily trading volume of 639,205 Shares for the 24 months up to and including the Last Trading Day, representing less than 0.12% of the total issued Shares as at the Last Trading Day. Low trading liquidity of Shares renders it difficult for Shareholders to execute substantial on-market disposals without adversely affecting the price of the Shares. Further, the Directors (excluding members of the Independent Board Committee whose views are set out in the "Letter from the Independent Board Committee" in Part V of this Scheme Document) believe that such low liquidity hinders the Company's ability to raise funds from the public equity market, which no longer serves as a viable source of funding for developing the Group's business.

(iii) Attractive opportunity to realise investments

The Proposal is intended to provide the Scheme Shareholders with an attractive opportunity to realise their investments in the Company for cash at a premium. The Cancellation Price represents a premium of approximately (a) 16.28% over the closing price of the Shares on the Last Trading Day; (b) 31.43% over the average closing price of the Shares for the 10 trading days up to and including the Last Trading Day; (c) 42.45% over the average closing price of the Shares for the 30 trading days up to and including the Last Trading Day; (d) 46.10% over the average closing price of the Shares for the 60 trading days up to and including the Last Trading Day; (e) 55.65% over the average closing price of the Shares for the 120 trading days up to and including the Last Trading Day; (f) a premium of approximately 109.58% over the unaudited consolidated net asset value attributable to equity holders of the Company per Share as at 30 June 2019; (g) 98.86% over the audited consolidated net asset value attributable to equity holders of the Company per Share as at 31 December 2019; and (h) 85.68% over the Adjusted NAV per Share as at 31 December 2019.

Having noted the performance of the Share Price, the thin trading liquidity of the Shares, the absence of positive catalysts to the Share price and the premium offered by the Cancellation Price compared to the current trading price of the Shares (of which the corresponding analyses are detailed in the sections below), we consider that the Proposal offers a good opportunity for the Independent Shareholders to realise their holdings through a cash exit which would not normally be available through the market, and redeploy capital invested in the Company into other investments which they consider more attractive and thus concur in the Board's view on the benefits of the Proposal.

3. Information on the Offeror and its intention regarding the Company

(i) Information on the Offeror, the HoldCo and other Offeror Concert Parties

The Offeror is an investment holding company incorporated in the BVI with limited liability and a wholly-owned subsidiary of HoldCo. The directors of the Offeror are Ms. Wang Luojia and Ms. Wang Jin.

HoldCo is an investment holding company incorporated in the BVI with limited liability which is held as to approximately 25.32%, 41.13%, 25.32% and 8.23% by Ms. Wang Luojia (an executive Director), Ms. Wang Jin (an executive Director), Mr. Benjamin Mai (son of Ms. Wang Luojia) and Ms. Claire Si-Jia Lu (daughter of Ms. Wang Jin), respectively. Ms. Wang Luojia and Ms. Wang Jin are sisters. The ultimate shareholdings of the Offeror are held by the families of Ms. Wang Luojia and Ms. Wang Jin and are structured to reflect their respective current interests in the Company through LJ Hope, LJ Peace and LJ Venture. The directors of the HoldCo are Ms. Wang Luojia and Ms. Wang Jin.

LJ Hope is an investment holding company incorporated in Ontario, Canada with limited liability and held as to 100% by Ms. Wang Luojia. LJ Peace is an investment holding company incorporated in Canada with limited liability and held as to 51.15% and 48.85% by Wang J Family Trust and Wang L Family Trust, respectively. LJ Venture is an investment holding company incorporated in Canada with limited liability and held as to 50% and 50% by Wang J Family Trust and Wang L Family Trust, respectively. Wang J Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, Canada, with Mr. Wang Qisong as the settlor, Ms. Wang Luojia as the trustee, and Ms. Wang Jin and her children as the beneficiaries. Wang L Family Trust is an irrevocable trust constituted under the laws of the Province of Ontario, Canada, with Mr. Wang Qisong as the settlor, Ms. Wang Jin as the trustee, and Ms. Wang Luojia and her son as the beneficiaries.

As at the Latest Practicable Date, the Offeror Concert Group held 310,629,424 Shares, representing approximately 55.42% of all the issued Shares.

(ii) Intentions of the Offeror regarding the Company

The Offeror intends to continue the existing business of the Group, and does not have specific plans to make major changes to such business (including any redeployment of the Company's fixed assets) upon the privatisation of the Company other than exploring new development opportunities and implementing long-term growth strategies.

Further, the Offeror has no intention to discontinue the employment of the Group's employees after the implementation of the Proposal, except for staff movements which are part of the normal conduct of business or due to personal performance or conduct issues.

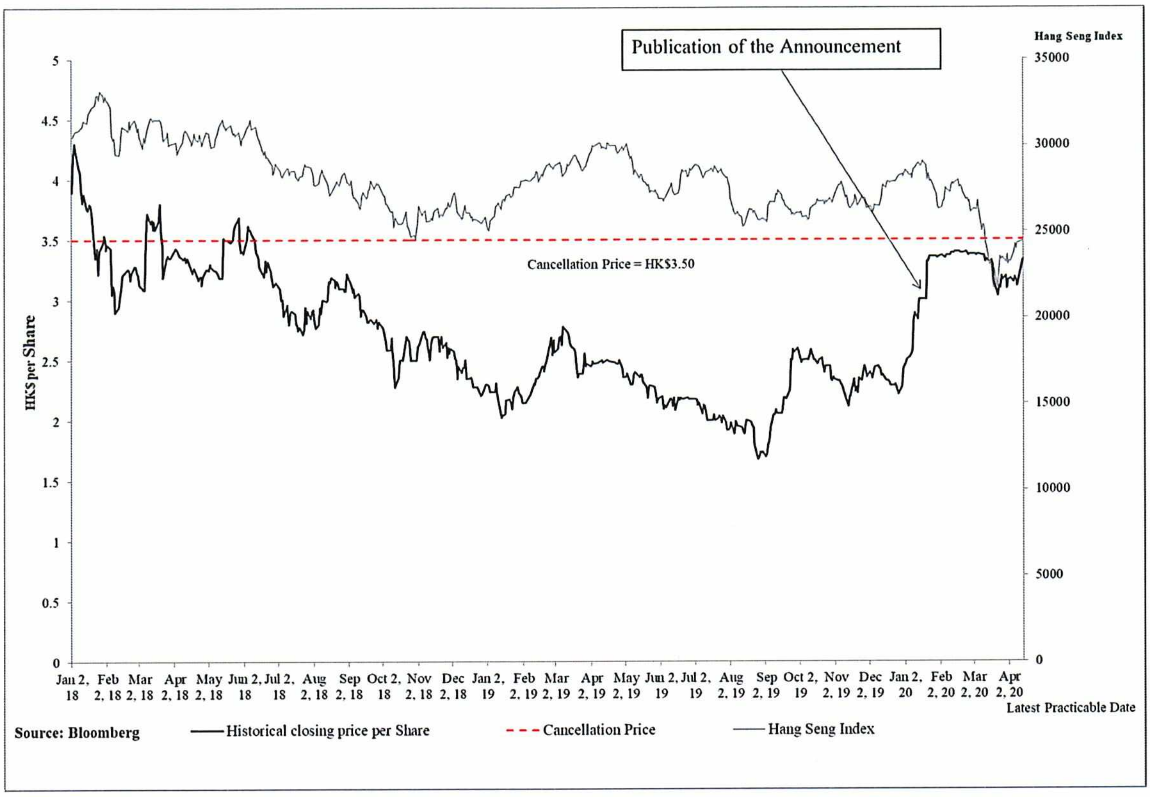
Upon the Scheme becoming effective, the Offeror expects that (i) the accounts of the Offeror will consolidate the accounts of the Group (including assets, liabilities, profits and losses of the Group) and (ii) its investment in the Group will remain the principal business of the Offeror.

The Board welcomes the Offeror's intentions regarding the Company that, among others, (i) the existing business of the Group and (ii) the employment of the Group's existing employees (save for changes in the ordinary course of business), will be continued following completion of the Proposal and will cooperate with and provide support to the Offeror, and will continue to act in the best interests of the Group and the Shareholders as a whole.

4. Analysis of price performance and trading liquidity of the Shares

(i) ***Historical Share price performance***

The chart below illustrates the movements of the closing prices of the Shares as quoted on the Stock Exchange for the period from 1 January 2018 up to and including the Latest Practicable Date (the "**Review Period**") and a comparison of the Share price performance with Hang Seng Index and the Cancellation Price. In order to provide the Independent Shareholders an analysis on the Share prices on a longer term, we consider that the Review Period, which covers at least two full financial years of the Company, a reasonable period of time within which the prevailing market price of the Shares would be useful for the Independent Shareholders in considering the Proposal and the Scheme.



Source: the websites of Bloomberg

As illustrated in the chart above, the Share price has been in declining trend and has underperformed the Hang Seng Index in January 2018. We have discussed with the Management regarding the possible reasons for such price fall and they were not aware of any specific reasons which may lead to the aforesaid decrease in Share price. After the substantial fall in January 2018, the fluctuations in closing Share price was generally in line with that of the Hang Seng Index. The closing price of the Share was HK$3.90 as at the beginning of the Review Period and the closing price of the Share as at the Last Trading Day was HK$3.01, representing a considerable decrease of approximately 22.8%; whereas the Hang Seng Index decreased by around 5.3% during the same period. As shown in the chart above, the Share price is generally underperformed compared to the Hang Seng Index.

During the period from 1 January 2018 to the Last Trading Day (the "**Pre-Announcement Period**"), the Shares closed in the range between HK$1.68 and HK$4.30 per Share, with an average and a median of approximately HK$2.67 and approximately HK$2.51 per Share respectively.

The Shares closed at HK$3.01 per Share on 14 January 2020 (i.e. the Last Trading Day) and the trading in the Shares was suspended from 15 January 2020 to 20 January 2020. On 20 January 2020, the Company published the Announcement and trading in the Shares resumed on 21 January 2020. The closing Share price surged to HK$3.32 per Share on 21 January 2020, representing an increase of approximately 10.3% as compared to the Last Trading Day. Since then, the closing Share prices fluctuated between HK$3.04 and HK$3.40 and closed at HK$3.33 as at the Latest Practicable Date.

On over 92% of the trading days during the Review Period, Share price closed at a price below the Cancellation Price of HK$3.50 per Share. The Cancellation Price represented a discount of approximately 18.6% to and a premium of approximately 108.3% over the highest closing price HK$4.30 on 4 January 2018 and lowest closing price of HK$1.68 on 26 August 2019, respectively. Further, the closing prices of the Share during the Review Period might reflect the market perception and expectation on the Group's financial performance. It is uncertain as to whether the Share prices will rise to a level over the Cancellation Price in the future.

From the Independent Shareholders' perspective, the Cancellation Price represents an immediate uplift in Shareholder's value as compared to the recent Share prices. We are of the view that the aforesaid surge in Share prices was primarily driven by the Announcement of the Proposal, in particular, the Cancellation Price of HK$3.50 per Scheme Share. The holders of the Scheme Shares should note that the closing Share prices on most of the trading days during the Pre-Announcement Period were substantially below the Cancellation Price and the prevailing Share prices may not be sustained if the Scheme is not approved or the Proposal otherwise lapses.

(ii) Trading liquidity

Set out in the table below are the average daily trading volumes, the comparison of such trading volumes to the total issued share capital of the Company and the comparison of such trading volumes to the public float of the Company during the Review Period:

	Average daily trading volume of the Shares	**Percentage of the average daily trading volume of the Shares to the total issued Shares** *(Note 1)*	**Percentage of the average daily trading volume of the Shares to the public float of the Company** *(Note 2)*
2018			
January	5,672,604	1.04%	2.41%
February	1,382,589	0.25%	0.59%
March	2,116,557	0.39%	0.90%
April	612,155	0.11%	0.26%
May	649,956	0.12%	0.28%
June	534,925	0.10%	0.23%
July	311,881	0.06%	0.13%
August	179,391	0.03%	0.08%
September	123,527	0.02%	0.05%
October	113,857	0.02%	0.05%
November	197,902	0.04%	0.08%
December	134,348	0.02%	0.06%
2019			
January	72,987	0.01%	0.03%
February	134,853	0.02%	0.06%
March	152,572	0.03%	0.06%
April	263,763	0.05%	0.11%
May	149,143	0.03%	0.06%
June	147,789	0.03%	0.06%
July	251,391	0.05%	0.11%
August	470,045	0.09%	0.20%
September	1,311,451	0.24%	0.55%
October	285,048	0.05%	0.12%
November	378,034	0.07%	0.16%
December	149,492	0.03%	0.06%
2020			
January	2,767,264	0.50%	1.14%
January (prior to the date of the publication of the Announcement) *(Note 3)*	1,354,714	0.24%	0.56%
January (on and after the date of the publication of the Announcement) *(Note 3)*	6,164,692	1.11%	2.54%
February	2,509,681	0.45%	1.01%
March	1,621,218	0.29%	0.65%
April (up to the Latest Practicable Date)	1,080,000	0.19%	0.43%

Source: the website of the Stock Exchange

Notes:

1. *The calculation is based on the average daily trading volumes of the Shares divided by the total issued share capital of the Company at the end of each month or as at the Latest Practicable Date, as applicable.*
2. *The total number of Shares held by the public is calculated based on the number of total issued Shares excluding those held by the Offeror and the Offeror Concert Parties, at the end of each month or as at the Latest Practicable Date, as applicable.*
3. *Trading of the Shares was suspended from 15 January 2020 to 20 January 2020 pending the publication of the Announcement.*

As illustrated in the above table, the average daily trading volume of the Shares during the Review Period represented approximately 0.01% to 1.11% of the total issued Shares, equivalent to approximately 0.03% to 2.54% of the public float of the Shares. During the Pre-Announcement Period, the trading liquidity of the Shares was generally thin, save for the period during 2 January 2018 to 31 January 2018. The management of the Company advised us that they were not aware of any reasons for the higher trading volume in January 2018. The average daily trading volume of the Shares surged to 6,164,692 in January 2020, representing approximately 1.11% of the number of total issued Shares, which was mainly due to the publication of the Announcement, which we considered to be mainly attributable to the Independent Shareholders' or investors' reaction to the Scheme.

Given the relatively thin historical trading volume of the Shares, it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of Shares in the open market without causing an adverse impact on the market price level of the Shares. Accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market. The relatively higher level of trading volume subsequent to the Announcement is unlikely to remain sustainable if the Proposal and the Scheme lapse.

We consider the Proposal provides the Independent Shareholders, especially those holding a large block of the Shares, a cash exit to realise their holdings at the Cancellation Price if they so wish, without creating a significant downside pressure on the trading price of the Shares.

(iii) the Cancellation Price

The Cancellation Price of HK$3.50 per Scheme Share in cash represents:

(a) a premium of approximately 16.28% over the closing price of HK$3.01 per Share as quoted on the Stock Exchange on the Last Trading Day;

(b) a premium of approximately 31.43% over the average closing price of approximately HK$2.66 per Share based on the daily closing prices as quoted on the Stock Exchange for the 10 trading days up to and including the Last Trading Day;

(c) a premium of approximately 42.45% over the average closing price of approximately HK$2.46 per Share based on the daily closing prices as quoted on the Stock Exchange for the 30 trading days up to and including the Last Trading Day;

(d) a premium of approximately 46.10% over the average closing price of approximately HK$2.40 per Share based on the daily closing prices as quoted on the Stock Exchange for the 60 trading days up to and including the Last Trading Day;

(e) a premium of approximately 47.92% over the average closing price of approximately HK$2.37 per Share based on the daily closing prices as quoted on the Stock Exchange for the 90 trading days up to and including the Last Trading Day;

(f) a premium of approximately 55.65% over the average closing price of approximately HK$2.25 per Share based on the daily closing prices as quoted on the Stock Exchange for the 120 trading days up to and including the Last Trading Day;

(g) a premium of approximately 56.68% over the average closing price of approximately HK$2.23 per Share based on the daily closing prices as quoted on the Stock Exchange for the 180 trading days up to and including the Last Trading Day;

(h) a premium of approximately 109.58% over the unaudited consolidated net asset value attributable to the equity holders of the Company per Share of approximately RMB1.48 (based on RMB to HK$ exchange rate of RMB0.8869 to HK$1, being the exchange rate as quoted by the People's Bank of China on the Last Trading Day) as at 30 June 2019;

(i) a premium of approximately 98.86% over the audited consolidated net asset value attributable to the equity holders of the Company per Share of approximately RMB1.56 (based on RMB to HK$ exchange rate of RMB0.8869 to HK$1, being the exchange rate as quoted by the People's Bank of China on the Last Trading Day) as at 31 December 2019;

(j) a premium of approximately 85.68% over the Adjusted NAV (as defined below) as at 31 December 2019; and

(k) a premium of approximately 5.11% over the closing price of HK$3.33 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

In summary, the Cancellation Price of HK$3.50 per Scheme Share represents (i) premia in a range of approximately 16.28% to 56.68% over the closing Share prices for different periods before the Last Trading Day; (ii) a premium of approximately 109.58% over the unaudited consolidated net asset value attributable to equity holders of the Company per Share as at 30 June 2019; (iii) a premium of approximately 98.86% over the audited consolidated net asset value attributable to equity holders of the Company per Share as at 31 December 2019; and (iv) a premium of approximately 85.68% over the Adjusted NAV (as defined below) as at 31 December 2019, which is considered favourable to the Independent Shareholders.

5. Valuation of the property interests and adjusted NAV

(i) Property interests

The financial positions of the Group as at 31 December 2019 is set out in the section headed "1. Information and prospect of the Group" of this letter above. As discussed in the aforesaid section, NAV attributable to equity holders of the Company amounted to approximately RMB857.7 million (equivalent to approximately HK$967.1 million) as at 31 December 2019, and major portion of the assets of the Group relates to properties interest owned by the Group for production, office, ancillary and dormitory purposes.

APCA, an independent property valuer, has prepared an independent valuation of the property interests of the Group as at 31 January 2020 (the "**Valuation Date**"). Full details of the valuation are set out in Appendix II to the Scheme Document. The market values of the Group's property interests are summarised as follows:

	Market value of the property interests in existing state attributable to the Group as at the Valuation Date *(RMB'000)*
Held for owner occupation in the PRC *(Note)*	433,385
Held for owner occupation in overseas countries	23,761
Total	457,146

Note:

As the title documents of certain of the property interest were not yet obtained as at the Valuation Date, no commercial value has been ascribed by APCA to those portion of the property interests. For indicative purposes only and assuming the relevant title documents were obtained and the property interest were freely transferrable in the market, the aggregate market value of such property interests would be approximately RMB217,325,000.

We have reviewed the valuation as contained in Appendix II to the Scheme Document, and have discussed with APCA on (a) bases and assumptions used; (b) valuation methodology adopted; and (c) due diligence work performed. We noted that APCA has used various valuation methodologies for arriving at valuations of the property interest including (a) comparison approach, pursuant to which the value of an asset is provided by comparing the assets with identical or comparable assets for which price information is available; and (b) cost approach, pursuant to which an asset is valued by calculating the current replacement cost of an asset and making deductions for physical deterioration and all relevant forms of obsolescence and optimization. We have discussed the overall approach to the property valuation and queried the selection of relevant valuation methodologies for major property interests. We concur with the valuation approaches APCA has taken in valuing the different types of properties.

(ii) Adjusted NAV

As part of our assessment of the Cancellation Price, we have compared it with the NAV of the Group based on the audited consolidated NAV of the Group as at 31 December 2019, adjusted as follows (the "**Adjusted NAV**"):

	RMB'000
Audited consolidated NAV of the Group attributable to owners of the Company as at 31 December 2019	857,692
Adjustments:	
- Net revaluation surplus arising from the valuation of property interests attributable to the Group as at the Valuation Date *(Note 1)*	94,080
- Net tax as a result of the revaluation surplus on the property interest *(Note 2)*	(14,716)
Adjusted NAV	937,056
Adjusted NAV per Share ***(Note 3&4)***	RMB1.672 (equivalent to approximately HK$1.885)

Notes:

1. The net revaluation surplus represents the difference between the market value of the property interests of the Group as valued by APCA of approximately RMB457.1 million as at the Valuation Date and their corresponding book values of approximately RMB363.1 million as at 31 December 2019.

   As set out in this section above, APCA has ascribed no commercial value to certain of the property interests as there are defects in titleship documents of the relevant property interests as at the Valuation Date. We note from the Valuation Report that such property interest would not be freely transferrable by the Group. These property interests mainly include certain portions of property number 1 and property number 2, property number 9, property number 10, property number 16 and property number 23 (collectively, the "**No Title Properties**") as stated in the Valuation Report. For the purpose of this Adjusted NAV analysis, the aforesaid property properties with defects in titleship documents have been excluded in the above revaluation surplus calculation.

For the illustration purpose, we have also computed the Adjusted NAV which included the abovementioned No Title Properties. The book value of the No Title Properties amounted to approximately RMB223,320,000 as at 31 December 2019 and the market value of which as valued by APCA as at the Valuation Date amounted to approximately RMB217,325,000 and the net tax as a result of the valuation deficit amounted to approximately RMB899,000. The Adjusted NAV would be decreased to approximately RMB931,960,000 and the Adjusted NAV per Share would be decreased to RMB1.663 (equivalent to approximately HK$1.875). For the avoidance of doubt, such computation is for reference only.

2. As advised by the Management, this represents the potential PRC corporate income tax attributable to the revaluation surplus on the property interests of the Group.

3. Amount in HK$ is calculated at an exchange rate of HK$1 : RMB0.8869 (being the exchange rate as quoted by the People's Bank of China on the Last Trading Day) for illustrative purpose.

4. Calculated based on 560,522,623 Shares in issue as at the Latest Practicable Date.

We consider that the Adjusted NAV better reflects the underlying net asset backing of the Group. The Cancellation Price of HK$3.50 per Scheme Share represents premium of approximately 85.68% over the Adjusted NAV per Share.

6. Comparison with Reference Companies

We have followed the norm and sought to identify comparable companies (the "**Direct Comparable Companies**") exhaustively on Bloomberg based on the criteria that (i) the shares of which are listed on the Main Board of the Stock Exchange with closing market capitalisation as at the Latest Practicable Date between HK$800 million and HK$2,000 million (which represents the approximate lowest and highest market capitalisation of the Company during the Review Period); (ii) it is engaged in the business similar to the principal businesses of the Group as discussed under the paragraph headed "1. Information and prospect of the Group" above ("**Similar Business**"); and (iii) over 50% of the total revenue of the company was generated from the Similar Business in their most recent financial year. However, no Direct Comparable Companies can be identified.

In this circumstance, we have instead sought to identify companies exhaustively on Bloomberg based on less stringent criteria (the "**Reference Companies**") that (i) the company is listed on the Stock Exchange, the New York Stock Exchange ("**NYSE**"), the Nasdaq stock market ("**NASDAQ**"), the Shanghai Stock Exchange ("**SHSE**"), the Shenzhen Stock Exchange ("**SZSE**"), or the Singapore Stock Exchange ("**SSE**"); (ii) it is engaged in the Similar Business; and (iii) its revenue generated from the Similar Business for the most recent financial year was more than 50%. We have identified four Reference Companies which are listed on the Stock Exchange, the NYSE and NASDAQ and SZSE, respectively. We have not identified any company engaging in the Similar Business which is listed on the SHSE or SSE.

As discussed under the paragraph headed "1. Information and prospect of the Group" above, the Group is mainly engaged in the development, manufacture and sale of various life science products used in scientific research, and the provision of life science related services. In assessing the relevancy of the business of the Reference Companies, we have also discussed with the Management the business of each of the Reference Companies and the Management concurred that each of the Reference Companies is carrying on the Similar Business. Independent Shareholders should be reminded that (i) the Reference Companies identified based on the less stringent criteria are not direct and perfect comparable companies and (ii) the small sample size of the Reference Companies may not form any meaningful comparable analysis, therefore the comparison below based on the price-to-earnings ratio (the "**PE Ratio**") and price-to-net-asset-value (the "**PB Ratio**") of the Reference Companies are for illustration purpose only. It should not be considered as principal factors for determining the merits of the Proposal.

Set out below are the details of the Reference Companies:

Reference Companies	Stock code	Stock Exchange	Principal activities	% of revenue generated from Similar Business in the most recent financial year	Market capitalisation as at the Latest Practicable Date HK$ (million) *(Note)*
Genscript Biotech Corporation (“**Genscript**”)	1548	Stock Exchange	Provision of bio-science services and products, biologics development services, industrial synthetic biology products, and cell therapy.	62	24,587.1
Thermo Fisher Scientific Inc. (“**Thermo**”)	TMO	NYSE	Provision of life science research instruments, consumables, reagents, and services that are used in biological research of genes, proteins, and cells within academic research, clinical research, and commercial applications.	68	977,737.8
Illumina, Inc. (“**Illumina**”)	ILMN	NASDAQ	Provision of sequencing- and array-based solutions for genetic analysis.	100	330,807.8
BGI Genomics Co., Ltd (“**BGI**”)	300676	SZSE	Provision of genomic analysis and related downstream services including sanger sequencing, NGS sequencing, genotyping, proteomics, and metabolomics services.	100	40,853.6

Note: The market capitalisation of the Reference Companies are based on RMB to HK$ and US$ to HK$ exchange rate of RMB0.8869 to HK$1 and US$1 to HK$7.77 as quoted by the People's Bank of China on the Last Trading Day).

We note that the NYSE or NASDAQ (collectively, the "**US Stock Markets**") and the SZSE are relatively different from the Hong Kong stock market, in particular their premium of valuations of the stocks over the Hong Kong stock market. Accordingly, to take into account the difference in valuation of stocks between (i) the US Stock Markets and the Hong Kong stock market and (ii) the SZSE and the Hong Kong stock market and, we have adjusted the respective PE Ratio and PB Ratio of the Reference Company (i) listed on the US Stock Markets with a factor of 0.55 and 0.34 ("**US Factor**"), calculated based on the PE ratio and PB ratio of Hang Seng Index of the Stock Exchange of approximately 9.93 times and 1.04 times over the PE ratio and the PB ratio of SP500 Index of approximately 18.10 times and 3.02 times, respectively; and (ii) listed on SZSE with a factor of 0.41 and 0.38 ("**SZSE Factor**"), calculated based on the PE ratio and PB ratio of Hang Seng Index of the Stock Exchange of approximately 9.93 times and 1.04 times over the PE ratio and the PB ratio of SZSE Component Index of approximately 24.42 times and 2.74 times, respectively. The respective PE and the PB ratios of the respective stock indices were extracted from Bloomberg as at the Latest Practicable Date for illustration purpose only. We acknowledge the adjustment of the PE and PB ratios of the Reference Companies with reference to the stock indices of the relevant stock exchanges which comprise securities of companies which are not engaging in the Similar Business may have inherent limitation. However, taking into account that (i) there is no specific stock index which comprises only securities of companies engaging in the Similar Business in the respective stock exchanges; and (ii) the comparison analysis for the Reference Companies is for reference only and will not form the basis of our opinion, we consider it is fair and reasonable to adjust the PE and PB ratios of the Reference Companies with reference to the stock indices of the relevant stock exchanges given the aforesaid adjustments will provide a more relevant and coherent results for the Shareholders to understand the PE ratio and the PB ratio of the Company calculated based on the Cancellation Price as compared to the price performance of the Reference Companies and such analysis is only for reference of the Shareholders. Set out below are the PE Ratio and PB Ratio of the Reference Companies:

Reference Companies *(times)*	PE Ratio	Adjusted PE Ratio	PB Ratio	Adjusted PB Ratio
	(Note 1)	*(Note 1)*	*(Note 2)*	*(Note 2)*
Genscript	N/A	N/A	8.26	8.26
Thermo	34.03	18.67	4.24	1.46
Illumina	42.46	23.30	9.22	3.18
BGI	93.71	38.11	8.12	3.08
Average	**56.73**	**26.69**	**7.46**	**4.00**
Median	**42.46**	**23.30**	**8.19**	**3.13**
Maximum	**93.71**	**38.11**	**9.22**	**8.26**
Minimum	**34.03**	**18.67**	**4.24**	**1.46**
Cancellation Price ***(Note 3)***	**19.75**	**19.75**	**2.03**	**2.03**

Notes:

1. *The PE ratio of the Reference Companies (except Genscript) are calculated based on the market capitalisation of the Reference Companies as at the Latest Practicable Date divided by the respective profit attributable to shareholders of the Reference Companies as shown on its latest annual report. The adjusted PE ratios of the Reference Companies were adjusted with the US Factor and SZSE Factor.*

   As set out in the annual results announcement of Genscript dated 27 March 2020, Genscript recorded a loss of approximately US$117.5 million for the year ended 31 December 2019. Therefore, PE ratio analysis for Genscrip is not applicable.

2. *The PB ratio of the Reference Companies are calculated based on the market capitalisation of the Reference Companies as at the Latest Practicable Date divided by the respective NAV attributable to shareholders of the Reference Companies as at the latest financial reporting date as shown on its latest annual report or quarterly report. The adjusted PB ratios of the Reference Companies were adjusted with the US Factor and SZSE Factor.*

3. *The implied PE ratio represented by the Cancellation Price of approximately 19.75 times is calculated based on the theoretical market capitalisation of the Cancellation Price for the Shares of HK$1,961.8 million, divided by the net profit attributable to the Shareholders for FY2019 of approximately HK$99.3 million. The implied PB ratio represented by the Cancellation Price of approximately 2.03 times is calculated based on the theoretical market capitalisation of the Cancellation Price for the Shares of HK$1,961.8 million, divided by the NAV attributable to the Shareholders as at 31 December 2019 of approximately HK$967.1 million.*

PE ratio

As set out in the table above, the adjusted PE Ratios of the Reference Companies range from 18.67 times to 38.11 times, with an average of 26.69 times and a median of approximately 23.30 times. The implied PE ratio of the Company at the Cancellation Price of 19.75 times is within the range of the adjusted PE Ratios of the Reference Companies, lower than the average and the median of those of the Reference Companies.

PB ratio

As set out in the table above, the adjusted PB Ratios of the Reference Companies range from 1.46 times to 8.26 times, with an average of 4.00 times and a median of approximately 3.13 times. The implied PB ratio of the Company at the Cancellation Price of 2.03 times is within the range of the adjusted PB Ratios of the Reference Companies, lower than the average and the median of those of the Reference Companies.

7. Privatisation precedents

We have compared the Proposal and the Scheme to privatisation proposals of other companies listed on the Main Board of the Stock Exchange announced since 1 January 2018 and up to the Latest Practicable Date, excluding privatisation proposals which were not/yet to be approved (or, where applicable, required acceptance level were not or yet to be achieved) or without a cash cancellation consideration/offer price (the "**Privatisation Precedents**"). The Privatisation Precedents set out below represent an exhaustive list of privatisation proposals, we were able to identify from the Stock Exchange's website satisfying the above selection criteria. The table below illustrates the premia/discounts represented by the cancellation consideration/offer price over the respective last trading day and respective last 10 days, 30 days, 60 days, 90 days, 120 days and 180 days average share prices in respect of such privatisation proposals. The Privatisation Precedents set out below provide a comparison between the cancellation consideration/offer price and the then prevailing market prices per share of successful privatisation proposals. Although the business nature, financial performance and position and scale of each company vary, and some aspects of pricing may be industry-specific, the below analysis, in our view, demonstrates the pricing of recent privatisations of Main Board listed companies in the Hong Kong stock market as a whole under recent market sentiments towards privatisations, a factor we consider relevant in assessing the range of reasonable cancellation prices/offer prices required for successful privatisations in the market. As such, we consider the Privatisation Precedents an appropriate basis in assessing the fairness and reasonableness of the Cancellation Price.

OPTIMA CAPITAL

Date of the announcement	Company name and stock code	Cancellation consideration/ offer price	Premium of the cancellation consideration/offer price over closing price per share on the last trading day	average closing price per share for the last 10 trading days up to and including the last trading day	average closing price per share for the last 30 trading days up to and including the last trading day	average closing price per share for the last 60 trading days up to and including the last trading day	average closing price per share for the last 90 trading days up to and including the last trading day	average closing price per share for the last 120 trading days up to and including the last trading day	average closing price per share for the last 180 trading days up to and including the last trading day
		HK$	%	%	%	%	%	%	%
12-Dec-19	Joyce Boutique Group Limited (stock code: 647)	0.28	91.78	94.44	82.17	62.70	50.05	39.79	32.20
1-Nov-19	Springland International Holdings Limited (stock code: 1700)	2.30	63.10	64.40	56.80	55.40	53.20	51.30	48.60
20-Oct-19	Dah Chong Hong Holdings Limited (stock code: 1828)	3.70	37.50	42.40	54.90	55.90	49.80	49.80	41.50
12-Aug-19	TPV Technology Limited (stock code: 903)	3.86	41.40	50.80	54.50	75.00	104.00	104.00	138.80
27-Jun-19	Asia Satellite Telecommunications Holdings Limited (stock code: 1135)	10.22	23.40	33.40	44.40	50.40	63.50	63.50	71.00
18-Jun-19	C.P. Lotus Corporation (stock code: 121)	0.11	10.00	12.00	29.40	30.30	28.10	28.10	21.90
14-Jun-19	China Automation Group Limited (stock code: 569)	1.50	11.10	13.60	15.40	29.90	37.50	37.50	38.50
4-Apr-19	China Hengshi Foundation Company Limited (stock code: 1197)	2.50	10.60	16.80	17.50	19.00	24.40	25.40	27.50
28-Mar-19	China Power Clean Energy Development Company Limited (stock code: 735) *(Note 2)*	5.45	41.90	60.90	78.40	94.10	101.80	105.70	88.80
5-Dec-18	Hopewell Holdings Limited (stock code: 54)	38.80	46.70	51.60	55.50	54.10	49.60	48.20	43.70
30-Oct-18	Advanced Semiconductor Manufacturing Corporation Limtied (stock code: 3355)	1.50	66.70	97.40	99.30	93.40	90.20	87.40	84.20
27-Sep-18	Sinotrans Shipping Limited (stock code: 368)	2.70	50.00	54.60	43.10	37.40	32.60	32.50	27.90
10-Jun-18	Hong Kong Aircraft Engineering Company Limited (stock code: 0044)	71.81	63.20	65.10	62.40	60.20	57.00	54.20	50.00

7-Jun-18	Portico International Holdings Limited (stock code: 0589)	4.10	50.20	53.20	49.20	45.20	45.80	48.10	49.90
		Mean	43.40	50.76	53.07	54.50	56.25	55.39	54.61
		Median	44.30	52.40	54.70	54.75	49.93	49.00	46.15
		Maximum	91.78	97.40	99.30	94.10	104.00	105.70	138.80
		Minimum	10.00	12.00	15.40	19.00	24.40	21.90	21.90
20-Jan-20	**The Company**	**3.50**	**16.28**	**31.43**	**42.45**	**46.10**	**47.92**	**55.65**	**56.68**

Source: Bloomberg and website of the Stock Exchange

Notes:

1. The premium of the cancellation consideration/offer price over the share price averages for the respective periods were calculated based on (i) the cancellation consideration/offer price as disclosed in the announcement/composite document/scheme document in relation to the privatization proposal; and (ii) the historical share prices of the companies extracted from Bloomberg.

2. The cash alternative of HK$5.45 for each ordinary scheme share had been used for the purpose of this comparison. The reference value for the share alternative implies a consideration of each ordinary scheme share of approximately HK$3.77 to HK$5.39 as disclosed in the scheme document.

3. For the purpose of this table, last trading day represents the last full trading day in the respective shares immediately before the publication of the respective announcement.

As set out in the table above, the cancellation consideration/offer price of all of the Privatisation Precedents are at a premium over the last trading day share price, 10 days, 30 days, 60 days, 90 days, 120 days and 180 days average share prices of the respective companies. Based on the table above, the average premia of the Privatisation Precedents over the last trading day share price, 10 days, 30 days, 60 days, 90 days, 120 days and 180 days average share prices were approximately 43.40%, 50.76%, 53.07%, 54.50%, 56.25%, 55.39% and 54.61% respectively.

In comparison, the Cancellation Price represents a premium of approximately 16.28%, 31.43%, 42.45%, 46.10% and 47.92% as compared to the closing Share price on the Last Trading Day, 10 days, 30 days, 60 days and 90 days average share prices, respectively, which are below the corresponding average premium represented by the Precedent Privatisations but are within the range of the corresponding premium represented by the Precedent Privatisations. The Cancellation Price represents (i) a premium of approximately 55.65% as compared to the last 120 days average Share price which is above the average premium for 120 days average share price of the Privatisation Precedents of 55.39%; and (ii) a premium of approximately 56.68% as compared to the last 180 days average Share price which is above the average premium for 180 days average share price of the Privatisation Precedents of 54.61%. Overall, we consider the premia represented by the Cancellation Price is in line with market practice.

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DISCUSSION

We consider that the terms of the Proposal, including the Cancellation Price offered by the Offeror, are fair and reasonable so far as the Independent Shareholders are concerned after taking into account the above principal factors and reasons, in particular:

(i) the liquidity of the Shares was generally low and the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares;

(ii) the Cancellation Price represents a premium of approximately 85.68% over the Adjusted NAV per Share of approximately HK$1.885 as at 31 December 2019;

(iii) the premia of the Scheme are within the range of the premia of the Privatisation Precedents over the Last Trading Day, 10 days, 30 days, 60 days and 90 days average share prices, and are above the average premia for the 120 days and 180 days average share prices, which suggests the basis of the Cancellation Price is in line with market practice;

(iv) the potential increase in demand for the pharmaceutical products produced in the PRC as a result of the China-US trade war, which may also cast uncertainties on the PRC's economic fundamentals as discussed in the section headed "1. Information and prospect of the Group" above;

(v) the impact on the Group's business in the PRC as a result of the pandemic of the COVID-19 virus and the uncertainties on the demand for the Group's offerings due to the potential reallocation of the PRC Government's resources from R&D to anti-epidemic measures as discussed in the section headed "1. Information and prospect of the Group" above; and

(vi) the Proposal offers an assured cash exit opportunity to the Independent Shareholders to realise their investments in the Company amid thin trading liquidity and unsatisfactory performance of the Share prices and the uncertainties on the Group's prospects as a result of the China-US trade war and the pandemic of the COVID-19 virus.

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OPINION AND RECOMMENDATIONS

Based on the above analysis, we consider the terms of the Proposal and the Scheme to be fair and reasonable so far as the Independent Shareholders are concerned and advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the Court Meeting and the EGM and implement the Proposal and the Scheme.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED

Ng Ka Po
Senior Director, Corporate Finance

Mr. Ng Ka Po is a responsible officer of Optima Capital and a licensed person registered with the SFC to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed on the Stock Exchange.