**Application Proof of**

# Hangzhou Jiuyuan Gene Engineering Co., Ltd.
# 杭州九源基因工程股份有限公司

(the "**Company**")

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

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# Hangzhou Jiuyuan Gene Engineering Co., Ltd.
# 杭州九源基因工程股份有限公司

*(A joint stock company incorporated in the People's Republic of China with limited liability)*

## [REDACTED]

| | | |
|---|---|---|
| **Number of [REDACTED] under the [REDACTED]** | **:** | **[REDACTED] H Shares (subject to the [REDACTED])** |
| **Number of [REDACTED]** | **:** | **[REDACTED] H Shares (subject to reallocation)** |
| **Number of [REDACTED]** | **:** | **[REDACTED] H Shares (subject to reallocation and [REDACTED])** |
| **Maximum [REDACTED]** | **:** | **HK$[REDACTED] per H Share, plus brokerage of 1.0%, AFRC transaction levy of 0.00015%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.00565% (payable in full on application in Hong Kong dollars and subject to refund)** |
| **Nominal value** | **:** | **RMB1.00 per H Share** |
| **[REDACTED]** | **:** | **[REDACTED]** |

***Sole Sponsor,*** **[REDACTED], [REDACTED], [REDACTED]** ***and*** **[REDACTED]**

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[REDACTED]

# EXPECTED TIMETABLE[(1)]

[REDACTED]

# EXPECTED TIMETABLE[(1)]

[REDACTED]

# EXPECTED TIMETABLE[(1)]

[REDACTED]

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*This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to* **[REDACTED]** *in the* **[REDACTED]**. *There are risks associated with any* **[REDACTED]**. *Some of the particular risks in* **[REDACTED]** *in the* **[REDACTED]** *are set out in the section headed "Risk Factors" in this document. You should read that section carefully before you decide to* **[REDACTED]** *in the* **[REDACTED]**.

## OVERVIEW

Founded in 1993, we are a pioneer in applying genetic engineering to the pharmaceutical industry in China, with over 30 years of proven track record in the R&D, manufacturing and commercialization of biopharmaceutical products and medical devices. We focus on four large and fast-growing therapeutic areas: orthopedics, metabolic diseases, oncology, and hematology. Collectively, these four therapeutic areas accounted for 52.0% of the total pharmaceutical sales in China in 2022, and outpaced the broader Chinese pharmaceutical industry from 2018 to 2022, a trend which is expected to continue in the near future, according to CIC.

Centred around these therapeutic areas, we have built a diversified product portfolio comprising eight marketed products, including China's first recombinant human bone morphogenetic protein-2 ("**rhBMP-2**") bone repair material, Guyoudao, and over ten product candidates, including China's potentially first semaglutide biosimilar, JY29-2, as of the Latest Practicable Date. Our strategy starts by identifying therapeutic targets with significant market potential in our focused areas. Once the targets are identified, we pursue the development of China's innovative and first follow-on products, leveraging our established R&D platforms, manufacturing capabilities, and sales and distribution network in China.

Our marketed product portfolio includes one innovative drug-device combination, two biological products, and five chemical drugs in orthopedics, oncology and hematology. Several of our products hold a leading position in their respective product category in terms of market share, according to CIC. In addition, three of our marketed products are domestically developed first-to-market products in their respective product class in China. Notably, our drug-device combination, Guyoudao, is the first product containing bone repair material with rhBMP-2 approved for sale in China, and ranked second by sales revenue in China's bone repair material market in 2022, according to CIC. Each of Jilifen and Jipailin, two of our oncology and hematology products, is China's first domestically developed and commercialized generic biologics or small molecule drug in their respective drug class, according to CIC. Revenue generated from all of our marketed products accounted for 87.6%, 93.8% and 92.5% of our total revenue for the years ended December 31, 2021, 2022, and the nine months ended September 30, 2023, respectively.

Our major marketed products are as follows:

- ***Guyoudao* 骨优导®**: Guyoudao is an innovative drug-device combination product and a bone repair material with rhBMP-2. The marketing approval for Guyoudao was obtained in October 2009 and it was subsequently launched in 2010. According to CIC, Guyoudao is the first bone repair material with rhBMP-2 approved for sale in China, making us the second company in the world with a commercialized rhBMP-2 product. Guyoudao ranked second by sales revenue in the bone repair material market in China in 2022, with a market share of 17.2% nationally according to the same source.

- ***Yinuojia* 亿喏佳®**: Yinuojia is a generic enoxaparin sodium product which was approved for sale in March 2006. Yinuojia ranked fourth among all enoxaparin sodium products in China in 2022 in terms of sales revenue, with a market share of 8.1% nationally, according to CIC.

- ***Jilifen* 吉粒芬®**: Jilifen, commercialized in 1996, is the first domestically developed human granulocyte colony-stimulating factor ("**hG-CSF**") approved for sale in China, according to CIC. In terms of sales revenue, Jilifen ranked eighth in 2022 among all G-CSF drugs in China, taking up a market share of 1.8% nationally, according to CIC.

- ***Jijufen* 吉巨芬®**: Jijufen is a human interleukin-11 ("**hIL-11**") injection approved for sale in 2003. In terms of sales revenue, Jijufen ranked fourth among all interleukin-11 drugs in China in 2022, taking up a market share of 8.2% nationally, according to CIC.

- ***Jipailin* 吉派林®**: Jipailin is the first domestically developed generic low molecular weight heparin sodium product commercialized in China according to CIC, which was approved for sale in September 1997. Jipailin had a market share of 0.5% nationally in the low molecular weight heparin sodium market in China in 2022 in terms of sales revenue, according to CIC.

The following table sets forth selected information of all of our marketed products as of the Latest Practicable Date:

| Marketed Products | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Product** | **Generic Name** | **Classification** | **Description** | **Intended Indications** | **First Approval Date** | **Product Type** | **Inclusion in NRDL[1]** | **Regulator** |
| **Orthopedics** | | | | | | | | |
| 骨优导® **Guyoudao** | Bone repair material (recombinant human bone morphogenetic protein-2) | Innovative drug-device combination | First marketed rhBMP-2 bone repair product in China | Filling and repair of bone defects, bone nonunion, bone delayed union, and graft repair of spinal fusion, joint fusion, and orthopedic bone graft | Oct 10, 2009 | Class 3 medical device (drug-device combination) | N/A[2] | NMPA |
| **Oncology** | | | | | | | | |
| 吉粒芬® **Jilifen** | Human granulocyte colony stimulating factor injection | Biologics | First marketed G-CSF product in China | Neutropenia | Nov 7, 1996 | Recombinant protein | Yes, Part B | NMPA |
| 吉巨芬® **Jijufen** | Human interleukin-11 injection | Biologics | A platelet-derived growth factor product produced through recombinant DNA technology | Chemotherapy-induced thrombocytopenia | Sep 18, 2003 | Recombinant protein | Yes, Part B | NMPA |
| 吉欧停® **Jiouting** | Palonosetron hydrochloride injection | Generic chemical drug | Long-acting 5-HT3 receptor antagonist | Nausea and vomiting induced by radiation therapy, chemotherapy or postoperatively | Dec 19, 2008 | Small molecule drug | Yes, Part B[3] | NMPA |
| 吉芙惟® **Jifuwei** | Fulvestrant injection | Generic chemical drug | Estrogen receptor antagonist | Advanced breast cancer | Jun 28, 2022 | Small molecule drug | Yes, Part B[3] | NMPA |
| 吉坦苏® **Jitansu** | Fosaprepitant dimeglumine injection | Generic chemical drug | Neurokinin-1 receptor antagonists | Chemotherapy-induced nausea and vomiting | Aug 1, 2023 | Small molecule drug | Yes, Part B | NMPA |
| **Hematology** | | | | | | | | |
| 吉派林® **Jipailin** | Low molecular weight heparin sodium injection | Generic chemical drug | First domestic low molecular weight heparin sodium injection product marketed in China | Venous thromboembolic diseases | Sep 5, 1997 | Small molecule drug | Yes, Part B | NMPA |
| 亿嗪佳® **Yinuojia** | Enoxaparin sodium injection | Generic chemical drug | Enoxaparin sodium | Venous thromboembolic diseases | Mar 18, 2006 | Small molecule drug | Yes, Part B[3] | NMPA |

*Notes:*

(1) The NRDL comprises Part A and Part B. Patients purchasing pharmaceuticals included in Part A of the NRDL are entitled to reimbursement of the entire amount of the purchase price, while patients purchasing pharmaceuticals included in Part B of the NRDL are required to pay a deductible amount and obtain reimbursement for the remainder of the purchase price. The amount of the deductible differs from region to region in the PRC. In principle, the NRDL was subject to a dynamic adjustment entitled to once a year. For details, please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — National Reimbursement Drug List." The market demand for our marketed products is highly sensitive to the coverage of the NRDL. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — If the products we sell are excluded or removed from national, provincial or other government sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be adversely affected."

(2) Since there is no national-level reimbursement list for medical devices, the reimbursement policies for medical devices vary across different regions. As of the Latest Practicable Date, Guyoudao had been included in the medical device reimbursement list of ten provinces and municipalities, namely Shanghai, Jilin, Anhui, Guangdong, Jiangxi, Hebei, Hainan, Hubei, Gansu and Chongqing.

(3) In June 2021, Jiouting (5mL: 0.25mg) won in the bidding process under the fifth batch of national centralized volume-based drug procurement scheme. In July 2022, Jiouting (1.5mL: 0.075mg) won in the bidding process under the seventh batch of national centralized volume-based procurement scheme. In March 2023, Yinuojia won in the bidding process under the eighth batch of national centralized volume-based procurement scheme. In November 2023, Jifuwei won in the bidding process under the ninth batch of national centralized volume-based procurement scheme. For details, please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — The Drug Centralized Procurement in '4+7 Cities' and Nationwide."

Beyond our offerings in orthopedics, oncology and hematology, we have nearly 18 years of experience in metabolic disease drug development. We initiated our research into the agonists to GLP-1 receptor, a key therapeutic target in metabolic diseases, in 2005. Based on our peptide drug technology platform, we developed the first biosimilar candidate to liraglutide (a GLP-1 receptor agonist) to have obtained the IND approval in China. We transferred this product candidate to Zhongmei Huadong between 2017 and 2019. For details, please refer to the paragraphs headed "— Collaboration Arrangements — Transfer Agreements of Liluping (Liraglutide) with Zhongmei Huadong" in this section. Through our collaborative efforts with Zhongmei Huadong, this candidate became the first liraglutide biosimilar approved for the treatment of T2DM as well as obesity and overweight in China in March and June 2023, respectively.

Benefiting from the R&D experience we accumulated, we further developed another GLP-1 receptor agonist, JY29-2. JY29-2 is a semaglutide biosimilar and we are developing it under the brand name of Jiyoutai (吉优泰®) for the treatment of type 2 diabetes mellitus ("**T2DM**"), and under the brand name of Jikeqin (吉可亲®) for the treatment of obesity and overweight. JY29-2 (Jiyoutai) is the first semaglutide biosimilar in China to have obtained the IND approval and completed a Phase III clinical trial. According to CIC, JY29-2 (Jiyoutai) has the potential to become the first-to-market semaglutide biosimilar in China. In January 2024, we obtained the IND approval from the NMPA to evaluate our JY29-2 (Jikeqin) for the treatment of obesity and overweight. Semaglutide products recorded global sales of US$10.9 billion in 2022 by generic name, making it one of the top ten best-selling drugs by generic name worldwide in 2022 and potentially the top three best-selling drugs worldwide in 2023, according to CIC.

As of the Latest Practicable Date, we had built a diversified candidate pipeline which spans across our focused therapeutic areas. Our major product candidates are as follows:

- ***JY29-2 (Jiyoutai 吉优泰®)***: JY29-2 (Jiyoutai) is the first semaglutide biosimilar in China to have obtained IND approval and completed a Phase III clinical trial. We expect to file the NDA for JY29-2 (Jiyoutai) with the NMPA in the first half of 2024 and obtain the NDA approval for T2DM in the second half of 2025.

- ***JY29-2 (Jikeqin 吉可亲®)***: JY29-2 (Jikeqin) is a semaglutide biosimilar targeting obesity and overweight. We obtained the IND approval for JY29-2 (Jikeqin) in January 2024. We are currently preparing for the Phase III trial of JY29-2 (Jikeqin) and expect to start patient enrollment for this trial in 2024.

- ***JY23***: JY23 is a next-generation bone repair material developed by combining rhBMP-2 with various osteoconductive biomaterials. Compared to Guyoudao, JY23 has shown improved controlled release and osteoconduction properties in preclinical studies. As of the Latest Practicable Date, JY23 was in the CMC stage, and we expect to submit an IND application to the NMPA for JY23 in the first quarter of 2025.

- ***JY06 (Jixinfen 吉新芬®)***: Jixinfen is a long-acting G-CSF and a Category III biological product designed to treat hemotherapy-induced neutropenia. We submitted the NDA to the NMPA for JY06 (Jixinfen) in May 2023 and expect to obtain the NDA approval in 2024.

The following table sets forth selected information of our major product candidates as of the Latest Practicable Date:

| Product Candidates[1] | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Product Candidate | Generic Name | Product Type | Expected Classification | Dosage Form | Target/MoA | Intended Indications | Pre-clinical | IND | Phase I | Phase II | Phase III | NDA | Commer-cialization |
| **Metabolic Diseases Drugs** | | | | | | | | | | | | | |
| **JY29-2 吉优泰® Jiyoutai** | Semaglutide | Peptide | Biosimilar | Subcutaneous injection | Glucagon-like peptide-1 (GLP-1) receptor agonist | T2DM | Phase III clinical trial completed | | | | | | |
| **JY29-2 吉可亲® Jikeqin[2]** | | | | | | Obesity and overweight | | | | | | | |
| **JY29-2 (Oral)** | | | | Tablets | | Obesity and overweight | | | | | | | |
| **JY54** | Amylin analog | Peptide | Category I innovative drug | Subcutaneous injection | Amylin analogues | Obesity and overweight | | | | | | | |
| **JY05** | Dulaglutide | Fusion protein | Biosimilar | Subcutaneous injection | GLP-1 receptor agonist | T2DM | | | | | | | |
| **Orthopedics** | | | | | | | | | | | | | |
| **JY23** | Bone repair material with rhBMP-2 | Drug-device combination | Innovative drug-device combination | Bone graft | A combination of osteoinductive growth factor and carrier | Bone repair | | | | | | | |
| **JY41** | Romosozumab | Monoclonal antibody | Category III biologics | Subcutaneous injection | Sclerostin inhibitor | Osteoporosis | | | | | | | |
| **Oncology** | | | | | | | | | | | | | |
| **JY06 吉新芬® Jixinfen** | Polyethylene glycol conjugated granulocyte colony-stimulating factor (PEG-G-CSF) | Recombinant protein | Category III biologics | Subcutaneous injection | PEG-G-CSF | Neutropenia | Filed NDA on May 9, 2023 | | | | | | |
| **JY49[3]** | Avatrombopag maleate | Small molecule drug | Generic chemical drug | Tablets | Thrombopoietin receptor agonist | Thrombocytopenia induced by chronic liver diseases | | | | | | | |
| **JY47** | SIRPα monoclonal antibody | Monoclonal antibody | Category I innovative drug | Intravenous injection | CD47-SIRPα blockade | Solid tumors | | | | | | | |
| **JY43** | Daratumumab | Monoclonal antibody | Biosimilar | Intravenous injection | CD38 inhibitor | Multiple myeloma | | | | | | | |
| **JY43-2** | Daratumumab (with recombinant human hyaluronidase) | Monoclonal antibody | Biosimilar | Subcutaneous injection | CD38 inhibitor with recombinant human hyaluronidase | Multiple myeloma | | | | | | | |

*Notes:*

(1) As of the Latest Practicable Date, we expected to conduct all the clinical trials of our product candidates in China and hold the exclusive rights to develop and commercialize such product candidates worldwide.

(2) After communicating with the Center for Drug Evaluation of NMPA, it has agreed that we can directly enter the Phase III clinical trial on JY29-2 (Jikeqin).

(3) We have completed the bioequivalence studies on JY49 as of the Latest Practicable Date, and no additional clinical trials are required for this drug candidate. We plan to file the NDA with the NMPA in the first quarter of 2024.

In addition, we produce, sell and export various APIs leveraging our over 30 years of experience in drug manufacturing and well-established manufacturing facilities. During the Track Record Period, our products, primarily including APIs we produced, were sold to over 20 countries in Asia, Europe, Africa and South America. We are also developing a recombinant human hyaluronidase to be used as a biopharmaceutical excipient, which enables the administration of drugs through subcutaneous injections. Our sales from APIs have diversified our revenue streams, enabling us to navigate market and regulatory changes and maintaining a steady financial growth trajectory.

With over 30 years of R&D experience, we have established six product development platforms which formed the bedrock of our R&D capabilities. They enable us to quickly identify therapeutic targets with significant market potential and develop our pipeline products towards commercialization. Our R&D team had approximately 110 members as of September 30, 2023, over 60% of whom have obtained a Ph.D. degree or a master's degree, collectively covering a broad range of academic disciplines. Key members of our R&D team had an average of over 20 years of experience in the pharmaceutical industry as of September 30, 2023.

We have built strong capabilities in drug manufacturing and quality control over the past three decades. As of the Latest Practicable Date, we had two manufacturing sites located in Hangzhou, Zhejiang Province with a total area size of approximately 28,000 square meters, which are designed and constructed in compliance with applicable GMP requirements in China. We have in-house manufacturing capabilities for therapeutic protein drugs, peptide drugs, small molecule drugs, drug-device combinations and APIs, meeting the demand of commercial sales of our products and the clinical development of our product candidates. Our manufacturing and quality assurance team had approximately 500 members as of September 30, 2023, led by key personnel with an average of over 15 years of experience in the pharmaceutical industry.

Empowered by our in-house sales and marketing team and third-party distributors, we have established a nationwide sales and distribution network. As of September 30, 2023, our sales and distribution network covered over 1,200 Class III hospitals and more than 2,500 other hospitals and medical institutions, located in over 95% of the prefecture-level districts and counties in China. Our professional in-house sales and marketing team had over 700 employees as of September 30, 2023. The management personnel, which accounted for over 30% of the sales and marketing team, had spent an average of more than nine years working with us as of September 30, 2023. We mostly rely on our in-house sales and marketing personnel to carry out our product promotion initiatives both domestically and overseas. Our vertically integrated and centralized marketing approach improves the efficiency of our resource allocation and allows for quick response to evolving market demands.

Our diversified portfolio of marketed products and APIs has enabled us to achieve steady financial results during the Track Record Period. Our revenue was RMB1,307.3 million, RMB1,125.4 million and RMB1,022.7 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. Our net profit was RMB119.4 million, RMB59.9 million and RMB111.2 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. For 2021, 2022 and the nine months ended September 30, 2023, our gross profit margin was 72.7%, 75.9% and 78.4%, respectively, and our net profit margin was 9.1%, 5.3% and 10.9%, respectively. For details, please see "Financial Information."

## OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

- Over 30 years of R&D and commercialization experience in orthopedics, oncology and hematology, with Guyoudao as the first rhBMP-2 bone repair material commercialized in China

- A rich pipeline in the field of metabolic diseases, with China's potentially first semaglutide biosimilar

- Superior R&D capabilities evidenced by multiple product development platforms and strong IP protection capabilities
- A professional in-house sales and marketing team and a nationwide sales and distribution network
- GMP-standard commercial-scale manufacturing sites and quality control system
- A seasoned management team with deep industry insights

## OUR STRATEGIES

We plan to execute the following strategies:

- Advance the development of our product candidates, enrich our product pipeline and further grow our drug development platforms
- Continue to expand our market and strengthen our commercialization capabilities
- Enhance our manufacturing and quality control capabilities
- Pursue collaboration opportunities to expand our business
- Recruit, develop and retain our talent

## OUR PRODUCTS

### Our Marketed Products

#### *Orthopedic Products*

Bone injuries have become a prevalent bone disease in China. The bone repair materials market size expanded from RMB551.9 million in 2018 to RMB2,586.8 million in 2022 at a CAGR of 47.1%, and is projected to reach RMB7,218.6 million by 2032, at a CAGR of 10.8% between 2022 and 2032. Guyoudao is an innovative drug-device combination product and a bone repair material with rhBMP-2, which can be used for the filling and repair of bone defects, bone nonunion, bone delayed union, spinal fusion, joint fusion, and other orthopedic conditions that require grafting. The marketing approval for Guyoudao was obtained in October 2009 and it was subsequently launched in 2010. According to CIC, Guyoudao is the first bone repair material with rhBMP-2 approved for sale in China, making us the second company worldwide with a commercialized rhBMP-2 product. For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, our sales of Guyoudao were RMB355.1 million, RMB444.3 million and RMB558.0 million, respectively, accounting for 27.2%, 39.5% and 54.6% of our total revenue for the corresponding periods, respectively. According to CIC, we ranked the second among all bone repair material manufacturers in China as measured by revenue in 2022, with a market share of 17.2%.

#### *Oncology Products*

According to CIC, oncology was the second largest therapeutic area in China in terms of sales revenue of pharmaceuticals in 2022, accounting for 17.4% of the overall pharmaceutical market in the same year. As of the Latest Practicable Date, our oncology product portfolio comprised five products, namely Jilifen, Jijufen, Jiouting, Jifuwei and Jitansu. For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, our sales of oncology products were RMB488.9 million, RMB328.1 million and RMB195.1 million, respectively, accounting for 37.4%, 29.2% and 19.1% of our total revenue for the corresponding periods, respectively.

*Hematology Products*

According to CIC, hematology was the third largest therapeutic area in China in terms of sales revenue of pharmaceuticals in 2022, accounting for 13.5% of the overall pharmaceutical market in the same year. As of the Latest Practicable Date, our hematology product portfolio comprised two products, namely Yinuojia and Jipailin. For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, our sales of hematology products were RMB301.7 million, RMB283.1 million and RMB193.1 million, respectively, accounting for 23.1%, 25.2% and 18.9% of our total revenue for the corresponding periods, respectively.

*Metabolic Disease Product*

Beyond our offerings in orthopedics, oncology and hematology, we have nearly 18 years of experience in metabolic disease drug development. We initiated our research into the agonists to GLP-1 receptor, a key therapeutic target in metabolic disease, in 2005. Based on our peptide drug technology platform, we developed the first biosimilar candidate to liraglutide, a GLP-1 receptor agonist, to have obtained IND approval in China. We transferred this product candidate to Zhongmei Huadong between 2017 and 2019 and entered into agreements with Zhongmei Huadong (together, the "**Liraglutide Transfer Agreements**"). Pursuant to the Liraglutide Transfer Agreements, we transferred the biosimilar formulation of the liraglutide product (which later came to be known as Liluping) to Zhongmei Huadong and collaborate with Zhongmei Huadong in preparing samples, conducting clinical trials, developing the technology for commercial production and filing for NDA, until Zhongmei Huadong obtained approval for sale. For more details, please refer to the paragraphs headed "Business — Collaboration Arrangements — Transfer Agreements of Liluping (Liraglutide) with Zhongmei Huadong" for more details.

**Our Product Candidates Under Development**

*Metabolic Disease Product Candidates*

We are developing JY29-2, a semaglutide biosimilar, under the brand name of Jiyoutai 吉优泰® for the treatment of T2DM and under the brand name of Jikeqin 吉可亲® for the treatment of obesity and overweight. JY29-2 (Jiyoutai) is the first semaglutide biosimilar in China to have obtained IND approval and completed a Phase III clinical trial. According to CIC, it has the potential to become the first-to-market biosimilar of semaglutide in China. In January 2024, we obtained the IND approval from the NMPA to evaluate JY29-2 (Jikeqin) for the treatment of obesity and overweight. We are currently preparing for the Phase III trial to evaluate JY29-2 (Jikeqin) for this indication and expect to start patient enrollment for the trial in 2024.

GLP-1 receptor agonists have achieved remarkable market acceptance in international market and surpassed insulin to become the most widely used medication for T2DM globally in 2023. This class of medications also shows tremendous market potential in China. According to CIC, the China's market for GLP-1 receptor agonist in T2DM expanded from RMB0.7 billion in 2018 to RMB6.0 billion in 2022, representing a CAGR of 69.7% and is projected to grow to RMB66.7 billion by 2032 at a CAGR of 27.1%. According to CIC, the China's market for GLP-1 receptor agonists in obesity and overweight is projected to increase from RMB0.4 billion in 2023 to RMB45.5 billion in 2032. In the specific segment of semaglutide products for both T2DM and obesity and overweight, the China's market is expected to increase from RMB2.5 billion in 2022 to RMB43.9 billion in 2032 with a CAGR of 33.0% in China, according to CIC. Semaglutide products recorded global sales of US$10.9 billion in 2022 by generic name, making it one of the top ten best-selling drugs by generic name worldwide in 2022 and potentially the top three best-selling drugs worldwide in 2023, according to CIC.

Our pipeline of metabolic disease drugs also includes JY54 and JY05, two promising drug candidates under preclinical development as of the Latest Practicable Date. JY54, a long-acting amylin analog, is an expected Category I innovative drug for the treatment of obesity and overweight. JY54 is currently undergoing CMC development and animal studies, and we expect to submit an IND application for JY54 in the fourth quarter of 2024.

JY05 is a biosimilar of dulaglutide intended for the treatment of T2DM. JY05 is currently undergoing CMC development. In the future, we plan to seek collaboration opportunities to commercialize JY05 in the international market.

***Orthopedic Product Candidates***

Our pipeline of orthopedic disease drugs includes JY23 and JY41. JY23 is a next-generation bone repair material developed by combining rhBMP-2 with bioactive materials. Compared to Guyoudao, JY23 has superior sustained release and osteoconduction properties. JY23 is currently in the CMC stage, and we expect to submit an IND application to the NMPA for JY23 in the first quarter of 2025. JY41 is a biosimilar of romosozumab for the treatment of osteoporosis caused by various factors. JY41 is currently in the CMC stage.

***Oncology Product Candidates***

Our pipeline of oncology drugs includes JY06 (Jixinfen 吉新芬®), JY49, JY47 and JY43. JY06 (Jixinfen), a Category III biological product, is a polyethylene glycol-modified granulocyte colony-stimulating factor (PEG-G-CSF) for treating neutropenia. We submitted the NDA for JY06 (Jixinfen) to the NMPA in May 2023 and expect to obtain the approval for sale in 2024. JY49 is a generic avatrombopag maleate for treating thrombocytopenia. We completed the bioequivalence study for JY49 in October 2023 and expect to submit the NDA in the first quarter of 2024. JY47 is a humanized IgG1 Signal Regulatory Protein α (SIRPα)-specific monoclonal antibody intended for the treatment of solid tumors and is a Category I innovative drug. We received an IND approval for JY47 in December 2022 and expect to initiate a Phase I clinical trial in 2024. JY43 and JY43-2 are biosimilars to daratumumab intravenous injection and daratumumab subcutaneous injection, respectively. Both are used for the treatment of multiple myeloma. We received an IND approval for JY43 in April 2023, and we are currently conducting preclinical research on JY43-2.

## OUR CUSTOMERS AND SUPPLIERS

### Our Customers

Our customers primarily consist of our distributors and hospitals which directly purchase pharmaceutical and drug-device combination products from us. Our five largest customers during the Track Record Period primarily included our distributors. The aggregate sales to our five largest customers, calculated on the group level with entities controlled by the same group combined together, for 2021, 2022 and the nine months ended September 30, 2023 were RMB725.9 million, RMB539.4 million and RMB451.0 million, respectively, representing 55.5%, 47.9% and 44.1% of our revenue for the respective period. Sales to our largest customer for 2021, 2022 and the nine months ended September 30, 2023 were RMB330.9 million, RMB263.1 million and RMB226.2 million, respectively, representing 25.3%, 23.4% and 22.1% of our revenue for the respective period. We generally grant credit terms of 30 to 90 days, with longer terms granted to our customers of drug-device combination product. Our customers generally settle with us by wire transfer and bank acceptance bill. Save for Huadong Medicine (on the group level), all of our five largest customers during the Track Record Period are Independent Third Parties. Save for Huadong Medicine (on the group level), none of our Directors, their respective associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our five largest customers in each year during the Track Record Period.

### Our Suppliers

Our suppliers primarily include suppliers of the raw materials and equipment to support the manufacturing of our pharmaceutical and drug-device combination products. Purchases from our five largest suppliers, calculated on the group level with entities

controlled by the same group combined together, for 2021, 2022 and the nine months ended September 30, 2023 were RMB217.1 million, RMB139.1 million and RMB107.9 million, respectively, representing 54.5%, 56.4% and 62.8% of our total purchase cost for the respective period. Purchases from our largest supplier for 2021, 2022 and the nine months ended September 30, 2023 were RMB161.5 million, RMB95.0 million and RMB44.0 million, respectively, representing 40.6%, 38.5% and 25.6% of our purchase cost for the respective period. Save for Huadong Medicine, all of our five largest suppliers during the Track Record Period are Independent Third Parties. We do not have substantial reliance on any single supplier. We believe that we have long and stable relationships with our existing major suppliers. According to CIC, it is common for pharmaceutical companies in China to have high supplier concentrations. For more details, please refer to the paragraphs headed "Risk Factors — Risks Relating to our Business and Industry — We had a limited number of suppliers during the Track Record Period and the loss of one or more of our key suppliers could disrupt our operations." Save for Huadong Medicine, none of our Directors, their respective associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our five largest suppliers in each year during the Track Record Period.

**Overlapping of Customers and Suppliers**

During the Track Record Period, some of our customers procuring our products and/or R&D services were also our suppliers who provide us with the raw materials to support the manufacturing of our products. The following table sets forth the details of our major customers being also a supplier, and our major supplier being a customer, during the Track Record Period:

| Customer/ Supplier | Ranking | Year/period of being a customer (Year/period) | Revenue (RMB in thousands) | % of our total revenue | Nature of revenue | Year/period of being a supplier (Year/period) | Purchase (RMB in thousands) | % of our total purchase | Nature of purchase |
|---|---|---|---|---|---|---|---|---|---|
| Huadong Medicine and its subsidiaries | Among five largest customers and five largest suppliers during each year or period in the Track Record Period | Nine months ended September 30, 2023 | 101,396 | 9.9% | Medical products, R&D services | Nine months ended September 30, 2023 | 4,320 | 2.5% | Raw materials, manufacturing equipment |
| | | 2022 | 91,154 | 8.1% | Medical products, R&D services | 2022 | 6,739 | 2.7% | Raw materials, manufacturing equipment |
| | | 2021 | 96,971 | 7.4% | Medical products, R&D services | 2021 | 11,674 | 2.9% | Raw materials, manufacturing equipment |
| Customer Group A/ Supplier Group B | Among five largest customers during each year or period in the Track Record Period and five largest suppliers in 2021 | Nine months ended September 30, 2023 | 226,181 | 22.1% | Medical products | Nine months ended September 30, 2023 | 1,353 | 0.8% | Raw materials, R&D equipment |
| | | 2022 | 263,053 | 23.4% | Medical products | 2022 | 1,466 | 0.6% | Raw materials, R&D equipment |
| | | 2021 | 330,885 | 25.3% | Medical products | 2021 | 12,656 | 3.2% | Raw materials, R&D equipment |

According to CIC, it is common in the pharmaceutical industry that a supplier of a market player may also be its customer or vice versa, due to their relatively broad range of business activities ranging from R&D, production, wholesale and retail of products, and

the level of our Group's overlapping of customers and suppliers is not anomalous compared with the industry norm. Negotiations of the terms of our sales to and purchases from these overlapping customers and suppliers were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Our Directors confirmed that all of our sales to and purchases from these overlapping customers and suppliers were entered into after due consideration taking into account the prevailing purchase and selling prices at the relevant times, conducted in the ordinary course of business under normal commercial terms and on arm's length basis.

## SALES, MARKETING AND DISTRIBUTION

We promote our products primarily through our in-house sales and marketing team, through various marketing activities. We also engage third-party promoters to promote our products in a small number of medical institutions located in lower-tier cities or regions or that are otherwise not covered by our in-house sales and marketing team.

We sell our drug products primarily to distributors, which distribute such products to hospitals, other medical institutions and pharmacies in national and overseas markets. For our drug-device combination product, we sell it directly or through our distributors to hospitals in China. In addition, to a lesser extent, we sell APIs directly to pharmaceutical companies in overseas markets.

During the same periods, sales to our five largest distributors, calculated on the group level, generated RMB595.5 million, RMB499.7 million and RMB400.7 million, which approximately accounted for 45.6%, 44.4% and 39.2% of our total revenue, respectively.

The following table sets forth a breakdown of our revenue from sales of products by distribution channels during the Track Record Period.

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | *RMB'000* | *% of revenue* | *RMB'000* | *% of revenue* | *RMB'000* | *% of revenue* | *RMB'000* | *% of revenue* |
| | | | | | | *(unaudited)* | | |
| **Distributors** | 952,082 | 72.8% | 830,941 | 73.8% | 642,266 | 75.4% | 658,637 | 64.4% |
| *Domestic distribution* | 935,023 | 71.5% | 829,583 | 73.7% | 641,263 | 75.3% | 657,425 | 64.3% |
| *Overseas distribution* | 17,059 | 1.3% | 1,358 | 0.1% | 1,003 | 0.1% | 1,212 | 0.1% |
| **Direct sales** | 316,345 | 24.2% | 274,164 | 24.4% | 202,315 | 23.7% | 316,805 | 31.0% |
| *Domestic direct sales* | 189,354 | 14.5% | 223,129 | 19.8% | 165,376 | 19.4% | 286,723 | 28.0% |
| *Overseas direct sales* | 126,991 | 9.7% | 51,035 | 4.5% | 36,939 | 4.3% | 30,082 | 2.9% |
| Total[(1)] | 1,268,427 | 97.0% | 1,105,105 | 98.2% | 844,581 | 99.1% | 975,442 | 95.4% |

*Note:*

(1) Total revenue from sales of products by distributors and direct sales accounted for less than 100% of our total revenue during the Track Record Period, as we also generated revenue from provision of R&D and other services which accounted for 3.0%, 1.8% and 4.6% of our total revenue in 2021, 2022 and the nine months ended September 30, 2023, respectively. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Revenue — Revenue by Nature" for more details.

The following table sets forth the movement of the number of our distributors in our domestic distribution network for the periods indicated below.

| | Year ended December 31, | | Nine months ended September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| Number of distributors at the beginning of the period[(1)] | 681 | 709 | 743 |
| Addition of new distributors[(2)] | 210 | 201 | 204 |
| Termination of existing distributors[(3)] | 182 | 167 | 190 |
| Net increase in distributors | 28 | 34 | 14 |
| Number of distributors at the end of the period | 709 | 743 | 757 |

*Notes:*

(1) The numbers of distributors in this table are calculated on entity level, without combining distributors belonging to the same group.

(2) New distributors refer to distributors who (i) had at least one transaction with us in the relevant period; and (ii) did not have any transaction with us in the immediately preceding financial year.

(3) Terminated distributors refer to distributors who (i) did not have any transaction with us in the relevant period; and (ii) had at least one transaction with us in the immediately preceding financial year.

Please refer to the paragraphs headed "Business — Sales, Marketing and Distribution — Distribution" for more details about our distributorship model.

## COMPETITION

The pharmaceutical market in China is highly competitive and is characterized by a number of established pharmaceutical companies, as well as some emerging biotechnology companies. We face competition from other pharmaceutical companies and emerging biotechnology companies engaged in the research, development, production, marketing or sales of pharmaceutical products and medical devices. Our key competitors are large national and regional manufacturers of pharmaceutical products and medical devices, including large State-owned pharmaceutical companies. We also compete with multinational pharmaceutical companies.

Our products primarily compete with products that are indicated for similar conditions as our products on the basis of efficacy, safety, price, brand, general market acceptance, and recognition. The identities of our key competitors vary by product and, in certain cases, our competitors may have greater financial and research and development resources than us, may elect to focus these resources on developing, importing or in-licensing and marketing products in China that are substitutes for our products and may have broader sales and marketing infrastructure with which to do so. Please refer to the section headed "Industry Overview" in this document for more details about the major competitors of our products.

We believe our continued success will depend on our ability to (i) effectively market and promote our products; (ii) innovate and develop advanced technologies; (iii) develop a broad product portfolio; (iv) maintain high-quality standards; (v) obtain and maintain regulatory approvals; and (vi) attract, retain and cultivate talent.

## RISK FACTORS

Our business and the [**REDACTED**] involve certain risks including those set out in the section headed "Risk Factors" in this document. As different [**REDACTED**] may have different interpretations and criteria when determining the significance of a risk, you should read the "Risk Factors" section in its entirety before you decide to [**REDACTED**] in our [**REDACTED**]. Some of the major risks that we face include:

- We rely on the sales of certain major products in China, which account for a substantial portion of our total revenue. If we are unable to maintain the sales

volume, pricing levels and profit margins of such products due to factors such as competition or change in market environment, our operations, revenue and profitability could be adversely affected.

- We operate in a highly competitive environment, and we may not be able to compete effectively against current and future competitors selling competing drugs, which could subject us to the pressure of price reduction and adversely affect our operations, revenue and profitability.

- We may experience difficulties in our sales efforts as a result of pricing regulations or other policies such as volume-based procurement and "Two-Invoice System" that are intended to reduce healthcare costs, which could subject us to pricing and volume pressures and adversely affect our operations, revenue and profitability.

- If the products we sell are excluded or removed from national, provincial or other government sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be adversely affected.

- Our products and future approved product candidates may fail to achieve or maintain the degree of market acceptance by physicians, medical institutions, pharmacies, patients, third-party payers and others in the medical community necessary for commercial success, and the actual market size of our product candidates might be smaller than expected.

- If the clinical trials of our product candidates fail to demonstrate safety and efficacy profiles to the satisfaction of regulatory agencies, or fail to produce positive results, we may incur additional costs in completing the development and commercialization of the product candidate, or delay the completion schedule, or ultimately fail to complete the development and commercialization of the product candidates.

- If we are unable to succeed in tender processes to sell our products to public hospitals and other medical institutions, we may lose market share and our operations, revenue and profitability could be adversely affected.

- If we fail to maintain and optimize an effective distribution network for our products or encounter problems with our distributors, our operations, revenue and profitability could be adversely affected.

- The pharmaceutical industry in China is highly regulated and such regulations are subject to change, which may affect our operations, revenue and profitability or impose additional compliance burden on us.

- If we or our business partners fail to maintain the necessary licenses for the development, production, promotion, sales and distribution of our products, our ability to conduct our business could be materially impaired and our revenue and profitability could be adversely affected.

## RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

As of the Latest Practicable Date, Huadong Medicine, through its wholly-owned subsidiary Zhongmei Huadong, held approximately 21.06% of our total issued share capital and was our single largest Shareholder. Immediately following the completion of the [**REDACTED**], Huadong Medicine, through Zhongmei Huadong, will be interested in approximately [**REDACTED**]% of our total issued share capital, assuming the [**REDACTED**] is not exercised. Therefore, upon completion of the [**REDACTED**], our Group will not have any controlling shareholder as defined under the Listing Rules, while Huadong Medicine and Zhongmei Huadong will remain as our Single Largest Group of Shareholders. Please refer to the section headed "Relationship with Our Single Largest Group of Shareholders" in this document for more details.

Our Group has entered into and will continue to engage in certain transactions with Huadong Medicine and Zhongmei Huadong, which will constitute continuing connected transactions upon the [**REDACTED**]. Please refer to the section headed "Connected Transactions" in this document for more details.

## OUR PRE-[REDACTED] INVESTORS

Our Company has completed several rounds of [**REDACTED**] from the Pre-[**REDACTED**] Investors through equity subscriptions and transfers. Please refer to the paragraphs headed "History, Development and Corporate Structure — Pre-[**REDACTED**] Investments" for details of the identity and background of our Pre-[**REDACTED**] Investors.

## SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth summary financial data from our consolidated financial information for the Track Record Period, extracted from the Accountants' Report set out in Appendix I to this document.

### Summary of Consolidated Statements of Profit or Loss

The following table sets forth a summary of our consolidated statements of profit or loss, with line items in absolute amounts and as percentages of our revenue for the periods indicated.

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | *(RMB in thousands, except for percentages)* | | | | *(unaudited)* | | | |
| Revenue | 1,307,251 | 100.0% | 1,125,405 | 100.0% | 852,082 | 100.0% | 1,022,655 | 100.0% |
| Cost of sales | (356,844) | (27.3%) | (271,143) | (24.1%) | (195,656) | (23.0%) | (221,179) | (21.6%) |
| **Gross profit** | **950,407** | **72.7%** | **854,262** | **75.9%** | **656,426** | **77.0%** | **801,476** | **78.4%** |
| Other income and gains | 7,093 | 0.5% | 14,549 | 1.3% | 13,241 | 1.6% | 5,537 | 0.5% |
| Selling and marketing expenses | (649,553) | (49.7%) | (609,074) | (54.1%) | (439,576) | (51.6%) | (537,318) | (52.5%) |
| Administrative expenses | (36,524) | (2.8%) | (39,946) | (3.5%) | (28,217) | (3.3%) | (38,772) | (3.8%) |
| Research and development costs | (132,631) | (10.1%) | (158,312) | (14.1%) | (105,493) | (12.4%) | (100,447) | (9.8%) |
| Other expenses | (1,537) | (0.1%) | (1,018) | (0.1%) | (562) | (0.1%) | (2,621) | (0.3%) |
| Finance costs | (9,720) | (0.7%) | (9,042) | (0.8%) | (6,733) | (0.8%) | (7,154) | (0.7%) |
| **Profit before tax** | **127,535** | **9.8%** | **51,419** | **4.6%** | **89,086** | **10.5%** | **120,701** | **11.8%** |
| Income tax (expense)/credit | (8,122) | (0.6%) | 8,448 | 0.8% | (2,997) | (0.4%) | (9,504) | (0.9%) |
| **Profit for the year/period** | **119,413** | **9.1%** | **59,867** | **5.3%** | **86,089** | **10.1%** | **111,197** | **10.9%** |

### Revenue

For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2022 and 2023, our revenue amounted to RMB1,307.3 million, RMB1,125.4 million, RMB852.1 million and RMB1,022.7 million, respectively. During the Track Record Period, we generated substantially all of our revenue from sales of pharmaceutical products that we manufactured in-house, which accounted for 97.0%, 98.2% and 95.4% of our total revenue in 2021, 2022 and the nine months ended September 30, 2023. To a much lesser extent, we also generated revenue from provision of R&D and other services.

During the Track Record Period, mainland China stood as the primary source of our revenue, contributing 89.6%, 95.4%, and 97.0% of our total revenue in 2021, 2022 and the nine months ended September 30, 2023, respectively.

### *Revenue by Therapeutic Areas*

The following table sets forth a breakdown of our revenue by sales of products by therapeutic areas in both absolute amounts and as percentages of our revenue for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue |
| | | | | | | *(unaudited)* | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Orthopedics | 355,146 | 27.2% | 444,340 | 39.5% | 335,733 | 39.4% | 558,028 | 54.6% |
| Oncology | 488,905 | 37.4% | 328,079 | 29.2% | 250,412 | 29.4% | 195,111 | 19.1% |
| Hematology | 301,712 | 23.1% | 283,100 | 25.2% | 222,753 | 26.1% | 193,137 | 18.9% |
| Other[(1)] | 122,664 | 9.4% | 49,586 | 4.4% | 35,683 | 4.2% | 29,166 | 2.9% |
| **Total** | **1,268,427** | **97.0%** | **1,105,105** | **98.2%** | **844,581** | **99.1%** | **975,442** | **95.4%** |

*Note:*

(1) It mainly consists of APIs.

### *Revenue by Marketed Products*

The following table sets forth the sales of our marketed products during the Track Record Period in absolute amounts and as percentages of our total revenue for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue |
| | | | | | | *(unaudited)* | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Guyoudao | 355,146 | 27.2% | 444,340 | 39.5% | 335,733 | 39.4% | 558,028 | 54.6% |
| Yinuojia | 243,329 | 18.6% | 235,375 | 20.9% | 186,528 | 21.9% | 168,040 | 16.4% |
| Jilifen | 145,838 | 11.2% | 165,964 | 14.7% | 122,620 | 14.4% | 112,138 | 11.0% |
| Jijufen | 97,181 | 7.4% | 94,298 | 8.4% | 71,103 | 8.3% | 63,785 | 6.2% |
| Jipailin | 58,383 | 4.5% | 47,725 | 4.2% | 36,225 | 4.3% | 25,097 | 2.5% |
| Jiouting | 245,886 | 18.8% | 67,817 | 6.0% | 56,689 | 6.7% | 14,077 | 1.4% |
| Jifuwei | – | – | – | – | – | – | 5,111 | 0.5% |
| **Total** | **1,145,763** | **87.6%** | **1,055,519** | **93.8%** | **808,898** | **94.9%** | **946,276** | **92.5%** |

Our revenue increased by 20.0% from RMB852.1 million in the nine months ended September 30, 2022 to RMB1,022.7 million in the corresponding period in 2023, primarily due to an increase of RMB130.9 million in revenue from sales of goods. Our revenue decreased by 13.9% from RMB1,307.3 million in 2021 to RMB1,125.4 million in 2022, primarily due to a decrease of RMB163.3 million in revenue from sales of goods.

Our revenue from sales of goods increased by 15.5% from RMB844.6 million in the nine months ended September 30, 2022 to RMB975.4 million in the nine months ended September 30, 2023, primarily due to the rapid increase in sales revenue from Guyoudao.

Our revenue from sales of goods decreased by 12.9% from RMB1,268.4 million in 2021 to RMB1,105.1 million in 2022, primarily due to a decrease of revenue from sales of Jiouting and API of enoxaparin. Our revenue generated from Jiouting decreased by 72.4% from RMB245.9 million in 2021 to RMB67.8 million in 2022, which was due to a reduction in Jiouting's sales volume and sales price after its inclusion in the volume-based procurement program. Our revenue generated from sales of enoxaparin API decreased by 61.3% from RMB121.8 million in 2021 to RMB47.1 million in 2022, which was mainly due to a geopolitical conflict which affected our sales to an overseas client. The decrease of revenue from sales of Jiouting and enoxaparin API was partially offset by a 25.1% increase in revenue from the sales of Guyoudao, rising from RMB355.1 million to RMB444.3 million. Such increase was mainly due to the continuous growth of Guyoudao's sales volume.

**Gross Profit and Gross Profit Margin**

Our gross profit increased by 22.1% from RMB656.4 million in the nine months ended September 30, 2022 to RMB801.5 million in the nine months ended September 30, 2023, and our gross profit margin increased from 77.0% in the nine months ended September 30, 2022 to 78.4% in the nine months ended September 30, 2023, primarily because the increased proportion of sales revenue from Guyoudao, which has a comparatively high gross profit margin.

Our gross profit decreased by 10.1% from RMB950.4 million in 2021 to RMB854.3 million in 2022. Our gross profit margin increased from 72.7% in 2021 to 75.9% in 2022, primarily due to (i) the increased proportion of sales revenue from Guyoudao, which has a comparatively high gross profit margin, and our cost reduction achieved through optimizing the manufacturing process of Guyoudao, which further increased its gross profit margin, and (ii) a decrease in the percentage of our revenue generated from sales of API to overseas markets, which have a relatively low gross profit margin.

Please refer to the paragraphs headed "Financial Information — Period to Period Comparison of Results of Operations" in this document for detailed analysis.

**Summary of Consolidated Statements of Financial Position**

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| **Total non-current assets** | **435,294** | **454,825** | **453,184** |
| **Total current assets** | **747,906** | **758,755** | **879,393** |
| **Total current liabilities** | **400,521** | **355,932** | **357,226** |
| **Net current assets** | **347,385** | **402,823** | **522,167** |
| **Total non-current liabilities** | **64,542** | **91,464** | **87,644** |
| **Net assets** | **718,137** | **766,184** | **887,707** |
| **Equity** | | | |
| Paid-in capital | 53,446 | 53,446 | 53,446 |
| Reserves | 664,691 | 712,738 | 834,261 |
| **Total Equity** | **718,137** | **766,184** | **887,707** |

Please refer to the paragraphs headed "Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position" for detailed analysis.

**Summary of Consolidated Statements of Cash Flows**

The following table sets forth a summary of our consolidated statements of cash flows for periods indicated.

| | Year ended December 31, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | | | *(unaudited)* | |
| | *(RMB in thousands)* | | | |
| Net cash flows from/(used in) operating activities | 67,529 | 22,559 | (5,631) | 9,144 |
| Net cash flows used in investing activities | (62,863) | (58,942) | (43,429) | (23,385) |
| Net cash flows from/(used in) financing activities | 41,288 | 12,892 | 10,365 | (8,115) |
| Net increase/(decrease) in cash and cash equivalents | 45,894 | (23,491) | (38,695) | (22,356) |
| Cash and cash equivalents at beginning of year/period | 49,051 | 94,829 | 94,829 | 71,540 |
| Effect of foreign exchange rate changes, net | (116) | 202 | 267 | 199 |
| Cash and cash equivalents at the end of the year/period | 94,829 | 71,540 | 56,401 | 49,383 |

Please refer to the paragraphs headed "Financial Information — Liquidity and Capital Resources — Cash Flows" for detailed analysis.

**Key Financial Ratios**

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated.

| | Year ended December 31, | | Nine months ended September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| **Profitability ratios** | | | |
| Net profit margin[(1)] | 9.1% | 5.3% | 10.9% |
| Gross profit margin[(2)] | 72.7% | 75.9% | 78.4% |
| Return on equity[(3)] | 18.1% | 8.1% | 13.4% |
| Return on total assets[(4)] | 10.6% | 5.0% | 8.7% |
| **Liquidity ratios** | | | |
| Current ratio[(5)] | 1.9 | 2.1 | 2.5 |
| **Leverage ratio** | | | |
| Gearing ratio[(6)] | 39.3% | 36.9% | 33.4% |

*Notes:*

(1) Net profit margin is calculated based on profit for the period divided by revenue and multiplied by 100.0%.

(2) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100.0%.

(3) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity and multiplied by 100.0%.

(4) Return on total assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets and multiplied by 100.0%.

(5) Current ratio is calculated based on total current assets divided by total current liabilities.

(6) Gearing ratio is calculated using total liabilities divided by total assets and multiplied by 100.0%.

See "Financial Information — Key Financial Ratios" for detailed analysis.

**[REDACTED]**

## [REDACTED] EXPENSES

Our [**REDACTED**] expenses mainly include [**REDACTED**], professional fees paid to legal advisers and the Reporting Accountants for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. The estimated total [**REDACTED**] expenses (based on the mid-point of our indicative [**REDACTED**] range for the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised) for the [**REDACTED**] are approximately RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million), representing [**REDACTED**]% of the [**REDACTED**]. During the Track Record Period, we incurred [**REDACTED**] expenses of RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million), which has been charged to our consolidated statements of profit and loss. We expect to incur additional [**REDACTED**] expenses of approximately RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million), of which RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million) is expected to be charged to our consolidated statements of profit and loss and RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million) will be capitalized expenses.

## DIVIDENDS

We declared a cash dividend of RMB12.0 million in 2022, which have been fully settled. Other than that, no dividend has been proposed, paid or declared by us during the Track Record Period. We do not currently have a formal dividend policy or a fixed dividend payout ratio.

No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China.

## FUTURE PLANS AND [REDACTED]

We estimate the [**REDACTED**] of the [**REDACTED**] which we will receive, assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] range stated in this document), will be approximately HK$[**REDACTED**] million, after deduction of [**REDACTED**] and estimated expenses payable by us in connection with the [**REDACTED**] and assuming the [**REDACTED**] is not exercised.

- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) will be allocated to the continued research and development of our selected product candidates in our strategically focused therapeutic areas.
- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the [**REDACTED**] will be used in the marketing and commercialization of our existing and near-commercialized products.
- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the [**REDACTED**] will be used to pursue strategic collaboration to enrich our product portfolio in our targeted therapeutic areas.
- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the [**REDACTED**] will be used on our manufacturing system to construct new production lines, and to upgrade and further automate our existing production facilities to prepare for the potential increase in demand for our products and the launch of new products.
- The remaining amount of approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the [**REDACTED**] will be used to provide funding for our working capital and other general corporate purposes.

Please refer to the section headed "Future Plans and [**REDACTED**]" for more details.

## RECENT DEVELOPMENT

### Major Developments on Our Product Candidates

*JY29-2 (Jiyoutai 吉优泰® and Jikeqin 吉可亲®) Semaglutide Injection*

In October 2023, we completed the Phase III clinical trial for JY29-2 (Jiyoutai) for the treatment of T2DM. According to CIC, it has the potential to become the first-to-market biosimilar of semaglutide in China.

In January 2024, we obtained the IND approval from the NMPA to evaluate JY2902 (Jikeqin) for the treatment of obesity and overweight. We are currently preparing for the Phase III trial to evaluate JY29-2 (Jikeqin) for this indication and expect to start patient enrollment in 2024.

*JY49 Avatrombopag Maleate*

In October 2023, we completed the bioequivalence study for JY49, an avatrombopag product. We expect to submit the NDA in the first quarter of 2024 in China.

### No Material Adverse Change

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since September 30, 2023, being the latest date of our consolidated financial statements as set out in Appendix I to this document, and there is no event since September 30, 2023 that would materially affect the information as set out in the Accountants' Report included in Appendix I to this document.

*In this document, unless the context otherwise requires, the following terms and expressions shall have the meanings set out below. Certain other terms are explained in "Glossary of Technical Terms."*

| | |
|---|---|
| "Accountants' Report" | the accountants' report of our Company, the text of which is set out in Appendix I to this document |
| "affiliate(s)" | with respect to any specified person, any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person |
| "AFRC" | Accounting and Financial Reporting Council of Hong Kong |
| "Articles of Association" or "Articles" | the articles of association of our Company adopted by special resolution on January 17, 2024 with effect from the [**REDACTED**], as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix V to this document |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Audit Committee" | the audit committee of our Board |
| "Board" or "Board of Directors" | the board of Directors of our Company |
| "Business Day" | a day on which banks in Hong Kong are generally open for normal business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong |

**[REDACTED]**

[REDACTED]

| | |
|---|---|
| "Chengheda" | Chengheda (Hangzhou) Enterprise Management Partnership (誠和達(杭州)企業管理合夥企業), a limited liability partnership established under the laws of the PRC on July 20, 2023, one of our employee shareholding platforms |
| "CHF" | Swiss franc, the lawful currency of Switzerland |
| "China" or "PRC" | the People's Republic of China and for the purpose of this document only, unless the context otherwise requires, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan |
| "CIC" or "Industry Consultant" | China Insights Industry Consultancy Limited, our industry consultant, an independent market research and consulting company |
| "close associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "CNIPA" | China National Intellectual Property Administration (國家知識產權局) |
| "Companies Ordinance" | Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Companies (Winding Up and Miscellaneous Provisions) Ordinance" | Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Company," "our Company" or "the Company" | Hangzhou Jiuyuan Gene Engineering Co., Ltd. (杭州九源基因工程股份有限公司), a limited liability company established under the laws of the PRC on December 31, 1993 and converted into a joint stock company with limited liability on December 5, 2023 |
| "Compliance Adviser" | Maxa Capital Limited |

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|---|---|
| "Comprehensively Sanctioned Countries" | any country or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of the Relevant Jurisdiction, currently Cuba, Iran, North Korea, Syria, the Crimea Region of Russia/Ukraine, the self-proclaimed Luhansk People's Republic and Donetsk People's Republic regions, Zaporizhzhia and Kherson regions |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "connected transaction(s)" | has the meaning ascribed to it under the Listing Rules |
| "core connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Corporate Governance Code" | Corporate Governance Code set out in Appendix C1 to the Listing Rules |
| "Cosmotrust Biopharmaceutical" | Hangzhou Cosmotrust Biopharmaceutical Co., Ltd. (杭州宇信生物醫藥有限公司), a limited liability company established under the laws of the PRC on June 24, 2020 |
| "CQFE" | Corporacion Quimico-farmaceutica Esteve, Sociedad Anónima, a corporation organized under the laws of the Kingdom of Spain on June 6, 1986 |
| "CSDC" | China Securities Depositary and Clearing Corporation Limited (中國證券登記結算有限責任公司) |
| "CSRC" | China Securities Regulatory Commission (中國證券監督管理委員會) |
| "Director(s)" or "our Director(s)" | the director(s) of our Company |
| "Domestic Share(s)" | ordinary share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which is/are **[REDACTED]** for and paid up in Renminbi by domestic investors and not **[REDACTED]** or **[REDACTED]** on any stock exchange |
| "EIT" | PRC enterprise income tax |

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|---|---|
| "EIT Law" | Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》), as amended, supplemented or otherwise modified from time to time |
| "Exchange Participant" | a person (a) who, in accordance with the Rules of the Stock Exchange, may trade on or through the Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange |
| "Extreme Conditions" | extreme conditions caused by a super typhoon as announced by the Government of Hong Kong |
| | **[REDACTED]** |
| "Group," "our Group," "we" or "us" | our Company and our subsidiary from time to time |
| "Guide for New Listing Applicants" | the Guide for New Listing Applicants issued by the Stock Exchange, as amended, supplemented or otherwise modified from time to time |
| "H Share(s)" | ordinary share(s) in the share capital of our Company with a nominal value of RMB1.00 each, which will be **[REDACTED]** for and **[REDACTED]** in Hong Kong dollars and **[REDACTED]** on the Stock Exchange |
| | **[REDACTED]** |
| "HK$" or "Hong Kong dollars" | Hong Kong dollars, the lawful currency of Hong Kong |
| "Hangzhou Huasheng" | Hangzhou Huasheng Pharmaceutical Group Co., Ltd. (杭州華昇醫藥集團有限公司, formerly known successively as 杭州華東醫藥集團控股有限公司, 杭州華東醫藥集團投資有限公司 and 杭州博華投資有限公司), a limited liability company established under the laws of the PRC on March 25, 2002 |

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|---|---|
| "Hangzhou Investment" | Hangzhou Investment Holdings Co., Ltd. (杭州市金融投資集團有限公司, formerly known as 杭州市投資控股有限公司), a limited liability company established under the laws of the PRC on August 28, 1997 |
| "Hangzhou Weitai" | Hangzhou Weitai Investment Ltd. (杭州維泰投資有限公司), a limited liability company established under the laws of the PRC on December 7, 2006 and deregistered on December 5, 2023 |
| "Highland Pharma" | Highland Pharma Limited, a private company limited by shares incorporated under the laws of Ireland on January 31, 2003 |
| "HKFRSs" | Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants |
| "HKSCC" | Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| | **[REDACTED]** |
| "HKSCC Nominees" | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| "HKSCC Operational Procedures" | the Operational Procedures of HKSCC in relation to CCASS containing the practices, procedures and administrative requirements relating to operations and functions of CCASS, as from time to time in force |
| "HKSCC Participant" | a participant admitted to participate in CCASS as a direct clearing participant, a general clearing participant or a custodian participant |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |

**[REDACTED]**

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|---|---|
| "Huadong Medicine" | Huadong Medicine Co., Ltd. (華東醫藥股份有限公司), a limited liability company established under the laws of the PRC on March 31, 1993, the A shares of which are listed on the Shenzhen Stock Exchange (stock code: 000963.SZ) |
| "independent third party(ies)" | entity(ies) or person(s) who is/are not connected person(s) of our Company or its subsidiary |

**[REDACTED]**

| | |
|---|---|
| "International Sanctions" | all applicable laws and regulations related to economic sanctions, export controls, trade embargoes and wider prohibitions and restrictions on international trade and investment related activities, including those adopted, administered and enforced by the United States, the European Union and its member states, the United Nations, the United Kingdom and its overseas territories or Australia |
| "International Sanctions Legal Adviser" | Hogan Lovells, our legal adviser as to International Sanctions laws |
| | **[REDACTED]** |
| "Latest Practicable Date" | January 15, 2024, being the latest practicable date for the purpose of ascertaining certain information contained in this document prior to its publication |
| | **[REDACTED]** |

| | |
|---|---|
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time |
| "Main Board" | the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange |
| "MIIT" | Ministry of Industry and Information Technology of the PRC (中華人民共和國工業和信息化部) |
| "MOF" | Ministry of Finance of the PRC (中華人民共和國財政部) |
| "MOFCOM" | Ministry of Commerce of the PRC (中華人民共和國商務部) |
| "MOST" | Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) |
| "Nanbeiju" | Hangzhou Nanbeiju Enterprise Management Partnership (杭州南北聚企業管理合夥企業) a limited liability partnership established under the laws of the PRC on July 21, 2023, one of our employee shareholding platforms |
| "NDRC" | National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |
| "Nomination Committee" | the nomination committee of our Board |
| "OFAC" | the U.S. Department of Treasury's Office of Foreign Assets Control |

**[REDACTED]**

[**REDACTED**]

| | |
|---|---|
| "PBOC" | People's Bank of China (中國人民銀行), the central bank of the PRC |
| "PCT" | the Patent Cooperation Treaty |
| "PRC AoA Guidelines" | Guidelines for the Articles of Association of Listed Companies (《上市公司章程指引》), as amended, supplemented or otherwise modified from time to time |
| "PRC Company Law" | Company Law of the PRC (《中華人民共和國公司法》), as amended, supplemented or otherwise modified from time to time |
| "PRC Government" or "State" | the central government of the PRC, including all governmental subdivisions (including principal, municipal and other regional or local government entities) and instrumentalities |
| "PRC Legal Adviser" | Zhejiang T&C Law Firm, our legal adviser as to PRC law |
| "Pre-[**REDACTED**] Investment(s)" | the investment(s) in our Company undertaken by the Pre-[**REDACTED**] Investors, the details of which are set out in "History, Development and Corporate Structure" |

| | |
|---|---|
| "Pre-[**REDACTED**] Investor(s)" | the pre-[**REDACTED**] investor(s) described in "History, Development and Corporate Structure" |
| | [**REDACTED**] |
| "Primary Sanctioned Activity" | any activities in a Comprehensively Sanctioned Country or (i) with; or (ii) directly or indirectly benefiting or involving the property or interests in property of, a Sanctioned Target by the Company incorporated or located in a Relevant Jurisdiction or which otherwise has a nexus with such jurisdiction with respect to the relevant activity, such that it is subject to the relevant sanctions law and regulation |
| "[**REDACTED**]" | this [**REDACTED**] being issued in connection with the [**REDACTED**] |
| "Qingfanghao" | Hangzhou Qingfanghao Enterprise Management Partnership (杭州晴方好企業管理合夥企業), a limited liability partnership established under the laws of the PRC on July 21, 2023, one of our employee shareholding platforms |
| "Regulation S" | Regulation S under the U.S. Securities Act |
| "Relevant Jurisdiction" | any jurisdiction that is relevant to the Company and has sanctions related law or regulation restricting, among other things, its nationals and/or entities which are incorporated or located in that jurisdiction from directly or indirectly making assets or services available to or otherwise dealing in assess or certain countries, governments, person or entities targeted by such law or regulation. For the purpose of this document, Relevant Jurisdictions include United States, Europe Union, United Nations, the United Kingdom and Australia |

| | |
|---|---|
| "Relevant Persons" | the Company, together with its investors and Shareholders and persons who might directly or indirectly, be involved in permitting the [**REDACTED**], trading clearing and settlement of its Shares including the Stock Exchange and related group companies |
| "Relevant Regions" | Egypt, Hong Kong, Russia (excluding Crimea, the self-proclaimed Luhansk People's Republic, Donetsk People's Republic, Kherson and Zaporizhzhia regions of Ukraine), Turkey, Ukraine (excluding Crimea, the self-proclaimed Luhansk People's Republic, Donetsk People's Republic, Kherson and Zaporizhzhia regions of Ukraine) and Venezuela |
| "Remuneration and Appraisal Committee" | the remuneration and appraisal committee of our Board |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "SAFE" | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |
| "SAIC" | State Administration of Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局) |
| "SAMR" | State Administration for Market Regulation of the PRC (中華人民共和國國家市場監督管理總局) |
| "Sanctioned Person" | certain person(s) and identity(ies) listed on OFAC's Specially Designated Nationals and Blocked Persons List or other restricted parties lists maintained by the United States, Europe Union, the United Nations or Australia |
| "Sanctioned Target" | any person or entity (i) designated on any list of targeted persons or entities issued under the sanctions-related law or regulation of a Relevant Jurisdiction; (ii) that is, or is owned or controlled by, a government of a country subject to International Sanctions; or (iii) that is the target of sanctions under the law or regulation of a Relevant Jurisdiction because of a relationship of ownership, control, or agency with a person or entity described in (i) or (ii) |
| "SAT" | State Administration of Taxation of the PRC (中華人民共和國國家税務總局) |

| | |
|---|---|
| "SDN" | individuals and entities that are listed on the SDN List |
| "SDN List" | the list of Specially Designated Nationals, and Blocked Persons maintained by OFAC, which sets forth individuals and entities that are subject to its sanctions and restricted from dealings with U.S. persons |
| "Secondary Sanctionable Activity" | certain activity by the Company that may result in the imposition of sanctions against the Relevant Person(s) by a Relevant Jurisdiction (including designation as a Sanctioned Target or the imposition of penalties), even though the Company is not incorporated or located in that Relevant Jurisdiction and does not otherwise have any nexus sutra that Relevant Jurisdiction |
| "SFC" | Securities and Futures Commission of Hong Kong |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Shanghai-Hong Kong Stock Connect" | a securities trading and clearing links program developed by the Stock Exchange, Shanghai Stock Exchange, HKSCC and CSDC for mutual market access between Hong Kong and Shanghai |
| "Share(s)" | ordinary share(s) in the share capital of our Company with a nominal value of RMB1.00 each, comprising Unlisted Share(s) and H Share(s) |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Shenzhen-Hong Kong Stock Connect" | a securities trading and clearing links program to be developed by the Stock Exchange, Shenzhen Stock Exchange, HKSCC and CSDC for mutual market access between Hong Kong and Shenzhen |
| "Single Largest Group of Shareholders" | collectively, Huadong Medicine and Zhongmei Huadong |
| "Sole Sponsor" | Huatai Financial Holdings (Hong Kong) Limited |
| | **[REDACTED]** |

| | |
|---|---|
| | **[REDACTED]** |
| "State Council" | State Council of the PRC (中華人民共和國國務院) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited |
| "subsidiary(ies)" | has the meaning ascribed to it under the Listing Rules |
| "substantial Shareholder(s)" | has the meaning ascribed to it under the Listing Rules |
| "Supervisor(s)" | member(s) of our Supervisory Committee |
| "Supervisory Committee" | the supervisory committee of our Company |
| "Takeovers Code" | the Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time |
| "Track Record Period" | the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023 |
| "Trial Measures for Overseas Listing" | Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》), as amended, supplemented or otherwise modified from time to time |
| "U.S." or "United States" | the United States of America, its territories and possessions, any State of the United States, and the District of Columbia |
| "U.S. dollar", "US$" or "USD" | United States dollar, the lawful currency of the United States |
| "U.S. Securities Act" | United States Securities Act of 1933 and the rules and regulations promulgated thereunder, as amended, supplemented or otherwise modified from time to time |
| | **[REDACTED]** |

| | |
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| | **[REDACTED]** |
| "Unlisted Foreign Share(s)" | ordinary share(s) issued by the Company with a nominal value of RMB1.00 each which is/are subscribed for and paid for in currency other than RMB by foreign investors and not listed on any stock exchange |
| "Unlisted Share(s)" | Domestic Shares and Unlisted Foreign Shares |
| "Wanliyang" | Wanliyang Group Co., Ltd. (萬里揚集團有限公司), a limited liability company incorporated under the laws of the PRC on June 13, 2003 |
| | **[REDACTED]** |
| "Yingyuan Investment" | Zhejiang Yingyuan Investment Management Co., Ltd. (浙江盈元投資管理有限公司), a limited liability company incorporated under the laws of the PRC on June 27, 2000 |
| "Zhejiang Wangxin" | Zhejiang Wangxin Technology Venture Capital Co., Ltd. (浙江網新科技創投有限公司), a limited liability company established under the laws of the PRC on June 3, 2010, which is a wholly-owned subsidiary of Insigma Technology Co., Ltd. (浙大網新科技股份有限公司) |
| "Zhongmei Huadong" | Hangzhou Zhongmei Huadong Pharmaceutical Co., Ltd. (杭州中美華東製藥有限公司), a limited liability company established under the laws of the PRC on December 31, 1992, which is a wholly-owned subsidiary of Huadong Medicine |
| "%" | per cent |

*For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including our subsidiary) have been included in this document in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.*

*Certain amounts and percentage figures included in this document have been subject to rounding. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them. Any discrepancies in any table or chart between the total shown and the sum of the amounts listed are due to rounding.*

# GLOSSARY OF TECHNICAL TERMS

*This glossary contains definitions of certain technical terms used in this document in connection with us and our business. These may not correspond to standard industry definitions and may not be comparable to similarly terms adopted by other companies.*

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| "ADCC" | antibody-dependent cellular cytotoxicity, a mechanism of the immune system whereby immune cells can destroy target cells, such as virally infected cells or tumor cells, that are coated with antibodies |
| "ADCP" | antibody-dependent cellular phagocytosis, a process by which phagocytic cells, such as macrophages, neutrophils, and dendritic cells, engulf and digest target cells that have been opsonized (marked) by specific antibodies |
| "agonist" | a molecule that binds to a receptor on a cell and triggers a response by that cell which can be used therapeutically to activate receptors in order to treat certain conditions |
| "amylin" | a hormone that is co-secreted with insulin by the beta cells of the pancreas |
| "API" | active pharmaceutical ingredient, the substance in a pharmaceutical drug that is biologically active |
| "aplastic anemia" | a rare, noncancerous disorder in which the blood marrow is unable to adequately produce blood cells required for survival |
| "aprepitant" | a selective antagonist of the neurokinin-1 receptor, used as a medication to prevent nausea and vomiting |
| "avatrombopag" | a medication that increases platelet counts to reduce bleeding risks |
| "bioequivalence study" | a type of evaluation to determine whether a generic drug is equivalent to an original drug in terms of biochemical similarity |
| "biological drug" or "biologics" | a drug product derived from human, animal, or microorganisms using biotechnology |
| "biosimilar" | the generic version of a patented biological drug |

# GLOSSARY OF TECHNICAL TERMS

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| "BMI" | body mass index, a numerical value calculated from height and weight, providing a standardized measure to classify underweight, healthy weight, overweight, and obesity |
| "BMP" | bone morphogenetic protein, a biologically active protein that stimulates bone growth and repair |
| "bone injury" | a disruption in the structural integrity of bones causing an array of symptoms including bone defects, bone nonunion, bone delayed union, spinal fusion, and joint fusion |
| "bone repair material" | a term used to refer materials used to facilitate the healing of bone injuries, including BMP bone repair materials, non-bioactive artificial bones and natural bones |
| "Category I innovative drug" | innovative chemical drugs that have not been marketed anywhere in the world according to the NMPA |
| "Category III biological product" | the generic version of a therapeutic biological product that has previously been marketed according to the NMPA |
| "CDC" | complement dependent cytotoxicity, a function of the complement system that kills pathogens by damaging their membranes without the involvement of antibodies or cells of the immune system |
| "CD38" | cluster of differentiation 38, a glycoprotein with ectoenzymatic functions, which is expressed on plasma cells and other lymphoid and myeloid cell populations |
| "CD4" | cluster of differentiation 4, a glycoprotein found on the surface of immune cells such as T helper cells |
| "CD47" | cluster of differentiation 47, a broadly expressed protein that costimulates T cells, facilitates leukocyte migration, and inhibits macrophage scavenger function |

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| "centralized tender" | a procurement process in the form of public tender operated and organized by provincial or municipal government agencies for the procurement of drugs and medical devices by the public medical institutions, the bids of which will be assessed by a committee composed of pharmaceutical and medical experts based on a number of factors, including but not limited to, bid price, product quality, clinical effectiveness, product safety, qualifications and reputation of the manufacturer, after-sale services and innovation |
| "chondrocyte" | a type of cell found in cartilage tissue that produces and maintains the cartilaginous matrix, essential for skeletal function and joint movement |
| "Class 3 medical device" | a category of medical devices characterized by higher risks, requiring rigorous evaluation and regulatory control to ensure safety and effectiveness, subject to specific oversight measures |
| "Class III hospital" | top-level hospital in China, typically having more than 500 beds, providing high-level specialist medical and healthcare services |
| "CMC" | chemistry, manufacturing, and controls |
| "CSD" | critical-size defect, bone or tissue wound or defect that will not heal by itself without intervention over a long period |
| "daratumumab" | an anti-CD38 drug for the treatment multiple myeloma |
| "detemir" | a long-acting insulin analog used to control high blood sugar in diabetes by mimicking the body's natural insulin response |
| "diabetes" | a chronic disease that occurs either when the pancreas does not produce enough insulin or when the body cannot effectively use the insulin it produces |

# GLOSSARY OF TECHNICAL TERMS

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| "DPP-4 inhibitor" | dipeptidyl peptidase 4 inhibitor, a class of oral hypoglycemics that block the enzyme dipeptidyl peptidase-4 to prolong incretin hormone activity to regulate blood glucose levels for the treatment of T2DM |
| "drug-device combination" | therapeutical product that combines drugs and medical devices, capitalizing on the therapeutic and mechanistic advantages of each component |
| "drug master file" | a confidential document submitted to regulatory agencies containing detailed information about facilities, processes, or materials used in the manufacturing, processing, and packaging of a drug |
| "dulaglutide" | a GLP-1 receptor agonist used for the management of T2DM, enhancing insulin secretion and suppressing glucagon |
| "E. Coli expression system" | a widely used platform for producing recombinant proteins that utilizes engineered Escherichia coli bacteria for gene expression |
| "enoxaparin sodium" | a low molecular weight heparin used as an anticoagulant to prevent and treat thrombosis |
| "enterokinase" | an enzyme that catalyzes the conversion of trypsinogen to trypsin, playing a crucial role in the digestion of proteins in the small intestine |
| "excipient" | an inactive substance formulated alongside the active ingredient of a medication, used to bulk up formulations that contain potent active ingredients |
| "exenatide" | a GLP-1 receptor agonist used in T2DM treatment to enhance insulin secretion and lower blood glucose levels |
| "expert consensus" | a statement or guideline on a particular medical topic, formulated by a panel of experts reflecting the medical knowledge accumulated by those experts and provides information about professional medical care and advice |

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| "factor IIa" | also known as thrombin, a key enzyme in the blood coagulation process that converts fibrinogen to fibrin, leading to clot formation |
| "factor Xa" | an enzyme in the coagulation cascade that plays a central role in converting prothrombin to thrombin, leading to blood clot formation |
| "FDA" | U.S. Food and Drug Administration |
| "FDA drug shortage list" | an official register maintained by the FDA detailing current shortages of pharmaceutical drugs in the U.S. |
| "fosaprepitant" | a medication used as an antiemetic to prevent nausea and vomiting caused by chemotherapy |
| "fulvestrant" | an estrogen receptor antagonist used for treating hormone-receptor-positive metastatic breast cancer in postmenopausal women |
| "G-CSF" | granulocyte colony-stimulating factor, a glycoprotein that stimulates the bone marrow to produce granulocytes and stem cells and release them into the bloodstream |
| "gastrointestinal peristalsis" | a series of wave-like muscle contractions that occur in the gastrointestinal tract that move food and liquid through the digestive system |
| "generic pharmaceutical" or "generic drug" | a pharmaceutical that contains the same active ingredients as an original formulation and is comparable in dosage form, strength, quality, performance and intended use |
| "genetic engineering" | a field of biotechnology involving the direct manipulation of the genome of an organism using biotechnology to alter its genetic makeup |
| "GFA" | gross floor area |
| "glass ampoules" | a small, sealed glass container that is used to hold a pharmaceutical compound, typically a liquid, in a sterile condition |

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| "glioblastoma" | a fast-growing, aggressive type of central nervous system tumor that forms on the supportive tissue of the brain |
| "glucagon" | a hormone produced by the pancreas that raises blood glucose levels, acting as a counterbalance to insulin |
| "glucocorticoid osteoporosis" | a common form of secondary osteoporosis, resulting from chronic use of glucocorticoid medications, which can interfere with bone remodeling and calcium absorption, leading to increased bone fragility and risk of fractures |
| "GMP" | good manufacturing practice, the practices required in order to conform to the guidelines recommended by agencies that control the authorization and licensing of the manufacture and sale of products |
| "GSP" | good supply practice, guidelines and regulations from time to time issued pursuant to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) to provide quality assurance and ensure that pharmaceutical distribution enterprises distribute pharmaceutical products in compliance with the guidelines and regulations |
| "HbA1c" | glycated hemoglobin, a type of protein that is chemically linked to sugar, the level of which is indicative of the blood sugar level and can be used as a diagnostic test for diabetes |
| "helper T cell" | also known as CD+ cell or CD4-positive cell, a type of T cell that activate and direct other immune cells, orchestrating the response of body to infections and diseases by releasing signaling molecules called cytokines |
| "hematopoietic stem cell" | an undifferentiated cell found in the bone marrow that have the ability to give rise to all types of blood cells, including red blood cells, white blood cells, and platelets. |
| "hemodialysis" | a medical procedure used to remove waste products and excess fluid from the blood when the kidneys are not functioning properly |

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| "HR+ breast cancer" | hormone receptor-positive breast cancer, a subtype of breast cancer that has cells expressing receptors for hormones such as estrogen and/or progesterone |
| "hyaluronidase" | an enzyme that catalyzes the degradation of hyaluronic acid, breaking down its polysaccharide chains to facilitate the dispersion and absorption of fluids and drugs |
| "hypoglycemia" | a medical condition characterized by an abnormally low level of glucose (sugar) in the blood, often resulting in symptoms such as shakiness, sweating, confusion, and in severe cases, unconsciousness or seizures |
| "idiopathic" | a term used to describe a disease or condition that arises spontaneously or for which the cause is unknown |
| "IL" | interleukin, a type of cytokine that are expressed and secreted by white blood cells (leukocytes) and various other cells within the body |
| "IL-11 receptor" or "IL-11Rα" | a protein that binds interleukin-11 (IL-11), a cytokine involved in a variety of cellular processes such as inflammation, bone metabolism, and tissue regeneration |
| "IND" | investigational new drug, an application and approval process required before drug candidates may commence clinical trials |
| "intravenous administration" | a method of delivering medication or fluids directly into the bloodstream through a vein |
| "IP" | intellectual property |
| "KOLs" | Key Opinion Leaders, doctors that influence their peers' medical practice, including but not limited to prescribing behavior |
| "light-chain amyloidosis" | a rare and serious condition caused by the abnormal proliferation of plasma cells in the bone marrow, leading to the production of misfolded light chains that form amyloid deposits in tissues and organs, impairing their normal function |

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| "liraglutide" | a GLP-1 receptor agonist with an extended half-life |
| "low molecular weight heparin sodium" or "LMWH" | a class of anticoagulant medications used to prevent and treat thrombosis |
| "lyophilized powder" | a medication or vaccine preparation that has been freeze-dried into a powder form |
| "lyophilized powder injection" | a medication or vaccine preparation that has been freeze-dried into a powder form for stability and is intended to be reconstituted with a solvent or diluent before use as an injectable therapy |
| "medical device" | instrument, apparatus, implement, machine, implant, *in vitro* reagent, or other similar or related article intended for the diagnosis, prevention, monitoring, treatment, or alleviation of disease |
| "megakaryocyte progenitor cell" | a precursor cell in the bone marrow that gives rise to megakaryocytes, which are the large bone marrow cells responsible for the production of platelets necessary for blood clotting |
| "metabolic disease" | a medical condition that occurs when the normal metabolism reactions of a patient are disrupted, affecting how the patient's body processes and distributes macronutrients like proteins, fats, and carbohydrates |
| "monoclonal antibody" | an antibody produced from a cell lineage made by cloning a unique white blood cell |
| "MSC" | mesenchymal stem cell, a type of cell that can differentiate into a variety of cell types, including osteoblasts (bone cells), chondrocytes (cartilage cells), myocytes (muscle cells), and adipocytes (fat cells that give rise to marrow adipose tissue) |
| "multiple myeloma" | a type of blood cancer that affects plasma cells, which are a type of white blood cell made in the bone marrow |
| "myelodysplastic" | a group of diverse bone marrow disorders in which the bone marrow does not produce enough healthy blood cells |

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| "NAFLD" | nonalcoholic fatty liver disease, a liver condition caused by a build-up of fat in the liver |
| "NASH" | nonalcoholic steatohepatitis, severe form of nonalcoholic fatty liver disease characterized by inflammation of the liver and damage to liver cells, which can lead to fibrosis (scarring) or cirrhosis |
| "NCCN" | National Comprehensive Cancer Network, an alliance of leading cancer centers dedicated to improving the quality, effectiveness, and efficiency of cancer care so that patients can live better lives who develops evidence-based clinical guidelines to provide high-quality, state-of-the-art care to cancer patients |
| "NDA" | New Drug Application, the formal proposal to apply for the approval a new pharmaceutical for sale and marketing |
| "neutropenia" | a hematological disorder characterized by an abnormally low count of neutrophils, which are a type of white blood cell that serves as a primary defense against infections by destroying bacteria, fungi, and other pathogens in the blood |
| "NK-1" | neurokinin-1, a neurotransmitter that plays a role in the vomiting reflex |
| "NMPA" | National Medical Products Administration (國家藥品監督管理局), the Chinese regulatory body responsible for the supervision and administration of pharmaceuticals, medical devices, and cosmetics in China |
| "non-Q-wave myocardial infarction" | a type of heart attack which does not produce the specific Q waves on an electrocardiogram that are typically associated with a classic heart attack |
| "non-ST myocardial infarction" | a type of heart attack that does not cause ST-segment elevation on an electrocardiogram |
| "NRDL" | China's National Reimbursement Drug List |

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| "obesity" | a medical condition characterized by an excess of body fat that presents a risk to health, typically defined by a body mass index (BMI) of 28 or higher in China |
| "ONFH" | osteonecrosis of the femoral head, a medical condition characterized by the death of bone tissue in the head of the femur (thigh bone) due to a lack of blood supply |
| "originator product" | the original pharmaceutical drug that has been authorized for market after having proven its safety, efficacy, and quality through extensive research, including preclinical and clinical studies |
| "orthopedic" | the branch of medicine dealing with the correction of deformities of bones or muscles |
| "osteoblast" | a type of cell that is responsible for bone formation. Osteoblasts synthesize and secrete the collagen matrix and calcium salts needed to build the hard structure of bone |
| "osteoconduction" | a property of a material acting as a scaffold that supports the attachment, growth, and proliferation of new bone cells |
| "osteoinductive" | the ability of drugs or medical devices to induce the differentiation of bone progenitor cells into osteoblasts |
| "osteoporosis" | a skeletal disorder characterized by compromised bone strength predisposing to an increased risk of fracture |
| "overweight" | a term used to refer an excess body weight relative to height, typically defined by a body mass index (BMI) of 25 to 29.9 |
| "palonosetron" | a 5-HT3 receptor antagonist used for the treatment of chemotherapy-induced nausea and vomiting |
| "Part A of the NRDL" | Part A of the National Reimbursement Drug List, a category of the NRDL that typically includes essential medicines that are covered at a higher reimbursement rate |

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| "Part B of the NRDL" | Part B of the National Reimbursement Drug List, a category of the NRDL that typically includes considered non-essential but are still covered by the national insurance system, albeit at a lower reimbursement rate compared to Part A drugs |
| "PEG modification" | polyethylene glycol modification, also known as PEGylation, a process of covalent attachment of PEG polymer chains to another molecule, normally a drug or therapeutic protein |
| "peptide drug" | a type of pharmaceutical that is composed of peptides, which are short chains of amino acids, the building blocks of proteins |
| "Phase I trial" | an initial clinical study conducted to evaluate the safety, tolerability, pharmacokinetics, and pharmacodynamics of a candidate drug or treatment in a small group of participants |
| "Phase II trial" | a clinical study designed to evaluate the efficacy, optimal dosing, and safety of a candidate drug or treatment in a targeted patient population |
| "Phase III trial" | a pivotal, large-scale study designed to evaluate the efficacy and monitor adverse reactions in diverse patient populations of a candidate drug or treatment to confirm its safety and effectiveness before regulatory approval |
| "Phase IV trial" | post-marketing surveillance study conducted to assess the long-term effects, optimal use, and additional safety parameters of a candidate drug or treatment in a broad patient population after regulatory approval |
| "protein expression system" | a method used in biotechnology to produce proteins by controlling the expression of genes in selected host cells |
| "R&D" | research and development |
| "receptor" | a protein molecule usually found on the surface of a cell that receives chemical signals from outside the cell |

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| "recombinant DNA technology" | the technology used for producing artificial different genetic materials (DNA) through the combination of DNA from different sources |
| "rhBMP-2" | recombinant human bone morphogenetic protein 2, biologically engineered protein that is a synthetic version of a naturally occurring protein in the body known as bone morphogenetic protein 2 that stimulates bone growth and repair |
| "romosozumab" | a monoclonal antibody medication used for the treatment of osteoporosis |
| "sclerostin" | a negative regulator of bone growth |
| "semaglutide" | a peptide drug akin to the hormone GLP-1 developed for the treatment of diabetes, overweight and obesity and is being studied for 28 other indications, including non-alcoholic steatohepatitis, Alzheimer's disease, and cardiovascular diseases |
| "serotonin" or "5-HT3" | a neurotransmitter that has a wide array of functions in the human body that is linked to the feeling of nausea |
| "SGLT-2 inhibitor" | sodium-glucose cotransporter-2 inhibitor, a class of medications used primarily in the treatment of type 2 diabetes that work by inhibiting the sodium-glucose cotransporter-2 protein in the kidneys, resulting in the reduction of blood glucose levels by promoting the excretion of excess glucose in the urine |
| "SIRPα" | signal regulatory protein alpha, a transmembrane protein that is found on the surface of certain cells, including neurons, immune cells, and others |
| "subcutaneous drug administration" | a route of drug administration where medications are injected into the subcutaneous layer of tissue beneath the skin |
| "systemic lupus erythematosus" | an autoimmune disease in which the immune system mistakenly attacks healthy tissue in many parts of the body |

# GLOSSARY OF TECHNICAL TERMS

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| "T1DM" | type 1 diabetes mellitus, a disorder characterized by the pancreas's failure to produce insulin, necessitating life-long insulin therapy |
| "T2DM" | type 2 diabetes mellitus, a metabolic disorder marked by insulin resistance and relative insulin deficiency, often associated with obesity and lifestyle factors |
| "thrombocytopenia" | a medical condition characterized by an abnormally low level of platelets in the blood |
| "thrombosis" | the formation of a blood clot, known as a thrombus, within a blood vessel |
| "trabecular bone" | a highly porous form of bone tissue that is organized into a network of interconnected rods and plates called trabeculae which surround pores that are filled with bone marrow |
| "unstable angina" | a medical condition characterized by sudden and unpredictable chest pain |
| "venous thromboembolic disease" or "VTE" | a medical condition that occurs when a blood clot forms in a vein |
| "β-cell" | a type of cell found in the pancreatic islets that produces and secretes the hormone insulin, which is crucial for regulating blood glucose levels |
| "5-HT3" | 5-hydroxytryptamine receptor 3, a type of receptor for serotonin that is found in the central and peripheral nervous systems |

This document contains forward-looking statements and information that relate to our current expectations and views of future events. These forward-looking statements are contained principally in "Summary," "Risk Factors," "Industry Overview," "Business," "Financial Information" and "Future Plans and [**REDACTED**]." These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed in "Risk Factors," which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, these forward-looking statements can be identified by words or phrases such as "may," "might," "ought to," "project," "seek," "will," "would," "expect," "anticipate," "aim," "estimate," "intend," "could," "should," "consider," "plan," "believe," "predict," "project," "potential," "continue," "outlook," "schedule," "going forward," "is/are likely to" or other similar expressions. These forward-looking statements include, among other things, statements relating to:

- our operations and business prospects;
- our financial condition and performance;
- our capital expenditure plan;
- our ability to maintain good relationships with our business partners;
- future developments, trends and conditions (including economic, political and business conditions) in the industries and markets in which we operate or plan to operate;
- changes to the regulatory environment in the industries and markets in which we operate;
- the actions and developments of our competitors;
- the ability of third parties to perform in accordance with contractual terms and specifications;
- our ability to retain senior management and key personnel and recruit qualified staff;
- our ability to control or reduce costs;
- our ability to control our risks;
- our financial condition and performance, debt levels and capital needs;
- our dividend policy;
- various business opportunities that we may pursue;

- our business strategies, objectives and plans and our ability to achieve these strategies;

- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate; and

- capital market developments.

These forward-looking statements are subject to risks, uncertainties and assumptions, some of which are beyond our control. In addition, these forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual outcomes may differ materially from the information contained in the forward-looking statements as a result of a number of factors, including, without limitation, the risk factors set out in "Risk Factors."

The forward-looking statements made in this document relate only to events or information as of the date on which the statements are made in this document. Except as required by law, we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. You should read this document completely and with the understanding that our actual future results or performance may be materially different from what we expect.

In this document, statements of, or references to, our intentions or those of any of our Directors are made as of the date of this document. Any of these intentions may change in light of future development.

*You should carefully consider all of the information set out in this document, including the risks and uncertainties described below, before making an* **[REDACTED]** *in our H Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The* **[REDACTED]** *of our H Shares could decline due to any of these risks, and you may lose all or part of your* **[REDACTED]**. *Additional risks and uncertainties not presently known to us, or not expressed or implied below, or that we deem immaterial, could also harm our business, financial condition and results of operations.*

## RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**We rely on the sales of certain major products in China, which account for a substantial portion of our total revenue. If we are unable to maintain the sales volume, pricing levels and profit margins of such products due to factors such as competition or change in market environment, our operations, revenue and profitability could be adversely affected.**

During the Track Record Period, our revenue was primarily generated from the sales of three products in mainland China, mainly including Guyoudao, Yinuojia and Jilifen. Revenue generated from such three products accounted for 56.9%, 75.1% and 82.0% of our total revenue for the years ended December 31, 2021, 2022, and the nine months ended September 30, 2023, respectively. We expect that revenue from the sales of these products will continue to contribute a significant portion of our revenue in the near future. If we fail to maintain the sales volume, pricing levels and profit margins of our commercialized products, to achieve or further promote the widespread market acceptance of our products, or to grow or retain our customers or consumer base, our business, results of operations and financial condition may be materially and adversely affected.

As our revenue is, and we expect will continue to be, concentrated in a certain major products, we may be particularly susceptible to factors adversely affecting the sales volume, pricing level or profitability of any of the products we generate revenue from. Factors that could adversely affect the sales volumes, pricing levels and profitability of the products we sell include: exclusion from, or reduced coverage under, the provincial or other government-sponsored medical insurance programs, the impact of government pricing regulations, competition and lack of success in the centralized tender process necessary for sales to PRC public hospitals and other medical institutions, sales of substitute products by competitors, interruptions in the supply of raw materials, increases in the cost of raw materials, issues with product quality or side effects, intellectual property infringements, adverse changes in our sales and distribution network, and unfavorable policy, regulatory or enforcement changes. Many of these factors are outside of our control, and any factor adversely affecting the sales volumes, pricing levels and profit margins of our products could adversely affect our operations, revenue and profitability.

**We operate in a highly competitive environment, and we may not be able to compete effectively against current and future competitors selling competing drugs, which could subject us to the pressure of price reduction and adversely affect our operations, revenue and profitability.**

We operate in a highly competitive environment and we may not be able to compete effectively against current and future competitors. Our inability to compete effectively could result in decrease of sales, reduction of price and loss of market share, any of which could have a material adverse effect on our results of operations and profit margins.

Our key competitors are large national and regional manufacturers of pharmaceutical and medical device products, including large state-owned pharmaceutical companies. We also compete with multinational pharmaceutical companies. Our products primarily compete with products that are indicated for similar conditions as our products on the basis of efficacy, safety, price, brand, general market acceptance and recognition. Our competitors may be able to more quickly or more successfully discover, develop, acquire or market effective substitutes for our products for a number of reasons, including:

- the patents for certain products in our product portfolio, as well as certain product candidates we intend to develop, do not cover the underlying APIs. Therefore, our competitors may formulate substitute products utilizing the same APIs. In addition, the patents for certain products in our product portfolio have expired or will expire in a short period of time. Following the expiration of the relevant patents, our existing or future competitors may be able to develop and introduce substitute products to our products which may be identical in formulation;

- we sourced APIs for certain of our products from third-party suppliers, some of whom are our competitors and are well-positioned to compete with us leveraging their strong control over the APIs essential for the production of our relevant products;

- certain of our main products have been sold in the PRC market for a long period of time, which makes these products susceptible to substitute products that are more effective clinically or cost-wise as a result of technological developments, changes in treatment protocols and other medical advances that have occurred subsequent to the initial development of our products;

- our products typically target conditions that are in high demand for medical treatment in China, and, as a result, our competitors, some of whom may have greater clinical, research, regulatory, manufacturing, marketing, financial and human resources than us, may elect to focus these resources on developing, importing or in-licensing and marketing products in the PRC that are substitutes for our products or in areas where we are developing product candidates or new indications for our existing products; and

- many of our competitors have more extensive sales and marketing resources than us, which enables them to have better access to hospitals and medical institutions in order to gain market acceptance for their substitute products.

Most of our marketed products are generic pharmaceuticals, and they face strong competition from the originator drugs and other generic versions, which may be sold at lower prices and therefore put pricing pressure on our products. Certain of our products are first-to-market generic pharmaceutical products based on originator drugs, and the protection or monitoring period, if any, for many of our products has lapsed. Therefore, other pharmaceutical companies may obtain the relevant production approvals to sell generic pharmaceutical products with similar formulation or production processes in China, which could subject us to additional competition and adversely affect our business and results of operations. If we fail to protect our products from competition and remain competitive, our revenue and profitability may be materially and adversely affected.

Our products may also face increased competition from substitute products manufactured by overseas pharmaceutical companies that are seeking to access or further penetrate the PRC market. To the extent that our competitors' substitute products are, or are perceived to be, more clinically or cost effective than ours, or otherwise gain wider market acceptance than any of our pharmaceutical products, this could adversely affect our sales volumes and pricing levels for the relevant products. If pharmaceutical products manufactured overseas are perceived more favorably than products manufactured domestically in the PRC, it could erode our market share and have a material and adverse impact on our results of operations and prospects.

In addition, there may also be significant consolidation in the pharmaceutical industry among our competitors, or alliances developed among competitors that may rapidly acquire significant market share. If we fail to effectively compete with our competitors or adjust to structural changes in the pharmaceutical industry, our operations and profitability may be materially and adversely affected.

**We may experience difficulties in our sales efforts as a result of pricing regulations or other policies such as volume-based procurement and "Two-Invoice System" that are intended to reduce healthcare costs, which could subject us to pricing and volume pressures and adversely affect our operations, revenue and profitability.**

It is typical in China that the prices of pharmaceutical products will decline over the life of the product as a result of, among other things, the centralized tender process, pricing regulation by the PRC government, or increased competition from substitute products, including due to price adjustments by pharmaceutical companies (producers of the originator brands), whether or not voluntarily or as a result of government regulations or policies. The importation of competing products from countries where government price controls or other market dynamics result in lower prices may also exert downward pressure on the prices of our products.

Prior to June 1, 2015, price controls in the PRC pharmaceutical industry were mainly in the form of maximum retail prices. In May 2015, pursuant to a notice issued by seven PRC State agencies including the NDRC and the NMPA, government price controls on pharmaceutical products were lifted as of June 1, 2015. As a result, prices of pharmaceutical products are currently mainly determined by market competition through the centralized tender processes at the provincial level, without price ceilings set by the NDRC.

Prices of our products have been susceptible to pricing pressure coming from manufacturers of competing products. Under the terms of our distribution agreements, we and the relevant distributors may adjust the supply price of our products in the event of a price change as a result of regulatory or policy changes or centralized tender processes. However, in the event that any retail price changes after our products are delivered to our distributors but before they are sold to medical institutions, we may bear the upside potential as well as downside risk from any such retail price change for the relevant products.

In addition, PRC government authorities may reform the schemes of pricing control and statutory tender processes for pharmaceutical products or revise other policies affecting prices of pharmaceutical products over time. For example, under the Guiding Opinions of the General Office of the State Council on Improving Centralized Purchasing of Drugs for Public Hospitals (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》) issued in February 2015, hospitals are encouraged to directly settle the prices of pharmaceutical products with manufacturers. This policy is intended to reduce the hospital retail prices of pharmaceutical products by eliminating the intermediaries between hospitals and manufacturers. Consolidated procurement and direct settlement between hospitals and manufacturers may increase the bargaining power of hospitals and increase the pricing pressure on our existing and future products.

In November 2018, the Joint Procurement Office led by the State Administration for Medical Insurance published the "Papers on Centralized Drug Procurement in "4+7" Cities" (《4+7城市藥品集中採購文件》) (the "**Paper**"), which launched the national pilot scheme for centralized volume-based drug procurement. The Papers listed 31 drugs for this pilot scheme together with an intended volume commitment for each drug. The manufacturers and importers of the drugs are invited to bid to supply the drugs to public medical institutions in the "4+7" cities. The move is aimed at reducing drug prices and may potentially impact how drugs are priced and procured in China. On January 1, 2019, the General Office of the State Council also published the "Notice of Issuing Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State" (the "**Notice**") (《國務院辦公廳關於印發國家組織藥品集中採購和使用試點方案的通知》). The Notice provides additional detailed measures in the implementation of the national pilot scheme for centralized volume-based drug procurement in the "4+7" cities. Among the 31 drugs listed in the Papers for the pilot scheme, 25 drugs were successfully procured. In September 2019, the Joint Procurement Office published the "Papers on Centralized Drug Procurement in Alliance Areas" (《聯盟地區藥品集中採購文件》), which further expanded the scope of centralized volume-based drug procurement of such 25 drugs to 25 provinces and autonomous regions (except for the "4+7" cities listed in the Papers). In October 2023, the Joint Procurement Office published the "Papers on Centralized Drug Procurement Nationwide" (《全國藥品集中採購文件》), listing 42 drugs for centralized procurement together with an intended volume commitment for each drug. Please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — The Drug Centralized Procurement in '4+7 Cities' and Nationwide" for more details.

As of the Latest Practicable Date, we won the bids to supply three of our products, Jiouting, Yinuojia and Jifuwei, to public medical institutions in "4+7" cities at discounted prices under relevant volume-based procurement lists. There are uncertainties with respect to future drug coverage of centralized volume-based drug procurement schemes. As a result, there can be no assurance that we may have additional drugs added to such schemes in the future, which may result in increased pricing pressure on us and adversely affect our revenue and profitability. If our competitors win the bid in such schemes while we fail to do so for our products with the same generic names, demands for our products may decrease and our revenue, profitability and market share could be adversely affected. Moreover, even if we win the bid for our products, there may be discrepancies between the estimated procurement volumes set out in the tender documents and the actual procurement volumes. Consequently, there are uncertainties with respect to the impact of the implementation of centralized volume-based drug procurement schemes on the sales volume as well as the revenue of the winning products.

The National Healthcare Security Administration (國家醫保局) implemented the centralized volume-based procurement ("**VBP**") scheme for high-value medical consumables since 2020, which focuses on medical devices and consumables with mature, high-volume clinical usage and sufficient market competition. In 2023, the Joint Office for the Procurement of High-Value Medical Consumables (國家組織高值醫用耗材聯合採購辦公室) published the 4th VBP List for High-Value Consumables (the "**4th VBP List**"), which covers, among other things, certain orthopedic medical devices. According to CIC, medical devices included in the 4th VBP List experience considerable price reductions. BMP bone repair materials, characterized by their unique combination of biological with medical device and innovativeness, are not included in this list. BMP bone repair materials are merely subject to certain price restrictions to be imposed by relevant regulatory authorities. Such price restrictions may result in uncertainties with respect to the impact of such price restrictions on the sales volume and revenue of Guyoudao. As of the Latest Practicable Date, the implementation details of such price restriction policies are to be published by the relevant regulatory authorities.

Moreover, as one of the measures of the PRC healthcare system reform, the State Council together with seven other central government departments (including the NHC and the NMPA) jointly issued the Notice of Publishing Opinions on Implementing Two-Invoice System in Drug Procurement Among Public Medical Institutions (For Trial Implementation) (《印發關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)的通知》) on December 26, 2016. Please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — Drug Distribution and Two-Invoice System."

The "Two-Invoice System" refers to the system under which the value added invoices are allowed to be issued twice aggregately in the process of the distribution, where one value added invoice to be issued from pharmaceutical manufacturers to pharmaceutical distributors and the other value added invoice to be issued from pharmaceutical distributors to medical institutions. The domestic general agent within the territory of the PRC for overseas drugs can be deemed as a pharmaceutical manufacturer under the "Two-Invoice System", provided that only one such general agent is permitted within the territory of the PRC. Alterations to this regulatory framework or its enforcement could lead to unforeseen challenges, such as increased compliance requirements or adjustments in our business processes.

Any such or future changes of policies, which we may not be able to predict or control, could create uncertainties materially and adversely affecting our product pricing, and accordingly, revenue and profitability.

If the prices of our products decline due to government pricing regulation, emergence of substitute products or other market factors, we may not be able to mitigate the adverse effects of such price reduction without incurring substantial expenses to improve our products, and our margins and profitability could be materially and adversely affected.

**If the products we sell are excluded or removed from national, provincial or other government sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be adversely affected.**

Under medical insurance programs in the PRC, patients are entitled to full or partial reimbursement of costs for pharmaceutical products listed in the NRDL or relevant provincial medical insurance catalogs, or included in provincial insurance schemes regarding special medications for the treatment of major diseases, or other medical insurance reimbursement lists. The inclusion or exclusion of a pharmaceutical product in or from any of such medical insurance catalogs, or any limitation imposed on the coverage of a pharmaceutical product, will significantly affect the demand for such product in the PRC. As of the Latest Practicable Date, all of our marketed products have been listed in the Part B of the NRDL list. Please refer to the paragraphs headed "Business — Pricing — National Reimbursement Drug List (NRDL)" for more details.

The selection of pharmaceutical products for listing in medical insurance catalogs is based on a variety of factors, including clinical needs, frequency of use, effectiveness, safety and price, many of which are beyond our control. Moreover, the relevant PRC government authorities may also, from time to time, based on the actual situation, review and revise, or change the scope of reimbursement for, the products that are already listed in any medical insurance catalog. There can be no assurance that any of our products currently listed in these medical insurance catalogs will remain listed, or that changes in the scope of reimbursement will not negatively affect our products. If any of our products or their indications are removed from any medical insurance catalog, or if the scope of reimbursement is reduced, demand for our products may decrease and our revenue and profitability could be adversely affected. Furthermore, if we are unable to get new products listed in these medical insurance catalogs, our business prospects could be adversely affected.

In addition, the National Health Commission (國家衛生健康委員會, the "**NHC**") and National Administration of Traditional Chinese Medicine (國家中醫藥管理局) jointly issued the "First Batch of National Key Drug List for Monitoring and Prescription Control (Chemical and Biological Products)" (《第一批國家重點監控合理用藥藥品目錄(化藥和生物製品)》) (the "**Control List**") in June 2019, which requires medical institutions to strictly monitor and control the clinical use of pharmaceuticals included therein, therefore significantly decreasing physicians' capability as well as willingness to prescribe the relevant pharmaceuticals. There can be no assurance that similar catalogs will be issued at national or provincial level, nor can we predict future pharmaceutical coverage of such catalogs. If any of our products are included in such negative catalogs, demand for our products may decrease and our revenue and profitability could be adversely affected.

**Our products and future approved product candidates may fail to achieve or maintain the degree of market acceptance by physicians, medical institutions, pharmacies, patients, third-party payers and others in the medical community necessary for commercial success, and the actual market size of our product candidates might be smaller than expected.**

The commercial success of our products, including existing or future products, is highly dependent on their continued market acceptance among patients, healthcare practitioners, and others in the medical community. We believe that the market acceptance of our products and future approved product candidates depends on many factors, including: (i) the perceived advantages of our products over competing products and the availability and success of competing products; (ii) the safety and efficacy of our products and the prevalence and severity of side effects, if any; (iii) the pricing and cost effectiveness of our products; (iv) the effectiveness of our sales and marketing efforts; (v) publicity concerning our products or competing products; and (vi) our ability to respond to changes in needs and preferences of healthcare practitioners and patients.

In addition, market acceptance of a product is also affected by whether it is included in the NRDL or provincial medical insurance catalogs. For more details, please refer to the paragraphs headed "— If the products we sell are excluded or removed from national, provincial or other government sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be adversely affected" in this section. If our products fail to achieve or maintain widespread market acceptance, or if new products introduced by our competitors are more cost-effective or are received more favorably by physicians, medical institutions, pharmacies, patients, third-party payers and others in the medical community, our products may be rendered obsolete, and the demand for our products may decline and our business and profitability may be materially and adversely affected.

Furthermore, the actual market size of our product candidates may not be as large as we anticipate, influenced by various factors such as market acceptance, pricing, and patient availability. The number of patients in the addressable markets may turn out to be lower than expected, or new patient identification and access may become more challenging. Any of the above unfavorable developments could adversely impact on our business, financial condition and results of operations.

**If the clinical trials of our product candidates fail to demonstrate safety and efficacy profiles to the satisfaction of regulatory agencies, or fail to produce positive results, we may incur additional costs in completing the development and commercialization of the product candidates, or delay the completion schedule, or ultimately fail to complete the development and commercialization of the product candidates.**

Before obtaining regulatory approval for the sale of our product candidates, we must conduct extensive clinical trials to demonstrate their safety and efficacy, but there can be no assurance that such trials will be completed in a timely or cost-effective manner, due to the inherently unpredictable nature of clinical drug development. Specifically, we may experience numerous unexpected events throughout the clinical trials, including but not limited to: (i) regulators, institutional review boards ("**IRBs**") or ethics committees after assessing the situation at that time, not authorizing us or our investigators to commence a clinical trial or conduct a clinical trial at a prospective trial site; (ii) our inability to reach agreements on acceptable terms with prospective CROs, SMOs and hospitals as trial centers; (iii) manufacturing issues, including problems with manufacturing, supply quality, compliance with good manufacturing practice ("**GMP**"), or obtaining sufficient quantities of a product candidate for use in a clinical trial in a timely manner; (iv) clinical trials producing negative or inconclusive results, and additional clinical trials or abandoning drug development programs being required; (v) our third-party contractors' failure to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all; (vi) unavoidable suspension or termination of clinical trials for various reasons, including a finding of lack of clinical response or other unexpected characteristics or a finding that participants are being exposed to unacceptable health risks; (vii) the cost of clinical trials being greater than we anticipate; (viii) the supply or quality of our product candidates or other materials necessary to conduct clinical trials being insufficient or inadequate; and (ix) the results of early clinical trials not being predictive of the results of later-stage clinical trials, and initial or interim results of a trial not being predicative of final results.

If we experience delays in the completion of, or the termination of, a clinical trial of any of our product candidates because of any of the foregoing events, the commercial prospects of that product candidate will be harmed. Specifically, we may (i) be delayed in obtaining regulatory approval; (ii) be required to conduct additional clinical trials or other testing beyond those that we currently contemplate; (iii) not obtain approval for indications that are not as broad as intended; (iv) be subject to additional post-marketing testing requirements; (v) be subject to restrictions on how the product is distributed or used; or (vi) be unable to obtain reimbursement for the use of the product. Consequentially, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process, and jeopardize our ability to commercialize our approved products and generate related revenue.

A major risk we face is the possibility that we may be prevented or delayed in obtaining marketing approval for such product candidates if the results of our ongoing or future preclinical studies and clinical trials are inconclusive with respect to the safety and efficacy of our product candidates, if we do not meet the clinical endpoints with statistical and clinically meaningful significance, or if there are safety concerns associated with our product candidates. In some instances, there can be significant variability in safety or

efficacy results between different preclinical studies and clinical trials of the same product candidate due to numerous factors, including changes in trial procedures set forth in protocols, differences in the size and type of the patient populations, changes in and adherence to the clinical trial protocols and the rate of dropout among clinical trial participants.

**If we are unable to succeed in tender processes to sell our products to public hospitals and other medical institutions, we may lose market share and our operations, revenue and profitability could be adversely affected.**

The majority of the products we sell to our distributors are then sold to public hospitals and other public medical institutions in China. Each public medical institution in China must generally procure drugs through a provincial centralized drug purchase platform and make substantially all of its purchases of pharmaceutical products through a centralized tender process. We submit bids in a centralized tender process to supply our products to these institutions at specified prices. Our bids are generally considered on the basis of price relative to substitute products and their clinical effectiveness, as well as the quality of our products and services, among other things. If we are successful in winning bids in a centralized tender process, the relevant products will be sold to the public hospitals and other public medical institutions at the bid prices, which is one of the primary determinants of the prices at which we sell our products to our distributors. The centralized tender process can create pricing pressure among substitute products or products that are perceived to be substitute products. Please refer to the paragraphs headed "Business — Pricing" for more details.

Our sales volumes and profitability depend on our ability to successfully differentiate our products and price of our bids in a manner that enables us to succeed in the centralized tender process at profitable levels. If we are unable to do so, we will lose the revenue associated with the sale of the affected pharmaceutical products to the relevant PRC public hospitals and other public medical institutions, which may have a material and adverse impact on our market share and operations. Potential changes in regulations of provincial and municipal tender processes may further increase the public medical institution procurement covered through the tender processes and limit the profits available to pharmaceutical companies, which may further affect our operations, revenue and profitability.

We may fail to win bids in a centralized tender process due to various factors including reduced demand for the relevant product, uncompetitive bidding prices, failure to meet certain quality requirements, insufficient service quality to meet tender requirements, the relevant product is perceived to be less clinically effective than competing products, or our services or other aspects of our operations are perceived to be less competitive. If the products we sell are not selected in the centralized tender process in one or more regions, we will be unable to sell the relevant products to the public hospitals and other public medical institutions in those regions, and our market share, revenue and profitability could be adversely affected.

**If we fail to maintain and optimize an effective distribution network for our products or encounter problems with our distributors, our operations, revenue and profitability could be adversely affected.**

Our ability to maintain and grow our sales depends on our ability to manage, expand and optimize distribution channels that ensure timely delivery of our products across and outside of China where market demand for our products is generated through our promotion and marketing activities, or otherwise. Consistent with the industry practice, we sell our products either by ourselves or through distributors in China and overseas markets. As of September 30, 2023, we had a network of 757 distributors, which we rely on to distribute a substantial portion of our products. In 2021, 2022 and the nine months ended September 30, 2023, we generated 72.8%, 73.8% and 64.4% of our total revenue through sales to distributors, respectively. However, all of our distributors, except for Huadong Medicine, are Independent Third Parties over whom we have limited control. We cannot assure you that our distributors will always distribute our products in an effective manner. For example, if our distributors distribute our products outside their designated distribution areas as provided under their distribution agreements with us, the effectiveness of our distribution network could be adversely affected. We intend to continue engaging distributors for sales of our products in the foreseeable future and expect to commercialize more products and product candidates. However, we cannot assure you that we would be able to identify or engage a sufficient number of distributors with an extensive sales network for future sales of our products.

In line with industry practice in China, we typically enter into distribution agreements with our distributors for a prescribed term. Please refer to the paragraphs headed "Business — Sales, Marketing and Distribution — Distribution" for more details. We may not be able to renew these agreements with our distributors on commercially acceptable terms or at all. Our distributors may elect not to renew their distribution agreements with us or otherwise terminate their business relationships with us for various reasons, including in the event that PRC pricing regulations or other factors substantially limit the margins they can obtain through the resale of our products. In addition, we may not be able to establish business relationships with new distributors to support the continued growth of our business. In the event that a significant number of our distributors terminate their relationships with us, or we are otherwise unable to maintain and expand our distribution network effectively, our business, results of operations and financial condition could be materially and adversely affected. Additionally, in the event that a significant number of our distributors cease or reduce their purchases of our products or fail to meet the terms provided in our distribution agreements, our business, financial condition and results of operations may be materially and adversely affected.

**The pharmaceutical industry in China is highly regulated and such regulations are subject to change, which may affect our operations, revenue and profitability or impose additional compliance burden on us.**

We currently conduct our operations in China. The pharmaceutical industry in China is subject to comprehensive government regulation and supervision, encompassing the approval, registration, manufacturing, packaging, licensing and marketing of new drugs. In recent years, the regulatory framework in China regarding the pharmaceutical

industry has undergone significant changes, and we expect that it will continue to undergo significant changes. Any such changes or amendments may result in increased compliance costs on our business or cause delays in or prevent the successful development or commercialization of our product candidates in China and reduce the benefits we believe are available to us from developing and manufacturing drugs in China.

**If we or our business partners fail to maintain the necessary licenses for the development, production, promotion, sales and distribution of our products, our ability to conduct our business could be materially impaired and our revenue and profitability could be adversely affected.**

We are required to obtain, maintain and renew various permits, licenses, approvals and certificates in order to develop, produce, promote and sell our products, and the third parties on whom we may rely on to develop, produce, promote, sell and distribute our products may be subject to similar requirements. For more details, please refer to the paragraphs headed "Business — Licenses, Permits and Certificates." We and the parties on whom we rely, such as distributors and suppliers, may be subject to regular inspections, examinations, inquiries and audits by the regulatory authorities, and an adverse outcome of such inspections, examinations, inquiries and audits may result in the loss or non-renewal of the relevant permits, licenses, approvals and certificates. Moreover, the criteria used in reviewing applications for, or renewals of permits, licenses, approvals and certificates may change from time to time, and there can be no assurance we or the parties on whom we rely on will be able to meet new criteria that may be imposed in order to obtain or renew the necessary permits, licenses, approvals and certificates. Many of such permits, licenses, approvals and certificates are material to the operation of our business, and if we or parties on whom we rely on fail to maintain or renew material permits, licenses, approvals and certificates, it could materially impair our ability to conduct our business. While we have always been able to maintain and renew our material permits, licenses, approvals and certificates, there is no assurance that we will be able to continue doing so in the future.

Any changes in the standards used by governmental authorities in considering whether to renew or reassess our licenses, permits, approvals and certificates, as well as any enactment of new regulations that may restrict the conduct of our business, may also decrease our revenue and increase our costs, which in turn could materially and adversely affect our profitability and prospects. Furthermore, if the interpretation or implementation of existing laws and regulations changes, or new regulations come into effect, so as to require us or parties upon whom we rely to obtain any additional permits, licenses, approvals or certificates that were previously not required to operate our business, there can be no assurances that we or parties upon whom we rely will successfully obtain such permits, licenses, approvals or certificates.

**If we are unable to conduct effective promotion or maintain a qualified sales force, the sales volume of our products and our operations, revenue, profitability and business prospects could be adversely affected.**

Successful sales and marketing are crucial for us to increase the market penetration of our existing products, expand our coverage of hospitals and other medical institutions

and promote new products in the future. If we are unable to increase or maintain the effectiveness and efficiency of our sales and marketing activities, our sales volumes and business prospects could be adversely affected.

In particular, our sales and marketing efforts consist of raising awareness and knowledge of our products and product candidates among medical professionals, hospitals, other medical institutions and pharmacies. Therefore, our sales and marketing force must possess a relatively high level of technical knowledge, up-to-date understanding of industry trends, necessary expertise in the relevant therapeutic areas and products, as well as sufficient promotion and communication skills. If we are unable to effectively train our in-house sales representatives, our sales and marketing may be less successful than desired. Please refer to the paragraphs headed "Business — Sales, Marketing and Distribution."

Moreover, our ability to attract, motivate and retain a sufficient number of qualified sales professionals is especially important because we primarily rely on our in-house sales force to market and sell our products. Competition for experienced marketing, promotion and sales personnel is intense. If we are unable to attract, motivate and retain a sufficient number of marketing, promotion and sales professionals, sales volume of our products may be adversely affected and we may be unable to expand our hospital coverage or increase our market penetration as contemplated.

**If we, our employees, agencies, distributors or other business partners engage, or are perceived to engage, in misconduct or breaches, including corrupt or bribery practices, leakage of confidential information, unfair competition, or insider trading, or if we, our employees, agencies, distributors, or other business partners are involved in negative publicity or allegations, our operations and reputation could be adversely affected, and we could be exposed to regulatory investigations, costs and liabilities.**

We are subject to risks in relation to actions taken by us, our employees, agencies, distributors or other business partners that may constitute violations of applicable anti-corruption and other related laws. There have been instances of corrupt practices in the pharmaceutical industry in recent years, including, among other things, provision of kickbacks, bribes or other illegal gains or benefits to pharmacies, hospitals and medical practitioners from manufacturers, distributors and pharmacies in connection with the prescription of pharmaceutical products. Any allegations of such behavior against us, our employees, agencies, distributors, other business partners or the pharmaceutical industry in general could generate negative publicity and materially and adversely affect our reputation and business prospects.

We do not and cannot fully control the conducts of our employees, agencies, distributors or other business partners. Our employees, agencies, distributors or other business partners may, in their interactions with hospitals, medical institutions and medical professionals, attempt to increase the sales volume of our products through means that constitute violations of applicable anti-corruption and other related laws. If our employees, agencies, distributors or other business partners engage in corrupt or other improper conduct that results in violation of applicable anti-corruption laws in the PRC or other jurisdictions, our reputation could be harmed. While we have implemented

specific measures against corruption and bribery, there can be no assurance that we were or are able to entirely prevent our employees, agencies, distributors or other business partners from engaging in such activities in the past or in the future. We may be held liable for actions taken by our employees, agencies, distributors or other business partners, which could expose us to regulatory investigations and penalties. Actions taken by the PRC regulatory authorities or the courts that provide an interpretation of the PRC laws and regulations that differs from our interpretation or that adopt additional anti-bribery, anti-corruption laws and regulations could also require us to make changes to our operations. Our reputation, corporate image, and business operations may be materially and adversely affected if we, our employees, agencies, distributors or other business partners fail to comply with these measures or become the target of any negative publicity as a result of actions taken by us, our employees, agencies, distributors or other business partners, which may in turn have a material adverse effect on our results of operations and prospects.

Pursuant to the "Provisions on the Establishment of Adverse Records of Commercial Briberies in the Medicine Purchase and Sales Industry" (《關於建立醫藥購銷領域商業賄賂不良記錄的規定》), which was promulgated by the NHFPC and came into effect on March 1, 2014, if we are involved in criminal, investigational or administrative procedures for commercial bribery, we will be listed in the adverse records of commercial briberies by the relevant government authorities, as a result of which, for two years from the date the list of adverse records of commercial briberies is published, (i) our products cannot be purchased by public medical institutions or medical and health institutions receiving financial subsidies within the relevant provinces, and (ii) the scores of our products in the centralized tender processes of public medical institutions or medical and health institutions receiving financial subsidies in other provinces will be reduced. Furthermore, if we are listed in the adverse records of commercial briberies twice within five years, our products cannot be purchased by public medical institutions or medical and health institutions receiving financial subsidies throughout China for two years from the date the list of adverse records of commercial briberies is published. Please refer to the paragraphs headed "Regulatory Overview — Regulations on Anti-Unfair Competition" for more details.

In addition, we are required to comply with anti-corruption and confidentiality requirements in our agreements with our business partners. Any breach of such anti-corruption or confidentiality requirements by us may result in negative consequences, including payment of penalties and termination of agreements, which could have a material adverse effect on our business, financial condition, results of operations and profitability.

Moreover, our business may be materially and adversely affected if our business partners breach confidentiality requirements, or if our employees breach the non-disclosure, non-compete and non-solicitation clauses in their employment agreements.

**We may become subject to intellectual property infringement claims, which could expose us to substantial liability, harm our reputation, limit our research and development or other business activities and/or impair our ability to commercialize our product candidates.**

Our commercial success depends significantly on our ability to develop, manufacture, market and sell pharmaceutical and medical device products and use our proprietary technologies without infringing, misappropriating or otherwise violating the patents and other intellectual property rights of third parties. The pharmaceutical industry is characterized by extensive litigation regarding patents and other intellectual property rights. In the PRC, invention patent applications are generally maintained in confidence until their publication 18 months from the filing date. The publication of discoveries in scientific or patent literature frequently occurs substantially later than the date on which the underlying discoveries were made and invention patent applications are filed. Even after reasonable investigation, we may not know with certainty whether any third party may have filed a patent application without our knowledge while we are still developing or producing that product or other relevant technology. We may become party to, or threatened with, adversarial proceedings or litigation regarding intellectual property rights with respect to our technology and any product candidates we may develop.

Third parties may assert infringement claims against us based on patents or other proprietary rights that they currently hold or may be granted in the future, regardless of their merit. We may receive in the future, notices that claim our technologies or certain other aspects of our business have infringed, misappropriated or misused other parties' intellectual property rights. Whether or not third-party intellectual property claims are without merit, there is no assurance that a court would find in our favor on questions of infringement, validity, enforceability or priority. A court of competent jurisdiction could hold that these third-party patents are valid, enforceable and infringed, which could materially and adversely affect our ability to commercialize any product candidates we may develop and any other product candidates or technologies covered by the asserted third-party patents.

In China, the standard term of patent protection is 20 years from the filing date of its application, with patent term extensions granted in certain circumstances to compensate for part of the time lost during the regulatory approval process. We typically launch our generic or biosimilar products only after the expiration of relevant patents in applicable jurisdictions to avoid infringement risks. Manufacturers of generic or biosimilar drugs may challenge the validity, scope, or enforceability of issued patents in court or before a patent office. However, there is no assurance that such patent challenges would be successful. For example, JY29-2 (Jiyoutai) is a biosimilar to Ozempic® (semaglutide injection) for the treatment of T2DM. The issued Chinese patent of semaglutide, the active pharmaceutical molecule in Ozempic®, will expire on March 20, 2026. This patent has been declared invalid by the China National Intellectual Property Administration, but the originator manufacturer has argued this invalidation decision before the relevant court, the outcome of which had not been made public as of the Latest Practicable Date. Unless the competent court finally decides this patent is invalid, we will not be able to commercialize JY29-2 (Jiyoutai) before the expiration of this patent, i.e. March 20, 2026. Furthermore, as the PRC's patent term extension system is relatively new and its

implementation and interpretation are still evolving, we cannot rule out the possibility that the expiration date of originators' patents, such as that of Ozempic®, could be extended, which may potentially delay the planned launch of our product candidates, such as JY29-2 (Jiyoutai). Additionally, the exact scope of patent claims if and when issued may differ from its scope in the application stage, and as a result, we cannot assure you that our products or product candidates will not infringe patents that are issued in the future.

If we are found to infringe on a third party's intellectual properties, and we are unsuccessful in demonstrating that such patents are invalid or unenforceable, one or more of the following may occur:

- we may have to reformulate the affected product(s) so that it does not infringe the intellectual property rights of others, which may not be possible or could be very costly and time-consuming;

- we may be forced to discontinue production and sales of the affected product(s) or cease developing and commercializing the affected product candidate(s);

- we may be prevented from commercializing our product candidates until the asserted patent expires or is held finally invalid or not infringed in a court of law; and

- we may be required to obtain royalty-bearing licenses from such third party to such patents, which may not be available on commercially reasonable terms, or at all, and even if we were able to obtain such licenses, they could be non-exclusive, thereby giving our competitors and other third-parties access to the same technologies licensed to us, and could require us to make substantial licensing and royalty payments.

Moreover, some of our competitors are larger than we are and have substantially greater resources than we do. They are, therefore, likely to be able to sustain the costs of complex intellectual property litigation longer than we could. In addition, the uncertainties associated with litigation could have a material adverse effect on our ability to raise the funds necessary to conduct our clinical trials, continue our internal research projects, in-license needed technologies, or enter into strategic partnerships that would help us bring our product candidates to market.

Claims that we have misappropriated the confidential information or trade secrets of third parties could have a material adverse effect on our business, financial condition, results of operations, and prospects. Even if we are successful in litigation or administrative proceedings, such litigation and proceedings may be costly and could result in a substantial diversion of management resources. If any of the foregoing events occurs, our business may be materially and adversely affected.

**We may incur unexpected charges relating to our operations.**

Certain post-production processes, including transportation, storage, warehousing and usage, may adversely affect the quality of our products. We generally rely on transport operators for delivery of our products. Delivery disruptions for reasons beyond our control, including weather conditions, political turmoil, social unrest and strikes, could lead to delayed deliveries. The nature of pharmaceutical products may also mean that poor handling or storage by pharmacies, hospitals, patients or transport operators could result in damage to our products, including contamination or degeneration. For example, prolonged exposure to heat or sunlight may damage certain pharmaceutical products. Some of these processes are managed by third parties, over which we have limited control. In particular, once we have sold our products to distributors, we have limited control over how our distributors store and transport our products.

If, as a result of such post-production processes, our products are deemed or proven to be unsafe, ineffective, defective or contaminated, this may result in product liability or product recalls. Even if a situation does not necessitate a product recall, we cannot assure you that product liability claims will not be asserted against us as a result. Any claims relating to the quality of our products, regardless of their merit, could adversely affect our reputation, divert the time, resources and attention of our management, and result in material and adverse impact on our operations, revenue and profitability.

We may incur future charges relating to inventory that expires or as a result of customer failures to pay invoiced amounts timely or in full. We may have significant bad debt expenses or write-offs in the future. We could also experience additional charges for potential inventory obsolescence related to other products if we are unable to sell units that are nearing their expiration dates, or for bad debt if other distributors do not pay outstanding receivables in full. Those or similar future events would have an adverse impact upon our operating results.

**We cannot predict the safety profile of the use of our products, particularly when used in combination with other drugs. If our products cause, or are perceived to cause, severe side effects, our operations, revenue, profitability and business prospects could be adversely affected.**

While the products we sell have good safety profiles, we cannot predict whether any product we sell may have unexpected safety issues in new patient populations or when used in new indications. For instance, the same drug could have different effects on patients with different physical conditions or on other medications, and the corresponding reactions could be unpredictable. In addition, we cannot predict how the products we sell or other drugs we may develop or market will work with other drugs, including causing possible adverse side effects not directly attributable to the other drugs that could compromise the safety profile of the products we sell or other drugs we may develop or market when used in certain combination therapies. We are exploring new indications for the products we sell and there is a risk that new safety issues could appear in these new patient populations.

As we introduce new products, there may be adverse safety events related to those products. Adverse safety events may have a negative impact on our business. Discovery of safety issues with our products could create product liability and could cause additional regulatory scrutiny and requirements for additional labeling, withdrawal of products from the market, and the imposition of fines or criminal penalties. Adverse safety events may also damage confidence in our products and our reputation. Any of these could result in liabilities, loss of revenue, material write-offs of inventory, material impairments of goodwill and fixed assets, material restructuring charges and other adverse impacts on our operations.

Regulatory authorities are making greater amounts of stand-alone safety information directly available to the public through periodic safety update reports, patient registries and other reporting requirements. The reporting of adverse safety events involving our products or products similar to ours and public rumors about such events may increase claims against us and may also cause our product sales to decline or experience periods of volatility.

**If counterfeit of our products become available in the market, it could negatively affect our sales, damage our reputation and the brand names for the relevant products and expose us to liability claims.**

Certain products distributed or sold in the pharmaceutical markets in the PRC and overseas may be manufactured without proper licenses or approvals or fraudulently mislabeled with respect to their content or manufacturer. These products are generally referred to as counterfeit products. The counterfeit product control and enforcement system, particularly in developing markets such as the PRC, may be inadequate to discourage or eliminate the manufacturing and sale of counterfeit products, including those imitating the products we sell. Consequently, certain pharmaceutical products sold in the PRC and other markets may be counterfeit products.

Since counterfeit products are generally sold at lower prices than authentic products, and are in some cases very similar in appearance to authentic products, counterfeit products imitating our own products can quickly erode our sales volume of the relevant product. Moreover, counterfeit products may or may not have the same chemical composition as our products, which may make them less effective than our products, entirely ineffective or more likely to cause severe adverse side effects. This could expose us to negative publicity, reputational damage, fines and other administrative penalties, and may even result in litigation against us.

As a result of these factors, the continued proliferation of counterfeit products in the market could affect our sales, damage our reputation and the brand names for the relevant products and expose us to liability claims. There can be no assurances that instances of counterfeit version of our products in the future will not have a material adverse effect on us or we will be able to prevent future occurrences in the PRC.

In addition, any negative publicity relating to counterfeit products concerning us, any other company in the pharmaceutical industry in China or in general, even if untrue, could adversely affect our reputation and business prospects. We cannot assure you that negative publicity about us would not damage our brand image or have a material adverse effect on our operations, revenue and profitability.

**If we or our brand names fail to maintain a positive reputation, many aspects of our business and our business prospects could be adversely affected.**

We depend on our reputation and the brand names of our products in many aspects of our business, including but not limited to:

- gain access to, and for our products to be perceived favorably by, medical institutions and healthcare professionals that drive and affect patient demand for products in the PRC;
- to effectively work with the relevant authorities that regulate various aspects of our business;
- to gain the trust of patients and consumers of our products;
- to competitively position ourselves in the centralized tender process required for our products to be sold to public hospitals and medical institutions in the PRC;
- to successfully attract employees, distributors, and other business partners to work with us; and
- to increase market share of our products through brand recognition.

However, there can be no assurance that we will be able to maintain a positive reputation or brand name for all our products in the future. Our reputation and the brand names of our products may be adversely affected by a number of factors, many of which are outside our control, including but not limited to:

- adverse associations with our products, including with respect to their efficacy or side effects;
- the effects of counterfeit products purporting to be our products;
- lawsuits and regulatory investigations against us or otherwise relating to our products or industry;
- improper or illegal conduct by our employees, distributors and suppliers, whether or not authorized by us; and
- adverse publicity that is associated with us, our products or our industry, whether founded or unfounded.

If we or the brand names of our products fail to maintain a positive reputation as a result of these or other factors, our products may be perceived unfavorably by hospitals, medical professionals, regulators and patients, and our operations and business prospects could be adversely affected.

In addition, despite our internal guidelines and supervision efforts, our employees or distributors may fail to follow such guidelines, which may adversely affect our sales and reputation. For example, our employees or distributors may fail to provide accurate and complete information about our products, as a result of which hospitals, medical institutions, doctors and patients may misunderstand or misuse our products. During the Track Record Period and as of the Latest Practicable Date, there had been no such incident to the best of our knowledge. Such misunderstanding or misuse could result in our products being less effective, or cause severe adverse effects that could otherwise be avoided. As a result, the sales volume and reputation of our products could be adversely affected and we could be exposed to product liability lawsuits or regulatory investigations, resulting in penalties, fines or other disruptions to our operations.

**Development of new products, in particular innovative drugs, is time-consuming and costly and the outcome is uncertain. If we fail to develop and commercialize new products, our business prospects could be adversely affected.**

Our long-term competitiveness depends on our ability to enhance our existing products, diversify our product offering and develop and commercialize new products through our research and development activities. The development process of pharmaceutical products, in particular innovative drugs, is time-consuming and costly, and there can be no assurance that our research and development activities will enable us to successfully develop new products.

There is an inherent risk of failure for each of our product candidates. We cannot predict when or if any of our product candidates will prove effective and safe for humans or will receive regulatory approval. Before obtaining regulatory approval from regulatory authorities for the sale of any product candidate, our product candidates must complete pre-clinical studies and we must then conduct extensive clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Clinical testing is expensive, difficult to design and implement, and can take many years to complete. The outcomes of pre-clinical development testing and early clinical trials may not be predictive of the success of later clinical trials, and interim results of a clinical trial do not necessarily predict final results. Moreover, pre-clinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that have believed their product candidates performed satisfactorily in pre-clinical studies and clinical trials have nonetheless failed to obtain regulatory approval of their product candidates. Since relatively few research and development projects in the pharmaceutical industry produce a commercially viable product, a product candidate that appears promising in the early phases of research and development may fail to be successfully commercialized for a number of reasons. For example:

- regulators, IRBs, or ethics committees may not authorize us or our investigators to commence or conduct a clinical trial at a prospective trial site;

- clinical trials may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical trials or we may decide to abandon product development projects;

- the number of patients required for clinical trials of our product candidates may be larger than we anticipate, enrollment in these clinical trials may be slower than we anticipate or participants may drop out of these clinical trials or fail to return for post-treatment follow-up at a higher rate than we anticipate;

- we may fail to conduct a companion diagnostic test to identify patients who are likely to benefit from our product candidates;

- we may elect to, or regulators, IRBs or ethics committees may require that we or our investigators suspend or terminate clinical research for various reasons, including non-compliance with regulatory requirements, undesirable side effects or unexpected characteristics, or a finding that participants are being exposed to unacceptable health risks;

- the cost of clinical trials of our product candidates may be greater than we anticipate;

- supply or quality of our product candidates or other materials necessary to conduct clinical trials of our product candidates may be insufficient or inadequate;

- we may fail to obtain approvals for intended indications from relevant regulatory bodies, such as the NMPA;

- third parties may hold proprietary rights, such as patent rights related to our product candidates and they may refuse to sell or license such rights to us on reasonable terms, or at all or may include restrictive terms in their license; and

- there may be changes in the applicable regulatory framework, which may make our research and development process more time-consuming and costly. Please refer to the paragraphs headed "— The pharmaceutical industry in China is highly regulated and such regulations are subject to change, which may affect our operations, revenue and profitability or impose additional compliance burden on us" in this section.

New pharmaceutical and medical device products must complete clinical trials and obtain the NMPA's approval before they can be produced, marketed and sold in China. The NMPA requires successful completion of clinical trials and demonstration of manufacturing capabilities before granting approval and it often takes several years before a medicine can be ultimately approved by the NMPA. In addition, the NMPA and other regulatory authorities may apply more stringent standards in reviewing the applications. Complying with existing or potential new standards may be

time-consuming and expensive and could result in delays or preclude us from obtaining NMPA approval for our product candidates.

Even if we do obtain regulatory approvals, the process may take longer than expected, or such approvals may be subject to limitations on the indicated uses for which we may market the relevant product, therefore restricting its market size. Meanwhile, even if such products can be successfully commercialized, they may not achieve the level of market acceptance that we expect. Any of these circumstances could adversely affect our business, results of operations and growth prospects.

**If we encounter difficulties recruiting clinical trial subjects, our clinical development activities may be delayed or otherwise adversely affected.**

We may not be able to initiate or continue clinical trials for our product candidates if we are unable to locate and enroll a sufficient number of eligible subjects to participate in these trials as required by the NMPA, the FDA, or similar regulatory authorities, or if there are delays in the enrollment of eligible subjects as a result of the competitive clinical enrollment environment. Overall, we may experience difficulties in subject enrollment in our clinical trials for a variety of reasons, including but not limited to:

- severity of the disease under investigation;
- the size and nature of the subject population;
- the subject eligibility criteria defined in the protocol;
- the size of the study population required for analysis of the trial's primary endpoints;
- the proximity of subjects to trial sites;
- the design of the trial;
- our ability to recruit clinical trial investigators with the appropriate competencies and experience;
- clinicians' and subjects' perceptions of the potential advantages and side effects of the product candidate under study compared to other available therapies;
- our ability to obtain and maintain subject consents;
- the risk that subjects enrolled in clinical trials will not complete a clinical trial; and
- the availability of approved therapies that are similar in mechanism to our product candidates.

Our clinical trials may compete with clinical trials for other product candidates that are in the same therapeutic areas as our product candidates. This competition will potentially reduce the number and types of subjects available to us, since some subjects who might have opted to enroll in our trials may instead opt for a trial being conducted by our competitors. Even if we are able to enroll a sufficient number of subjects in our clinical trials, delays in subject enrollment may result in increased costs or may affect the timing or outcome of the planned clinical trials, which could prevent completion of these trials and materially and adversely affect our ability to advance the development of our product candidates.

**The regulatory approval process for the NMPA, FDA, and other similar regulatory agencies is lengthy, time-consuming, and unpredictable, if we are unable to obtain any regulatory approvals in the target markets for our product candidates without undue delay, our business may suffer material and substantial damage.**

Significant time, efforts and expenses are required to bring our product candidates to market in compliance with the regulatory process, and we cannot assure you that any of our product candidates will be approved for sale. The time required to obtain approvals from the NMPA, the FDA and other similar regulatory authorities is often unpredictable, and depends on numerous factors, including the substantial discretion of the regulatory authorities. Our product candidates could fail to receive regulatory approval in a timely manner for many reasons, including but not limited to:

- failure to begin or complete clinical trials due to disagreements with regulatory authorities;
- failure to demonstrate that a product candidate is safe and effective or, it is safe, pure, and potent for its proposed indication;
- failure of clinical trial results to meet the level of statistical significance required for approval;
- data integrity issues related to our clinical trials;
- disagreement with our interpretation of data from preclinical studies or clinical trials;
- failure to conduct a clinical trial in accordance with regulatory requirements or our clinical trial protocols; and
- clinical sites, investigators or other participants in our clinical trials deviating from a trial protocol, failing to conduct the trial in accordance with regulatory requirements, or dropping out of a trial.

In addition, the NMPA, the FDA or a similar regulatory authority may require more information, including additional analyses, reports, data, non-clinical studies and clinical trials, or questions regarding interpretations of data and results, to support approval, which may prolong, delay or prevent approval and our commercialization plans, or we

may decide to abandon the development programs. Changes in regulatory requirements and guidance may also occur, and we may need to amend clinical trial protocols submitted to competent regulatory authorities to reflect these changes. Resubmission may impact the costs, timing or successful completion of a clinical trial. The policies of the NMPA, the FDA and other similar regulatory authorities may also change, and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may not obtain the regulatory approvals or may lose the approvals that we may have obtained and we may not achieve or sustain profitability.

Additionally, clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not mean that regulatory approval will be obtained in any other country. Approval procedures vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking regulatory approvals in various jurisdictions could result in significant delays, difficulties and costs for us and may require additional preclinical studies or clinical trials which would be costly and time consuming. We cannot assure you that we will be able to meet regulatory requirements of different jurisdictions or that our product candidates will be approved for sale in those jurisdictions. Additional time, effort and expense may be required to bring our product candidates, upon regulatory approval, to the international markets in compliance with different regulatory processes.

If we experience delays in the completion of, or the termination of, a clinical trial of any of our product candidates, the commercial prospects of that product candidate will be harmed, and our ability to generate product sales revenues from any of those product candidates will be compromised. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process, and jeopardize our ability to commence product sales and generate related revenues for that candidate. Any of these occurrences may harm our business, financial condition and prospects significantly. In addition, many of the factors that cause, or lead to, a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of our product candidates.

**The market opportunities for our product candidates may be smaller than we anticipate, which could render some product candidates less profitable than expected even if commercialized.**

We estimate the incidence and prevalence of target patient populations for particular diseases based on third-party sources, such as scientific literature, surveys of clinics, patient foundations or market research, as well as internally generated analysis, and we use such estimates in making decisions regarding our drug development strategy, including determining which candidates to focus our limited resources on in pre-clinical or clinical trials. These estimates may be inaccurate or based on imprecise data. The total addressable market opportunity will depend on, among other things, acceptance of the drug by the medical community and patient access, drug pricing and reimbursement. The

number of patients in the addressable markets may turn out to be lower than expected, patients may not be amenable to treatment with our drugs, or new patients may become increasingly difficult to identify or access.

Furthermore, new studies may change the estimated incidence or prevalence of these diseases, and the number of addressable patients for our product candidates in any case may turn out to be lower than expected. In such cases, even if we obtain significant market share for our product candidates, because the potential target populations are small, we may never achieve profitability without obtaining regulatory approval for additional indications. Any of the above unfavorable developments could have a material adverse effect on our operations, revenue and profitability.

**We may be unable to identify, discover, in-license, acquire or develop new product candidates, or to identify additional therapeutic opportunities for our product candidates, in order to expand or maintain our product pipeline.**

Although a substantial amount of our effort will focus on the continued clinical testing, potential approval, and commercialization of our existing product candidates, the success of our business depends in part upon our ability to identify, discover, in-license, acquire, develop or commercialize additional product candidates. We may fail to identify, discover, in-license, acquire or develop new product candidates for clinical development and commercialization, or to pursue the development of our product candidates for additional indications, for a number of reasons, including but not limited to the following: (i) our business development methodology or search criteria and process may be unsuccessful in identifying potential product candidates; (ii) our potential product candidates may be shown to have harmful side effects or may have other characteristics that may make the products unmarketable or unlikely to receive marketing approval; and (iii) we may lack sufficient human and financial resources to identify additional therapeutic opportunities for our product candidates or to develop suitable potential product candidates through clinical programs, which would limit our ability to diversify and expand our product pipeline.

Accordingly, there can be no assurance that we will be able to identify new product candidates or additional therapeutic opportunities for our product candidates or to develop suitable potential product candidates, which could materially affect our future growth and prospects.

**We may allocate our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may later prove to be more profitable or for which there is a greater likelihood of success.**

With many potential product candidates to choose from, our clinical programs require significant technical, financial and human resources to identify the product candidates we may desire to obtain. We may invest our efforts and resources into clinical programs or in-licensed and acquired product candidates that ultimately prove to be unsuccessful. Moreover, because we have limited financial and managerial resources, we focus on clinical development programs and in-licensed and acquired product candidates for specific indications. As a result, we may forego or delay pursuit of opportunities with

other product candidates or for other indications that later prove to have greater commercial potential or a greater likelihood of success. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities, which could materially and adversely affect our future growth and prospects.

**Adverse drug reactions and negative results from off-label use of our products could materially and adversely affect our business reputation, product brand name and financial condition and expose us to liability claims.**

Products distributed or sold in the pharmaceutical market may be subject to off-label drug use, i.e., prescribing a product for an indication, dosage or in a dosage form that is not in accordance with regulatory approved usage and labeling. As such, there remains the risk that our products are subject to off-label drug use and are prescribed in a patient population, dosage or dosage form that has not been approved by competent authorities, rendering our products less effective or entirely ineffective and causing adverse drug reactions. Any of these occurrences can create negative publicity and significantly harm our business reputation, product brand name, commercial operations and financial condition, including our share price. These occurrences may also expose us to liability and cause, or lead to, a delay in the progress of our clinical trials and may also ultimately result in failure to obtain regulatory approval for our product candidates.

**We rely on third parties for development, commercialization and other aspects of our business, and the inability of any of these parties to reliably, timely or cost-effectively provide us with their obligated services could materially harm the timing of bringing our products to market and accordingly adversely affect our business.**

We rely on third parties, such as collaboration partners, medical institutions, clinical investigators, and contract laboratories, in the development of our product candidates and in the conduct of clinical trials for our product candidates. We are also dependent upon third parties for the commercialization or distribution of products or product candidates. If these parties, whom we do not control, do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, or if our collaboration partners do not have the ability or the resources to successfully complete their objectives, or choose not to continue their relationship with us, our development efforts could be delayed, suspended or terminated, or our commercialization efforts may be delayed, impaired or terminated. If the quality or accuracy of the data they obtain through third parties is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our pre-clinical or clinical activities could be delayed and we may not be able to obtain regulatory approval for our product candidates.

**We have entered into collaborations with our partners and may pursue additional collaborations, in-licensing arrangements, joint ventures, strategic alliances, partnerships or other investments or arrangements in the future. If such arrangements fail to achieve our set goals or produce anticipated benefits, our operations, revenue and profitability could be adversely affected.**

Historically, we have entered into collaboration arrangements with third parties in relation to the development of our product candidates. Please refer to the paragraphs

headed "Business — Collaboration Arrangements" for further information. We may form or seek additional strategic partnerships, enter into licensing arrangements or establish other collaborative relationships with third parties that we believe will complement or augment our R&D and commercialization efforts with respect to our product candidates. Any of these relationships may require us to incur additional expenses and charges, increase our near and long-term expenditures, issue securities that dilute the value of our shares, or disrupt our management and business. These transactions can also entail numerous operational and financial risks, including exposure to unknown liabilities, and diversion of our management's time and attention in order to manage a collaboration or develop acquired products, product candidates or technologies. As a result, if we enter into acquisition or in-license agreements or strategic partnerships, we may not be able to realize the benefit of such transactions if we are unable to successfully integrate them with our existing operations and company culture, which could delay our timelines or otherwise adversely affect our business.

Furthermore, we face significant competition in seeking appropriate strategic partners with whom we collaborate to develop our product candidates, and the negotiation process is time-consuming and complex. We may not be always successful in our efforts to establish a strategic partnership or other alternative arrangements for our product candidates because, among other reasons, they may be deemed to be at too early a stage of development for collaborative effort and third parties may not view our product candidates as having the requisite potential to demonstrate safety and efficacy.

If and when we collaborate with a third party for the development and commercialization of a product candidate, we may also relinquish some or all of the control over the future success of that product candidate to the third party. Our ability to reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator's resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator's evaluation of our technologies, product candidates and market opportunities. The collaborator may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our product candidate. We may also be restricted under any license agreements from entering into agreements on certain terms or at all with potential collaborators.

Collaborations involving our product candidates are subject to specific risks, which include, but are not limited to, the following:

- collaborators have significant discretion in determining the efforts and resources that they will apply to a collaboration;

- collaborators may not pursue the development and commercialization of our product candidates or may elect to cease collaboration due to change in their strategic focus, potential acquisition of competitive drugs, availability of funding, or other external factors, such as a business combination that diverts resources or creates competing priorities;

- collaborators may delay clinical trials, provide insufficient funding for a clinical trial, discontinue a clinical trial, repeat or conduct new clinical trials, or require a new formulation of a product candidate for clinical testing;

- collaborators could independently develop, or develop with third parties, drugs that compete directly or indirectly with our product candidates or future drugs;

- collaborators may not properly maintain or defend our intellectual property rights or may use our intellectual property or proprietary information in a way that gives rise to actual or threatened litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential liability;

- collaborators may not always be cooperative or responsive in providing their services in a clinical trial;

- disputes may arise between us and a collaborator that cause a delay or termination of the research, development or commercialization of our product candidates, or that result in costly litigation or arbitration that diverts management attention and resources; and

- collaborators may own or co-own intellectual property covering our product candidates or future drugs that results from our collaborating with them, and in such cases, we would not have the exclusive right over such intellectual property.

As a result, we cannot be certain that, following a strategic transaction or license, we will be able to achieve the revenue or specific net income that justifies such transaction. If we are unable to reach agreements with suitable collaborators on a timely basis, on acceptable terms, or at all, we may have to curtail the development of a product candidate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to fund and undertake development or commercialization activities on our own, we may need to obtain additional expertise and additional capital, which may not be available to us on acceptable terms or at all. Either would harm our business, financial condition, results of operations and prospects.

**Actions taken by our distributors in violation of the relevant agreements or taken by the distributors with whom we have not entered into distribution agreements could materially and adversely affect our business, prospects and reputation.**

While we rely on the distribution agreements and the policies and measures we have in place to manage our distributors, we cannot guarantee that we will be able to effectively manage our distributors, or that our distributors will abide by our agreements

and policies. Specifically, if our distributors take one or more of the following actions, our business, results of operations, prospects and reputation may be adversely affected: (i) failing to distribute our products in the manner we contemplate, impairing the effectiveness of our distribution network; (ii) breaching the distribution agreements or our policies and measures; (iii) failing to maintain the requisite licenses, permits or approvals, or failure to comply with applicable regulatory requirements; and (iv) violating any applicable anti-corruption, anti-bribery, competition or other laws and regulations. Any such actual or alleged violation or noncompliance by our distributors of the distribution agreements, our policies or any applicable laws and regulations could result in the erosion of our goodwill, expose us to liabilities, disrupt our distribution network and create an unfavorable public perception about the quality of our products.

**We are exposed to credit risk in relation to our trade and other receivables.**

Our trade receivables consisted of amounts due from our customers which include distributors who on-sell our products to hospitals and, to a lesser extent, hospitals. We generally grant credit terms of 30 to 90 days, with longer terms granted to our customers of drug-device combination product. As of December 31, 2021, 2022 and September 30, 2023, we had trade receivables of RMB342.5 million, RMB412.2 million and RMB530.7 million, respectively. In 2021, 2022 and the nine months ended September 30, 2023, trade receivables turnover days were 90 days, 122 days and 124 days, respectively. Please refer to the paragraphs headed "Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position — Trade and bills receivables."

We are exposed to the risks that our customers or other business partners may delay or even be unable to pay us in accordance with the payment terms included in our agreements in a timely manner, or at all. Although we closely monitor our outstanding trade and other receivables, we cannot assure you that we will be able to fully recover the outstanding amounts in a timely manner, or at all. In addition, as our business continues to scale up, our trade and other receivables may continue to grow, which may increase our credit risk. Any substantial delay in or default of payments from our customers and other business partners could materially and adversely affect our cash flows. Moreover, we could be required to terminate our relationship with distributors in a manner that will impair the effective distribution of our products. Any of the foregoing could materially and adversely affect our business, results of operations and financial condition.

**We had a limited number of suppliers during the Track Record Period and the loss of one or more of our key suppliers could disrupt our operations.**

During the Track Record Period, purchases from our five largest suppliers, calculated on the group level, for 2021, 2022 and the nine months ended September 30, 2023 accounted for 54.5%, 56.4% and 62.8% of our total purchase cost for the respective period. Purchases from our largest supplier for 2021, 2022 and the nine months ended September 30, 2023 accounted for 40.6%, 38.5% and 25.6% of our purchase cost for the respective period. Our suppliers primarily include suppliers of the raw materials and equipment to support the manufacturing of our pharmaceutical and medical device products. We expect to continue our cooperation with these suppliers as we fund the continuing development activities of our products and other product candidates in our

pipeline. We believe that we have long and stable relationships with our existing large third-party suppliers. However, the stability of operations and business strategies of our suppliers are beyond our control, and we cannot assure you that we will be able to secure a stable relationship and high-quality outsourced services or raw materials with our large suppliers. If any of our large suppliers terminates its business relationship with us, we may encounter difficulty in finding a replacement that can provide services or raw materials of equal quality at a similar price. If this occurs, our operations may be significantly disrupted.

**Delivery delays and poor handling by third-party logistics service providers may adversely affect our business, financial condition and results of operations.**

We have entered into logistic service agreements with third-party logistics service providers for the transportation of our products. Although pursuant to the arrangement, logistics service providers should provide delivery services in a safe and timely manner pursuant to our requirements, delivery delays may occur for various reasons beyond our control, including poor handling by our logistics service providers, labor disputes or strikes, acts of war or terrorism, health epidemics, earthquakes and other natural disasters, and could lead to delayed or lost deliveries. Any major interruptions to or failures in these third parties' services could prevent the timely or successful delivery of our products, which may have an impact on our business. We have purchased cargo insurance policies for our medical products, bulk pharmaceutical chemicals and packaging materials, however, we cannot guarantee you that the existing insurance coverage is sufficient to compensate for actual losses suffered or incurred. If products are not delivered on time or are delivered in a damaged state, our customers may refuse to accept products and claim refund from us, and may have less confidence in our services. Poor handling of our products could also result in product contamination or damage, which may in turn lead to product recalls, product returns or exchanges, product liability, increased costs and damage to our reputation, thereby adversely affect our business, financial condition and results of operations.

**Failure to adequately protect our intellectual property, or if the scope of our intellectual property fails to sufficiently protect our proprietary rights, other pharmaceutical companies could compete against us more directly, which may have a material adverse impact on our business and results of operations.**

Our intellectual property, including but not limited to our patents, trademarks, trade secrets and know-how, is critical to our success. Please refer to the paragraphs headed "Business — Intellectual Property Rights" and "Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights" set out in Appendix VI to this document for more details about our material intellectual property rights. We protect our intellectual property rights by filing patent and trademark applications, securing pharmaceutical regulatory protection, establishing and enforcing confidentiality contractual obligations, relying on trade secrets or employing a combination of these methods. However, these measures may not be adequate for a number of reasons, including those described below, some of which are beyond our control.

We apply for patents for our products. There are a number of risks and uncertainties related to our patents and patent applications:

- The process of seeking patent protection in the PRC can be lengthy and expensive, and there is no assurance that any of our pending or potential future patent applications will mature into issued patents, or that such patents, if issued, will provide us with adequate proprietary protection or competitive advantages;

- The PRC has adopted a first to file system for patent applications, under which whoever files an application for the same invention first will be awarded the patent. As a result, a third party may be granted a patent relating to a technology we believe we invented before we are able to obtain such patent;

- Our existing patents may become invalid or unenforceable for a number of reasons, including known or unknown prior art, deficiencies in patent applications and lack of originality in the underlying technologies. Certain of our patented technologies are utilized in a number of our products and product candidates and if the patents relevant to these technologies were to be declared invalid or unenforceable, it could have an adverse impact on the sales volumes and pricing levels for such products and our ability to successfully commercialize such product candidates;

- The patents and patent applications for certain products in our product portfolio and certain product candidates we intend to develop do not cover the underlying APIs. Therefore, such patents may be insufficient to protect us from the development of substitute products by competitors, who may be able to do so by designing around our products using the same APIs. In addition, patents covering preparation methods and formulation may not create sufficient technical barriers to prevent other pharmaceutical developers from developing substitute products; and

- The patents that we hold are for a finite duration. Following the expiration of the relevant patents, our existing or future competitors may be able to develop and introduce substitute products to our products which may be identical in formulation. In the event that our competitors introduce direct substitutes for these products, it could have an adverse impact on the sales volumes and pricing levels for such products.

We also rely on trademarks, trade secrets and other intellectual property rights to protect our product candidates, products and technologies. However, our efforts to defend our intellectual property rights may be unsuccessful and we may not have adequate remedies for any breach.

Moreover, detecting and policing unauthorized use of proprietary technology are difficult and expensive, and we might need to resort to litigation to enforce or defend our intellectual property rights or to determine the enforceability, scope and validity of our

proprietary rights or those of others. The experience and capabilities of PRC courts in handling intellectual property litigation vary, and outcomes may be unpredictable. Furthermore, such litigation may require significant expenditures and management efforts. An adverse determination in any such litigation could materially impair our intellectual property rights and may harm our business, prospects and reputation.

If we fail to adequately protect our intellectual property for any of the above or other reasons, competitors may be able to imitate or copy our products, use our technologies and erode or negate any competitive advantages we may have, which could harm our business and ability to achieve profitability.

**We may not be able to identify or control the risks relating to our international business in a timely manner or at all. Changes in the international trade environment and policies may adversely impact our business and operating results.**

We operate our business and sell our products to customers globally. International market conditions and the international regulatory environment have historically been affected by competition among countries and geopolitical frictions. During the course of our international business operations, we are exposed to various risks, including:

- compliance with foreign laws and regulatory requirements of different jurisdictions and various industry standards, in particular, those related to life sciences research and application services and products;
- exposure to litigation risks;
- political and economic instabilities;
- foreign exchange rate exposure;
- unfamiliarity with local operating and market conditions;
- cultural and language difficulties;
- trade restrictions, technology barriers, protectionism and economic sanctions;
- import or export licensing requirements imposed by various countries;
- competition from local companies;
- local taxes;
- managing relationships with and collecting payments from local customers;
- stringent environment, safety and labor standards; and
- potential disputes with local collaborating partners and difficulty in managing relationships with local customers.

If we fail to identify or control any of the foregoing or other risks and uncertainties, the results of our international operations could be adversely affected, which in turn could adversely affect our financial condition and results of operations.

**We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions administered by the United States, the European Union, the United Nations, the United Kingdom, Australia and other relevant sanctions authorities.**

Certain countries or organizations, including the United States, the European Union, the United Nation, the United Kingdom, and Australia (together, the "**Relevant Jurisdictions**"), have, through executive order, legislations or other government means, implemented measures that impose economic sanctions against certain countries, regions or targeted industry sectors, groups of companies or persons, and/or organizations within such countries and regions.

During the Track Record Period, we sold drug products and medical instrument to certain customers in the Relevant Regions, contributing an aggregate of RMB123.2 million, RMB47.5 million, and RMB27.7 million for the years ended December 31, 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 9.4%, 4.2% and 2.7% of our total revenue during the respective period. The Relevant Regions were subject to various sanctions during the Track Record Period but none of them was a Comprehensively Sanctioned Country subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of a Relevant Jurisdiction.

Sanctions laws and regulations are constantly evolving, and new persons and entities are regularly added to the list of Sanctioned Persons. Further, new requirements or restrictions could come into effect which might increase the scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions. We can provide no assurance that our future business will be free of any sanctions risks or our business will conform to the expectations and requirements of the authorities of the Relevant Jurisdictions. Our business and reputation could be adversely affected if the authorities of the Relevant Jurisdictions were to determine that any of our future activities constitutes a violation of the sanctions they impose or provides a basis for a sanction designation of our Group. For more details on our business operations in the Relevant Regions subject to International Sanctions, please refer to the paragraphs headed "Business — Business Activities with Regions subject to International Sanctions."

**If we suffer substantial disruption to any of our production facilities or encounter problems in manufacturing our products, or if we fail to increase our manufacturing capacity in response to the increasing demand of our customers, our business and results of operations could be adversely affected.**

A substantial majority of our revenue has been, and in the near future will continue to be, generated by sales of products produced at our production facilities. The continued operation of our production facilities and our production safety can be substantially interrupted and materially and adversely due to a number of factors, many of which are outside our control, including fire, flood, earthquakes, power outages, fuel shortages, mechanical breakdowns, terrorist attacks and wars or other natural disasters, as well as expiry of land use rights, loss of licenses, certifications and permits, changes in governmental planning for the land underlying these facilities or their vicinity and regulatory changes.

If the operation of any of our production facilities is substantially disrupted, we may not be able to replace the equipment or inventories at such facility or secure a replacement facility or a third-party contractor to continue our production in a legal, timely and cost-effective manner or at all. Although we maintain property insurance for our production facilities and equipment, we do not maintain business interruption insurance, and the amount of our insurance coverage may not be sufficient to cover our losses in the event of a significant disruption to any of our production facilities. Problems may also arise during manufacturing for a variety of reasons, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials, delays related to the construction of new facilities or the expansion of our existing production facilities, including changes in production facilities and limits to production capacity due to regulatory requirements, changes in the types of products produced, physical limitations that could inhibit continuous supply, man-made or natural disasters and environmental factors. As a result, disruption to any of our production facilities or any problem in manufacturing our products may prevent us from fulfilling our contract obligations or meeting market demand for our products, and adversely affect our business, revenue and profitability.

**We may engage in the expansion of the production facilities which may not be as successful as we have planned.**

We may engage in the expansion of our existing production facilities to meet the increasing demand for our products. The completion of such expansion of the production facilities involves regulatory approvals and reviews by various authorities in the PRC, including, but not limited to, urban planning, construction and environmental protection authorities. For the expansion of production facilities, we cannot assure you that we will be able to obtain all of the required approvals, permits and licenses. Expansion of the production facilities also may not be completed on the anticipated timetable or within budget. We may also be unable to fully utilize the production capacity after the expansion of our production facilities. Any of the foregoing factors could materially and adversely affect our results of operations and prospects and result in loss of business opportunities.

**If our products are not produced to the necessary quality standards, our business and reputation could be harmed, and our revenue and profitability could be adversely affected.**

Our products and manufacturing processes are required to meet certain quality standards. We have established a quality control management system and standard operating procedures to help prevent quality issues in respect of our products. Please refer to "Business — Production and Quality Control" for further details of our quality control management system and standard operating procedures. Despite our quality control system and procedures, we cannot eliminate the risk of errors, defects or failure. We may fail to detect or cure quality defects as a result of a number of factors, many of which are outside our control, including but not limited to:

- manufacturing errors;
- technical or mechanical malfunctions in the manufacturing process;
- human error or malfeasance by our quality control personnel;
- tampering by third parties; and
- quality issues with the raw materials we purchase or produce.

In addition, when we expand our manufacturing capacity in the future, we may not be able to ensure consistent quality between products manufactured in the existing and new facilities, or need to incur substantial costs for doing so. Furthermore, if we acquire other pharmaceutical companies, we may not be able to immediately ensure that their manufacturing facilities and processes will meet our own quality standards.

Failure to detect quality defects in our products or to prevent such defective products from being delivered to end-users could result in patient injury or death, product recalls or withdrawals, license revocation or regulatory fines, or other problems that could seriously harm our reputation and business, expose us to liability, and adversely affect our revenues and profitability.

**Our operations are dependent on the supply of certain raw materials. If the supply of raw materials decreases or the cost increases, our ability to conduct our business could be materially impaired and our operations, revenue and profitability could be adversely affected.**

Purchase of raw materials accounted for a significant portion of our total cost of sales during the Track Record Period. In order to manufacture our products, we must obtain sufficient quantities of high-quality raw materials at commercially acceptable prices and in a timely manner. During the Track Record Period, we produced certain APIs in-house. We sourced additional base materials used to produce pharmaceutical intermediates for our APIs, certain other APIs and other raw materials, ancillary materials, packaging materials and printed instructions for all of our pharmaceuticals from Independent Third Parties. For more details, please refer to the paragraphs headed

"Business — Production and Quality Control — Raw Material Suppliers and Procurement." We typically do not enter into long-term supply agreements with raw material suppliers and as a result are vulnerable to supply shortages and fluctuations in market prices. Should any of our suppliers fail to supply sufficient quantities of raw materials of an acceptable quality in the future, we may be unable to obtain substitute raw materials elsewhere in a timely manner, or at all. We may also be forced to obtain raw materials from different suppliers, who may require us to pay prices that are not commercially reasonable or may provide us with raw materials that are not of an acceptable quality. Although we have not experienced interruptions in our raw material supplies in the past, any potential interruption in our supply of raw materials could delay the production and delivery schedules of the relevant products, which may result in the loss of customers and revenue. In addition, the market prices of raw materials may be subject to significant fluctuations due to various factors. We cannot assure you that we would be able to pass on any increase in raw material costs to our customers, and any substantial fluctuation in market prices of raw materials may materially increase our costs and impact our profitability.

**Failure to manage our inventory effectively would materially and adversely affect our results of operations, financial condition and cash flows.**

Our inventory consists of raw materials, and work-in-progress and finished goods. To operate our business successfully and meet our customers' demands and expectations, we must manage our inventory effectively to ensure immediate delivery when required. We regularly monitor our inventory to ensure timely supply and reduce the risk of overstocking. We maintain our inventory levels based on our internal forecasts which are inherently uncertain. We are exposed to inventory risk as a result of rapid changes in product life cycles, changing clinical demands, uncertainty of product developments and launches as well as the volatile economic environment in jurisdictions where we operate. There can be no assurance that we can accurately predict these trends and events and avoid over-stocking or under-stocking our products. Further, demand for products could change significantly between the time when the products are ordered and the time they are ready for delivery. When we begin to sell a new product, it is particularly difficult to forecast product demand accurately. As of December 31, 2021, 2022 and September 30, 2023, we had inventories of RMB201.5 million, RMB171.9 million and RMB165.5 million, respectively. In 2021, 2022 and the nine months ended September 30, 2023, our inventory turnover days were 232 days, 251 days and 206 days, respectively. For more details, please refer to the paragraphs headed "Financial Information — Discussion of Selected Items from the Consolidated Statements of Financial Position — Inventories." We may be exposed to increased inventory risks due to accumulated excess inventory of our products or raw materials, some of which are subject to expiration. Excess inventory levels may increase our inventory holding costs, obsolescence risks or potential impairment loss. On the other hand, if our forecasted demand is lower than actual level, we may not be able to maintain an adequate inventory level of our products or manufacture our products in a timely manner, and may lose sales and market share to our competitors.

Furthermore, as we will not be able to recoup our cash paid for raw materials during the production process until the finished products are sold to customers and the purchase price is settled, our business is subject to significant working capital requirements given the high inventory level and inventory turnover days. If our inventory level increases substantially in the future, our financial condition and cash flows could be materially and adversely affected.

**We may need to obtain additional financing to fund our expansion of operations, and we may not have access to sufficient funding.**

In the event that we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient external funds to finance our business, our liquidity and financial condition may be materially and adversely affected and we may not be able to expand our business. We cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities, we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all. Moreover, the level of our indebtedness and the amount of our interest payments could further limit our ability to obtain the necessary financing or obtain favorable terms for the financing to fund future capital expenditures and working capital. Such limitations could reduce our competitiveness and increase our exposure and sensitivity to adverse economic and industry conditions, which could materially adversely affect our financial condition and results of operations.

**Our historical growth may not be indicative of our future performance.**

Our historical growth rate and results may not be indicative of our future growth or performance. There is inherent risk in using our historical financial information to project or estimate our financial performance in the future, as it only reflects our past performance under particular conditions. We may not be able to sustain our historical growth rate, revenue, gross profit margin and return on net assets for reasons including, but not limited to, deterioration in the market conditions of the pharmaceutical industry in China, and outbreak or containment of epidemics.

In addition, our financial and operating results may not meet the expectations of public market analysts or [**REDACTED**], which could cause the future price of the shares to decline. Our revenue, expenses and operating results may vary from period to period due to a variety of factors beyond our control. As a result of these and other factors, there can be no assurance that our future revenues will increase or that we will continue to be profitable. Accordingly, [**REDACTED**] should not rely on our historical results as an indication of our future financial or operating performance.

**We have intangible assets other than goodwill. If our intangible assets were determined to require impairment, our results of operations and financial condition may be adversely affected.**

As of December 31, 2021, 2022 and September 30, 2023, we had intangible assets (other than goodwill) of RMB30.8 million, RMB65.8 million and RMB74.7 million, respectively, which consisted of developed technology, software, patents and licenses and

trademarks. After initial recognition, we determine whether these intangible assets are impaired at the end of each reporting period if events or changes in circumstance indicate that the carrying amount of these assets exceeds their recoverable amount. As a result, our evaluations in the future on these intangible assets may result in material impairment charges that would have a material adverse impact on our results of operations and potentially the price of our H Shares.

**We have incurred indebtedness and may incur additional indebtedness in the future, which may materially and adversely affect our financial condition and results of operations.**

During the Track Record Period, we have incurred indebtedness, including interest-bearing bank borrowings and lease liabilities. As of December 31, 2021, 2022 and September 30, 2023, our indebtedness amounted to RMB204.0 million, RMB220.6 million and RMB224.6 million, respectively. Please refer to the paragraphs headed "Financial Information — Indebtedness" for more details. Our indebtedness could, among other consequences: (i) increase the level of financial risk to us, which would negatively affect our ability to operate as a going concern; (ii) require us to dedicate a substantial portion of our cash flows from operations to interest and principal payments on our indebtedness, reducing the availability of our cash flows for other purposes, such as capital expenditures, acquisitions and working capital; (iii) limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; (iv) increase our vulnerability to general adverse economic and industry conditions; (v) place us at a disadvantage compared to our competitors that have less debt; (vi) increase our cost of borrowing; (vii) limit our ability to borrow additional funds to compete effectively or to take advantage of new business opportunities; and (viii) require us to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes.

Our ability to generate sufficient cash to satisfy our outstanding and future debt obligations will depend upon our future operating performance, which will be affected by, among other things, prevailing economic conditions, the PRC governmental regulation, the demand of the markets where we operate and other factors, many of which are beyond our control. We may not generate sufficient cash flow to pay our anticipated operating expenses and to service our debt, in which case we will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, disposing of our assets, restructuring or refinancing our indebtedness or seeking equity capital. If we are unable to fulfill our repayment obligations under our borrowings or are otherwise unable to comply with the restrictions and covenants in our current or future loan agreements and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the lenders may accelerate the repayment of outstanding debt or, with respect to secured borrowings, enforce the security interest securing the loan. Any acceleration clause may also be triggered as a result. If any of these events occur, we cannot assure you that our assets and cash flow would be sufficient to repay all of our indebtedness, or that we would be able to obtain alternative financing on terms that are favorable or acceptable to us. As a result, our cash flow, financial condition and results of operations may be materially and adversely affected.

**The discontinuation of any of the financial incentives currently available to us could adversely affect our operations, revenue and profitability.**

During the Track Record Period, we have benefited from government grants and subsidies. During the Track Record Period, our other income related to the government grants amounted to RMB4.3 million, RMB14.1 million and RMB5.2 million for years ended December 31, 2021, 2022, and the nine months ended September 30, 2023, respectively. We also enjoyed preferential tax treatment during the Track Record Period. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Other Income and Gains" and "Financial Information — Description of Major Components of Our Results of Operations — Income Tax Expense/Credit" for more details. The incentives are subject to the discretion of the PRC central government or relevant local government authorities, which could determine at any time to eliminate or reduce these financial incentives or preferential treatments, generally with prospective effect. Since our receipt of the financial incentives or preferential treatments is subject to periodic time lags and inconsistent government practice, as long as we continue to receive these financial incentives or preferential treatments, our net income in a particular period may be higher or lower relative to other periods depending on the potential changes in these financial incentives in addition to any business or operational factors that we may otherwise experience. Therefore, the discontinuation of financial incentives currently available to us could have a material adverse effect on our financial condition, results of operations, cash flows and prospects.

**Share-based payments may impact our financial performance and cause shareholding dilution to our existing Shareholders.**

To incentivize our employees, directors and align their interests with ours, we may grant share-based compensation in the future. Expenses incurred with respect to such share-based payment may increase our operating expenses and therefore have an adverse effect on our financial performance. Issuance of additional Shares with respect to such share-based payment may also dilute the shareholding percentage of our existing Shareholders.

**We may fail to sufficiently and promptly respond to rapid scientific and technological changes, clinical demand and market changes in the pharmaceutical industry, and we may be unable to maintain or enhance our market share in this industry for a variety of reasons.**

The global pharmaceutical industry is characterized by rapid advances in science and technology and the continuous emergence of new treatment options. Our future success partially depends on our ability to launch new products or services that meet evolving market demands, in particular, new drugs, that are effective in treating new diseases and illnesses. We cannot assure you that we will be able to respond to emerging or evolving trends by improving our product portfolio and services in a timely manner, or at all.

In addition, clinical demand for pharmaceutical and medical device products and CRO services may change rapidly and significantly. Our success depends on our ability to

anticipate product offering lead-time and demand, identify customer preferences and adapt our products and services to these preferences. We may need to adjust our research and development plan, production scale and schedule, product portfolio, and inventory levels based on customer demand, sales trends and other market conditions. There can be no assurance that we will be able to sufficiently and promptly respond to changes in clinical demand and purchasing patterns in the future, and such failure may have a material and adverse effect on our business, financial condition, results of operations and profitability.

The pharmaceutical industry is highly competitive and fragmented. We face competition from both domestic and international competitors across most of our product lines based on quality, the timing and scope of the regulatory approvals, prices, sales and marketing capabilities, the availability and cost of supply, patent position and other factors. In general, we face pricing competition from domestic competitors, and competition on product quality and brand recognition from international competitors. In particular, some of our domestic competitors may have, among other things, greater pricing flexibility and more robust sales networks, which may enable them to offer products with similar functions but lower prices to the end users. We may not be able to successfully compete with our competitors and cannot ensure you that we will be able to demonstrate compelling advantages in quality to overcome price competition and to be commercially successful.

In addition, some of our competitors may have, among other things:

- greater financial and other resources;
- a greater variety of products;
- brands and products that are better recognized by doctors who recommend products to patients;
- more extensive development and technical capabilities and human resources;
- stronger manufacturing capabilities; or
- more extensive sales networks.

**Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.**

Our operations, and those of our suppliers, research institution collaborators and other business partners, could be subject to natural or man-made disasters, health epidemic, or business interruptions, for which we are predominantly self-insured. Damage or extended periods of interruption to our and our partners' administration, development, research, manufacturing or storage facilities due to fire, natural disaster, health epidemic, power loss, communications failure, unauthorized entry or other events could cause us to cease or delay development or commercialization of some or all of our product candidates, seriously harm our and our partners' operations and financial condition, and increase our and their costs and expenses.

**Our business depends on our key senior management members, key development personnel and key marketing and sales personnel. If we are unable to retain our key employees or to attract and retain skilled and experienced personnel, our ability to conduct our business could be materially impaired and our business prospects could be adversely affected.**

We depend on the continued contributions of our senior management, especially the executive officers listed in the section headed "Directors, Supervisors and Senior Management" in this document, and other key employees, many of whom are difficult to replace. The loss of the services of any of our executive officers or other key employees could materially harm our business.

Our future success is dependent on our ability to attract a significant number of qualified employees and retain existing key employees, especially our product development and technology professionals. We believe that there is, and will continue to be, intense competition for highly skilled management, technical, sales and other personnel with experience in our industry in the cities where our offices are located. Our need to significantly increase the number of our qualified employees and retain key employees may cause us to materially increase compensation-related costs, including stock-based compensation. We must provide competitive compensation packages and a high-quality work environment to hire, retain and motivate employees. In addition, our senior management team has limited experience in running public companies, which will require us to expend additional resources in hiring additional support staff and incur additional costs and expenses. To the extent we hire personnel from competitors, we also may be subject to allegations that they have been improperly solicited or divulged proprietary or other confidential information. If we are unable to retain and motivate our existing employees and attract qualified personnel for important positions, we may be unable to manage our business effectively, including the development, marketing and sale, which could adversely affect our business, operating results and financial condition, and the price of our [**REDACTED**] could suffer.

**Our business could be adversely affected by natural disasters, public health crises such as the COVID-19 pandemic, political crises, economic downturns or other unexpected events.**

Natural disasters, health epidemics, acts of war or terrorism or other factors beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the regions where we conduct our business. Our operations may be under the threat of natural disasters, such as floods, earthquakes, sandstorms, snowstorms, fire or drought, the outbreak of a widespread health epidemic, such as swine flu, avian influenza, severe acute respiratory syndrome, or SARS, Ebola, Zika, COVID-19, other factors beyond our control, such as power, water or fuel shortages, failures, malfunction and breakdown of information management systems, unexpected maintenance or technical problems, or are susceptible to potential wars or terrorist attacks.

The occurrence of a disaster or a prolonged outbreak of an epidemic illness, including the COVID-19 pandemic, or other adverse public health developments in the world could materially disrupt our business and operations. These uncertain and

unpredictable factors include adverse effects of the pandemic on the economy, potential delays of our ongoing and future clinical trials, and disruptions to the operations of our business partners and CROs. Our business operations and financial results may be adversely affected in the future by COVID-19 resurgence, and it may also have the effect of heightening other risks described in this document, including those relating to our ability to initiate or continue clinical trials for our product candidates.

Acts of war or terrorism may also injure our employees, cause loss of lives, disrupt our business network and destroy our markets. Any of the foregoing events and other events beyond our control could have an adverse effect on the overall business sentiment and environment, cause uncertainties in the regions where we conduct business, cause our business to suffer in ways that we cannot predict and materially and adversely impact our business, financial condition and results of operations.

**If we, our management or directors become party to litigation, legal disputes, claims or administrative proceedings, our management or directors' attention may be diverted and our operations, reputation, revenue and profitability could be adversely affected.**

We, our management or directors may from time to time become party to litigation, legal disputes, claims or administrative proceedings arising in the ordinary course of our business. Involvement in litigation, legal disputes, claims or administrative proceedings may distract our management's or directors' attention and consume our time and other resources. Furthermore, any litigation, legal disputes, claims or administrative proceedings which are initially not of material importance may escalate due to the various factors involved, such as the facts and circumstances of the cases, the likelihood of winning or losing, the monetary amount at stake and the parties concerned, and such factors may result in these cases becoming of material importance to us.

In addition, negative publicity arising from litigation, legal disputes, claims or administrative proceedings may damage our reputation and adversely affect the image of our brands and products. In addition, if any verdict or award is rendered against us, we could be required to pay significant monetary damages, assume other liabilities, and suspend or terminate the related business ventures or projects. Consequently, our business, financial condition and results of operations may be materially and adversely affected.

**Product liability claims or lawsuits against us could result in expensive and time-consuming litigation, payment of substantial damages and increases in our insurance rates.**

We face an inherent risk of product and professional liability as a result of the clinical testing and any future commercialization of our product candidates inside and outside China. For example, we may be sued if our product candidates cause or are perceived to cause injury or are found to be otherwise unsuitable during clinical testing, manufacturing, marketing or sale. Any such product liability claims may include allegations of defects in manufacturing, defects in design, a failure to warn of dangers inherent in the drug, negligence, strict liability or a breach of warranties. Claims could also be asserted under applicable consumer protection laws. If we cannot successfully

defend ourselves against the claims, we may incur substantial liabilities or be required to limit commercialization of our product candidates. Even successful defense would require significant financial and management resources. Regardless of the merits or eventual outcome, liability claims may result in:

- decreased demand for our product candidates;
- injury to our reputation;
- withdrawal of clinical trial participants and inability to continue clinical trials;
- initiation of investigations by regulatory authorities;
- costs to defend the related litigation;
- a diversion of management's time and our resources;
- substantial monetary awards to trial participants or patients;
- product recalls, withdrawals or labelling, marketing or promotional restrictions;
- loss of revenue;
- exhaustion of any available insurance and our capital resources;
- the inability to commercialize any approved product candidate; and
- a decline in the market price of our H Shares.

To cover such liability claims arising from clinical studies, we purchase clinical trial insurance to cover adverse events in our clinical trials. It is possible that our liabilities could exceed our insurance coverage or that our insurance will not cover all situations in which a claim against us could be made. We may not be able to maintain insurance coverage at a reasonable cost or obtain insurance coverage that will be adequate to satisfy any liability that may arise. If a successful product liability claim or series of claims is brought against us for uninsured liabilities or in excess of insured liabilities, our assets may not be sufficient to cover such claims and our business operations could be impaired. Should any of these events occur, it could have a material adverse effect on our business, financial condition and results of operations.

**If we engage in future acquisitions or strategic partnerships, this may increase our capital requirements, dilute the value of your [REDACTED] in our H Shares, cause us to incur debt or assume contingent liabilities, and subject us to other risks.**

From time to time, we may evaluate various acquisitions and strategic collaborations, including licensing or acquiring complementary products, intellectual property rights, technologies or businesses, as we may deem appropriate to carry out our business plan. Any potential acquisition or strategic collaboration may entail numerous risks, including, but not limited to:

- increased operating expenses and cash requirements;
- the assumption of additional indebtedness or contingent liabilities;
- dilution to our existing Shareholders from our issuance of additional equity securities;
- the diversion of our management's attention from our existing product programs and initiatives in pursuing such a strategic merger or acquisition;
- loss of key personnel, and uncertainties in our ability to maintain key business relationships;
- risks and uncertainties associated with the assimilation of operations, corporate culture intellectual property, products and personnel of the acquired company or business;
- risks and uncertainties associated with the other party to such a transaction, including the prospects of that party and its existing products or product candidates and regulatory approvals;
- inability to generate revenue from acquired technology or products sufficient to meet our objectives in undertaking the acquisition or even to offset the associated acquisition and maintenance costs; and
- changes in accounting principles relating to recognition and measurement of our investments that may have a significant impact on our financial results.

Additionally, if we undertake acquisitions, we may issue dilutive securities, assume or incur debt obligations, incur large onetime expenses and acquire intangible assets that could result in significant future amortization expenses. Moreover, we may not be able to locate suitable acquisition opportunities and this inability could impair our ability to grow or obtain access to technology or products that may be important to the development of our business.

Further, according to the Anti-Monopoly Law of PRC (《反壟斷法》) and the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings (《關於經營者集中申報標準的規定》), or the "Prior Notification Rules" issued by the State Council, the concentration of business undertakings by way of mergers, acquisitions or contractual arrangements that allow one market player to take control of or to exert decisive impact on another market player must also be notified in advance to the MOFCOM when the threshold is crossed and such concentration shall not be implemented without the clearance of prior notification. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

**Our risk management and internal control system may not be so adequate or effective to detect potential risks in our business as intended.**

We have an internal control system in place to monitor and control potential risk areas relevant to our business operations. However, due to the inherent limitations in the design and implementation of our internal control system, it may not be sufficiently effective in identifying, managing and preventing all risks if external circumstances change substantially or extraordinary events take place. Further, integration of various business operations from potential future acquisitions may give rise to additional internal control risks that are currently unknown to us, despite our efforts to anticipate such issues. Our risk management and internal controls also depend on effective implementation by our employees. There can be no assurance that such implementation by our employees will always function as intended, or such implementation will not be subject to human errors, mistakes or intentional misconduct.

**If we fail to protect our trade secrets or other confidential information, our business and competitive position will be damaged.**

In addition to our issued patent and pending patent applications, we rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position and to protect our medicines and product candidates. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties that have access to them, such as our employees, corporate collaborators, outside scientific collaborators, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. However, any of these parties may breach such agreements and disclose our proprietary information, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret can be difficult, expensive and time-consuming, and the outcome is unpredictable. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them from using that technology or information to compete with us and our competitive position would be harmed.

**If our trademarks and trade names are not adequately protected, we may not be able to build brand awareness in our target markets and our business may be adversely affected.**

Our registered and unregistered trademarks or trade names are valuable assets and may be challenged, infringed, circumvented or declared generic or determined to infringe a third party's marks. We may not be able to protect our rights to these trademarks and trade names, which may be necessary to build name recognition among potential collaborators or customers in our markets of interest. At times, competitors or other third parties may adopt trade names or trademarks similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other trademarks or trademarks that incorporate variations of our registered or unregistered trademarks or trade names. Over the long term, if we are unable to establish name recognition based on our trademarks and trade names, then we may not be able to compete effectively, and our business may be adversely affected. If we attempt to enforce our trademarks and assert trademark infringement claims, a court may determine that the marks we have asserted are invalid or unenforceable, or that the party against whom we have asserted trademark infringement has superior rights to the marks in question. In the event that our trademarks or trade names are successfully challenged, we could be forced to rebrand our drugs, which could result in loss of brand recognition and could require us to devote resources to advertising and marketing new brands. Our efforts to enforce or protect our proprietary rights related to trademarks, trade names, trade secrets, domain names, copyrights or other intellectual property may be ineffective and cause substantial costs and diversion of resources and could adversely affect our competitive position, business, financial condition, results of operations and prospects.

**We may experience failures in our information and data management systems and security breaches and other disruptions could compromise our information and expose us to liability, which could adversely affect our operations, revenue and profitability.**

We make use of information and data management systems to obtain, process, analyze and manage data. We use these systems to, among other things, monitor the daily operations of our business, maintain operating and financial data, manage our distribution network as well as manage our production operations and quality control systems. Any system damage or failure that interrupts data input, retrieval or transmission or increases service time could disrupt our normal operations. There can be no assurance that we will be able to effectively handle a failure of our information systems, or that we will be able to restore our operational capacity in a timely manner to avoid disrupting our business. The occurrence of any of these events could adversely affect our ability to effectively manage our business operations. In addition, if the capacity of our information systems fails to meet the increasing needs of our expanding operations, our ability to expand may be constrained.

**If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could materially and adversely affect the success of our business.**

Our business operations are subject to numerous environmental, health, and safety laws and regulations in China, including those governing laboratory procedures and the handling, use, storage, treatment and disposal of highly toxic and hazardous materials, chemicals, and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We contract with third parties for the disposal of these materials and wastes. We cannot fully eliminate the risk of accidental contamination, biological or chemical hazards or personal injury at our facilities during the process of discovery, testing, development and manufacturing of our product candidates. In the event of such accident, we could be held liable for damages and clean-up costs which, to the extent not covered by existing insurance or indemnification, could harm our business. We may also be forced to close or suspend operations at certain of our affected facilities temporarily or permanently. As a result, any accidental contamination, biological or chemical hazards or personal injury could have a material and adverse impact on our business, financial condition, results of operations and prospects.

We also could incur significant costs associated with civil or criminal fines and penalties for failure to comply with such laws and regulations. In addition, we may incur substantial costs in order to comply with current or future environmental, health, and safety laws and regulations. These current or future laws and regulations may impair our product candidate R&D program efforts. Moreover, there is increasing stakeholder pressure on companies to diligence environmental, social, and governance matters in the supply chain. Negative publicity regarding production methods, alleged practices or workplace or related conditions of any of our suppliers, CROs, or other third parties who perform services for us could adversely affect our reputation and force us to locate alternatives, which could increase our costs and result in delayed supply of components for, and manufacturing of, our product candidates, or other disruptions to our operations.

In terms of the construction of our manufacturing facilities, they can be put into operation after the relevant administrative authorities in charge of environmental protection and health and safety examine and approve such facilities. We cannot assure you that we will be able to obtain all the regulatory approvals for our construction projects in a timely manner, or at all. Delays or failures in obtaining all the requisite regulatory approvals for our construction projects may affect our abilities to develop, manufacture and commercialize our product candidates as we plan.

**Increased labor costs could result in exceeding expenses, slow our growth and affect our profitability. In the event of labor shortages, labor disputes or striking, our business operation and financial performance may be materially adversely affected.**

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including management, technical, research and development, sales and marketing, production, quality control and other personnel. We face intense competition in recruiting and retaining qualified personnel, as competitors

are competing for the same pool of qualified personnel and our remuneration packages may not be as competitive as those of our competitors. Increasing market competition may cause market demand and competition for qualified employees to intensify.

As our production process requires skilled technical workers in design, operating and quality control, we cannot guarantee that we can retain and attract sufficient qualified employees on reasonable employment terms. In the event that we cannot keep the existing skilled workers or recruit sufficient skilled workers to replace the departing skilled workers, or to cope with our expansion plan on a timely basis at reasonable costs, or that the turnover rate of our workers is high and we do not have time to train up the workers to cope with our standards, our production process can be severely affected or interrupted. If we face labor shortages or significant increases in labor costs, higher employee turnover rates or changes to labor laws and regulations, our operating costs could increase significantly, which could materially adversely affect our results of operations. In addition, we could face labor disputes with our employees, which could lead to fines by governmental authorities and settlement costs to resolve the disputes. Labor disputes could also make it more difficult to recruit new employees due to the reputational damage caused by labor disputes.

**We have limited insurance coverage, and any claims beyond our insurance coverage may result in our incurring substantial costs and a diversion of resources.**

We maintain insurance policies that are required under the PRC laws and regulations and that we believe are in line with market practice and adequate for our business to safeguard against risks and unexpected events. Our insurance policies cover adverse events in our clinical trials, and we also maintain property loss insurance. We maintain social welfare insurance for our employees in accordance with relevant PRC laws and regulations. However, our insurance coverage may be insufficient to cover any claims that we may have. Any liability or damage to, or caused by, our facilities or our personnel beyond our insurance coverage may result in our incurring substantial costs and a diversion of resources and may negatively impact our drug development and overall operations.

**Our legal right to certain properties may be challenged.**

As of the Latest Practicable Date, two of our leased properties that are used as business liaison with an aggregate gross floor area of approximately 188.55 sq.m. were subject to potential title defects, as the lessors of such leased properties had not provided us with the relevant title ownership certificates or other relevant certificates regarding their legal right to lease such properties. As a result, the leases may not be valid and there are risks that we may not be able to continue to use such properties, according to our PRC Legal Adviser. We believe that the defect would not materially and adversely affect our business operations. As of the date of this document, we are not aware of any challenges being made by a third party or government authority to the titles of any of these leased properties that might affect our current occupation.

According to relevant laws and regulations and as confirmed by our PRC Legal Adviser, there are no rules or regulations requiring the lessee to obtain the ownership certificate or imposing regulatory punishment on the lessee for not doing so. Accordingly, our PRC Legal Adviser is of the view that we are not subject to any material administrative penalty for any of the title defects in the leased properties. Moreover, according to relevant PRC laws and regulations and the lease agreements, the lessee may have the right to claim compensation if the lease agreement is invalid due to the lessor's fault. If our ability to continue leasing such properties is affected by a third-party objection, we may seek indemnity from the lessor in accordance with relevant PRC laws and regulations and the lease agreements. We believe there is a sufficient reservoir of comparable alternative properties in proximity, and therefore do not expect to incur significant time and cost for identifying alternatives and relocating our operations in the unlikely event that we were required to do so.

As of the Latest Practicable Date, 17 lease agreements of our leased properties had not been registered and filed with relevant land and real estate management departments in China. Under the relevant PRC laws and regulations, the parties to a lease agreement have the obligation to register and file the executed lease agreement. As advised by our PRC Legal Adviser, the validity and enforceability of the lease agreements are not affected by the failure to register or file the lease agreements with the relevant government authorities. According to the relevant PRC regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each unregistered lease. As of the date of this document, we have not received any order from the relevant government authorities requiring us to register these lease agreements. We undertake to cooperate fully to facilitate the registration of lease agreements once we are notified of any requirements by the relevant government authorities.

During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any actions, claims or investigations threatened against us or our lessors with respect to the defects in our leasehold interests which may have a material adverse impact on our business, financial condition and results of operation. However, if any of our leases is terminated as a result of challenges by third parties or governmental authorities for lack of title certificates or proof of authorization to lease, we do not expect to be subject to any fines or penalties, but we may be forced to relocate the affected business liaison offices and incur additional expenses relating to such relocation. We cannot guarantee that suitable alternative locations are readily available on commercially reasonable terms, or at all, and if we fail to relocate our operations in a timely manner, our operations may be interrupted.

In addition, as of the Latest Practicable Date, we had not obtained the real estate ownership certificates for four properties occupied by us, with an aggregate gross floor area of approximately 715.7 sq.m., representing around 1.7% of the total gross floor areas of our owned properties. Among them, one property, with a gross floor area of approximately 506.00 sq.m., is used as the production facility for raw materials of low molecular weight heparin sodium. For this facility, we have obtained land use permits, building permits, and construction permits from relevant competent government authorities, however, we failed to submit the acceptance inspection report and other

required documents for record-filing after the completion of the construction inspection and acceptance and therefore did not obtain the real estate ownership certificate. According to the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》) (Order No.714 of the State Council of the PRC, promulgated on January 30, 2000, amended on October 7, 2017 and April 23, 2019 and taking effect on April 23, 2019), construction enterprise that fails to submit the construction completion inspection and acceptance report, the approval or licensed use documents for archival purposes shall be ordered to make corrections and shall be fined between RMB200,000 and RMB500,000; construction enterprise that fails to transfer the archives of the construction project to the construction administrative department or other relevant departments after the completion inspection and acceptance of the construction project shall be ordered to make corrections and shall be fined between RMB10,000 and RMB100,000. As of the Latest Practicable Date, we are in the process of obtaining the real estate ownership certificate for this facility with competent regulatory authority. In addition, the remaining three properties, with an aggregate gross floor area of approximately 209.70 sq.m., is used for employee dormitories, which we had not obtained the real estate ownership certificates. Based on the above, our PRC Legal Adviser is of the view that the title defect will not have a material adverse impact on production and business operations.

**Even after we obtain regulatory approval for the marketing and distribution of our drugs, our products will continue to be subject to ongoing or additional regulatory obligations and continue to be subject to regulatory review, which may result in significant additional expenses and if we fail to comply with regulatory requirements or encounter unexpected problems related to future approved drugs, we may be subject to penalties.**

If the NMPA, FDA or a comparable regulatory authority approves any of our product candidates, the manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the drug will be subject to extensive and ongoing regulatory requirements on pharmacovigilance. These requirements include submissions of safety and other post-marketing information and reports, registration, random quality control testing, adherence to any chemistry, manufacturing, and controls, or CMC, specifications, continued compliance with current GMPs, and GCPs and potential post-approval studies for the purposes of license renewal.

Any approvals that we receive for our product candidates may be subject to limitations on the approved indicated uses for which the drug may be marketed or to the conditions of approval, which could adversely affect the drug's commercial potential or contain requirements for potentially costly post-marketing testing and surveillance to monitor the safety and efficacy of the product candidates. The NMPA, FDA or a comparable regulatory authority may also require a risk evaluation mitigation strategy program as a condition of approval of our product candidates or following approval. In addition, if the NMPA, FDA or a comparable regulatory authority approves our product candidates, we will have to comply with requirements, including, for example, submissions of safety and other post-marketing information and reports, registration, as well as continued compliance with cGMP and good clinical practice ("**GCP**"), for any clinical trials that we conduct post-approval.

Moreover, regulatory policies may change or additional government regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. If we are not able to maintain regulatory compliance, we may lose the regulatory approvals that we have already obtained and may not achieve or sustain profitability, which in turn could significantly harm our business, financial condition and prospects.

The NMPA, FDA and other regulatory authorities strictly regulate the marketing, labelling, advertising and promotion of products that are placed on the market. Drugs may be promoted only for their approved indications and for use in accordance with the provisions of the approved label. The NMPA, FDA and other regulatory authorities actively enforce the laws and regulations prohibiting the promotion of off-label uses, and a company that is found to have improperly promoted off-label uses may be subject to significant liability.

**If we fail to effectively manage our anticipated growth or execute on our growth strategies, our business, financial condition, results of operations and prospects could suffer.**

Our growth strategies include but are not limited to increasing our penetration into the global market, maximizing the commercial value for our new drugs in China, expanding our drug discovery, development and manufacturing capacity for our innovative drug business and pursuing strategic acquisitions. For more information, please refer to the paragraphs headed "Business — Our Strategies." Pursuing our growth strategies has resulted in, and will continue to result in, substantial demands on capital and other resources. In addition, managing our growth and executing our growth strategies will require, among other things, our ability to continue to innovate and develop advanced technology in the highly competitive global pharmaceutical market, effective coordination and integration of our facilities and teams across different sites, successful hiring and training of personnel, effective cost control, sufficient liquidity, effective and efficient financial and management control, increased marketing and customer support activities, effective quality control, and management of our suppliers to leverage our purchasing power. Any failure to execute on our growth strategies or realize our anticipated growth could materially and adversely affect our business, financial condition, results of operations and prospects.

## RISKS RELATING TO DOING BUSINESS IN THE COUNTRY WHERE WE OPERATE

**We may be subject to the approval, filing or other requirements of the CSRC or other PRC governmental authorities in connection with overseas offerings and future capital raising activities.**

On July 6, 2021, the relevant PRC government authorities issued the Opinions on Strictly Cracking Down Illegal Securities Activities in Accordance with the Law (《關於依法從嚴打擊證券違法活動的意見》). These opinions emphasized the need to strengthen the administration over illegal securities activities and the supervision on overseas listings by China-based companies and proposed to take effective measures, such as promoting the construction of relevant regulatory systems to deal with the risks and incidents faced by

China-based overseas-listed companies. Please refer to the paragraphs headed "Regulatory Overview — Regulations on Overseas Issue and Listing of Securities by Domestic Enterprises" for details.

On February 17, 2023, the CSRC promulgated the Trial Measures for Overseas Listing, which have become effective on March 31, 2023. The Trial Measures for Overseas Listing require, among others, that PRC domestic companies that seek to initially offer and list securities in overseas markets, either directly or indirectly, file the required documents with the CSRC within three business days after its application for overseas listing is submitted. Please refer to the paragraphs headed "Regulatory Overview — Regulations on Overseas Issue and Listing of Securities by Domestic Enterprises". We will file with CSRC within a specific time limit as required by the Trial Measures for Overseas Listing. However, we cannot assure you that we could complete such filing in a timely manner or at all, the failure of which may restrict our ability to complete the proposed [**REDACTED**] and have a material and adverse effect on our financial performance and business prospects.

On February 24, 2023, the CSRC, the MOF, the National Administration of State Secrets Protection of China, and the National Archives Administration of China published the Provisions on Strengthening Confidentiality and Archives Administration of Overseas Securities Offering and Listing by Domestic Companies (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the "**Archives Rules**"), which came into effect on March 31, 2023. The Archives Rules require that, in relation to the overseas securities offering and listing activities of domestic enterprises, either in direct or indirect form, such domestic enterprises, as well as securities companies and securities service institutions providing relevant securities services, are required to strictly comply with relevant requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities. The interpretation and implementation of the Archives Rules may keep evolving, failure to comply with which may materially affect our business, results of operations or financial conditions.

Given that the Trial Measures for Overseas Listing and the Archives Rules were recently promulgated, their interpretation, application, and enforcement are still evolving and subject to change. We are closely monitoring how they will affect our operations and our future financing.

We cannot assure you that any new rules or regulations promulgated in the future will not impose additional requirements or restrictions on us or our financing activities. If it is determined in the future that approval from or filing with the CSRC or other regulatory authorities or other procedures are required, we may fail to obtain such approval, perform such filing procedures or meet such other requirements in a timely manner or at all. We may face sanctions by the CSRC or other PRC regulatory authorities for failure to seek CSRC approval or other government authorization, or perform filing procedures, for this [**REDACTED**] or our future financing activities, and these regulatory authorities may impose fines and penalties on us, limit our operating activities in the PRC, limit our ability to pay dividends outside the PRC, delay or restrict the repatriation of the [**REDACTED**] from the [**REDACTED**] into the PRC or take other actions to restrict our

financing activities, which could have a material and adverse effect on our financial conditions and business prospects.

**Changes in economic, regulatory, political and social conditions could have a material and adverse effect on our results of operations, financial performance and business prospects.**

We are headquartered in Zhejiang Province, China and currently most of our operations are conducted in China. Accordingly, our results of operations, financial performance and business prospects may be influenced by the economic, regulatory, political and social conditions in China. China has implemented, and may continue to introduce, among others, various policies and measures to encourage the economic growth and guide the allocation of resources. Any material changes of the economic, regulatory, political and social conditions in China may have material and adverse effect on our results of operations, financial performance and business prospects.

**Governmental control of currency conversion, and restrictions on the remittance of Renminbi into and out of the PRC, may limit our ability to utilize our revenue effectively and adversely affect the value of your [REDACTED].**

The Renminbi is not currently a freely convertible currency, as the PRC Government imposes controls on the convertibility of Renminbi into foreign currencies and in certain cases, the remittance of currency out of China. A substantial majority of our future revenue is expected to be denominated in Renminbi and we will need to convert Renminbi into foreign currencies for the payment of dividends, if any, to holders of our H Shares. Shortages in the availability of foreign currency may restrict our ability to remit sufficient foreign currency to pay dividends or other payments, or otherwise satisfy our foreign currency denominated obligations.

Under China's current foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends, do not require advance approval from SAFE, but we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within China that have the licenses to carry out foreign exchange business. Approval from appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses.

**You may have limited recourses in effecting service of legal process, enforcing foreign judgments or bringing original actions in China against us or our management named in the documents based on Hong Kong or other foreign laws.**

A substantial part of our assets, and a majority of our Directors, Supervisors and senior management, are located in China. As a result, it may not be possible for investors to effect services of process upon us, or our Directors, Supervisors or senior management who reside in China. China has not entered into treaties or arrangements providing for the recognition and enforcement of judgments made by courts of most other jurisdictions.

On July 14, 2006, the Supreme People's Court of the PRC and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》), or the 2006 Arrangement. Pursuant to the Arrangement, where any designated PRC court or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case under a choice of court agreement in writing, any party concerned may apply to the relevant PRC court or Hong Kong court for recognition and enforcement of the judgment. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a mainland court is expressly selected as the court having sole jurisdiction for the dispute.

On January 18, 2019, the Supreme People's Court of the PRC and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》), or the New Arrangement, which seeks to establish a mechanism with greater clarity and certainty for recognition and enforcement of judgments in wider range of civil and commercial matters between the PRC court and Hong Kong court. The New Arrangement will only take effect after the promulgation of a judicial interpretation by the Supreme People's Court of the PRC and the completion of the relevant legislative procedures in Hong Kong. The New Arrangement will, upon its effectiveness, supersede the 2006 Arrangement.

**Fluctuations in exchange rates of the Renminbi could result in foreign currency exchange losses.**

The value of the Renminbi against the Hong Kong dollar, U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions in the PRC and by the PRC's foreign exchange policies. Renminbi has fluctuated against Hong Kong dollars and the U.S. dollars, at times significantly and unpredictably. Any significant appreciation or depreciation of Renminbi may materially and adversely affect our revenues, earnings and financial position, and the value of, and any dividends payable on, our Shares in foreign currency. To the extent that we need to convert Hong Kong dollars we receive from this [**REDACTED**] into Renminbi for our operations, appreciation of the Renminbi against the Hong Kong dollars would have an adverse effect on the Renminbi amount we would receive. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for making payments for dividends on our ordinary shares or for other business purposes, appreciation of the Hong Kong dollars against the Renminbi would have a negative effect on the Hong Kong dollar amount. With the development of the foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the PRC government may in the future announce further changes to the exchange rate system, and we cannot assure you that the Renminbi will not appreciate or depreciate significantly in value against the Hong Kong dollar, U.S. dollar or other foreign currencies in the future. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between

Renminbi and other foreign currencies in the future. Any significant fluctuation of Renminbi against the Hong Kong dollar and U.S. dollar could adversely affect our business, results of operations and financial condition, and the value of any dividends payable in Hong Kong dollars.

Very limited hedging options are available in China to reduce our exposure to exchange rate fluctuations. As of the Latest Practicable Date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited, and we may not be able to adequately hedge our exposure or at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert Renminbi into foreign currency or to convert foreign currency into Renminbi.

**We are a PRC tax resident subject to PRC tax on our global income, and the dividends payable to [REDACTED] and gains on the sale of our H Shares by our [REDACTED] are subject to PRC tax.**

Under applicable PRC tax laws, a PRC-incorporated company is normally subject to a tax of 25% on the global income. During the Track Record Period, as a "High and New Technology Enterprise", we are subject to an enterprise income tax rate of 15% pursuant to the tax-related regulations. We are required to comply with various tax-related regulations and our failure to comply with the local and municipal tax regime may result in additional taxes, penalties and enforcement actions from such authorities. In the event that we do not properly comply with the tax-related regulations, our profitability may be adversely affected. We cannot assure you that future examinations by PRC tax authorities would not result in fines, other penalties or actions that could adversely affect our business, financial condition and results of operations, as well as our reputation. Further, under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to different tax obligations with respect to dividends received from us or gains realized upon the sale or other disposition of our H Shares. Non-PRC individuals are generally subject to PRC individual income tax under the Individual Income Tax Law of the PRC (《中華人民共和國個人所得税法》) with respect to PRC source income or gains at a rate of 20% unless specifically exempted by the tax authority of the State Council or reduced or eliminated by an applicable tax treaty. We are required to withhold related tax from dividend payments. Pursuant to applicable regulations, domestic non-foreign-invested enterprises issuing shares in Hong Kong may generally, when distributing dividends, withhold individual income tax at the rate of 10%. However, withholding tax on distributions paid by us to non-PRC individuals may be imposed at other rates pursuant to applicable tax treaties (and up to 20% if no tax treaty is applicable) if the identity of the individual holder of shares and the tax rate applicable thereto are known to us. There is uncertainty as to whether gains realized upon disposition of shares by non-PRC individuals are subject to PRC individual income tax.

Non-PRC resident enterprises that do not have establishments or premises in the PRC, or that have establishments or premises in the PRC but their income is not related to such establishments or premises are subject to PRC EIT at the rate of 10% on dividends received from PRC companies and gains realized upon disposition of equity interests in the PRC companies pursuant to the EIT Law and other applicable PRC tax regulations and statutory documents, which may be reduced or eliminated under special arrangements or applicable treaties between the PRC and the jurisdiction where the non-resident enterprise resides. Pursuant to applicable regulations, we intend to withhold tax at a rate of 10% from dividends paid to non-PRC resident enterprise holders of our H Shares (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and payment of such refund will be subject to the PRC tax authorities' verification. As of the Latest Practicable Date, there were no specific rules on how to levy tax on gains realized by non-resident enterprise holders of shares through the sale or transfer by other means of shares.

There remains significant uncertainty as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including whether and how individual income tax or EIT on gains derived by holders of our H Shares from their disposition of our H Shares may be collected. If any such tax is collected, the value of our H Shares may be materially and adversely affected.

**We may be restricted from transferring our scientific data abroad or using human genetic resources collected in China.**

We may in the future conduct clinical trials, registration and post-market surveillance of our products and product candidates in different jurisdictions, which involve the collection and storage of personal health information for scientific purposes, and it may require cross-border transfer of personal or scientific data, which subjects us to relevant laws and regulations. Our transfer of data may be limited or even restricted if the information is considered of national security interest in certain jurisdictions or if we fail to continue to comply with the requirement on data protection, in which case, our business may be adversely affected as a result.

On March 17, 2018, the General Office of the State Council promulgated the Measures for the Management of Scientific Data (《科學數據管理辦法》), or the Scientific Data Measures, which provide a broad definition of scientific data and relevant rules for the management of scientific data. According to the Scientific Data Measures, enterprises in China must seek governmental approval before any scientific data involving a state secret may be transferred abroad or to foreign parties. Further, any researcher conducting research funded at least in part by the Chinese government is required to submit relevant scientific data for management by the entity to which such researcher is affiliated before such data may be published in any foreign academic journal. To the extent our R&D of our product candidates are subject to the Scientific Data Measures and any subsequent laws as required by the relevant government authorities, if we are unable to obtain necessary approvals in a timely manner, or at all, our R&D of product candidates may be hindered, which may materially and adversely affect our business, operations, financial conditions

and prospects. If the relevant government authorities consider the transmission of our scientific data to be in violation of the requirements under the Scientific Data Measures, we may be subject to fines and other administrative penalties imposed by those government authorities. Moreover, Cyberspace Administration of China issued the Measures on Security Assessment of the Cross-border Transfer of Personal Information (Draft for Comment) (《個人信息出境安全評估辦法(徵求意見稿)》) in June 2019, pursuant to which, any cross-border transfer of information that may endanger national security, damage public interest, or fail to offer effective protection of personal information security, as assessed by relevant regulatory bodies, will be prohibited. It is unclear if and the extent to which our clinical data will be considered as an endangerment to national or personal information security, if the regulation becomes effective. On July 7, 2022, the Cyberspace Administration of China published the Measures for the Security Assessment of Outbound Data Transmission (《數據出境安全評估辦法》) which took effect on September 1, 2022. It specifies the circumstances in which data processors providing data outbound shall apply for outbound data transfer security assessment with the Cyberspace Administration, including, among others, the exit data contains important data. There remain uncertainties whether we would be subject to the outbound data transfer security assessment.

Cross-border data transfer from other jurisdictions may also be limited if we fail to comply with relevant requirements, such as obtaining authorization from subjects regarding the use, transfer and retrieval of their personal information or data and adopting measures to ensure the safety of personal information or data in the transfer. For example, cross-border data transfer from the EU to abroad is governed by the General Data Protection Regulation. Also, cross-border transfer of personal data by its nature is subject to general data privacy regulations in various jurisdictions, and thus any failure to comply with data privacy protection may lead to a restriction of transferring our data across different jurisdictions.

In addition, on July 2, 2015, the Ministry of Science and Technology issued the Service Guide for Administrative Licensing Items concerning Examination and Approval of Sampling, Collecting, Trading or Exporting Human Genetic Resources, or Taking Such Resources out of the PRC (《人類遺傳資源採集、收集、買賣、出口、出境審批行政許可事項服務指南》) (the "**Service Guide**"), which became effective on July 2, 2015. According to the Service Guide, the sampling, collection or research activities of human genetic resources through clinical trials shall be required to be filled with the China Human Genetic Resources Management Office through the online system. Then, on May 28, 2019 the State Council promulgated the Regulations of PRC on the Administration of Human Genetic Resources (《中華人民共和國人類遺傳資源管理條例》), which became effective on July 1, 2019 (the "**Human Genetic Resources Regulation**"). The Human Genetic Resources Regulation stipulates that collecting human genetic resources of China's important genetic families and specific regions, or collecting those human genetic resources in such categories and quantities as prescribed by the administrative department for science and technology under the State Council, preserving China's human genetic resources and providing the basic platform for scientific research, utilization of China's human genetic resources for international cooperation in scientific research, as well as transporting China's materials of human genetic resources abroad shall be subject to the approval of the administrative department for science and

technology under the State Council. If we are unable to obtain necessary approvals or comply with the regulatory requirements in a timely manner, or at all, our R&D of product candidates may be hindered. If the relevant government authorities consider the transmission of our scientific data or collection and usage of human genetic resources to be in violation of the requirements under applicable PRC laws and regulations, we may be subject to fines and other administrative penalties imposed by those government authorities.

**Failure to comply with relevant regulations relating to social insurance and housing provident fund may subject us to penalties and adversely affect our business, financial condition, results of operations and prospects.**

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) and the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例), we are required to make contributions to social insurance and housing provident funds for our employees. Please refer to the paragraphs headed "Regulatory Overview — Regulations in relation to Employment and Social Securities" for more details. During the Track Record Period, we did not make full contributions to the social insurance and housing funds for certain employees in accordance with the relevant PRC laws and regulations. As advised by our PRC Legal Adviser, according to relevant PRC laws and regulations, we may be requested by relevant PRC authorities to pay the outstanding social insurance contribution within a prescribed period and pay an overdue charge equal to 0.05% of the outstanding amount for each day of delay. If we fail to pay the outstanding social insurance contributions within the prescribed period, we may be liable to a fine of one to three times the amount of the overdue payment. In addition, if we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

In addition, during the Track Record Period, we engaged third-party human resources agencies to make contributions to social insurance and housing provident funds for certain of our employees. If the local governments determine the use of third-party agencies to pay social insurance and housing provident funds to be non-compliant or such human resource agencies fail to make such contributions for and on behalf of our employees as required by applicable PRC laws and regulations, we may be required to pay outstanding amount, late fees and/or fines imposed by the relevant PRC authorities for failing to discharge our obligations to pay social insurance and housing provident funds as an employer or be ordered to rectify. This in turn may adversely affect our financial condition and results of operations. Please refer to the paragraphs headed "Business — Legal Proceedings and Compliance — Compliance — Social Insurance and Housing Provident Funds" for more details.

As the laws and policies related to social insurance and housing provident fund may continue to evolve, we cannot assure you that our employment policies and practices will always be regarded as fully complying with the relevant laws and regulations in China, and we may face labor disputes or government investigations. The PRC government may strengthen its measures and requirements on social insurance and housing provident fund collection, which may lead to stricter law enforcement. Compliance with stricter regulatory requirements may increase our operating expenses, especially our staff costs. We cannot guarantee that the amount of social insurance contributions we would be required to pay will not increase, nor that we would not be required to pay any shortfall or

be subject to any penalties or fines, any of which may have a material and adverse effect on our business and results of operations.

## RISKS RELATING TO THE [REDACTED]

**No public market currently exists for our H Shares, and an active trading market for our H Shares may not develop and the market price for our H Shares may decline or become volatile.**

Prior to the [**REDACTED**], there was no public market for our H Shares. We cannot assure you that a public market for our H Shares with adequate liquidity and [**REDACTED**] volume will develop and be sustained following the completion of [**REDACTED**]. In addition, the [**REDACTED**] of our H Shares is expected to be fixed by agreement between the [**REDACTED**] and us, and may not be an indication of the market price of our H Shares following the completion of the [**REDACTED**]. If an active public market for our H Shares does not develop following the completion of [**REDACTED**], the market price and liquidity of our H Shares could be materially and adversely affected. The price and [**REDACTED**] volume of our H Shares may be volatile, which could lead to substantial losses to [**REDACTED**].

**You will incur immediate and significant dilution and may experience further dilution if we issue additional H Shares or other equity securities in the future, including pursuant to the share incentive schemes.**

The [**REDACTED**] of the [**REDACTED**] is higher than the net tangible asset value per Share immediately prior to the [**REDACTED**]. Therefore, purchasers of the [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in [**REDACTED**] net tangible asset value. In order to expand our business, we may consider [**REDACTED**] and issuing additional Shares in the future. Purchasers of the [**REDACTED**] may experience dilution in the net tangible asset value per share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible asset value per Share at that time. Furthermore, we may issue Shares pursuant to the share incentive schemes, which would further dilute Shareholders' interests in our Company.

**There will be a gap of several days between pricing and [REDACTED] of our H Shares, and the price of our H Shares when [REDACTED] begins could be lower than the [REDACTED].**

The [**REDACTED**] of our Shares sold in the [**REDACTED**] is expected to be determined on the [**REDACTED**]. However, the Shares will not commence [**REDACTED**] on the Stock Exchange until they are delivered, which is expected to be five Business Days after the [**REDACTED**]. As a result, [**REDACTED**] may not be able to sell or otherwise deal in the Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of the Shares when [**REDACTED**] begins could be lower than the [**REDACTED**] as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time [**REDACTED**] begins.

**Future sales or perceived sales of our H Shares in the public market by major Shareholders following the [REDACTED] could materially and adversely affect the price of our H Shares.**

Prior to the [**REDACTED**], there has not been a public market for our Shares. Future sales or perceived sales by our existing Shareholders of our Shares after the [**REDACTED**] could result in a significant decrease in the prevailing market price of our Shares. Only a limited number of the Shares currently outstanding will be available for sale or issuance immediately after the [**REDACTED**] due to contractual and regulatory restrictions on disposal and new issuance. Nevertheless, after these restrictions lapse or if they are waived, future sales of significant amounts of our Shares in the public market or the perception that these sales may occur could significantly decrease the prevailing market price of our Shares and our ability to raise equity capital in the future.

**Any possible conversion of our Unlisted Shares into H Shares in the future could increase the supply of our H Shares in the market and negatively impact the price of our H Shares.**

Certain of our Unlisted Shares may be converted into H Shares subject to completion of filing procedure with the CSRC, and such converted Shares may be [**REDACTED**] and [**REDACTED**] on an overseas stock exchange, including the Stock Exchange. Any [**REDACTED**] or [**REDACTED**] of the converted Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such stock exchange. No class shareholder voting is required for the [**REDACTED**] or [**REDACTED**] of the converted Shares on an overseas stock exchange. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, shares currently held on our unlisted share register may be, after the conversion, [**REDACTED**] on the Stock Exchange after one year of the [**REDACTED**], in the form of H Shares, which could further increase the supply of our H Shares in the market and could negatively impact the value of your [**REDACTED**].

**The interests of our Single Largest Group of Shareholders may not be aligned with the interests of our other Shareholders.**

Immediately following the completion of the [**REDACTED**], Huadong Medicine, through Zhongmei Huadong, will be interested in approximately [**REDACTED**]% of our total issued share capital, assuming the [**REDACTED**] is not exercised. As such, upon completion of the [**REDACTED**], our Group will not have any controlling shareholder as defined under the Listing Rules, while Huadong Medicine and Zhongmei Huadong will remain as our Single Largest Group of Shareholders. Our Single Largest Group of Shareholders may not act in the best interests of our minority Shareholders. This concentration of ownership may also discourage, delay or prevent a change in control of our Company, which could deprive our Shareholders of an opportunity to receive a premium for the Shares as part of a sale of our Company and may significantly reduce the price of our Shares.

**We do not expect to pay dividends in the foreseeable future after the [REDACTED].**

We currently intend to retain most, if not all, of our available funds and any future earnings after the [**REDACTED**] to fund the development and commercialization of our products and product candidates. As a result, we do not expect to pay any cash dividends in the foreseeable future. Therefore, you should not rely on an [**REDACTED**] in our Shares as a source for any future dividend income.

Our Board has complete discretion as to whether to distribute dividends. Even if our Board decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions (if any) received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our Board. Accordingly, the return on your [**REDACTED**] in our Shares will likely depend entirely upon any future price appreciation of our Shares. There is no guarantee that our Shares will appreciate in value after the [**REDACTED**] or even maintain the price at which you purchased the Shares. You may not realize a return on your [**REDACTED**] in our Shares and you may even lose your entire [**REDACTED**] in our Shares.

**We have significant discretion as to how we will use the [REDACTED] of the [REDACTED], and you may not necessarily agree with how we use them.**

Our management may spend the [**REDACTED**] from the [**REDACTED**] in ways you may not agree with or that do not yield a favorable return. For details of our intended [**REDACTED**] from the [**REDACTED**], please refer to the paragraphs headed "Future Plans and [**REDACTED**] — [**REDACTED**]." However, our management will have discretion as to the actual application of our [**REDACTED**]. You are entrusting your funds to our management, upon whose judgment you must depend, for the specific uses we will make of the [**REDACTED**] from the [**REDACTED**]. We will make appropriate announcement and comply with all applicable requirements under the Listing Rules in the event that we change the [**REDACTED**] as disclosed in this document.

**Facts, forecasts and statistics in this document relating to the pharmaceutical industry may not be fully reliable.**

Facts, forecasts and statistics in this document relating to the PRC, the PRC economy and healthcare industry in China are obtained from various sources including official government publications that we believe are reliable. However, we cannot guarantee the quality or reliability of these sources. Neither we or the [**REDACTED**] nor our or their respective affiliates or advisors have verified the facts, forecasts and statistics nor ascertained the underlying economic assumptions relied upon in those facts, forecasts and statistics obtained from these sources. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this document relating to the PRC economy and the healthcare industry in China may be inaccurate or may not be comparable to statistics produced for other economies and should not be unduly relied upon. As such, no representation as to the accuracy of such facts, forecasts and statistics obtained from various sources is made.

Moreover, these facts, forecasts and statistics involve risk and uncertainties and are subject to change based on various factors and should not be unduly relied upon. Further, there can be no assurances that they are stated or compiled on the same basis or with the same degree of accuracy, as may be the case in other countries.

**If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations, the market price and [REDACTED] volume may decline.**

If research analysts do not establish and maintain adequate research coverage or if one or more of the analysts who covers us downgrades our Shares or publishes inaccurate or unfavorable research about our business, the market price for our Shares would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which, in turn, could cause the market price or **[REDACTED]** volume for our Shares to decline.

**You should read the entire document carefully, and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us or the [REDACTED].**

Subsequent to the date of this document but prior to the completion of the **[REDACTED]**, there may be press and media coverage regarding us and the **[REDACTED]**, which may contain, among other things, certain financial information, projections, valuations and other forward-looking information about us and the **[REDACTED]**. We have not authorized the disclosure of any such information in the press or media and do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us. To the extent such statements are inconsistent with, or conflict with, the information contained in this document, we disclaim responsibility for them. Accordingly, prospective **[REDACTED]** are cautioned to make their **[REDACTED]** decisions on the basis of the information contained in this document only and should not rely on any other information.

You should rely solely upon the information contained in this document, the **[REDACTED]** and any formal announcements made by us in Hong Kong when making your **[REDACTED]** decision regarding our Shares. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding our Shares, the **[REDACTED]** or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such data or publication. Accordingly, prospective **[REDACTED]** should not rely on any such information, reports or publications in making their decisions as to whether to **[REDACTED]** in our **[REDACTED]**. By applying to purchase our Shares in the **[REDACTED]**, you will be deemed to have agreed that you will not rely on any information other than that contained in this document.

In preparation for the [**REDACTED**], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

## WAIVER IN RESPECT OF MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive directors must be ordinarily resident in Hong Kong. Rule 19A.15 of the Listing Rules further provides that the requirement in Rule 8.12 of the Listing Rules may be waived by having regard to, among other considerations, the new [**REDACTED**]'s arrangements for maintaining regular communication with the Stock Exchange, including but not limited to compliance by the new [**REDACTED**] with Rules 3.06, 3A.23 and 3A.24 of the Listing Rules.

Our management, business operations and assets are primarily based outside Hong Kong. Our headquarters and our business operations are based, managed and conducted in the PRC. As our executive Directors play very important roles in our business operation, it is in our best interest for them to be based in the places where the Group has significant operations. We consider it practicably difficult and commercially unreasonable for us to arrange for two executive Directors to be ordinarily reside in Hong Kong, either by means of relocation of our executive Directors to Hong Kong or appointment additional executive Directors.

Therefore, we do not have, and in the foreseeable future will not have, sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 and Rule 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted] us, a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of the Listing Rules. The Company has made the following arrangements to maintain effective communication between the Stock Exchange and us:

(a) we have appointed Mr. Fu Hang (傅航), an executive Director, chairman of the board and general manager of the Company and Ms. Tsang Man Kuen (曾文娟), a joint company secretary, as Company's authorized representatives pursuant to Rule 3.05 of the Listing Rules. The authorized representatives will act as the Company's principal channel of communication with the Stock Exchange. The authorized representatives will be readily contactable by phone, facsimile and email to promptly deal with enquiries from the Stock Exchange, and will also be available to meet with the Stock Exchange to discuss any matter within a reasonable period of time upon request of the Stock Exchange.

(b) when the Stock Exchange wishes to contact our Directors on any matter, each of the authorized representatives will have all necessary means to contact all of our Directors (including our independent non-executive Directors)

promptly at all times. We will also inform the Stock Exchange promptly in respect of any changes in the authorized representatives. We have provided the Stock Exchange with the contact details (i.e. mobile phone number, office phone number and/or email address) of all Directors to facilitate communication with the Stock Exchange;

(c) We confirm and will ensure that all Directors who are not ordinarily resident in Hong Kong possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time upon the request of the Stock Exchange;

(d) we have appointed Maxa Capital Limited as our compliance adviser (the "**Compliance Adviser**"), upon [**REDACTED**] pursuant to Rule 3A.19 of the Listing Rules for a period commencing on the [**REDACTED**] and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the [**REDACTED**]. The Compliance Adviser will serve as the additional channel of communication with the Stock Exchange when the authorized representatives are not available and will have access at all times to the authorized representatives, the Directors and the senior management who will provide such information and assistance as our Compliance Adviser may reasonably request in connection with the performance of its duties as set out in Chapter 3A of the Listing Rules; and

(e) meetings between the Stock Exchange and our Directors can be arranged through our authorized representatives or our Compliance Adviser, or directly with our Directors within a reasonable time frame.

The Company will inform the Stock Exchange as soon as practicable in respect of any change in the Authorized Representatives and/or the Compliance Adviser in accordance with the Listing Rules.

## WAIVER IN RELATION TO APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary.

Note 1 to Rule 3.28 of the Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(i) a member of The Hong Kong Chartered Governance Institute;

(ii) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

(iii) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

Note 2 to Rule 3.28 of the Listing Rules further sets out the factors that the Stock Exchange will consider in assessing an individual's "relevant experience":

(i) length of employment with the issuer and other issuers and the roles he or she played;

(ii) familiarity with the Listing Rules and other relevant law and regulations including the Securities and Futures Ordinance, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Codes;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

Pursuant to Chapter 3.10 of the Guide for New Listing Applicants, the Stock Exchange will consider a waiver application by an issuer in relation to Rules 3.28 and 8.17 of the Listing Rules based on the specific facts and circumstances. Factors that will be considered by the Stock Exchange include:

(i) whether the issuer has principal business activities primarily outside Hong Kong;

(ii) whether the issuer was able to demonstrate the need to appoint a person who does not have the acceptable qualification nor relevant experience as a company secretary; and

(iii) why the directors consider the proposed company secretary to be suitable to act as the issuer's company secretary.

Further, pursuant to Chapter 3.10 of the Guide for New Listing Applicants, such waiver, if granted, will be for a fixed period of time (the "**Waiver Period**") and on the following conditions:

(i) the proposed company secretary must be assisted by a person who possesses the qualifications or experience as required under Rule 3.28 of the Listing Rules and is appointed as a joint company secretary throughout the Waiver Period; and

(ii) the waiver can be revoked if there are material breaches of the Listing Rules by the issuer.

Our Group's principal business operations are in the PRC. We consider that apart from being able to meet the professional qualification or the relevant experience requirements under the Listing Rules, its company secretary also needs to have (i) experience relevant to our Company's operations; (ii) nexus to the Board; and (iii) close working relationship with the management of our Company, in order to perform the

function of a company secretary and to take the necessary actions in the most effective and efficient manner. It is for the benefit of our Company to appoint a person who is familiar with our business and affairs as a company secretary.

Our Company has appointed Ms. Huang Xiu (黃秀), who is the secretary to the Board, as one of the joint company secretaries. Our Company has appointed her as a joint company secretary due to her extensive experience in board and corporate management matters. Our Company believes that it would be the best interests of our Company and the corporate governance of our Group to appoint Ms. Huang Xiu who has the relevant experience of the Group's board and corporate management matters as a joint company secretary. Since Ms. Huang Xiu presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, she may not be able to solely fulfil the requirements of the Listing Rules. Therefore, we have appointed Ms. Tsang Man Kuen (曾文娟), an associate member of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute in the United Kingdom, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to provide assistance to Ms. Huang Xiu for an initial period of three years from the [**REDACTED**] to enable Ms. Huang Xiu to acquire the "relevant experience" under Note 2 to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules. For details on Ms. Huang Xiu's and Ms. Tsang Man Kuen's qualifications and experience, please refer to the section headed "Directors, Supervisors and Senior Management" in this document.

Given Ms. Tsang Man Kuen's professional qualification and experience, she will be able to explain to both Ms. Huang Xiu and our Company the relevant requirements under the Listing Rules and other applicable Hong Kong laws and regulations. Ms. Tsang Man Kuen will also assist Ms. Huang Xiu in organizing Board meetings and Shareholders' meetings as well as other matters of our Company which are incidental to the duties of a company secretary. Ms. Tsang Man Kuen is expected to work closely with Ms. Huang Xiu and will maintain regular contact with Ms. Huang Xiu, the Directors and the senior management of the Company. Ms. Huang Xiu will comply with the annual professional training requirement under Rule 3.29 of the Listing Rules and will enhance her knowledge of the Listing Rules during the three-year period from the [**REDACTED**]. We will further ensure that Ms. Huang Xiu will also be assisted by our Compliance Adviser and our legal adviser as to Hong Kong law on matters in relation to our ongoing compliance with the Listing Rules and the applicable laws and regulations.

Since Ms. Huang Xiu does not possess the formal qualifications required of a company secretary under Rule 3.28 of the Listing Rules, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rules 3.28 and 8.17 of the Listing Rules such that Ms. Huang Xiu may be appointed as a joint company secretary of our Company. The waiver is valid for an initial period of three years from the [**REDACTED**] on the conditions that (i) Ms. Huang Xiu must be assisted by Ms. Tsang Man Kuen, who possesses the qualifications and experience required under Rule 3.28 of the Listing Rules and is appointed as a joint company secretary throughout the Waiver Period; and (ii) the waiver will be revoked immediately if and when Ms. Tsang Man Kuen ceases to provide such assistance to Ms. Huang Xiu as a joint company secretary or if there are material breaches of the Listing Rules by our Company.

Before the expiration of the initial three-year period, the qualifications of Ms. Huang Xiu will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for ongoing assistance will continue. We will liaise with the Stock Exchange to enable it to assess whether Ms. Huang Xiu, having benefited from the assistance of Ms. Tsang Man Kuen for the preceding three years, will have acquired the skills necessary to carry out the duties of a company secretary and the relevant experience within the meaning of Note 2 to Rule 3.28 of the Listing Rules so that a further waiver will not be necessary.

## CONTINUING CONNECTED TRANSACTIONS

We have entered into, and are expected to continue, certain transactions that will constitute continuing connected transactions of our Company under the Listing Rules upon [**REDACTED**]. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver in relation to certain continuing connected transactions between us and our connected persons under Chapter 14A of the Listing Rules. For further details in this respect, please refer to the section headed "Connected Transactions" in this document.

[**REDACTED**]

[REDACTED]

[REDACTED]

[**REDACTED**]

[**REDACTED**]

## DIRECTORS

| Name | Address | Nationality |
|---|---|---|
| **Executive Directors** | | |
| Mr. Fu Hang (傅航) | Room 2801, Unit 3, Building 1,<br>Kunlun Mansion<br>No. 99 Changban Lane<br>Gongshu District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |
| Mr. Zhou Wei (周偉) | Room 502, Unit 3, Building 13,<br>Yuanda Garden<br>No. 5 Changban Lane<br>Gongshu District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |
| **Non-executive Directors** | | |
| Ms. Ma Honglan (馬紅蘭) | Room 1402, Unit 1, Building 30,<br>Xixi Huadong Garden<br>Gaojiao Road, Yuhang District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |
| Mr. Wu Shihang (吳詩航) | Room 1001, Building 37,<br>East Jindi Zizaicheng<br>Xihu District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |
| Mr. Albert Esteve Cruella | ALT DE GIRONELLA, 58 2B<br>Barcelona<br>Spain | Spanish |
| Mr. Fei Junjie (費俊傑) | Room 504, Unit 2, Building 6,<br>Santang Renjia<br>Dongxin Street, Gongshu District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |

| Name | Address | Nationality |
|---|---|---|
| **Independent Non-executive Directors** | | |
| Mr. Zhou Zhihui (周智慧) | Room 403, Unit 1, Building 31,<br>Xinming Bandao<br>Jiaojiang District<br>Taizhou, Zhejiang Province<br>PRC | Chinese |
| Ms. Ho Mei Yi (何美儀) | Flat H, 23/F, Block 23,<br>South Horizons<br>Ap Lei Chau<br>Hong Kong | Chinese<br>(Hong Kong) |
| Dr. Zhou Demin (周德敏) | No. 5, 10/F, Building 26<br>No. 38 Xueyuan Road<br>Haidian District<br>Beijing<br>PRC | Chinese |

**SUPERVISORS**

| Name | Address | Nationality |
|---|---|---|
| Mr. Ye Jiancai (葉建才) | Room 501, Unit 2, Building 4,<br>Dongshang International<br>Apartment<br>Qiantang District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |
| Mr. Xu Feihu (徐飛虎) | Room 1103, Unit 2, Building 3,<br>Mingheyuan Guiyufang<br>Qiantang District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |
| Ms. Zhao Fei (趙飛) | Room 601, Building 11,<br>Xingyao Jindi Qi'an Cheng<br>Jingjiang Street, Xiaoshan District<br>Hangzhou, Zhejiang Province<br>PRC | Chinese |

For further details on our Directors and Supervisors, please refer to the section headed "Directors, Supervisors and Senior Management" in this document.

## PARTIES INVOLVED IN THE [REDACTED]

**Sole Sponsor and [REDACTED]**

**Huatai Financial Holdings (Hong Kong) Limited**
62/F, The Center
99 Queen's Road Central
Central, Hong Kong

**[REDACTED]**

**Legal Advisers to our Company**

*As to Hong Kong and United States law:*
**Cooley HK**
35/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

*As to PRC law:*
**Zhejiang T&C Law Firm**
11/F, Block A, Dragon Century Square
No. 1 Hangda Road
Hangzhou, Zhejiang
PRC

*As to International Sanctions laws:*
**Hogan Lovells**
11th Floor, One Pacific Place
88 Queensway
Hong Kong

| | |
|---|---|
| **Legal Advisers to the Sole Sponsor and the [REDACTED]** | *As to Hong Kong and United States law:*<br>**Shearman & Sterling**<br>21/F, Gloucester Tower<br>The Landmark 15 Queen's Road<br>Central<br>Hong Kong<br><br>*As to PRC law:*<br>**King & Wood Mallesons**<br>17th Floor, One ICC, Shanghai ICC<br>999 Huai Hai Road (M)<br>Shanghai<br>PRC |
| **Reporting Accountants and Independent Auditor** | **Ernst & Young**<br>*Certified Public Accountants*<br>*Registered Public Interest Entity Auditor*<br>27/F, One Taikoo Place<br>979 King's Road<br>Quarry Bay<br>Hong Kong |
| **Industry Consultant** | **China Insights Industry Consultancy Limited**<br>10F, Block B, Jing'an International Center<br>88 Puji Road<br>Jing'an District<br>Shanghai<br>PRC |

**[REDACTED]**

# CORPORATE INFORMATION

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|---|---|
| **Registered Office, Head Office and Principal Place of Business in the PRC** | No. 23, Eighth Street<br>Baiyang Street, Qiantang District<br>Hangzhou, Zhejiang Province<br>PRC |
| **Principal Place of Business in Hong Kong** | 46/F, Hopewell Centre<br>183 Queen's Road East<br>Wan Chai<br>Hong Kong |
| **Company's Website** | **www.china-gene.com**<br>*(The information contained on this website does not form part of this document)* |
| **Joint Company Secretaries** | **Ms. Huang Xiu (黃秀)**<br>No. 23, Eighth Street<br>Baiyang Street, Qiantang District<br>Hangzhou, Zhejiang Province<br>PRC<br><br>**Ms. Tsang Man Kuen (曾文娟)**<br>*(associate member of both The Hong Kong Chartered Governance Institute and The Chartered Governance Institute in the United Kingdom)*<br>46/F, Hopewell Centre<br>183 Queen's Road East<br>Wan Chai<br>Hong Kong |
| **Authorized Representatives** | **Mr. Fu Hang (傅航)**<br>Room 2801, Unit 3, Building 1, Kunlun Mansion<br>No. 99 Changban Lane, Gongshu District<br>Hangzhou, Zhejiang Province<br>PRC<br><br>**Ms. Tsang Man Kuen (曾文娟)**<br>46/F, Hopewell Centre<br>183 Queen's Road East<br>Wan Chai<br>Hong Kong |
| **Audit Committee** | Mr. Zhou Zhihui (周智慧) *(Chairman)*<br>Ms. Ho Mei Yi (何美儀)<br>Dr. Zhou Demin (周德敏) |
| **Nomination Committee** | Ms. Ho Mei Yi (何美儀) *(Chairwoman)*<br>Mr. Fu Hang (傅航)<br>Dr. Zhou Demin (周德敏) |

| | |
|---|---|
| **Remuneration and Appraisal Committee** | Dr. Zhou Demin (周德敏) *(Chairman)*<br>Mr. Zhou Wei (周偉)<br>Mr. Zhou Zhihui (周智慧) |
| **Compliance Adviser** | **Maxa Capital Limited**<br>Unit 2602, 26/F, Golden Centre<br>188 Des Voeux Road Central, Sheung Wan<br>Hong Kong |
| | **[REDACTED]** |
| **Principal Banks** | **China Merchants Bank**<br>**Hangzhou Shenlan Sub-branch**<br>1-2F, No. 332 Wangjiang East Road<br>Shangcheng District<br>Hangzhou, Zhejiang Province<br>PRC |
| | **Bank of China**<br>**Hangzhou Qiantang New District Sub-branch**<br>No. 17, No. 3 Street, Baiyang Street<br>Qiantang District<br>Hangzhou, Zhejiang Province<br>PRC |
| | **China CITIC Bank**<br>**Hangzhou Economic and Technological Development Zone Sub-branch**<br>No. 2, Science and Technology Park Road,<br>Baiyang Street<br>Qiantang District<br>Hangzhou, Zhejiang Province<br>PRC |

***The information and statistics set out in this section and other sections of this document were extracted from different official government publications, available sources from public market research and other sources from independent suppliers. In addition, we engaged CIC in preparing the CIC Report, an independent industry report in respect of the* [REDACTED]*. We believe that the sources of the information in this section and other sections of this document are appropriate sources for such information, and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information from official government sources has not been independently verified by us or any other persons or parties involved in the* [REDACTED]*, save for CIC, and no representation is given as to its accuracy. Accordingly, the information from official government sources contained herein may not be accurate and should not be unduly relied upon. Our Directors confirm that, after making reasonable enquiries, there is no adverse change in the market information since the date of the CIC Report that would qualify, contradict or have a material impact on the information in this section.***

## PHARMACEUTICAL AND MEDICAL DEVICE MARKETS

According to CIC, China's pharmaceutical market is projected to grow significantly, from RMB1,680.0 billion in 2022 to RMB3,097.7 billion by 2032 at a CAGR of 6.3%. Within this market, the therapeutic areas of orthopedics, metabolic diseases, oncology, and hematology were particularly dominant, accounting for 52.0% of total market share in 2022, reflecting significant clinical demand in these key areas.

The medical device sector, including medical instruments, equipment, appliances, in vitro diagnostic reagents and calibrators, materials, and other related medical items used directly or indirectly on the human body, is also expected to experience robust growth, driven by aging population and heightened health awareness. According to CIC, the size of China's medical device market is expected to grow from RMB1,050.3 billion in 2022 to approximately RMB2,901.1 billion by 2032, at a CAGR of 10.7%.

According to CIC, companies attempting to enter China's burgeoning pharmaceutical and medical device markets are faced with significant barriers:

- *Market access barriers.* The usage of drugs and medical devices is directly linked to public health and safety. Consequently, the government has established a comprehensive framework of laws and regulations governing market access, production, and operation. The journey from lab development to product launch involves extensive trials for registration and market approval. With the tightening of industry supervision, the complexity and difficulty of gaining new product approvals have escalated.

- *Capital investment barriers.* The financial investment required to bring a new drug or medical device to market, including post-approval research and

development, can amount to billions of dollars. This high cost is compounded by the substantial investments needed for facilities and land to enable large-scale manufacturing. Additionally, continuous technological innovation and product upgrading necessitate significant ongoing financial support, posing a considerable challenge for companies in the pharmaceutical and medical device sectors.

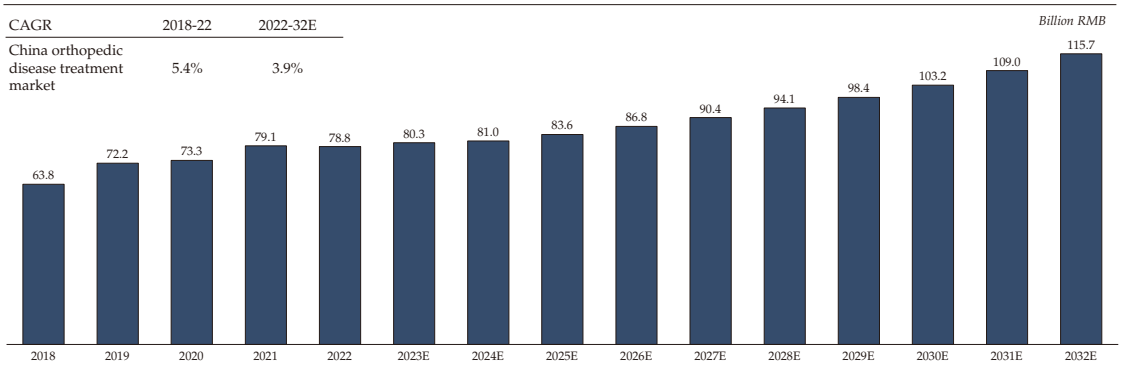
- *Talent and technology barriers.* The pharmaceutical and medical device industries demand a high level of expertise and technical skill. They encompass a wide range of disciplines, including clinical medicine, biology, materials science, electronics, and computer science. The long-term accumulation of experience, talent, and technical know-how is a significant hurdle that new entrants struggle to overcome in the short term.

## ORTHOPEDIC DISEASE TREATMENT MARKET

Orthopedic diseases encompass injuries and conditions affecting the musculoskeletal system, which comprises bones, muscles, nerves, joints, ligaments, tendons, and other connective tissues. Damage to any of these tissues or structures can arise from either chronic diseases or acute injuries. The primary treatments for orthopedic conditions include medications, physical therapy, and surgery.

According to CIC, the orthopedic disease treatment market in China grew from RMB63.8 billion in 2018 to RMB78.8 billion in 2022 at the CAGR of 5.4%, and is projected to reach RMB115.7 billion by 2032 at the CAGR of 3.9%.

**China orthopedic disease treatment market size, 2018-2032E**




*Source: China Insights Consultancy*

## Bone Repair Material Market

### *Bone injury*

Bone injury refers to a disruption in the structural integrity of bones causing a wide range of orthopedic conditions including bone defects, bone nonunion, bone delayed union, spinal fusion, and joint fusion. Such injury may happen due to various causes, such as (i) severe injuries from events such as traffic accidents, which may result in shattered bones or loss of bone in the limbs, (ii) bone infections that can lead to bone destruction, bone tissue loss, or the need for surgical removal of infected bone tissue, (iii) extensive bone tissue resection due to bone tumors, (iv) conditions like osteoporosis leading to reduced bone mass and increased fragility fracture risks, and (v) congenital factors such as inadequate maternal nutrition and inherited genetic disorders or mutations that impact fetal bone growth and structure.

While bone typically has the capacity to regenerate, large bony injuries, known as critical-size defects (CSDs), exceed this natural healing ability due to their size. CSDs are segmental bone deficiencies longer than 2 to 2.5 times the diameter of the affected bone, necessitating surgical intervention due to their inability for self-regeneration and associated risks of non-union, delayed healing, or non-healing, and localized functional impairments.

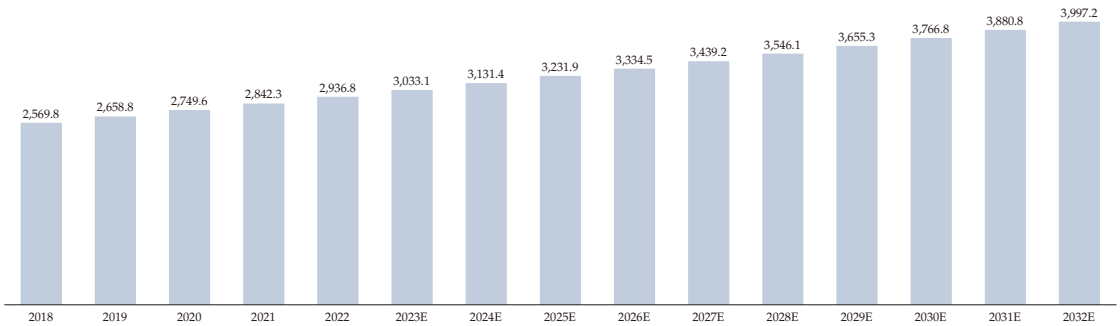
Common symptoms of bone injuries manifest as (i) impaired mobility and functional loss, hindering normal joint movements and causing abnormal activity, (ii) pain during movement or weight-bearing activities, (iii) deformities and muscle atrophy, including bent or shortened bones, twisted bones, stiff joints, and muscle loss, and (iv) increased risk of bone infection, with symptoms including high fever and localized redness, swelling, and warmth.

As illustrated below, the incidence of bone injuries in China has increased from approximately 2.6 million in 2018 to approximately 2.9 million in 2022 and is expected to reach approximately 4.0 million by 2032 attributable to the rapidly aging population and changes in people's travel and physical activity patterns that contributes to a higher frequency of bone injury accidents.

**Incidence of bone injury in China, 2018-2032E**

| CAGR | 2018-22 | 2022-32E |
|---|---|---|
| Incidence of bone defect in China | 3.4% | 3.1% |

*Thousand patients*




*Source: China Insights Consultancy*

*Bone repair materials*

Bone repair materials are substances used in surgeries to aid the healing of bone injuries. Their primary function is to fill gaps in bones caused by skeletal damage or to assist in the fusion of bones for various clinical needs. These materials are pivotal in enhancing the healing of bone injuries, guiding bone fusion, and aiding the recovery of pathological bone tissue to its healthy state.

The desired characteristics of bone repair materials for use in surgeries addressing bone injuries include a broad range of sourcing options, exceptional biocompatibility, low-immunogenic properties, safety, biodegradability, as well as adequate mechanical strength and flexibility.

Bone repair materials can be categorized into three types: bioactive artificial bone, non-bioactive artificial bones and natural bones. Bioactive artificial bones mainly include bone repair materials containing bioactive agents such as bone morphogenetic protein ("**BMP**"). Non-bioactive artificial bones comprise metal materials, inorganic non-metallic materials, and other materials. Natural bones include same-species allograft bone, autologous bone, and xenograft bone.

The following table sets forth a summary of the clinical advantages of BMP bone repair materials in comparison with other types of bone repair materials.

**Comparison of bone repair materials**

| Main types | BMP bone repair material[1] | Non-bioactive artificial bone | Allograft bone | Xenograft bone | Autograft bone | Advantages of BMP bone repair material |
|---|---|---|---|---|---|---|
| Osteoinductive capacity | ★★★ | ★★ | ★★ | ★ | ★★★ | • BMPs are important in formation and maintenance of bones and cartilage. Among these proteins, BMP-2 has the strongest osteoinductive ability, enabling direct stimulation of osteogenesis. |
| Post-operative healing rate | ★★★ | ★★ | ★ | ★ | ★★★ | • BMP bone repair material exhibits a higher post-operative healing rate and more rapid bone formation compared to other types of bone repair materials. |
| Repairing speed | ★★★ | ★ | ★ | ★ | ★★★ | • Multiple studies show that BMP bone repair material results in a shorter hospital stay compared to other bone materials, therefore demonstrating faster reparative speed. |
| Availability | ★★★ | ★★ | ★ | ★ | ★ | • Allograft, xenograft and autograft bones, sourced from cadavers, animals and patients themselves, respectively, have highly limited supplies. In contrast, the production of BMP bone repair material can be scaled in a controlled laboratory setting. |
| Safety | ★★★ | ★★ | ★ | ★ | ★★★ | • Allograft and xenograft bones carry the potential risk of immune rejection. BMP bone repair material has better safety profile. |

*Note:*

1. Guyoudao 骨优导®, an innovative drug-device combination product marketed by the Company, is a BMP bone repair material.

*Source:* *Oral and Maxillofacial Surgery Clinics of North America; China Insights Consultancy; The American Society of Plastic Surgeons*

***rhBMP-2***

BMPs are recognized for their role in inducing bone tissue formation, making them valuable in the repair of hard tissues. Among these proteins, BMP-2 stands out as one of the factors with the strongest osteoinductive ability. BMP-2 encourages mesenchymal stem cells to become bone-forming cells, or osteoblasts, and cartilage-forming cells, or chondrocytes, facilitating the growth, development, and repair of bones and cartilage.

Recombinant human BMP-2 (rhBMP-2) is a biological engineered form of human BMP-2. rhBMP-2 offers significant advantages in clinical settings, facilitating the process of bone repair and reducing the need for more invasive treatments.

- *Biological activity.* rhBMP-2 is highly biologically active, directly stimulating the creation of new bone tissue.

- *Reduced need for bone grafts.* rhBMP-2 can be applied directly to bone injury areas, eliminating the need to harvest bone from other parts of the patient's body.

- *Scalability.* The production of rhBMP-2 is easily controlled in a laboratory setting, allowing for large-scale production.

- *Stimulates bone healing.* rhBMP-2 aids in transforming primitive bone cells and stem cells into osteoblasts, which is essential for bone healing.

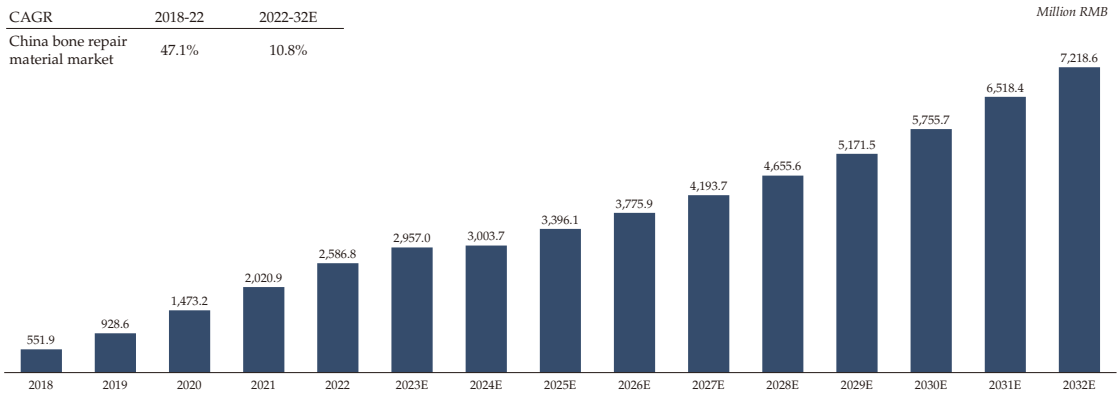
- *Superior clinical results compared with allograft bones.* As shown in published clinical study results, bone repair materials containing rhBMP-2 demonstrate superior clinical efficacy and safety compared to allograft bones. Patients with sustained bone injuries treated with bone repair materials containing rhBMP-2 required further surgical revisions in 26.1% of the cases, whereas those receiving allograft bone transplants needed additional surgical revisions in 47.4% of the cases. The median time to bone union for patients treated with bone repair materials containing rhBMP-2 was 217 days, significantly shorter than the 416 days required for patients who underwent allograft bone transplants. Furthermore, the incidence of new-onset postoperative infections in patients treated with bone repair materials containing rhBMP-2 was 17.4%, which is lower compared to the 31.6% infection rate in patients receiving allograft bone transplants.

### *Size of bone repair material market in China*

According to CIC, the bone repair material market in China has seen a steady growth in recent years, with its market size expanded from RMB551.9 million in 2018 to RMB2,586.8 million in 2022 at a CAGR of 47.1%. Based on historical growth trends, this market size is projected to reach RMB7,218.6 million by 2032, at a CAGR of 10.8%. The following chart sets forth the historical and projected size of the bone repair material market in China for the periods indicated:

**Market size of bone repair material in China, 2018-2032E**

| CAGR | 2018-22 | 2022-32E |
|---|---|---|
| China bone repair material market | 47.1% | 10.8% |

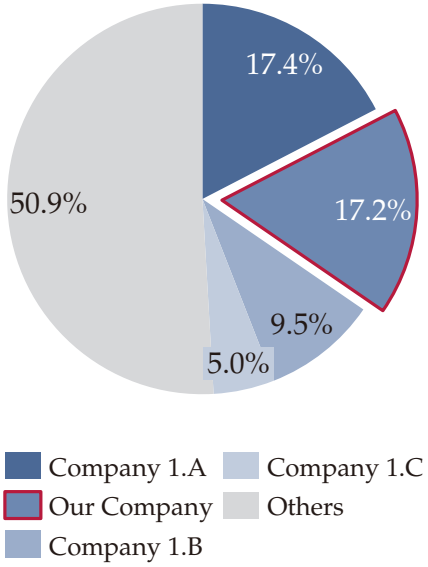



*Source: China Insights Consultancy*

*Competitive landscape of bone repair material market in China*

The top four manufacturers in the bone repair material market in China accounted for approximately 49.1% of the total market share in 2022. According to CIC, as measured by revenue in 2022, we ranked the second among all bone repair material manufacturers in China. The following chart sets forth the top four companies in China's bone repair material market in terms of revenue in 2022, as well as our position in the ranking:

**Market share breakdown by revenue, 2022**




*Source: NMPA; China Insights Consultancy*

- *Company 1.A, headquartered in Shanxi, China, was founded in 1999. It focuses on the R&D, production and sales of biological tissue materials.*
- *Company 1.B, headquartered in Beijing, China, was listed on Shanghai Stock Exchange in 2021. It was founded in 2004 and is dedicated to the R&D, production and sales of implantable medical devices for tissue regeneration and repair.*
- *Company 1.C, headquartered in Beijing, China, was founded in 2002. It is committed to the R&D, production, and sales of Class 3 medical devices (medical biomaterials).*

***Growth drivers of bone repair material market in China***

The growth of the bone repair material market in China is poised for significant growth propelled by several key factors:

- *Aging population.* Aging population is leading to an increased prevalence of bone injuries among the elderly in China, necessitating more surgical treatments for bone injuries and functional impairments. Additionally, rising living standards and heightened health awareness are amplifying the demand for high-quality bone repair materials. As a result, bone repair materials designed for tissue regeneration and trauma repair are expected to witness burgeoning market growth.

- *Favorable policies for innovative bone repair materials.* As innovative medical devices, innovative bone repair materials, including those containing rhBMP-2 have garnered encouragement from national policies. Notably, the NMPA promulgated the "Special Review Procedure for Innovative Medical Devices" (《創新醫療器械特別審查程序》) on December 1, 2018. This revised regulation has enhanced the applicability of the special review procedure and specifically prioritized the handling of innovative medical device application cases, aiming to increase the efficiency of reviewing innovative medical devices and actively supports the innovation within the medical device industry. Corresponding to this special review procedure, the Medical Device Technical Review Center in the Yangtze River Delta was established in December 2020 to accelerate the review procedure for innovative medical devices in the region. Additionally, innovative medical devices have been specifically included in the "14th Five-Year Plan" for the pharmaceutical industry (《「十四五」醫藥工業發展規劃》), coupling with significant support and focus from the PRC government.

- *Innovative bone repair materials containing BMP are not included in the volume-based procurement (**VBP**) list.* The National Healthcare Security Administration (國家醫保局) implemented the centralized VBP scheme for high-value medical consumables since 2020, which focuses on medical devices and consumables with mature, high-volume clinical usage and sufficient market competition. In 2023, the Joint Office for the Procurement of High-Value Medical Consumables (國家組織高值醫用耗材聯合採購辦公室) published the 4th VBP List for High-Value Consumables (the "**4th VBP List**"), which covers, among other things, certain orthopedic medical devices. According to CIC, medical devices included in the 4th VBP List experience considerable price reductions. BMP bone repair materials, characterized by their unique combination of biological with medical device and innovativeness, are not included in this list. BMP bone repair materials are merely subject to certain price restrictions to be imposed by relevant regulatory authorities. Such price restrictions, when compared to the pricing policies applicable to the medical devices included in the 4th VBP List, are expected to exert less downward pressure on the price of the products. As of the Latest Practicable Date, the implementation details of such price restriction policies are to be published by the relevant regulatory authorities.

- *Unmet clinical demand.* With over 2.8 million new cases of bone injuries reported in 2022, there is a clear and pressing need for effective bone repair solutions in China. A significant number of these patients do not meet the criteria for autologous bone grafting or lack access to specialized care, leading to suboptimal healing and recovery outcomes. This gap in the healthcare system underscores a critical demand for innovative bone repair materials, offering a substantial opportunity for market growth in clinical orthopedics.

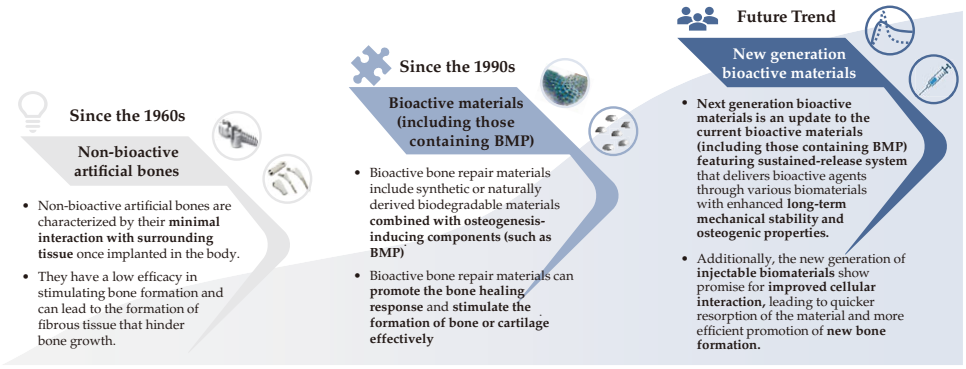
***Future trends for bone repair material market in China***

The future trends in the bone repair material market in China are characterized by the growing clinical preference for artificial materials, the emergence of new generation bioactive materials, and the domestic substitution of imported products:

- *Broad clinical prospects of artificial bone repair materials.* Natural bone repair materials, such as allografts, are facing challenges in clinical applications due to immune rejection risks, disease transmission potential, limited availability of healthy donors, and ethical concerns. In contrast, artificial bone repair materials are gaining preference for their wide availability, adaptability to clinical needs, and high-quality features. These materials, including bioactive bone repair material such as those containing BMP-2, have shown effectiveness in inducing bone regeneration and offering favorable outcomes, while avoiding the complications associated with allograft transplantation.

- *Emergence of new generation bioactive materials.* As illustrated in the following chart, the evolution of artificial bone repair materials can be segmented into three periods, culminating in the emergence of new generation bioactive materials, distinguished by their innovative features such as sustained-release systems boosting stability and osteogenicity, and injectable formulations supporting improved cellular interaction and accelerated resorption of biomaterial.

**Development Trends of Artificial Bone Repair Materials**




*Source:* Chinese Journal of Reparative and Reconstructive Surgery; Materials (Basel); Frontiers in Bioengineering and Biotechnology; China Insights Consultancy

- *Domestic substitution of imported bone repair materials.* As of the Latest Practicable Date, 24 imported artificial bone repair materials had been registered with the NMPA, but only three of which were registered since 2021. As of the same date, 17 domestic artificial bone materials had been registered with the NMPA, four of which were registered since 2021. The increasing quality and technological advancement of domestic bone repair materials have led to a growing preference for domestic products over imported ones.

## Osteoporosis Drug Market

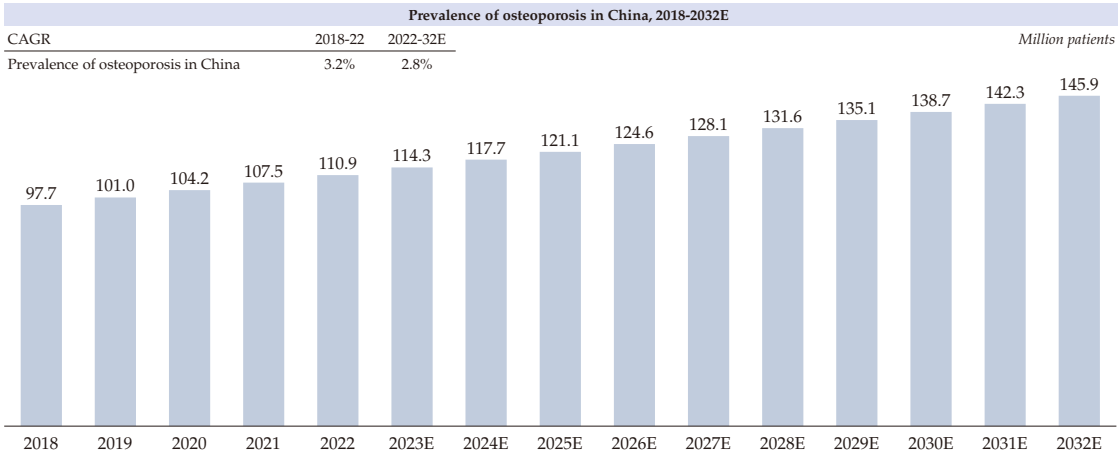
### *Osteoporosis*

Osteoporosis is a widespread bone disease, particularly among middle-aged and elderly individuals, and is the most common chronic bone condition. Characterized by low bone mass, structural deterioration of bone tissue, and increased fragility, it often leads to easy fractures.

The clinical symptoms of osteoporosis include pain, fractures, spinal deformities, and a negative impact on psychological well-being and quality of life. Fractures are a critical concern in osteoporosis, frequently being the initial symptom and reason for seeking medical advice. The condition's severity is underscored by a high mortality rate, with 20-25% of patients dying within a year of a hip fracture due to complications, and over 50% suffering from varying degrees of disability post-recovery.

In addition, from an economic perspective, the annual direct cost for a patient with an osteoporotic hip fracture is around RMB30,000. This economic burden, combined with the high prevalence and serious health implications of the disease, highlights the importance of understanding and addressing this disease.

As illustrated below, the prevalence of osteoporosis in China has increased from 97.7 million in 2018 to 110.9 million in 2022 and is expected to reach 145.9 million by 2032.




*Source: Chinese Medical Journal; China Insights Consultancy*

### *Antibody drugs for the treatment of osteoporosis*

According to CIC, denosumab is China's first and only fully human monoclonal antibody targeting the RANKL-RANK signaling pathway approved for treating osteoporosis. It offers a convenient, effective, and cost-efficient treatment option for postmenopausal women with osteoporosis.

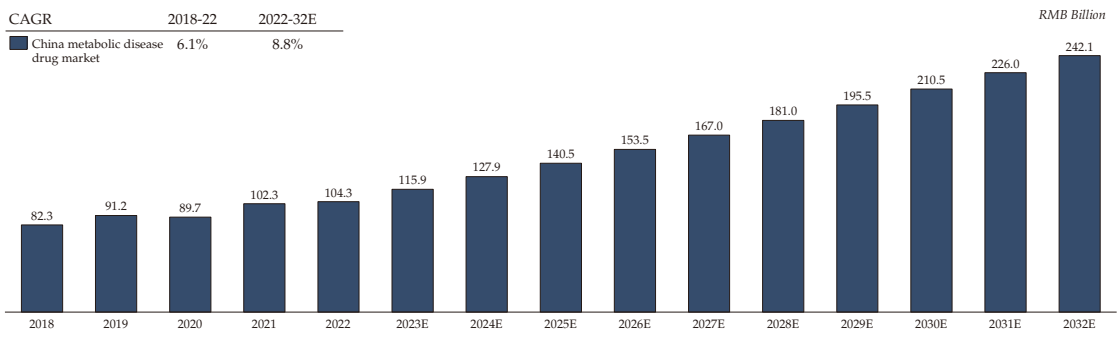
In addition to denosumab, romosozumab, a humanized monoclonal antibody, is currently under Phase III trial for the treatment of osteoporosis in China and has not commenced commercial launch. Romosozumab functions by inhibiting sclerostin's activity, promoting bone formation, and simultaneously reducing bone resorption. This dual action effectively increases bone density. In January 2019, Japan PMDA (Pharmaceuticals and Medical Devices Agency) approved romosozumab for the treatment of osteoporosis with a high risk of fracture. In April and December 2019, U.S. FDA and European Medicines Agency, respectively, approved the drug for the treatment of severe osteoporosis in postmenopausal women at high risk of fracture.

## METABOLIC DISEASE DRUGS MARKET

Metabolism refers to the biochemical reactions occurring in human cells, crucial for maintaining cell and overall body health. A metabolic disease arises when these reactions are disrupted, affecting how the body processes and distributes macronutrients like proteins, fats, and carbohydrates. Such disorders occur due to abnormal chemical reactions that change the body's usual metabolic processes. Common types of metabolic diseases include diabetes, overweight, obesity, among others.

According to CIC, the metabolic disease drugs market in China increased from RMB82.3 billion in 2018 to 104.3 billion in 2022, and is expected to reach 242.1 billion by 2032 at the CAGR of 8.8%.

**China metabolic disease drug market size, 2018-2032E**




*Source: China Insights Consultancy*

## T2DM Drug Market

### *T2DM*

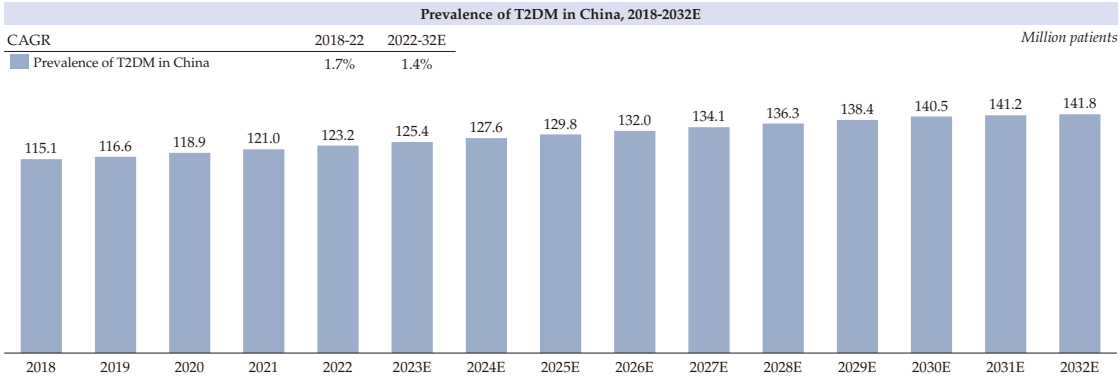
Diabetes is a chronic metabolic disease marked by high blood glucose levels, which, over time, can severely damage the heart, blood vessels, eyes, kidneys, and nerves. There are two main types of chronic diabetes: Type 1 Diabetes Mellitus (T1DM) and Type 2 Diabetes Mellitus (T2DM).

T1DM is an autoimmune condition causing the destruction of insulin-producing beta cells in the pancreas, leading to minimal or no insulin production.

T2DM involves the body's inadequate response to insulin. Over time, the pancreas decreases insulin production, resulting in hyperglycemia (excessive sugar in the bloodstream). T2DM is the more common form, accounting for about 90% of all diabetes cases. The symptoms of T2DM often include frequent urination, excessive thirst and fluid intake, fatigue, blurred vision, abnormal weight loss, increased hunger, and slow-healing sores.

In China, approximately 66.8% of T2DM patients have at least one chronic comorbid condition. These include kidney diseases, diabetic neuropathy, diabetic retinopathy, cardiovascular diseases, and cerebrovascular diseases. On average, a T2DM patient in China may have about 2.17 chronic complications.

According to CIC, the number of T2DM patients grew from 115.1 million in 2018 to 123.2 million in 2022 and is projected to reach 141.8 million by 2032 in China. This rising prevalence is attributed to factors such as aging population, urbanization, increasing obesity rates, and sedentary lifestyles.




*Source: International Diabetics Federation; China Insights Consultancy*

### *GLP-1RAs for the treatment of T2DM*

Glucagon-like peptide-1 (GLP-1) is an incretin hormone secreted by L-cells in the distal intestinal ileum and colon after eating. It plays a crucial role in regulating blood sugar by stimulating glucose-dependent insulin release from pancreatic islets. GLP-1 also slows gastric emptying, manages postprandial glucagon levels, and reduces food intake.

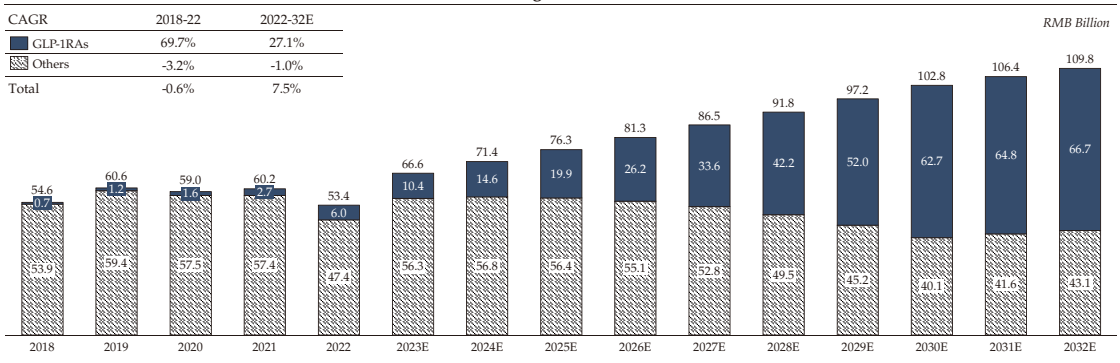
GLP-1 receptor agonists (GLP-1RAs) effectively control T2DM hyperglycemia by influencing six out of eight pathogenic mechanisms of T2DM. GLP-1RAs increase incretin and insulin secretion, decrease glucagon secretion, reduce glucose production, elevate glucose uptake in skeletal muscles, and neurotransmitter dysfunction. Consequently, GLP-1RAs are recommended for T2DM treatment in both Chinese and international guidelines.

Additionally, GLP-1RAs are classified by their duration of action into short-acting and long-acting varieties. Advances in modification techniques have extended the half-life of GLP-1RAs, leading to less frequent dosing and improved patient compliance.

### *Size of T2DM drugs market in China*

According to CIC, the T2DM drugs market in China is expected to grow from RMB53.4 billion in 2022 to RMB109.8 billion in 2032 at a CAGR of 7.5%. GLP-1RAs have achieved remarkable market acceptance in international market and surpassed insulin to become the most widely used medication for T2DM globally in 2023. This class of medications also shows trmendous market potential in China. According to CIC, China's GLP-1RA market in T2DM expanded from RMB0.7 billion in 2018 to RMB6.0 billion in 2022, representing a CAGR of 69.7% and is projected to grow to RMB66.7 billion by 2032 at a CAGR of 27.1%. The following chart sets forth the historical and projected size of the T2DM drugs market in China for the periods indicated:

**China T2DM Drug Market Size, 2017-2032E**




*Source: China Insights Consultancy*

### *Competitive landscape of T2DM drugs market in China*

As illustrated in the following table, as of the Latest Practicable Date, 12 GLP-1RA products were approved in China for the treatment T2DM, including 5 domestically developed products.

**Approved GLP-1RA products for T2DM by NMPA**

| Drug Name | Brand Name | MoA | Indication | Company | First Approval |
|---|---|---|---|---|---|
| Liraglutide | Tongboli | GLP-1RA | T2DM | Tonghua Dongbao Pharmaceutical | 2023/11/28 |
| Liraglutide | Liluping | GLP-1RA | T2DM | Hangzhou Zhongmei Huadong Pharmaceutical/Our Company[1] | 2023/3/28 |
| Insulin Glargine Lixisenatide | Soliqua | GLP-1RA, insulin | T2DM | Sanofi | 2023/1/10 |
| Exenatide | / | GLP-1RA | T2DM | Qinghai Chenfei Pharmaceutical | 2022/7/29 |
| IDegLira | Xultophy | GLP-1RA, insulin | T2DM | Novo Nordisk | 2021/10/26 |
| Semaglutide | Ozempic | GLP-1RA | T2DM | Novo Nordisk | 2021/4/27 |
| Polyethylene Glycol Loxenatide | Fulaimei | GLP-1RA | T2DM | Jiangsu Hansoh Pharmaceutical Group | 2019/5/5 |
| Dulaglutide | Trulicity | GLP-1RA | T2DM | Eli Lilly | 2019/2/22 |
| Lixisenatide | Lyxumia | GLP-1RA | T2DM | Sanofi | 2017/9/29 |
| Beinaglutide | Yishengtai | GLP-1RA | T2DM | Shanghai Benemae Pharmaceutical | 2016/12/13 |
| Liraglutide | Victoza | GLP-1RA | T2DM | Novo Nordisk | 2011/3/4 |
| Exenatide | Byetta | GLP-1RA | T2DM | AstraZeneca | 2009/5/8 |

Imported products  Domestic products

*Source: NMPA; China Insights Consultancy*

*Note:*

1. We developed a biosimilar candidate to liraglutide (later known as Liluping) and transferred it to Hangzhou Zhongmei Huadong Pharmaceutical Co, which is the Marketing Authorization Holder (MAH) of Liluping.

As of the Latest Practicable Date, there were 85 ongoing clinical trails evaluating GLP-1RAs drug candidates for the treatment of T2DM in China, including 35 Phase III clinical trials.

### *Growth drivers of T2DM drug market in China*

The T2DM drug market in China is poised for significant growth, driven by the following key factors:

- *Growing prevalence and awareness of T2DM.* China is witnessing a significant rise in T2DM cases, driven by aging demographics, lifestyle changes, and an increase in obesity. Current estimates suggest that T2DM prevalence will escalate from 123.2 million in 2022 to 141.8 million by 2032. This increase in patient numbers along with heightened awareness and treatment rates of the disease necessitates an expanded demand for effective diabetes treatments.

- *Favorable policies for chronic disease management.* The Chinese government's focus on chronic disease management, as highlighted in the "14th Five-Year Plan", emphasizes comprehensive strategies for major chronic diseases, including diabetes. Such policy frameworks aid in better diagnosis and management of T2DM, consequently increasing the patient pool under regular treatment regimens.

- *Improving affordability of T2DM medications.* The inclusion of a growing number of diabetes drugs, including multiple GLP-1RA medications such as liraglutide, semaglutide, exenatide, and dulaglutide, in the National Medical Insurance Catalog, rising from 59 in 2019 to 76 in 2022, leads to improved medication affordability. This trend is likely to continue, enhancing treatment accessibility and adherence among T2DM patients.

- *Increasing availability of targeted T2DM medications.* The emergence of targeted T2DM medications, such as GLP-1 receptor agonists, dipeptidyl peptidase-4 (DPP-4) inhibitors, and sodium-glucose cotransporter-2 (SGLT-2) inhibitors, addresses previously unmet clinical needs. The expected influx of generic drugs, following the expiry of core patents, will further enrich the T2DM drug market in China, offering a wider range of treatment options for patients.

***Future trends for T2DM drug market in China***

The projected future trends for the T2DM drug market in China include the following:

- *Embracing a patient-centered approach in T2DM management.* Contemporary clinical guidelines for the management of T2DM underscore the importance of personalized treatment plans, designed to meet the specific needs and conditions of individual patients. Such patient-centered strategies in diagnostics and therapeutics are rapidly becoming the norm, aiming to enhance the efficacy of treatments tailored to the unique disease profiles of each patient.

- *Holistic management for comprehensive clinical benefits.* In current practice, the management of T2DM places a significant emphasis on the broader clinical benefits, beyond mere glucose regulation. Modern clinical guidelines underscore the importance of managing diabetes-related risk factors like cardiovascular health, kidney protection, obesity, hypertension, and high cholesterol, through a combination of pharmacotherapy and lifestyle changes. This integrated approach aims not only to optimize metabolic control but also to improve overall clinical outcomes. Moving forward, this comprehensive, evidence-based approach in both drug therapy and lifestyle interventions is expected to continue as a leading trend in T2DM management.

- *Increasing use of GLP-1RAs drugs.* The focus in T2DM treatment is increasingly shifting towards improving patients' quality of life and alleviating the broader societal and economic impacts of the disease. GLP-1RAs are a class of drugs that have shown efficacy in reducing blood glucose levels without the risk of hypoglycemia, alongside protective effects on pancreatic β-cell function and significant weight reduction capabilities. Given these multifaceted benefits, GLP-1RAs are anticipated to play a pivotal role in the future of T2DM drug market in China, highlighting their value in providing long-term clinical efficacy and enhancing patient outcomes.

## Overweight and Obesity Drug Market

### *Overweight and obesity*

Overweight and obesity are characterized by an abnormal or excessive accumulation of fat, posing significant health risks. In China, a Body Mass Index (BMI) above 24 is classified as overweight, and a BMI above 28 as obese.

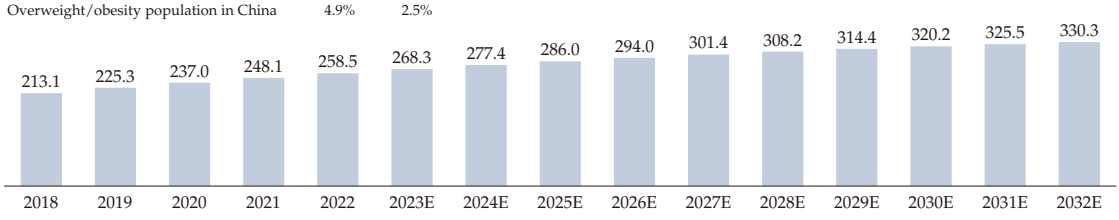
Overweight and obesity contribute to various health issues, either independently or in conjunction with other diseases. Notably, it is linked to the development of cardiovascular diseases, diabetes, musculoskeletal disorders, and certain cancers. The objective of weight management is to achieve a 5% to 15% reduction in weight or more. This goal helps improve metabolic health, reduces the risks of obesity-related diseases, and can decrease the need for medication.

According to CIC, overweight and obesity population in China had risen from 213.1 million in 2018 to 258.5 million in 2022 and is projected to reach 330.3 million by 2032.

**Overweight and obesity population in China, 2018-2032E**

| CAGR | 2018-22 | 2022-32E |
|---|---|---|
| Overweight/obesity population in China | 4.9% | 2.5% |

*Million patients*




*Source: Journal of Clinical Internal Medicine; Chinese Journal of Medical Frontiers; China Insights Consultancy*

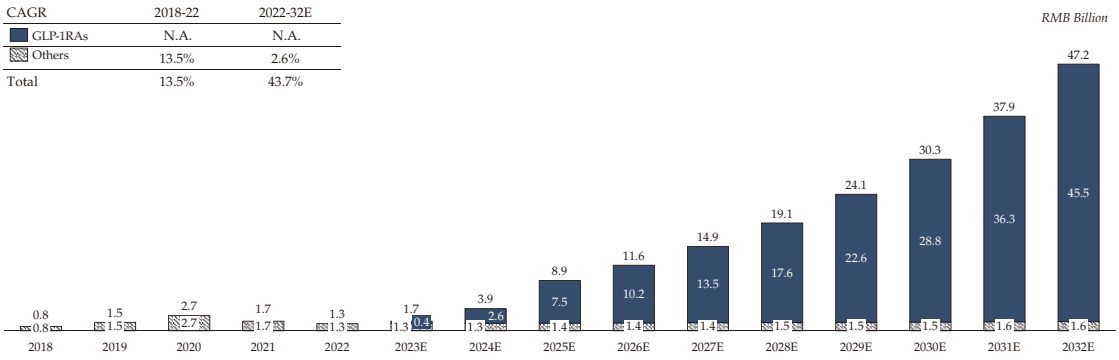
Lifestyle changes, encompassing diet, exercise, and behavioral adjustments, are the primary treatment approach for overweight and obesity. However, if these interventions are ineffective in patients with a BMI of 24 or higher with comorbidities, or in those with a BMI of 28 or higher, pharmacotherapy such as GLP-1RAs may be considered as an additional treatment option.

### *Size of overweight and obesity drug market in China*

According to CIC, the market for overweight and obesity drugs in China is expected to expand from RMB1.3 billion in 2022 to RMB47.2 billion in 2032, growing at a CAGR of 43.7%. Within this market, GLP-1RAs is expected to experience a much more robust growth than the other drug classes, the market size of which is projected to grow from RMB0.4 billion in 2023 to RMB45.5 billion in 2032.

**China overweight/obesity drug market size, 2018-2032E**

| CAGR | 2018-22 | 2022-32E |
|---|---|---|
| GLP-1RAs | N.A. | N.A. |
| Others | 13.5% | 2.6% |
| Total | 13.5% | 43.7% |




*Source: China Insights Consultancy*

### *Competitive landscape of overweight and obesity drug market in China*

As illustrated in the following table, as of the Latest Practicable Date, there were 13 approved drugs in three categories in terms of the mechanisms of action for the treatment of overweight and obesity in China.

**Approved overweight/obesity drugs by NMPA in China**

| Drug Name | Brand Name | MoA | Indication | Company | First Approval Date |
|---|---|---|---|---|---|
| Beinaglutide | Feisumei | GLP-1R | Obesity/overweight | Shanghai Benemae Pharmaceutical | 2023/07/25 |
| Liraglutide | Liluping | GLP-1R | Obesity/overweight | Hangzhou Zhongmei Huadong Pharmaceutical/Our Company[1] | 2023/06/30 |
| Mazindol | / | DAT; NET | Obesity/overweight | Jiangsu Disainuo Pharmaceutical | 2020/07/24 |
| Orlistat | / | LIPF | Obesity/overweight | Nine domestic manufacturers[2] | Since 2018 |
| Orlistat | Xenical | LIPF | Obesity/overweight | Cheplapharm Arzneimittel/Roche | 2000/10/31 |

Imported products  Domestic products

*Source: NMPA; China Insights Consultancy*

*Note:*

1. We developed the drug candidate of Liluping and transferred it to Hangzhou Zhongmei Huadong Pharmaceutical Co, which is the marketing authorization holder of Liluping.

2. Including Shandong New Time Pharmaceutical, Zhongshan Wanhan Pharmaceuticals, Chongqing Pharscin Pharmaceutical, Zein Biotechnology, Zhejiang Hisun Pharmaceutical, Hangzhou Zhongmei Huadong Pharmaceutical, Argus (Hunan) Pharmaceutical, Hunan Dinuo Pharmaceutical, and Hunan Zhengtai Jinhu Pharmaceutical.

*Glossary: DAT refers to dopamine transporter; NET refers to norepinephrine transporter; LIPF refers to gastric lipase*

Among the approved drugs for overweight and obesity management in China, Liluping of Zhongmei Huadong received approval for obesity and overweight treatment in June 2023, making it the first and only liraglutide product in China approved for this indication. It is also the first GLP-1 product approved for obesity treatment in China.

As of the Latest Practicable Date, there were 45 ongoing clinical trials evaluating GLP-1RA drug candidates for the treatment of overweight and obesity in China.

***Growth drivers of overweight and obesity drug market in China***

The expansion of overweight and obesity management drug market in China is largely driven by the growing number of overweight/obesity patients, increased health awareness due to social education, and the recognition of GLP-1RA drugs' efficacy and safety:

- *Increasing number of overweight/obesity patients.* Rapid urbanization and economic development in China have led to lifestyle changes that contribute significantly to the rising prevalence of overweight and obesity. Modern dietary habits combined with decreased physical activity are accelerating this trend, leading to an earlier onset of obesity-related complications. This escalation is creating a growing demand for effective weight management solutions, subsequently expanding the market for obesity and overweight medications.

- *Social education leading to surging clinical needs.* Enhanced public health awareness, driven by social education, has shifted the perception of overweight and obesity from a mere aesthetic issue to a significant health concern. Understanding the comprehensive health risks associated with obesity is motivating more individuals to seek medical intervention. This change in attitude is increasing healthcare utilization and treatment rates, thereby driving the growth of the market.

- *Widely recognized efficacy and safety of GLP-1RA.* The approval of the first GLP-1RA for treating overweight and obesity in China in June 2023 marked a significant milestone for the market. GLP-1RAs with their significant weight reduction effects and safety profile meet the critical needs of a population grappling with escalating obesity rates. The active research and development of GLP-1RA drugs by both domestic and international pharmaceutical companies is leading to a broader spectrum of GLP-1RA options, further fueling their popularity and adoption. The increasing availability of various GLP-1RA formulations and brands is set to broaden treatment choices for patients, ensuring that GLP-1RAs remain at the forefront of long-term obesity and overweight management strategies. This trend is significantly contributing to the expansion of this market segment in China.

**Semaglutide**

***Overview and clinical advantages of semaglutide***

Semaglutide, a long-acting GLP-1RA, was originally developed by Novo Nordisk. It is globally marketed under the brand names Ozempic® and Rybelsus® for T2DM and Wegovy® for obesity. In 2022, with total sales of US$10.9 billion, semaglutide ranked among the top 10 best-selling drugs by generic name worldwide.

The drug has shown high efficacy in controlling blood glucose and body weight in clinical trials internationally. However, due to its rising popularity and increased prescriptions, semaglutide is currently experiencing a global shortage. As of August 2023, both the Ozempic® injection and Wegovy® injection remain on the FDA Drug Shortage List.

The clinical advantages of semaglutide include:

- *Effective blood glucose control.* Multiple trials comparing semaglutide with other existing T2DM drugs indicate that semaglutide outperforms other existing T2DM drugs like sitagliptin in improving glycemic levels, as measured against patients' baseline HbA1c.

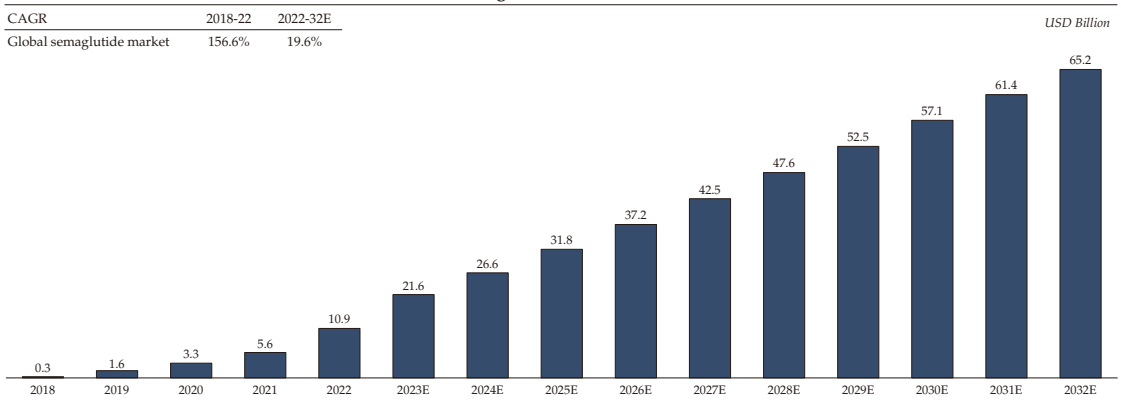
- *Effective body weight control.* Semaglutide has also been effective in reducing body weight in comparison to other T2DM medications, as evidenced by changes from patients' baseline body weight.

- *Low risk of cardiovascular diseases.* In subjects with T2DM at high cardiovascular risk, semaglutide has been shown to significantly lower the risk of major adverse cardiovascular events compared to placebos. This indicates a relative reduction in the risk of primary composite outcomes of first major cardiovascular events in these patients.

### *Market size of semaglutide*

According to CIC, globally, the market size for semaglutide had risen from US$0.3 billion in 2018 to US$10.9 billion in 2022, at a CAGR of 156.6% and is projected to reach US$65.2 billion in 2032 at a CAGR of 19.6%, making it one of the top ten best-selling drugs by generic name worldwide in 2022 and potentially the top three best-selling drugs worldwide in 2023.

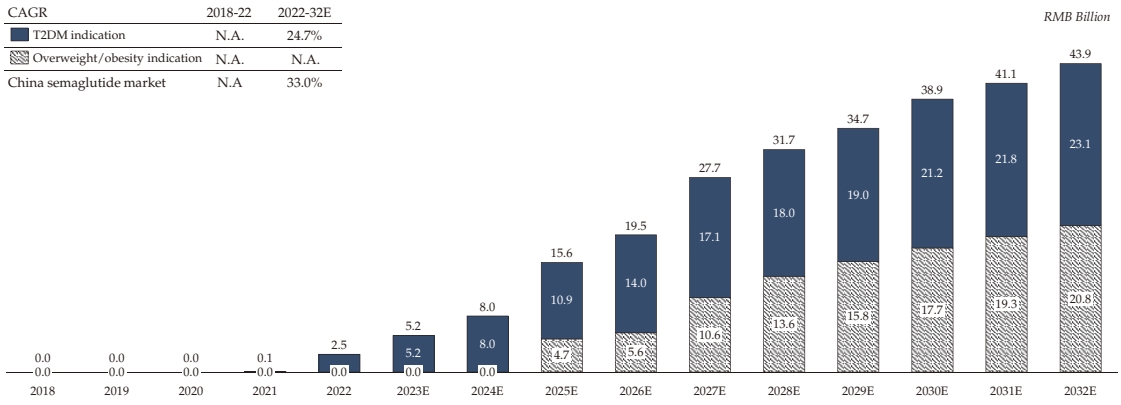
**Global semaglutide market size, 2018-2032E**




*Source: China Insights Consultancy*

According to CIC, the market size of semaglutide in China is projected to rise from RMB2.5 billion in 2022 to RMB43.9 billion by 2032, at a CAGR of 33.0%. Specifically, the market size for semaglutide for the treatment of T2DM in China is projected to grow from RMB2.5 billion in 2022 to RMB23.1 billion in 2032 at a CAGR of 24.7% and the market size of semaglutide for the treatment of overweight/obesity is projected to grow from RMB4.7 billion in 2025 to RMB20.8 billion in 2032. By 2032, it is anticipated that the market of semaglutide will be roughly evenly split between the two indications. The following chart sets forth the historical and projected size of the semaglutide market in China for the periods indicated:

**China semaglutide market size, 2018-2032E**




*Source: China Insights Consultancy*

### *Competitive landscape of semaglutide in China*

As of the Latest Practicable Date, Ozempic® was the only approved semaglutide originator by the NMPA in China. As of the same date, as set forth in the following table, there were 8 semaglutide biosimilars currently undergoing Phase III clinical trials and one semaglutide drug, JY29-2 (Jiyoutai) of our Company, that completed Phase III clinical trial for the treatment of T2DM in China.

**Pipelines of semaglutide for T2DM in China**

| Drug Name | MoA | Company | Manufacturing technique | Indications | Phase | First Posted Date |
|---|---|---|---|---|---|---|
| Semaglutide | GLP-1RA | Our Company | Fermentation | T2DM | III completed[1] | 2022/06/06 |
| Semaglutide | GLP-1RA | Livzon Pharmaceutical Group | Fermentation | T2DM | III | 2022/11/18 |
| Semaglutide | GLP-1RA | Zhuhai United Laboratories | Fermentation | T2DM | III | 2023/02/15 |
| Semaglutide | GLP-1RA | Chongqing Chenan Biopharmaceutical/Shanghai Bovax Biotechnology | Fermentation | T2DM | III | 2023/06/19 |
| Semaglutide | GLP-1RA | QILU Pharmaceutical | Chemical synthesis | T2DM | III | 2023/07/13 |
| Semaglutide | GLP-1RA | Chongqing Peg-Bio Biopharm/Hangzhou Zhongmei Huadong Pharmaceutical | Fermentation | T2DM | III | 2023/08/02 |
| Semaglutide | GLP-1RA | Huisheng Biopharmaceutical | Fermentation | T2DM | III | 2023/08/30 |
| Semaglutide | GLP-1RA | CSPC Pharmaceutical Group | Chemical synthesis | T2DM | III | 2023/12/04 |
| Semaglutide | GLP-1RA | Chia Tai Tianqing Pharmaceutical Group | Fermentation | T2DM | III | 2024/1/12 |

*Source: CDE; China Insights Consultancy*

*Note:*

1. Our Company has completed the Phase III clinical trial of its semaglutide product JY29-2 (Jiyoutai) for the treatment of T2DM in October 2023.

As of the Latest Practicable Date, the originator manufacturer's semaglutide product had also applied for NDA for the treatment of overweight and obesity in China. As of the same date, there were 2 semaglutide biosimilars that had obtained IND approvals for the treatment of overweight and obesity in China.

**Pipelines of semaglutide for overweight/obesity in China**

| DrugName | Target | Company | Indications | Phase | First Posted Date |
|---|---|---|---|---|---|
| Semaglutide | GLP-1R | Our Company | Overweight/obesity | IND approval | 2023/11/02 |
| Semaglutide | GLP-1R | Zhuhai United Laboratories | Overweight/obesity | IND approval | 2023/4/17 |
| Semaglutide | GLP-1R | Novo Nordisk | Overweight/obesity | NDA | 2023/6/3 |

Imported products  Domestic products

*Source: CDE; China Insights Consultancy*

***Growth drivers of semaglutide market***

The growth of the semaglutide market is propelled by the following key factors:

- *Superior clinical efficacy.* Semaglutide distinguishes itself in the treatment of T2DM and obesity through its notable blood glucose level reduction and weight loss efficacy. This clinical superiority is recognized in various treatment guidelines, including "Management of Hyperglycemia in Type 2 Diabetes (2022)" published by the American Diabetes Association (ADA) and the European Association for the Study of Diabetes (EASD) and "Clinical Guidelines for the Prevention and Treatment of Type 2 Diabetes in the Elderly in China (2022 Edition)" (《中國老年2型糖尿病防治臨床指南(2022年版)》) released by the Chinese Society of Endocrinology, a branch of the Chinese Medical Association, and is expected to lead to a surge in its clinical demand.

- *Improved patient adherence with lower dosing frequency.* With prolonged half-life of seven days, semaglutide allows for a weekly dosing schedule that enhances patient adherence, making it a preferred choice among patients.

- *Expected increase in availability.* With 8 semaglutide biosimilars currently undergoing Phase III clinical trials and one semaglutide biosimilar, JY29-2 (Jiyoutai) of our Company, that completed Phase III clinical trial for the treatment of T2DM in China, the advancement of generic semaglutide products to late clinical stages in China suggests an increase in its accessibility. This is particularly significant considering the global shortage of semaglutide, including its APIs, which opens substantial opportunities in the generic market.

- *Expanding indications.* Initially approved for T2DM in adults, semaglutide's indications now include obesity and T2DM with cardiovascular conditions. Additionally, as of the Latest Practicable Date, there were over 200 clinical trials sponsored by the originator manufacturer or academic institutions evaluating semaglutide for 28 indications, including T2DM with chronic kidney disease, metabolism and nutrition disorder, and hepatobiliary disorders, demonstrating significant market potential for semaglutide.

- *Rising awareness of metabolic diseases.* There is a growing global awareness and understanding of health risks associated with metabolic diseases, particularly obesity, fueled by increasing public health initiatives and educational campaigns. This heightened awareness is leading to earlier diagnosis and treatment, which in turn is driving the demand for effective treatment options such as semaglutide.

**Amylin Analog**

Amylin, also known as islet amyloid polypeptide or diabetes-associated peptide, is co-secreted with insulin by the islet of Langerhans in diabetic patients, typically at an amylin-insulin ratio of about 1:100. Soluble amylin analogs have been developed for use alongside insulin in diabetes treatment. Additionally, recent studies have explored their effectiveness in treating obesity, particularly when used in combination with GLP-1 agonists to achieve sustained weight loss.

As of the Latest Practicable Date, there was only one marketed amylin analog product, Symlin®, globally. It is a short-acting amylin analog and was approved by FDA in 2005 for the adjuvant treatment in patients with type 1 or 2 diabetes undergoing insulin therapy. As of the same date, there were five clinical-stage amylin analogs, with the most advanced one in terms of clinical development stage currently in a Phase III clinical trial in combination with semaglutide for the treatment of overweight and obesity and T2DM in the U.S. Based on the currently available clinical data in the public domain, the combination use of amylin analog and semaglutide demonstrates significant potential to yield promising clinical efficacy for the treatment of overweight and obesity and T2DM.

## ONCOLOGY DRUG MARKET

The oncology drug market comprises two segments: the cancer treatment drug market, which includes drugs that are directly used to treat cancer itself, and the chemotherapy and radiotherapy side effect drug market, which includes medications that alleviate the adverse effects caused by chemotherapy and radiotherapy in cancer treatments.

**Cancer Treatment Drug Market**

***Fulvestrant market in China***

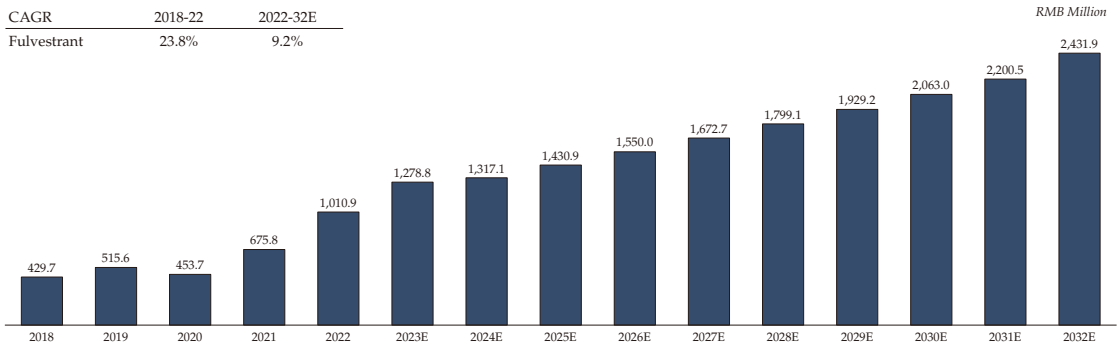
Breast cancer, a malignant tumor that develops in breast tissue, commonly originates in the breast's lobules or ducts. The incidence of breast cancer in China has increased from 321.2 thousand in 2018 to 355.5 thousand in 2022 and is expected to reach 410.5 thousand by 2032.

Hormone receptor-positive (HR+) breast cancer is a major subtype, comprising about 60% of all breast cancer cases. HR+ breast cancer cells have either estrogen or progesterone receptors or both. This subtype particularly relies on endocrine therapy as a key treatment, which has progressed from tamoxifen to aromatase inhibitors, and more recently, for estrogen receptor-positive breast cancer patients, to selective estrogen receptor degraders like fulvestrant.

Fulvestrant is a selective estrogen receptor antagonist, playing a pivotal role in endocrine therapy for breast cancer. Clinically, it is highly recommended for treating late-stage HR+ breast cancer. Fulvestrant is particularly used for postmenopausal patients with hormone receptor-positive breast cancer that is either locally advanced, metastatic, or has shown relapse or progression during or after adjuvant antiestrogen therapy. The drug functions by binding to estrogen receptors on the surface of cells, reducing their stability and leading to their degradation through normal cellular protein degradation mechanisms. This action results in decreased estrogen receptor levels, effectively inhibiting the growth of cancer cells.

According to CIC, the market size of fulvestrant in China has grown rapidly, from RMB429.7 million in 2018 to RMB1,010.9 million in 2022, at a CAGR of 23.8% and is projected to reach RMB2,431.9 million by 2032, at a CAGR of 9.2% from 2022 to 2032.

**China Fulvestrant Market Size, 2018-2032E**




*Source: China Insights Consultancy*

Fulvestrant was first introduced to the China breast cancer drug market in 2019. As of the Latest Practicable Date, there were eight approved fulvestrant products in China. The competitive landscape of Fulvestrant injections is dominated by imported products, which account for approximately 65% of the market share. However, the number of domestically produced fulvestrant injection products has been increasing, especially since 2023, when 3 domestic products and 1 imported product were granted approval. It is anticipated that more domestic products will enter the market in the future.

Jifuwei 吉芙惟® is the generic fulvestrant injection developed by our Company. Jifuwei obtained its marketing approval in June 2022 and became the third marketed domestically developed fulvestrant product in China, according to CIC. Fulvestrant has been included in part B of the National Reimbursement Drug List (NRDL) since 2017. In November 2023, Jifuwei won in the bidding process under the ninth batch of national centralized volume-based procurement scheme.

### *Daratumumab market in China*

Daratumumab is a monoclonal antibody used primarily for treating multiple myeloma and certain lymphocyte subset lymphomas, including cutaneous T-cell lymphoma. This drug targets the CD38 antigen, a membrane glycoprotein significantly expressed on the surface of multiple myeloma and other tumor cells.

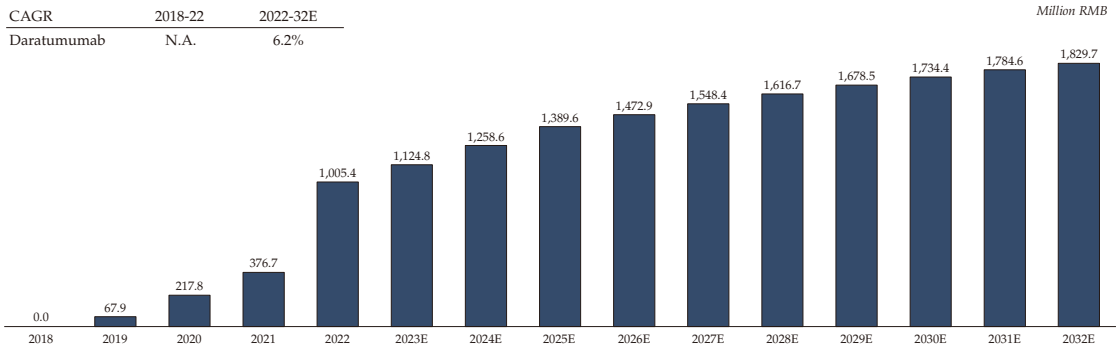
CD38 serves dual functions as a cell membrane surface receptor and an extracellular enzyme. It is consistently and prominently present on multiple myeloma cells, regardless of the genetic diversity, disease stage, or prior treatments of the patient. In contrast, CD38's expression levels are relatively low in normal lymphocytes, myelocytes, and some non-hematopoietic tissues. This selective expression makes CD38 an ideal target for treating multiple myeloma, allowing daratumumab to effectively target tumor cells while minimizing its impact on healthy cells.

The efficacy of daratumumab lies in its ability to engage various mechanisms: direct anti-tumor effects, antibody-dependent cell-mediated cytotoxicity, antibody-dependent cellular phagocytosis, and triggering immune system responses. It is approved for use in adult patients with relapsed and refractory multiple myeloma in China.

According to CIC, the global market size of daratumumab had reached US$8.0 billion in 2022, and the market size of daratumumab in China is projected to increase from RMB1,005.4 million in 2022 to RMB1,829.7 million in 2032, at a CAGR of 6.2%.

**China Daratumumab Drug Market Size, 2018-2032E**

| CAGR | 2018-22 | 2022-32E |
|---|---|---|
| Daratumumab | N.A. | 6.2% |




*Source: China Insights Consultancy*

Since 2022, daratumumab has been covered under the part B of the NRDL, which means that multiple myeloma patients in China can access the drug with lower out-of-pocket cost. As of the Latest Practicable Date, daratumumab originator had been approved in China, which was available in both intravenous and subcutaneous injection. As of the same date, there were two domestically developed IND-approved daratumumab biosimilars in China, including our JY43, both of which are intravenous injections.

### *SIRPα inhibitor market in China*

Signal regulatory protein α (SIRPα) inhibitors are agents designed to block the interaction between the SIRPα on immune cells and CD47 on cell surfaces designed to

treat various solid tumors including breast, lung, or colon cancers as well as multiple myeloma. Normally, CD47, often found on healthy cells, binds to SIRPα on macrophages or phagocytes, signaling the immune cells not to attack which is a vital mechanism for protecting healthy cells from unnecessary destruction. However, cancer cells can exploit this mechanism by overexpressing CD47, thereby tricking the immune system into leaving them unharmed.

SIRPα inhibitors intervene in this process. By disrupting the SIRPα-CD47 interaction, these inhibitors prevent the immune cell from receiving the "do not eat me" signal, potentially enabling the phagocytosis of cancer cells.

In solid tumors like breast, lung, or colon cancer, the tumor microenvironment is more complex. Here, SIRPα inhibitors might not only boost macrophage-mediated phagocytosis but could also affect other tumor-associated immune cells, such as T cells and natural killer cells, enhancing the overall immune response against cancer. According to CIC, the incidence of top ten solid tumors in China had increased from 3.4 million in 2018 to 3.8 million in 2022 and is expected to reach 4.7 million by 2032.

As of the Latest Practicable Date, there were 4 IND-approved drug candidates targeting SIRPα in China , including our JY47.

**Chemotherapy and Radiotherapy Side Effect Drug Market**

***Chemotherapy and radiotherapy side effect***

Chemotherapy and radiotherapy are common cancer treatments designed to kill or slow the growth of cancer cells. But in doing so, these treatments also affect healthy cells, leading to side effects. These effects largely depend on the specific treatments a patient receives, their overall health, and their tolerance.

Common adverse effects of cancer chemotherapy include neutropenia, thrombocytopenia, and chemotherapy induced nausea and vomiting (CINV). Patients may also experience oral ulcers or mouth sores, hair loss, and diarrhea or enteritis. While these side effects are typically temporary, they can be managed or treated to improve the patient's comfort during chemotherapy.

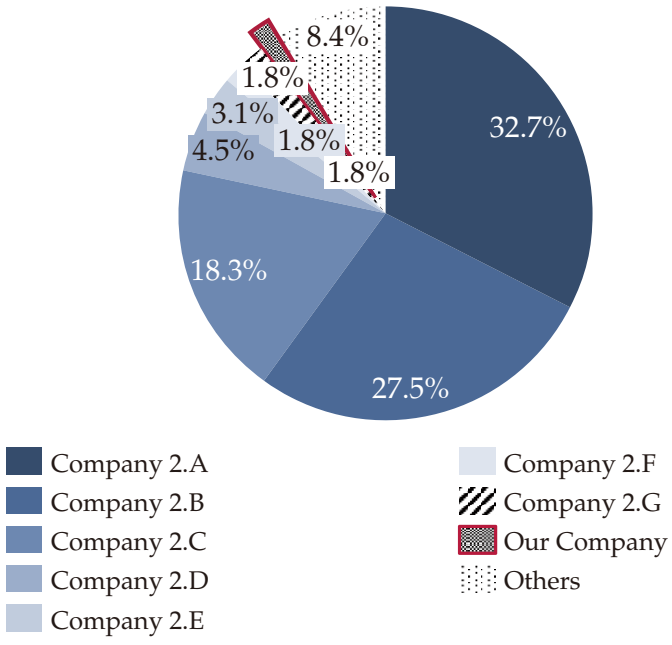
*G-CSF for the treatment of neutropenia*

Neutropenia is a common hematological adverse effect and a major dose-limiting toxicity in chemotherapy and radiotherapy. It significantly reduces the body's ability to fight infections by decreasing neutrophil levels. Neutropenia often leads to various infections and complications, such as fever, swallowing pain, skin abscesses, and digestive tract infections. If not managed effectively and promptly, neutropenia can cause delays in cancer treatment and necessitate dose reductions. According to CIC, the incidence of neutropenia in China had risen from 1.6 million cases in 2018 to 1.9 million in 2022 and is projected to reach 2.3 million by 2032.

Granulocyte Colony-Stimulating Factor (G-CSF), a recombinant protein biopharmaceutical, is the primary medication used to treat and prevent neutropenia. It works by stimulating the growth, differentiation, and activation of neutrophils. According to CIC, the G-CSF market in China grew from RMB5.1 billion in 2018 to RMB9.4 billion in 2022, at a CAGR of 16.3%, and is expected to stabilize by 2032.

In China, there are over 100 approved G-CSF products, including 8 long-acting varieties. Notably, our Company was the first in China to receive approval for a short-acting G-CSF product. Jilifen 吉粒芬®, our hG-CSF product, generated sales revenue of RMB166.0 million in 2022, representing a market share of 1.8%, and ranking eighth in terms of sales revenue among our competitors. Our company is also developing JY06 (Jixinfen 吉新芬®) as a long-acting G-CSF product designed to treat neutropenia. We submitted NDA for JY06 (Jixinfen) to the NMPA in May 2023 and expect to obtain the approval for sale in 2024.

**Competitive Landscape of the G-CSF Market in China, 2022**




*Source: China Insights Consultancy*

- *Company 2.A, headquartered in Shandong, China, was founded in 1992. It focuses on the R&D, production and sales of drugs used to treat common diseases and other diseases that seriously endanger human health.*

- *Company 2.B, headquartered in Hebei, China, was founded in 1992. It is committed to the R&D, production, and sales of new drugs, mainly including monoclonal antibodies and fusion proteins.*

- *Company 2.C, headquartered in Jiangsu, China, and listed on the Shanghai Stock Exchange, was founded in 1997. It is primarily dedicated to the R&D, production, and sales of oncology drugs, endocrine therapy drugs, and cardiovascular drugs.*

- *Company 2.D, headquartered in Tokyo, Japan, was founded in 1949. It is dedicated to the R&D, production, and sales of new drugs primarily for the treatment of cancer and kidney diseases.*

- *Company 2.E, headquartered in Fujian, China, and listed on the Shanghai Stock Exchange, was founded in 1996. It is dedicated to the R&D, production, and sales of recombinant proteins and long-acting modified drugs.*

- *Company 2.F, headquartered in Tokyo, Japan, was founded in 1925. It is primarily dedicated to the R&D, production, and sales of oncology and immunology new drugs.*

- *Company 2.G, headquartered in Shenzhen, China, and listed on the Shanghai Stock Exchange, was founded in 1989. It is dedicated to the R&D, production, and sales of recombinant protein drugs and microbial preparations.*

*IL-11 for the treatment of thrombocytopenia*

Thrombocytopenia is a common complication in oncology treatments caused by antineoplastic agents that suppress bone marrow function, leading to abnormally low platelet counts in the blood. This condition can lead to a reduction in cancer treatment intensity, prolonged hospital stays, increased healthcare costs, and in severe cases, death, thereby negatively impacting the efficacy of anti-tumor treatments and long-term survival of patients.

According to CIC, the incidence of thrombocytopenia in China had increased from 454.0 thousand in 2018 to 535.9 thousand in 2022 and is estimated to reach 639.1 thousand by 2032.

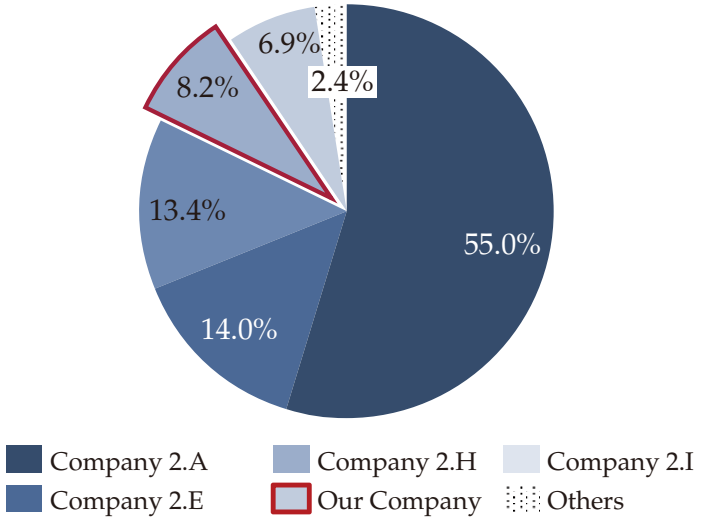
Treatments for thrombocytopenia include platelet transfusion and medications. Platelet transfusion is a rapid and effective method to address severe thrombocytopenia, reducing the risk of hemorrhage and mortality. Additionally, medications such as interleukin-11 (IL-11) are also used to manage thrombocytopenia.

Interleukin-11 is derived from stromal and some mesenchymal cells in the hematopoietic microenvironment and is an established thrombopoietic growth factor. IL-11 drugs can accelerate the recovery of platelet counts and facilitate the administration of planned chemotherapy without dose modification.

According to CIC, China's IL-11 market slightly decreased from RMB1.2 billion in 2018 to RMB1.1 billion in 2022 and is expected to remain stable through 2032.

Six IL-11 drugs were approved by the NMPA as of the Latest Practicable Date. Jijufen 吉巨芬®, our hIL-11 product, generated sales revenue of RMB94.3 million in 2022, with market shares of 8.2%, ranking fourth in terms of sales revenue among our competitors.

**Competitive Landscape of the IL-11 Market in China, 2022**




*Source: China Insights Consultancy*

- *Company 2.H, headquartered in Shandong, China, was founded in 1997. It is primarily dedicated to the R&D, production, and sales of recombinant protein drugs.*

- *Company 2.I, headquartered in Beijing, China and listed on the Shenzhen Stock Exchange, was founded in 1994. It focuses on the R&D, production, and sales of genetically engineered drugs.*

***Palonosetron for the treatment of chemotherapy induced nausea and vomiting (CINV)***

CINV is a prevalent adverse effect of chemotherapy, leading to metabolic disturbances, nutritional imbalances, weight loss, and significantly affecting patients' emotional, social, and physical well-being. It also contributes to the fear of undergoing chemotherapy, decreases quality of life, and hampers treatment adherence.

According to CIC, the incidence of CINV in China has increased from 2.6 million in 2018 to 3.1 million in 2022 and is expected to reach 3.6 million by 2032.

The mechanisms behind CINV are complex and not entirely understood. Vomiting is seen as a multi-step reflex regulated by the vomiting center, involving both peripheral and central pathways. In the peripheral pathway, anticancer drugs prompt the release of serotonin 5-hydroxytryptamine (5-HT3) from gastrointestinal mucosal cells, often causing acute vomiting. In the central pathway, substance P binds to neurokinin-1 (NK-1) receptors in the vomiting center, leading to delayed vomiting. Although nausea and vomiting may have overlapping mechanisms, they can involve different neural pathways and nausea is more commonly reported than vomiting.

Palonosetron, a second-generation 5-HT3 receptor antagonist, stands out for its potent, long-lasting antiemetic effects and is approved for preventing delayed nausea and vomiting associated with chemotherapy. Its advantages over first-generation 5-HT3 receptor antagonists are significant:

- *Structural advantage.* Palonosetron shows around a 100-fold higher affinity for 5-HT3 receptors compared to first-generation antagonists and has a prolonged half-life of up to 40 hours.

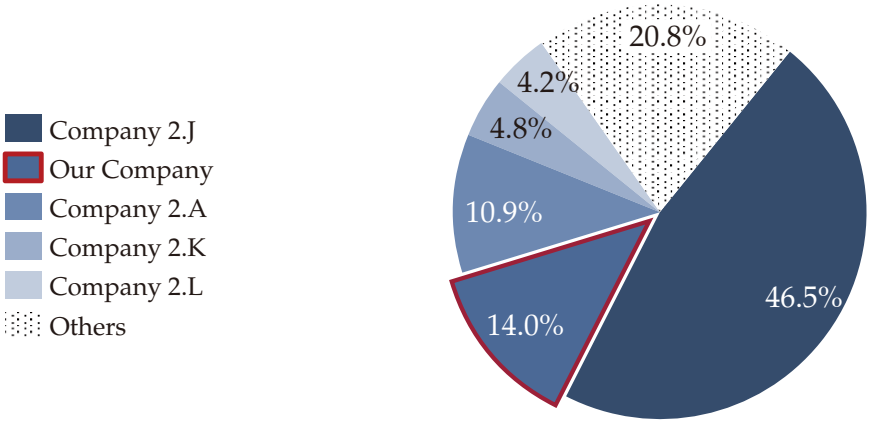
- *Mechanism advantage.* Beyond merely inhibiting vomiting by blocking 5-HT3 receptors, Palonosetron also reduces the activity of substance P, inhibiting the interaction between the 5-HT3 and NK-1 signaling pathways, making it superior in preventing delayed nausea and vomiting.

- *Safety advantage.* Palonosetron has a lower impact on the cardiovascular system compared to first-generation drugs.

China's palonosetron market in China experienced a decline from RMB1.6 billion in 2021 to RMB0.5 billion in 2022 due to reduced prices following its inclusion in the national VBP List. Post-VBP, palonosetron injection saw over an 80% price reduction. The palonosetron market is projected to continue to experience a slight decrease and stabilize around RMB0.5 billion by 2032, according to CIC.

Jiouting 吉欧停®, our palonosetron product, generated revenue of RMB67.8 million in 2022, holding market shares of 14.0% and ranked second nationally in terms of sales revenue among our competitors.

**Competitive Landscape of the Palonosetron Market in China, 2022**




*Source: Menet; China Insights Consultancy*

- *Company 2.J, headquartered in Jiangsu, China, was founded in 1997. It focuses on the R&D, production and sales of innovative drugs.*
- *Company 2.K, headquartered in Sichuan, China, was founded in 2001. It is dedicated to the R&D, production, and sales of chemical drugs, and traditional Chinese medicine.*
- *Company 2.L, headquartered in Switzerland, was founded in 1976. It is dedicated to the R&D, production, and sales of oncology and rare disease drugs.*

## HEMATOLOGY DRUG MARKET

### Thrombotic Diseases Drug Market

#### *Thrombotic diseases*

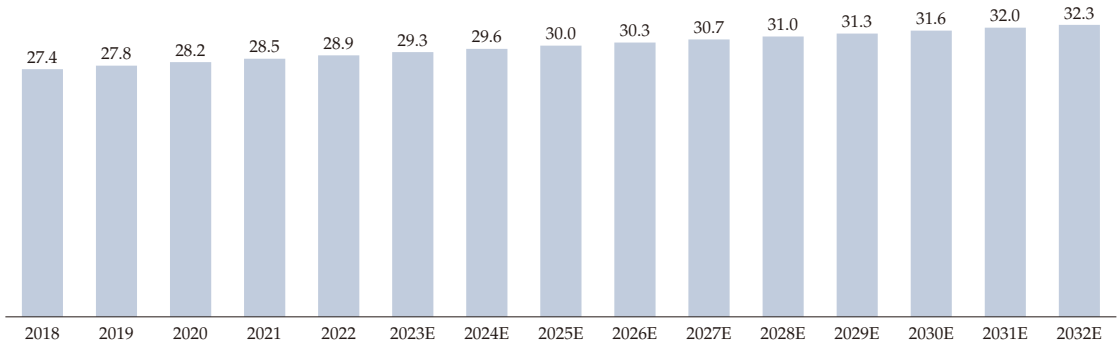
Thrombosis is a medical condition where blood clots form within blood vessels, potentially causing partial or complete blockages that disrupt normal blood flow. This process can lead to serious complications such as tissue or organ ischemia, hypoxia, necrosis, or congestion and edema. A related condition, thromboembolism, occurs when a blood clot, known as a thrombus, breaks free from its original site and travels through the bloodstream to obstruct other vessels.

According to CIC, the incidence of thrombosis in China has increased from 27.4 million in 2018 to 28.9 million in 2022 and is expected to reach 32.3 million by 2032.

**Incidence of thrombosis in China, 2018-2032E**

| CAGR | 2018-22 | 2022-32E |
|---|---|---|
| Incidence of thrombosis in China | 1.4% | 1.1% |

*Million patients*




*Source: American Heart Association Journal; China Insights Consultancy*

Thrombosis can be classified into three types based on the location of the clot: arterial thrombosis, venous thromboembolism (VTE), and microthrombi. VTE has a high prevalence on average one in every nine individuals will experience VTE at some point in their life. Moreover, more than 100,000 deaths each year are attributed to blood clots, and the five-year recurrence rate of VTE can be as high as 20%.

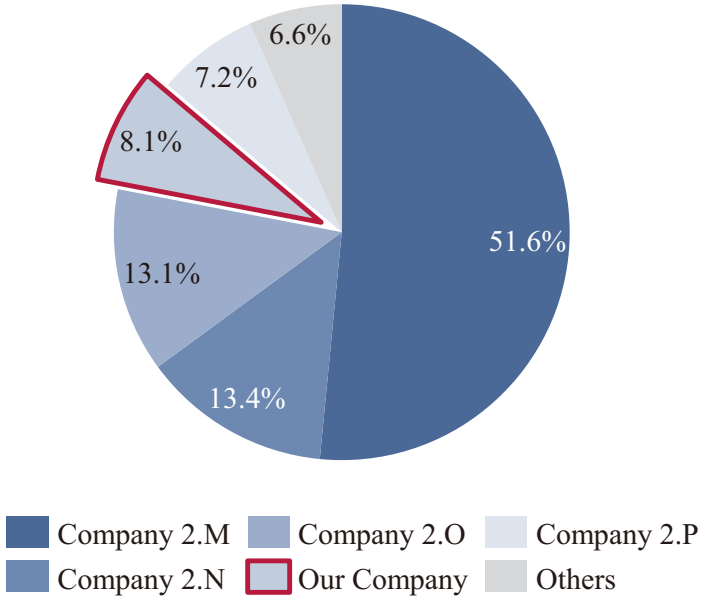
#### *LMWH market*

One common treatment for thrombosis is heparin, a sulfated glycosaminoglycan derived from mammalian organs, such as those of pigs or cows. Heparin has an average molecular weight of around 15,000. A variant, low molecular weight heparin (LMWH), is produced by enzymatically or chemically depolymerizing heparin. This process creates smaller glycosaminoglycan fragments, averaging a molecular weight between 3,000 and 8,000.

According to CIC, the market size of LMWHs in China has grown from RMB8,774.6 million in 2018 to RMB9,701.5 million in 2022, at a CAGR of 2.5%. It is projected to decline to RMB8,224.8 million by 2032. Globally, the LMWHs market grew from USD3.7 billion in 2018 to USD4.0 billion in 2022 at the CAGR of 2.2%, and is projected to reach USD4.3 billion by 2032.

The product of our Company, Yinuojia 亿诺佳®, is the second domestically developed generic enoxaparin sodium commercialized in China, which was approved for sale in March 2006. The following chart sets forth the competitive landscape of China's enoxaparin sodium market in terms of revenue in 2022 as well as our position in the ranking.

**Competitive Landscape of the Enoxaparin Sodium Market in China, 2022**




- *Company 2.M, headquartered in France, is a multinational pharmaceutical and healthcare company, focusing on cardiovascular disease, oncology, diabetes, and vaccines.*
- *Company 2.N, headquartered in Shenzhen, China, was founded in 2004. It is dedicated to the export of enoxaparin sodium API and low molecular weight heparin preparations.*
- *Company 2.O, headquartered in Jiangsu, China and listed on the Shanghai Stock Exchange, was founded in 2000. It is a pharmaceutical group focusing on drug R&D, production and sales.*
- *Company 2.P, headquartered in Jiangsu, China, and listed on the Shenzhen Stock Exchange, was founded in 2008. It is a manufacturer of polysaccharide and protease drugs.*

The eighth national VBP List covers two LMWH products, namely enoxaparin and nadroparin. As of the Latest Practicable Date, there were over 30 LMWHs approved by the NMPA in China, and nine companies, including our Company, were awarded contracts for enoxaparin in the eighth national VBP List.

## OVERVIEW OF LAWS AND REGULATIONS IN THE PRC

This section summarizes the principal laws, rules and regulations in the PRC that are relevant to our business.

## REGULATORY AUTHORITIES

### NMPA and Its Evaluation Center

China National Medical Products Administration (國家藥品監督管理局) (hereinafter referred to as "**NMPA**"), successor to the China Food and Drug Administration (國家食品藥品監督管理局) (hereinafter referred to as "**CFDA**"), is the competent department in charge of the pharmaceutical industry of the PRC. It is responsible for drawing up the laws and regulations related to pharmaceuticals and medical devices, drafting policies and planning, formulating departmental regulations, organizing the development and issuance of pharmaceutical and medical device standards, classification and management systems, such as national formulary, and supervising the implementation.

The Center for Drug Evaluation is the technical evaluation unit for drug registration with NMPA. It is mainly responsible for conducting technical evaluation on the drugs applying for registration and verifying the relevant drug registrations.

### NHC

The National Health Commission (國家衛生健康委員會) (the "**NHC**", formerly known as the National Health and Family Planning Commission), is the primary national regulator for public health and family planning management. It is primarily responsible for drafting national health policies, supervising and regulating public health, healthcare services, and health emergency systems, coordinating the reform of medical and health system, organizing the formulation of national drug policies and national essential medicine system, launching an early warning mechanism for the monitoring of the use and clinical comprehensive evaluation of medicine as well as the drug shortage, giving suggestions on the pricing policy of national essential medicine, and regulating the operation of medical institutions and practicing of medical personnel.

### NIFDC

The National Institutes for Food and Drug Control ("**NIFDC**") (中國食品藥品檢定研究院) is a public institution directly subordinate to NMPA and the statutory authority and supreme technical arbitration institution for inspecting the quality of pharmaceuticals and biological products. It is responsible for the approval and registration inspection, import inspection, supervision and inspection, safety evaluation of drugs, biological products, medical devices, foods, dietary supplements, cosmetics, laboratory animals and package materials and the batch release of biological products, the research, distribution and management of the national drug and medical device reference materials and bacterial and viral strains for production verification, as well as the relevant technical research.

In accordance with the Drug Registration Regulation (《藥品註冊管理辦法》), the NIFDC shall undertake the drug registration inspection and other relevant work which are required for implementation of drug registration administration. Specifically, the NIFDC or a drug inspection institution designated by the NMPA shall undertake inspection for registration of the following drugs: innovative drugs; modified new drugs (except for traditional Chinese medicine); biological products, radioactive drugs and *in vitro* diagnostic reagents subject to drug management; and other drugs stipulated by the NMPA.

**MOFCOM**

The Ministry of Commerce of the PRC (商務部) is responsible for guiding and managing the foreign investment absorption in the country, drawing up the laws and regulations related to foreign investment, formulating the relevant rules, policies and reform schemes, organizing the implementation, supervising and inspecting the implementation status; participating in the formulation and joint issuance of Special Management Measures for the Access of Foreign Investment (Negative List) (《外商投資准入特別管理措施(負面清單)》) and Encouraging Foreign Investment Industries Catalogue (《鼓勵外商投資產業目錄》) with the National Development and Reform Commission; managing and guiding the foreign investment review, approval and filing works.

**NDRC**

The National Development and Reform Commission (國家發展和改革委員會) is mainly responsible for participating in the formulation of health development policies, the establishment of technical reform investment projects, the macro guidance and management of the economic operation of pharmaceutical enterprises, and the supervision of the implementation of relevant policies and regulations. The NDRC also regulates the price of drugs circulated in the market.

**NHSA**

The National Healthcare Security Administration (國家醫療保障局) is mainly responsible for formulating and organizing the implementation of policies, plans and standards for medical insurance, maternity insurance, medical aid and other medical security systems, organizing the formulation and adjustment of prices and charging standards for drugs and medical services, and formulating and supervising the implementation of the bidding and procurement policies for drugs and medical consumables.

## LAWS AND REGULATIONS IN RELATION TO DRUG MANUFACTURING ENTERPRISES

### Drug Manufacturing Permit

Pursuant to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) (the "**Drug Administration Law**") promulgated by the Standing Committee of the National People's Congress (the "**SCNPC**") in September 1984 and lastly amended in August 2019 and came into effect in December 2019 and the Implementation Regulations of the Drug Administration Law of the People's Republic of China (《中華人民共和國藥品管理法實施條例》), the State adopts an industry entry permit system for drug manufacturers. The establishment of a drug manufacturer shall be approved and granted with a Drug Manufacturing License (《藥品生產許可證》) by the drug regulatory authority of the people's government at provincial, autonomous regional or municipalities direct under the central government level. The Drug Manufacturing License shall indicate the validity period and the scope of production, the validity period of a Drug Manufacturing License is five years, and the licensee enterprise should apply for the replacement of the Drug Manufacturing License six months before the expiration of the license.

### Good Manufacturing Practices

Prior to December 1, 2019, in accordance with the provisions of the Administrative Measures for the Certification of Good Manufacturing Practices issued by the CFDA in August 2011, which have been repealed, the establishment of a new drug manufacturer, construction of new production premise for a drug manufacturer or production of new dosage form are required to submit application for good manufacturing practice certification (GMP certification) with the drug regulatory authority in accordance with relevant provisions. If the Good Manufacturing Practices are satisfied, a GMP certificate will be issued. Pursuant to the Announcement on the Relevant Issues Concerning the Implementation of the Drug Administration Law of the PRC (《關於貫徹實施〈中華人民共和國藥品管理法〉有關事項的公告》), promulgated by the NMPA on November 29, 2019, and the Drug Administration Law, the GMP and Good Supply Practice (GSP) certifications have been cancelled, applications for GMP and GSP certifications are no longer accepted, and GMP and GSP certificates are no longer issued. When engaging in drug manufacturing activities, a manufacturer shall comply with the GMP and establish a sound GMP management system, to ensure that the entire process of drug manufacturing maintain to meet the statutory requirements, and meet the GMP requirements enacted by the drug regulatory authority under the State Council in accordance with the law. The legal representative of and principal person in charge of a drug manufacturer are fully responsible for the drug manufacturing activities of the enterprise.

The Good Manufacturing Practices (《藥品生產質量管理規範》), promulgated by the Ministry of Health of the PRC (the "**MOH**", now known as the NHC) in March 1988, newly amended in January 2011 and came into effect on March 1, 2011, provided guidance for the quality management, organization and staffing, production premises and facilities, equipment, material and products, recognition and inspection, documentation maintenance, manufacture management, quality control and quality assurance, contractual manufacture and contractual inspection for the products, product delivery and recalls of a manufacturer in a systematical manner.

### Contract Manufacturing of Drugs

Pursuant to the Administrative Regulations for the Contract Manufacturing of Drugs (《藥品委託生產監督管理規定》) (the "**Contract Manufacturing Regulations**") issued by the CFDA in August 2014, only when a drug manufacturer temporarily lacks manufacturing conditions due to technology upgrade or is unable to ensure market supply due to insufficient manufacturing capabilities, could such drug manufacturer entrust the manufacturing of the drug to another domestic drug manufacturer. Such contract manufacturing arrangements shall be approved by the provincial branch of the NMPA.

The Administrative Measures on Supervision of Drug Manufacturing (《藥品生產監督管理辦法》) (the "**Revised Administrative Measures of Drug Manufacturing**") promulgated by SAMR on January 22, 2020 and came effective on July 1, 2020 further implements the drug marketing authorization holder system as stipulated in the Drug Administration Law. Drug marketing authorization holders entrusting others to manufacture drugs shall enter into outsourcing agreements and quality agreements with qualified drug manufacturing enterprises and submit the relevant agreements together with the actual manufacturing site application materials to the competent drug administrative authority in order to apply for the Drug Manufacturing Certificate.

## LAWS AND REGULATIONS IN RELATION TO NEW DRUGS

### Application for New Drug Registration

Drug registration refers to an approval process where the NMPA conducts review of the safety, efficacy and quality controllability of the drugs intended for marketing according to the application for drug registration made by an applicant, and decides whether to approve the application. Drug registration applications include new drug application, generic drug application, imported drug registration application and supplementary application, as well as re-registration application. Pursuant to the provisions of the Measures for the Administration of Drug Registration (2020) (《藥品註冊管理辦法》(2020)), promulgated by the SAMR on January 22, 2020 and came into effect on July 1, 2020, the Measures for the Administration of Drug Registration (2020) shall apply to the development, registration, supervision and management activities carried out in the territory of the PRC for marketing of drugs. In accordance with the Measures for the Administration of Drug Registration (2020), drugs registration refers to activities that a drug registration applicant files an application and other supplementary applications for clinical drug trial, approval for drug marketing, and re-registration, among others, under the legal procedures and according to the relevant requirements, and that the medical products administrative department examines the safety, effectiveness, and quality controllability based on the laws and regulations, and the existing scientific cognitions, to decide whether to agree to the activities applied for. A drug registration certificate shall be valid for five years. During the validity period, a holder of a drug registration certificate shall continue to ensure the safety, effectiveness and quality controllability of the marketed drug, and apply for re-registration of the drug six months prior to the expiry of the validity period.

The Drug Administration Law of the People's Republic of China (the "**Drug Administration Law**") promulgated by the SCNPC in September 1984, last amended on August 26, 2019 and came into effect on December 1, 2019, and its implementing regulations promulgated by the State Council in August 2002 and last amended on March 2, 2019, set out the legal framework for the establishment of drug manufacturers and drug business enterprises and the management of drugs, including the research and development of new drugs. According to the Drug Administration Law and its implementation regulations, the state encourages the research and creation of new drugs and protects the legitimate rights and interests of research and development of new drugs. Any new drug developer and clinical trial sponsor who conducts drug clinical trials shall truthfully submit new drug development methods, quality indicators, pharmacological and toxicological test results and other relevant data, materials and samples for approval by NMPA.

**Non-clinical Research and Animal Testing**

The non-clinical safety assessment of drugs for marketing approval shall be conducted in accordance with the Good Laboratory Practices for Non-clinical Laboratory Studies (《藥物非臨床研究質量管理規範》) promulgated by the State Food and Drug Administration, or the SFDA in August 2003 and latest amended by CFDA in July 2017 and came into effect on September 1, 2017. The SFDA promulgated the Administrative Measures for the Certification of Good Laboratory Practices for Non-clinical Laboratory Studies (《藥物非臨床研究質量管理規範認證管理辦法》) in April 2007, which specifies the requirements for institutions applying for Good Laboratory Practice (GLP) certification of non-clinical laboratory studies. On January 19, 2023, the NMPA amended the Administrative Measures for the Certification of Good Laboratory Practice for Non-clinical Laboratory Studies (《藥物非臨床研究質量管理規範認證管理辦法》), which has come into effect on July 1, 2023.

According to the Regulations for the Administration of Affairs Concerning Experimental Animals (《實驗動物管理條例》) promulgated by the State Science and Technology Commission in November 1988 and lastly amended in March 2017 by the State Council, the Administration Measures on Good Practice of Experimental Animals (《實驗動物質量管理辦法》) jointly promulgated by the State Science and Technology Commission and the State Bureau of Quality and Technical Supervision in December 1997, and the Administrative Measures on the Certificate for Experimental Animals (Trial) (《實驗動物許可證管理辦法(試行)》) promulgated by the Ministry of Science and Technology and other regulatory authorities in December 2001 and came into effect in January 2002, performing conservation, breeding, production, supply, transportation and related commercial operations of experimental animals and related products requires a Certificate for Production of Laboratory Animals. A Certificate for Production of Laboratory Animals shall be valid for five years, and the holder shall apply for renewal six months prior to the expiry of the validity period.

**Application for Clinical Trial**

After completing the pre-clinical studies, the applicant must obtain approval for clinical trials of drugs from the NMPA before the conduction of new clinical drug trials. According to the Decision on Adjusting the Approval Procedures of Certain Administrative Approval Items for Drugs (《關於調整部分藥品行政審批事項審批程序的決定》) promulgated by the CFDA on March 17, 2017 and came into effect on May 1, 2017, the decision on the approval of clinical trials of drugs enacted by the CFDA can be made by the Center for Drug Evaluation (the "**CDE**") from May 1, 2017. Pursuant to the Drug Administration Law, the dossier on a new drug research and development, including the manufacturing method, quality specifications, results of pharmacological and toxicological tests and the related data and the samples, shall, in accordance with the regulations of the drug regulatory authority under the State Council be truthfully submitted to the said department for approval before clinical drug trial is conducted. The drug regulatory authority of under State Council shall decide whether to approve the clinical trial application and notify the decision to the clinical trial applicant within 60 business days from the date of accepting the clinical trial application. If the drug regulatory authority under the State Council fails to do so, the clinical trial application shall be deemed as approval, and if the bioequivalence study is conducted, it is required to report it to the drug regulatory authority under State Council for filing.

Before conducting the clinical trial, the applicant shall file a series of detailed documents with the NMPA. According to the Announcement on Drug Clinical Trial Information Platform (《關於藥物臨床試驗信息平台的公告》) and Good Practice for Drug Clinical Trial Registration and Information Publicity (Trial) (《藥物臨床試驗登記與信息公示管理規範(試行)》), which came into effect in September 2013, all clinical trials approved by the CFDA and conducted in the PRC shall complete the clinical trial registration and information disclosure on the Drug Clinical Trial Information Platform. The applicant must complete the initial registration of the trial within one month after obtaining the approval of the clinical trial to obtain the unique registration number of the trial; and complete the subsequent data registration before the first patient is enrolled and submit it for the first time for disclosure.

After obtaining the clinical trial approval, the applicant shall choose institutions qualified for clinical trials of the drug to conduct clinical trials. Pursuant to the Administrative Regulations for Drug Clinical Trial Institutions (《藥物臨床試驗機構管理規定》), which came into effect in December 2019, if engaging in drug development activities and conducting clinical trials of drugs (including bioequivalence study conducted after filing) approved by the NMPA within the territory PRC, they shall be conducted in drug clinical trial institutions. Drug clinical trial institutions shall be subject to filing administration. Institutions that only engage in analysis of biological samples related to drug clinical trials shall not be subject to filing. The national drug regulatory authority is responsible for setting up a filing management information platform for drug clinical trial institutions for registration, filing and operation management of drug clinical trial institutions, as well as the entry, sharing and disclosure of information on supervision and inspection of the drug regulatory authority and competent healthcare authority.

**Clinical Trial and Communication with the Center for Drug Evaluation**

In compliance with the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》), clinical trials are divided into Phase I, Phase II, Phase III, Phase IV and bioequivalence trial:

A clinical drug trial to be carried out shall be examined and approved by the ethics committee. The management of drugs used in a clinical drug trial shall satisfy the relevant requirements of the GCP. A sponsor approved to carry out clinical drug trial shall, before carrying out subsequent clinical drug trial by stages, develop corresponding plan for clinical drug trial, carry out clinical drug trial upon examination and with consent of the ethics committee, and submit corresponding plan for clinical drug trial and supporting materials on the website of the CDE.

Clinical trials shall be conducted for the application of new drug registration and shall be implemented in accordance with the Good Clinical Practice for Drug Trials (《藥物臨床試驗質量管理規範》), promulgated by the NMPA and NHC and came into effect on July 1, 2020. The Good Clinical Practice for Drug Trials stipulates the criteria for the entire procedure of the clinical trial including pre-clinical trial preparation and the necessary conditions, protection of testees' rights and interests, trial protocols, duties of researchers, duties of sponsors, duties of monitors, trial record and report, data management and statistical analysis, administration of drug products for trial, guarantee for quality, polycentric trials, with reference to the internationally recognized principles.

According to the Announcement of the National Medical Products Administration on Adjusting the Review and Approval Procedures for Drug Clinical Trials (《國家藥品監督管理局關於調整藥物臨床試驗審評審批程序的公告》), if a new drug clinical trial has been approved to be carried out, after the completion of Phase I and Phase II clinical trials and before the implementation of Phase III clinical trials, the applicant shall submit an application for a communication meeting to the CDE to discuss with the CDE on key technical issues including the design of the Phase III clinical trial. The applicant can also apply for communication on key technical issues at different stages of clinical research and development.

According to the Measures for the Administration of Drug Registration, applicants may communicate with CDE on major issues at critical stages such as prior to application for clinical trial of a drug, during the process of clinical trial of a drug, and prior to application for marketing authorization of a drug. According to the Measures for the Administration of Communication and Exchange in Drug Development and Technology Review (《藥物研發與技術審評溝通交流管理辦法》) promulgated by the CDE on December 10, 2020, an applicant may propose to convene a communication meeting with the CDE during the process of drug research and development and registration application. There are three types of communication and exchange meetings: Type I meetings are held to resolve major safety issues encountered in the course of clinical trials of drugs and major technical issues in the course of R&D of breakthrough therapeutic drugs; Type II meetings are held for drugs at critical stages of R&D, which mainly include pre-application meetings for new drugs, meetings after the conclusion of Phase II clinical trials and before the commencement of Phase III clinical trials, meetings before application for marketing authorization of new drugs, and meetings for risk assessment and evaluation of new drugs. Type III meetings shall refer to meetings other than Type I and Type II meetings.

**New Drug Application**

Pursuant to the Measures for the Administration of Drug Registration (《藥品註冊管理辦法》), after completing the pharmaceutical research, pharmacological and toxicological research, clinical drug trial, and other researches supporting the marketing registration of a drug, determining the quality standards, completing the verification of commercial large-scale production process, and making sound preparation for the acceptance of drug registration inspection and examination, an applicant shall file an application with the NMPA for drug marketing authorization, and submit relevant research materials in accordance with the requirements of the application materials. After the formal examination of the application materials, an application that satisfies the requirements shall be accepted. Where a generic drug, *in vitro* diagnostic reagent managed as a drug, or any other eligible circumstance assessed by an applicant to be unnecessary or impossible for conducting clinical drug trial and meeting the conditions for exempting clinical drug trial, the applicant may directly file an application for drug marketing authorization. The technical guiding principles and relevant specific requirements for exempting clinical drug trial shall be developed and announced by the CDE.

The CDE shall organize pharmaceutical, medical and other technical personnel to evaluate the accepted applications for drug marketing authorisation as required. Where the comprehensive evaluation conclusion is adopted, the drug shall be approved for marketing, and a drug registration certificate shall be issued. If the comprehensive evaluation conclusion is not adopted, a disapproval decision shall be made. A drug registration certificate shall specify the drug approval number, holder, manufacturer and other information. An over-the-counter (OTC) drug registration certificate shall also indicate the type of OTC drug.

Drug registration inspection means the inspection activities carried out for the development sites and production sites for verifying the authenticity and consistency of the application materials and the commercial production conditions for marketing of drugs, and examining the compliance of drug development, and data reliability, among others, and the extended examination activities carried out for manufacturers, suppliers, or other entrusted institutions of chemical APIs, auxiliary materials, and packaging materials and containers in direct contact with drugs involved in the application for drug registration, if necessary.

The CDE shall decide whether to carry out on-site inspection of drug registration development based on risks, according to the degree of drug innovation and the previous acceptance of inspection by drug research institutions.

The CDE shall decide whether to launch production site inspection for drug registration based on risks according to the factors such as variety, process, facility, and previous acceptance of inspection for which an application is filed for registration. For innovative drugs, new modified drugs and biological products, production site inspection for drug registration and pre-marketing examination for management standards for drug production quality shall be conducted. For generic drugs, production site inspection for drug registration and pre-marketing examination for management standards for drug production quality shall be conducted based on the risks, according to whether a drug production license for the corresponding production scope has been obtained and whether a variety of the same dosage form has been marketed.

After an application for drug registration is accepted, the CDE shall conduct preliminary examination within 40 days of acceptance, notify the Centre for Food and Drug Inspection of the National Medical Products Administration (hereinafter referred to as the "**CFDI**") of organizing inspection and provide the relevant materials required for inspection, where production site inspection for drug registration is required, and concurrently notify the applicant and the medical products administrative department of the province, autonomous region, or municipality in the place where the applicant or production enterprise is located. In principle, the CFDI shall complete the inspection work 40 days prior to the expiry of the time limit for inspection, and report the inspection information, inspection results and other relevant materials to the CDE.

Drug registration examination shall include standard review and sample examination. Standard review means the laboratory assessment of the scientificity of the items set in the standards for the drug for which the applicant applies, the feasibility of the test methods, and the rationality of quality control indicators, among others. Sample examination means the laboratory examination carried out for samples according to the application of the applicant or the drug quality standards verified by the CDE.

The review period for an application for drug marketing authorisation shall be 200 days. Within this 200-day period, the review period for the procedures for prioritized review and approval shall be 130 days, and the review period for the procedures for prioritized review and approval for clinically and urgently needed overseas-marketed drug for a rare disease shall be 70 days.

The following duration shall be excluded from the relevant work period: (i) time taken for the applicant to provide supplementary materials, to make correction upon examination as well as to verify manufacturing process, quality standards and literature in accordance with the requirements; (ii) delay in examination or inspection due to reason of the applicant, time taken for organizing expert advisory meetings; (iii) the suspended duration in the event of suspension of review and approval procedures pursuant to the provisions of laws and regulations; and (iv) time taken for overseas examination where such overseas examination is activated.

**Reform of Evaluation and Approval System for Drugs**

In August 2015, the State Council promulgated the Opinions on the Reform of Evaluation and Approval System for Drugs and Medical Devices and Equipment (《關於改革藥品醫療器械審評審批制度的意見》) (the "**Reform Opinions**"), which provides a framework for reforming the evaluation and approval system for drugs and indicates enhancing the standard of approval for drug registration and accelerating the evaluation and approval process for innovative drugs.

In November 2015, the CFDA promulgated the Announcement on Certain Policies for Drug Registration, Evaluation and Approval (《關於藥品註冊審評審批若干政策的公告》) (the "**Certain Policies Announcement**"), which further clarified the measures and policies on simplifying and accelerating the approval process on the basis of the Reform Opinions.

Pursuant to the Decision on Adjusting the Approval Procedures of Certain Administrative Approval Items for Drugs (《關於調整部分藥品行政審批事項審批程序的決

定》) promulgated by the CFDA in March 2017 and came into effect in May 2017, the clinical trial approval decisions on drugs (including domestic and imported) can be directly made by the CDE in the name of the CFDA; decisions on approval of drug supplementary applications (including domestic and imported); decisions on approval of re-registration of imported drugs.

The Announcement on Adjusting the Procedures for Review and Approval of Clinical Trials of Drugs issued by the NMPA on July 24, 2018 provides that if no negative or questionable opinion is received from the CDE within 60 days after the acceptance and collection of the application fee for a clinical trial of a drug, the applicant may commence a clinical trial of the drug in accordance with the submitted clinical trial protocol.

The Evaluation and Approval Procedures for Breakthrough Therapeutic Drugs (Trial) (《突破性治療藥物審評工作程序(試行)》), the Evaluation and Approval Procedures for Conditionally Approved Drugs (Trial) (《藥品附條件批准上市申請審評審批工作程序(試行)》) and The Preferential Evaluation and Approval Procedures for Drug Marketing Authorisation (Trial) (《藥品上市許可優先審評審批工作程序(試行)》) promulgated by the NMPA in July 2020 and came into effect in July 2020, replace the Opinions on Implementing Priority Review and Approval to Encourage Drug Innovation (《關於鼓勵藥品創新實行優先審評審批的意見》) promulgated by the CFDA in December 2017 and came into effect in December 2017, which further clarified the Accelerating Registration Procedures for Drugs.

**Regulations on International Multi-Center Clinical Trials and Acceptance of Overseas Clinical Trial Data**

According to the Notice on Issuing the International Multi-Center Clinical Trial Guidelines (Trial) (《關於發佈國際多中心藥物臨床試驗指南(試行)的通告》), ("**the Multi-Center Clinical Trial Guidelines**"), promulgated by the NMPA on January 30, 2015 and came into effect from March 1, 2015, international multi-center clinical trial applicants may simultaneously perform clinical trials in different centers using the same clinical trial protocol. Where the applicants plan to implement the international multi-center clinical trials in the PRC, the applicants shall comply with relevant laws and regulations, such as the PRC Drug Administration Law, the Implementing Regulations of the PRC Drug Administration Law and the Administrative Measures for Drug Registration, execute the Good Clinical Practice, make reference to universal international principles such as the International Council for Harmonization of Technical Requirements for Pharmaceuticals for Human Use (ICH), and comply with the laws and regulations of the countries involved in the international multi-center clinical trials. Where the applicants plan to use the data derived from the international multi-center clinical trials for approval of a drug registration in the PRC, it shall involve at least two countries, including China, and shall satisfy the requirements for clinical trials set forth in the Multi-Center Clinical Trial Guidelines and other related laws and regulations.

According to the Opinions on Deepening the Reform of the Evaluation and Approval System and Inspiring Innovation of Drugs and Medical Devices, clinical trial data obtained in an international multi-center that conforms to China's requirements for registration of drugs and medical devices can be used for the application for registration in China.

According to the Technical Guiding Principles for the Acceptance of Overseas Clinical Trial Data of Drugs (《接受藥品境外臨床試驗數據的技術指導原則》) promulgated by the NMPA on July 6, 2018, the basic principles for accepting overseas clinical trial data include: (i) applicants shall ensure the authenticity, integrity, accuracy and trace-ability of overseas clinical trial data; (ii) the process of generating overseas clinical trial data shall comply with the relevant requirements of the ICH-GCP; (iii) applicants shall ensure the scientific design of overseas clinical trials, the compliance of clinical trial quality management system with the requirements, and the accuracy and integrity of statistical analysis of data; and (iv) to ensure that the clinical trial design and statistical analysis of the data are scientific and reasonable, for the drugs with simultaneous R&D at home and abroad and forthcoming clinical trials in China, the applicants may, prior to implementing registrational clinical trials, contact the CDE to ensure the compliance of registrational clinical trial's design with the essential technical requirements for drug registration in China.

**Regulations of Biosimilars**

In February 2015, the CFDA promulgated the Technical Guidelines for the Research, Development and Evaluation of Biosimilars (《生物類似藥研發與評價技術指導原則》) (the "**Biosimilars Guidelines**"), which outline the regulatory framework for biosimilars in China and provide the basic principles for the evaluation and management of biosimilars. The Biosimilars Guidelines set forth the definition of biosimilars and reference drugs, the requirements in relation to the selection of reference drugs, the basic principles for technical review, the criteria for comparability and the conditions under which extrapolations of indications would be permissible. According to the Biosimilar Guidelines, biosimilars refer to therapeutic biological products that are similar to approved and registered reference drugs in terms of quality, safety and efficacy. The R&D and marketing of biosimilars need to comply with the relevant regulations of the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》) and the Administrative Measures for Drug Registration (《藥品註冊管理辦法》). After completion of pre-clinical studies, the applicant is required to propose an application for a clinical trial, and after receiving the approval to conduct a clinical trial, the applicant should complete the clinical trial in accordance with the clinical trial protocol. The applicant shall submit an application for a marketing authorisation after completion of the clinical trials and related preparations.

According to the Administrative Measures for Drug Registration (《藥品註冊管理辦法》), drug registration shall be subject to registration and administration by categories, namely traditional Chinese medicine, chemical medicine and biological products etc. Biological product registration shall be categorized in accordance with biological product innovative medicine, biological product improved new medicine, marketed biological products (including biosimilar), etc. In order to cooperate with the implementation of the Administrative Measures for Drug Registration, the NMPA formulated the Registration Classification of Biological Products and Requirements for Application Materials (《生物製品註冊分類及申報資料要求》), and the Registration Classification of Biological Products part came into effect on July 1, 2020 while the Requirements for Application Materials part came into effect on October 1, 2020. According to the Registration Classification of Biological Products and Requirements for Application Materials, the biosimilars are classified as category 3.3.

On February 10, 2021, the NMPA issued the Technical Guidelines for Similarity Evaluation and Indication Extrapolation of Biosimilars (《生物類似藥相似性評價和適應症外推技術指導原則》) to further standardize the development and evaluation of biosimilars, which came into effect on the same day. According to the Technical Guidelines for similarity evaluation and indication extrapolation of Biosimilars, "similarity" refers to a drug candidate that is overall similar to a reference drug that is approved for registration and that does not present clinically meaningful differences in quality, safety, and efficacy, and "Indication Extrapolation" refers to a drug candidate that is overall similar to the reference drug when directly aligned to clinical trials showing that the candidate is clinically similar to the reference drug in at least one indication. It may then be possible to extrapolate scientific arguments for indication related study data and information in support of its use for other indications not directly studied as approved in China for the reference drug. The similarity evaluation of biosimilars should be carried out comprehensively from the perspective of pharmaceutical, non-clinical and clinical studies to determine the overall similarity, and should be carried out at different stages of biopharmaceutical studies.

The Technical Guidance for Clinical Pharmacology Studies of Biosimilars (《生物類似藥臨床藥理學研究技術指導原則》) issued by the CDE in February 2022 provides further guidance recommendations for clinical pharmacology studies of biosimilars in the framework of The Biosimilar Guidelines and the Technical Guidelines for Similarity Evaluation and Indication Extrapolation of Biosimilars, in which it is clear whether the candidate and reference drugs have similarity in clinical pharmacology needs to be evaluated based on statistical methods; currently, the average bioequivalence statistical approach is generally recommended for the comparison of PK and PD parameters.

With respect to the application and approval process for imported biosimilars developed overseas, according to the Administrative Measures for Drug Registration (《藥品註冊管理辦法》), the application for registration of drugs produced overseas shall be filed in accordance with the requirements for the detailed classification and the corresponding application materials.

**Marketing Authorisation Holder System**

Pursuant to the Drug Administration Law (《藥品管理法》) and Administrative Measures for Drug Registration (《藥品註冊管理辦法》), the State implements the drug marketing authorisation holder system for drug management. After obtaining a drug registration certificate, an applicant shall be the drug marketing authorisation holder. During the validity period, a holder of a drug registration certificate shall continue to ensure the safety, effectiveness and quality controllability of the marketed drug, and apply for re-registration of the drug six months prior to the expiry of the validity period.

The drug marketing authorisation holder shall proactively carry out post-marketing research on drugs, further confirm the safety, effectiveness and quality controllability of drugs, and strengthen the continuous management of marketed drugs. Where a drug registration certificate and its annex require the marketing authorisation holder to carry out relevant research work after the drug is marketed, the marketing authorisation holder shall complete the research within the prescribed time limit and file a supplementary

application, undergo recordation formalities or report as required. After a drug is approved for marketing, the marketing authorisation holder shall continue to conduct research on drug safety and effectiveness, undergo recordation formalities in a timely manner or file a supplementary application for revising the instructions according to the relevant data, and continuously update and improve the instructions and labels. According to the duties, the medical products administrative department may require the marketing authorisation holder to revise the instructions and labels based on the monitoring of adverse drug reactions and the post-marketing reevaluation results of the drug.

The marketing authorisation holder shall apply for re-registration six months prior to the expiry of the validity period of the drug registration certificate. An application for re-registration of a domestically produced drug shall be filed by the marketing authorization holder with the medical products administrative department of the province, autonomous region, or municipality directly under the Central Government, and an application for re-registration of a drug produced overseas shall be filed by the marketing authorisation holder with the Center for Drug Evaluation.

A holder of drug sales approval may produce drugs by itself or may entrust other drug manufacturers. Similarly, a holder of drug sales approval may distribute the drugs by itself or entrust a drug sales enterprise for such distribution. The holder of drug sales approval shall not entrust drug manufacturing enterprise to produce blood products, anesthetics, psychotropic pharmaceuticals, toxic pharmaceuticals for medical treatment, and pharmaceutical precursor chemicals may not be produced through entrustment, except as otherwise prescribed by the drug administrative department of the State Council.

**Transfer of Drug Marketing Authorisation**

Pursuant to the Drug Administration Law of the PRC (《中華人民共和國藥品管理法》), subject to the approval by the drug administrative department of the State Council, a drug marketing authorisation holder may transfer its drug marketing authorisation. The transferee shall possess the capability of quality management, risk prevention and control and liability compensation to ensure the safety, efficacy and quality controllability of the drug, and perform the obligations of the drug marketing authorisation holder.

According to the Administrative Measures for Drug Registration (《藥品註冊管理辦法》), transfer of drug marketing authorisation by the holder shall declare by way of supplementary application, and implement upon approval.

Pursuant to the Administrative Measures for Drug Post-marketing Changes (for Trial Implementation) (《藥品上市後變更管理辦法(試行)》), drug post-marketing changes shall not have any adverse impact on the safety, effectiveness and quality controllability of drugs. In the case of an application for the change to a drug holder, the production site, prescription, production techniques and quality standards of the drugs shall be consistent with those of the original drugs. In the case of any change, after the change of the holder has been approved, the holder after the change shall conduct full study, evaluation and necessary verification and shall implement or report such changes upon approval or filing as required.

In the case of an application for the change of a holder of domestically manufactured drugs, the transferee shall, after obtaining the drug manufacturing permit for the corresponding production scope, submit a supplementary application to the CDE. In particular, in the case of an application for the change of a holder of narcotic drugs or psychotropic drugs, the transferee shall also meet the requirements for the quantity and layout of the designated manufacturers of narcotic drugs and psychotropic drugs as determined by the NMPA.

The CDE shall make a decision on whether to approve the change within the prescribed time limit. If the change is approved, the CDE shall issue a supplementary drug application notice with the drug approval number and the valid period of the certificate remaining unchanged. The CDE shall also send a copy thereof to the provincial drug regulatory authority at the place where the transferor, the transferee and the manufacturer are located.

The holder after the change shall have a production quality management system that meets the requirements specified in the GMP, undertake the obligations for the management of the drug in the whole life cycle, complete the continuous research work of the drug, ensure that the existing technical requirements are met after the drug is manufactured and marketed, and highlight the situation of the transferred drug in its initial annual report.

The transferred drug may be sold on the market after passing the inspection for compliance with the GMP and fulfilling the product release requirements.

The provincial drug regulatory authority at the place where the transferee is located shall focus on strengthening the supervision and inspection of the transferred drugs and timely incorporate such supervision and inspection into the daily supervision plan.

**National Reimbursement Drug List**

Participants in the National Health Insurance Scheme and their employers (if any) have to pay a monthly premium. Participants may be reimbursed for all or part of the cost of medicines included in the medical insurance catalogue. The Notice on Provisional Measures for the Administration of the Scope of Medicines in the Basic Medical Insurance for Urban Workers (《城鎮職工基本醫療保險用藥範圍管理暫行辦法的通知》) (or the Medical Insurance Notice), jointly issued by the Ministry of Labour and Social Security of the People's Republic of China and the National Development and Reform Commission of the People's Republic of China (the "**NDRC**") and other governmental organisations on May 12, 1999, stipulates that the medicines included in the medical insurance catalogue must be clinically necessary, safe and effective, reasonably priced, convenient to use and the supply of which can be guaranteed by the market.

The National Reimbursement Drug List for Basic Medical Insurance, Work Injury Insurance and Maternity Insurance (《國家基本醫療保險、工傷保險和生育保險藥品目錄》) (or the NRDL) sets out the standards for payment of medicines by the basic medical insurance, work injury insurance and maternity insurance funds. The Ministry of Human Resources and Social Security of the PRC and other governmental organisations have the

authority to determine the drugs to be included in the NRDL. Drugs listed in the NRDL are divided into two parts: Class A and Class B. Class A drugs are widely used for clinical treatment, with favourable efficacy and lower prices than their counterparts, while Class B drugs are used for clinical treatment, with favourable efficacy and slightly higher prices than Class A drugs.

On January 13, 2023, the NHSA and the Ministry of Human Resources and Social Security of the PRC released the latest NRDL (effective from March 1, 2023), which has been expanded to cover a total of 2,967 drugs. Inclusion in the NRDL will generally result in increased sales volume and lower drug prices (which are determined on a case-by-case basis and negotiated based on factors such as the initial drug price).

On July 30, 2020, the NHSA issued the Provisional Measures for the Administration of Medicines for Basic Medical Insurance (《基本醫療保險用藥管理暫行辦法》) ("**Measures for the Administration of the NRDL**"), which came into effect on September 1, 2020. The Measures for the Administration of the NRDL provides guidance on the inclusion and adjustment of the NRDL and the payment, management and supervision of basic medical insurance. According to the Measures for the Administration of the NRDL, a dynamic adjustment mechanism shall be established for the NRDL, which shall be adjusted annually in principle.

**Drug Purchases by Hospitals**

According to the Guiding Opinions concerning the Urban Medical and Health System Reform (《關於城鎮醫藥衛生體制改革的指導意見》) promulgated and came into effect on February 16, 2000, and the Opinions on the Implementation of Classification Management of Urban Medical Institutions (《關於城鎮醫療機構分類管理的實施意見》) promulgated on July 18, 2000 and came into effect on September 1, 2000, a medical institution must be defined as a for-profit or non-profit institution at the time of its establishment. A not-for-profit medical institution refers to a medical institution established for the purpose of public interest services, which maintains and develops the institution with its income, while a for-profit medical institution is established by investors for the purpose of investment return. The PRC government has not established any for-profit medical institutions, while non-government entities may establish for-profit medical institutions. Under PRC law, any non-profit medical institution must use a centralised tender system to purchase any pharmaceutical products, while any for-profit medical institution is not required to use such system.

According to the Notice on the Trial Implementation of the Centralised Tender with Respect to Drug Purchases by Medical Institutions (《關於印發醫療機構藥品集中招標採購試點工作若干規定的通知》) promulgated and came into effect on July 7, 2000, the Notice on the Further Standardizing of the Centralised Tender with respect to Drug Purchases By Medical Institutions (《關於進一步做好醫療機構藥品集中招標採購工作的通知》) promulgated and came into effect on August 8, 2001 and the Opinions concerning Further Regulating Drug Purchases by Medical Institutions through Centralised Tendering (《關於進一步規範醫療機構藥品集中採購工作的意見》) promulgated and came into effect on January 17, 2009, any non-profit medical institutions established and/or controlled by any government at the county level or above must use a centralised tender system for the procurement of

drugs which are listed in the Catalogue of Drugs for National Basic Medical Insurance (《國家基本醫療保險藥品目錄》) and are generally for clinical use and bulk purchase.

The Good Practice of Medical Institutions with respect to Centralised Procurement of Drugs (《醫療機構藥品集中採購工作規範》) promulgated and came into effect on July 7, 2010, provides detailed provisions on the catalogue and procurement methods of centralised procurement of drugs, the procedures of centralised procurement of drugs, the evaluation methods of centralised procurement of drugs, and the construction and management of the expert pools, further regulates the centralised procurement of drugs and clarifies the code of conduct of the parties involved in centralised procurement of drugs. According to the Good Practice of Medical Institutions with respect to Centralised Procurement of Drugs (《醫療機構藥品集中採購工作規範》), non-profit medical institutions established by the government at the county level or above or state-owned enterprises (including state-controlled enterprises) must participate in the centralised procurement of drugs for medical institutions. The centralised procurement management authority at provincial (district or municipal) level is responsible for compiling the catalog of drugs for centralised procurement by medical institutions within its own administrative region, and narcotic drugs and Class I psychoactive drugs under special management by the State are not included in such catalog for centralised procurement; Class II psychoactive drugs, radioactive pharmaceuticals, toxicity drugs for medical use, crude drugs, traditional Chinese medicinal materials and traditional Chinese medicine decoction pieces may be excluded from such catalog for centralised procurement.

According to the Guidance Opinion of the General Office of the State Council on the Improvement of the Drug Centralized Procurement Work of Public Hospitals (《國務院辦公廳關於完善公立醫院藥品集中採購工作的指導意見》) promulgated and came into effect on February 9, 2015, the centralised procurement work of public hospitals will be improved through the purchase of drugs by classification. All drugs used by public hospitals (with the exception of traditional Chinese medicine decoction pieces) should be procured through a provincial centralised pharmaceutical procurement platform. The provincial procurement agency should work out a summary of the procurement plans and budget submitted by hospitals and compile reasonably a drug procurement catalog of the hospitals within its own administration region, listing by classification the drugs to be procured through bids, negotiations, direct purchases by hospitals or to be manufactured by appointed pharmaceutical manufacturers.

**The Drug Centralized Procurement in "4+7 Cities" and Nationwide**

On November 15, 2018, the Joint Procurement Office published the Papers on Drug Centralised Procurement in "4+7 Cities" (《4+7城市藥品集中採購文件》, the "**Paper**"), which launched the national pilot scheme for drugs centralised tendering with minimum procurement quantities. The pilot scheme will be carried out in 11 cities, including Beijing, Tianjin, Shanghai, Chongqing, Shenyang, Dalian, Xiamen, Guangzhou, Shenzhen, Chengdu and Xi'an (the "**4+7 cities**").

On January 1, 2019, the General Office of the State Council also published the Notice of Issuing Pilot Program of the Centralised Procurement and Use of Drugs Organized by the State (《國務院辦公廳關於印發國家組織藥品集中採購和使用試點方案的通知》), which provides the detailed measures in the implementation of the national pilot scheme for drugs centralised tendering with minimum procurement quantities in the 4+7 cities.

In principle, the various types of pilot drugs covered by the Pilot Program of the Centralized Procurement and Use of Drugs should be selected from the generic names of drugs that have passed the consistency assessment on quality and efficacy.

The procurement process should be based on the number of pharmaceutical enterprises selected: if three or more pharmaceutical enterprises are selected, the procurement should be conducted through an open tender process; if two enterprises are selected, the procurement should be conducted through a bargaining process; and if only one enterprise is selected, the terms of the procurement should be determined through negotiation.

According to the Implementing Opinions on Expanding the Pilot Program for Conducting Centralised Procurement and Use of Drugs by the State to Wider Areas (《關於國家組織藥品 集中採購和使用試點擴大區域範圍的實施意見》) promulgated and came into effect on September 25, 2019, together with the Documents on National Centralised Drug Procurement (GY-YD2021-1) (《全國藥品集中採購文件》) issued by the Joint Procurement Office on January 15, 2021, the centralised procurement program of drugs has been extended to nationwide. The centralised volume-based procurement program of drugs will be implemented on a nationwide basis. Eligible participants include all pharmaceutical manufacturers, sole agents of imported drugs and holders of marketing authorisations for drugs, provided that they own the drugs covered by the centralised purchasing program.

The NHSA, the NHC, the NMPA, the MIIT and the Ministry of Logistics and Security of the Central Military Commission jointly issued the Circular on Conducting the Second Batch of Centralised Procurement and Use of Drugs Organised by the State (《關於開展第二批國家組織藥品集中採購和使用工作的通知》) (the "**Circular**"), which became effective on January 13, 2020, and stipulated a number of principles for the implementation of the centralised procurement of drugs by the State in order to comprehensively deepen the reforms and to establish a standardised and regularised centralised purchasing program of drugs nationwide. The Joint Purchasing Office issued the Documents on National Centralised Drug Procurement (GY-YD2020-1) (《全國藥品集中採購文件(GY-YD2020-1)》) on July 29, 2020 to launch a new batch of centralized procurement of drugs that meet the conditions for centralised procurement.

On January 22, 2021, the General Office of the State Council issued the Opinions on Promoting the Normalisation and Institutionalisation of the Centralised Volume-based Procurement of Drugs (《關於推動藥品集中帶量採購工作常態化制度化開展的意見》), stating that various measures will be taken to promote the normalisation and institutionalisation of the centralised volume-based procurement of drugs nationwide. All public medical institutions are required to participate in the centralised drug procurement program. The future procurement catalogue will include drugs with high market demand or high

procurement prices that are included in the NRDL, and is expected to cover, as far as possible, domestically marketed drugs with clinical utility and reliable quality.

The Joint Purchasing Office issued the Documents on National Centralised Drug Procurement (GY-YD2021-2) (《全國藥品集中採購文件(GY-YD2021–2)》) on June 2, 2021, the Documents on National Centralised Drug Procurement (Insulin Specific) (GY-YD2021-3) (《全國藥品集中採購文件(胰島素專項)(GY-YD2021–3)》) on November 5, 2021, the Documents on National Centralised Drug Procurement (GY-YD2022-1) (《全國藥品集中採購文件(GY-YD2022-1)》) on June 20, 2022, the Documents on National Centralised Drug Procurement (GY-YD2023-1) (《全國藥品集中採購文件(GY-YD2023-1)》) on March 2, 2023, and the Documents on National Centralised Drug Procurement (GY-YD2023-2) (《全國藥品集中採購文件(GY-YD2023-2)》) on October 13, 2023, to launch the fifth, sixth, seventh, eighth and ninth batches of centralised drug procurement.

**Drug Distribution and Two-Invoice System**

According to the Implementing Opinions on Promoting the "Two-Invoice System" for Drug Procurement By Public Medical Institutions (For Trial Implementation) (《關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)》) which was issued on December 26, 2016, the Two-Invoice System is a system under which invoices are issued by drug manufacturers to drug distributors on a once-off basis while invoices are issued by drug distributors to medical institutions on a once-off basis. Wholly-owned or holding commerce companies (there shall be only one commerce company throughout the country) and domestic general agents of overseas drugs (there shall be only one domestic general agent throughout the country) that are established by drug manufacturers or group enterprises integrating scientific research, manufacture, and trade to sell the drugs of these enterprise (groups) can be regarded as manufacturers. Within an enterprise that is a drug circulation group, the allocation of drugs between the group and wholly-owned (holding) subsidiaries or between wholly-owned (holding) subsidiaries should not be regarded as invoicing, but invoicing is allowed once at most.

According to the Several Opinions of the General Office of the State Council on Further Reform and Improvement in Policies of Drug Production, Circulation and Use (《國務院辦公廳關於進一步改革完善藥品生產流通使用政策的若干意見》), which was issued on January 24, 2017, on a priority basis, the Two-Invoice System would be promoted in pilot provinces (autonomous regions and municipalities directly under the Central Government) and pilot cities for public hospital reform, with the goal of having it implemented nationwide by 2018. Pharmaceutical companies must comply with the Two-Invoice System in order to engage in procurement processes with public hospitals.

**Drug Recall**

According to the Measures on Drug Recall (《藥品召回管理辦法》) promulgated on December 10, 2007, latest amended in October 2022 and came into effect on November 1, 2022, a drug manufacturer should establish and improve its recall system by collecting relevant information about drug safety and making an investigation and evaluation with respect to any drugs with potential safety hazards. If there are any potential safety hazards that endanger human health and life safety in respect of any drugs sold in PRC,

such manufacturer must start the drug recall procedures. Where a drug is recalled, the drug operating units and users should assist such manufacturer to satisfy its recall obligations by communicating the drug recall information and any feedback, controlling and recovering such drugs according to the recall plan.

**Gathering, Collection and Filing of Human Genetic Resources**

Pursuant to the Service Guide for Administrative Licensing of Gathering, Collection, Deal, Export and Exit Approval of Human Genetic Resources of Human genetic resources (《人類遺傳資源採集、收集、買賣、出口、出境審批行政許可事項服務指南》) promulgated by the Ministry of Science and Technology in July 2015 and the Notice on the Implementation of the Administrative License for the Gathering, Collection, Deal, Export and Exit of Human Genetic Resources (《關於實施人類遺傳資源採集、收集、買賣、出口、出境行政許可的通知》) promulgated by the Ministry of Science and Technology in August 2015, foreign investment sponsors who gather and collect human genetic resources through clinical trials should file a record with the China Human Genetic Resources Management Office through an online system. The Ministry of Science and Technology promulgated the Notice on Optimizing the Administrative Examination and Approval Process of Human Genetic Resources (《關於優化人類遺傳資源行政審批流程的通知》) in October 2017 and came into effect in December 2017, which has simplified the approval process for the gathering and collection of human genetic resources for the listing of drugs in China.

Pursuant to the Regulations on the Management of Human Genetic Resources of the People's Republic of China (《中華人民共和國人類遺傳資源管理條例》) promulgated by the State Council in May 2019 and came into effect on July 1, 2019, the State supports the rational use of human genetic resources for scientific research, development of the biomedical industry, improvement of diagnosis and treatment technology, improvement of China's ability to guarantee biosafety and improvement of the level of people's health. Foreign organizations, individuals and institutions established or actually controlled by them shall not gather or preserve Chinese genetic resources in China, or provide Chinese genetic resources to foreign countries. In addition, the gathering, preservation, utilization and external provision of Chinese genetic resources shall conform to ethical principles and conduct ethical review in accordance with relevant regulations.

On October 17, 2020, SCNPC promulgated Biosecurity Law of the PRC (《中華人民共和國生物安全法》), taking effect from April 15, 2021. This Biosecurity Law establishes a comprehensive legislative framework for the pre-existing regulations in such areas as epidemic control of infectious diseases for humans, animals and plants; research, development, and application of biology technology; biosecurity management of pathogenic microbe laboratories; security management of human genetic resources and biological resources; countermeasures for microbial resistance; and prevention of bioterrorism and defending threats of biological weapons. Pursuant to this Biosecurity Law, the research and development activities of high-risk and medium-risk biotechnology shall be carried out by a legal person organization established within the territory of the PRC, upon obtaining the approval or record-filing; the establishment of a pathogenic microorganism laboratory shall be subject to approval or record-filing requirements in accordance with the law. Additionally, (i) collecting human genetic resources of important

genetic families or specific areas in the PRC, or collecting human genetic resources of which the types and quantities are subject to provisions of the competent department of science and technology under the State Council, (ii) preserving China's human genetic resources, (iii) using China's human genetic resources to carry out international scientific research cooperation, or (iv) transporting, mailing, and carrying China's human genetic resource materials out of the country shall be subject to approval of the competent department of science and technology.

On May 26, 2023, the Ministry of Science and Technology promulgated the Implementation Rules for the Administrative Regulation on Human Genetic Resources (Draft for Comments) (《人類遺傳資源管理條例實施細則(徵求意見稿)》 (the "**Implementation Rules for HGR**"), which came into effect on July 1, 2023. The Implementation Rules for HGR further provide detailed implementation regulations for the Administration of Human Genetic Resources of the PRC, such as:

- Clarifying the scope of human genetic resource information, which shall include information resources generated from human genetic resource materials (such as human genes and genome data) and exclude clinical data, image data, protein data and metabolic data;

- Further clarifying the criteria to constitute a Foreign Entity, which shall include (i) any foreign organization or individual that holds directly or indirectly more than 50% of the shares, equity interests, voting rights, property shares or other interests in the institution, (ii) any foreign organization or individual that is able to dominate or have material effect on the decision-making or management of the institution through its voting right or other interests, although the shares, equity interests, voting rights, property share or other interests it directly or indirectly holds in the institution is less than 50%, (iii) any foreign organization or individual that is able to dominate or have material effect on the decision-making or management of the institution through investment relationship, contract or other arrangement; and (iv) other situations stipulated by laws, regulations and rules;

- Specifically listing the situations where security review may be required, which shall include: (i) human genetic resource information of important genetic families; (ii) human genetic resources information of specific regions, (iii) exome sequencing and genome sequencing information resources with a population greater than 500 cases; and (iv) other situation that may affect the public health, national security and social public interest of China;

- Further improving the clarity and efficiency of the administration of human genetic resources, for example, clarifying the method for the calculation of illegal gains and providing detailed exemptions on certain matters that are subject to approval.

**Good Clinical Practice Certification and Compliance with the Good Clinical Practice (GCP)**

To improve the quality of clinical trials, the NMPA and NHC promulgated the Good Clinical Practice for Drug Trials (《藥物臨床試驗質量管理規範》) (the "**GCP**") in April 2020 and came into effect on July 1, 2020, which aims to ensure that the clinical trials of drugs are standardized and the results are scientific and reliable, protecting the rights and safety of human subjects. Pursuant to the Opinions on Deepening the Reform of the Evaluation and Approval Systems and Encouraging Innovation of Drugs and Medical Devices (《關於深化審評審批制度改革鼓勵藥品醫療器械創新的意見》) promulgated by the general offices of the Chinese Communist Party Central Committee and the State Council in October 2017, the qualification of clinical trial institutions shall be subject to record management. Clinical trials should follow GCP and protocols approved by the ethics committee of each research center.

**Regulation of Medical Devices**

***Registration and Filing of Medical Devices***

*Classification of Medical Devices*

In the PRC, medical devices have been classified into three categories for administration based on the degree of risk. Class 1 medical devices shall refer to those devices with low risks, whose safety and effectiveness can be ensured through routine administration. Class 2 medical devices shall refer to those devices with moderate risks, which shall be strictly controlled and administered to ensure their safety and effectiveness. Class 3 medical devices shall refer to those devices with relatively high risks, which shall be strictly controlled and administered through special measures to ensure their safety and effectiveness. Class 2 and Class 3 medical devices require registration certificates. The classification of specific medical devices is set out in the Classification Catalogue of Medical Devices, which was promulgated by the NMPA on August 31, 2017, came into effect on August 1, 2018 and latest amended on August 15, 2023.

On September 9, 2022, the General Department of the NMPA issued the Guiding Opinions on Strengthening the Classified Supervision of the Production and Operation of Medical Devices (《關於加強醫療器械生產經營分級監管工作的指導意見》) (the "**Guiding Opinions**"), which came into effect from January 1, 2023. The Guiding Opinions requires that enterprises engaging in the production and operation of medical devices shall be subject to hierarchical supervision. The drug regulatory authorities classify medical device enterprises into four regulatory levels based on relevant risks, and implement corresponding regulatory measures for enterprises at different regulatory levels. For enterprises with good credit standing for long-term monitoring, the regulatory level may be downgraded. For medical device registrants engaged in cross-regional commissioned production, entrusted production enterprises engaged in entrusted production only, and operating enterprises with additional warehouses off-site, the supervisory level shall be adjusted upward accordingly.

On September 29, 2022, the NMPA issued the Guidelines for Verification of Medical Device Registration Quality Management System (《醫療器械註冊質量管理體系核查指南》) to clarify the standards and requirements for the quality management of Class 2 and Class 3 medical devices, strengthen the verification of the medical device registration quality management system, and ensure the quality of the review work.

**Registration Inspection**

According to the Administrative Measures for the Registration and Filing of Medical Devices (《醫療器械註冊與備案管理辦法》), applications for the registration of Class 2 and Class 3 medical devices should be subject to registration inspection. Medical device inspection institutions shall conduct registration inspection on the relevant products in accordance with the technical requirements of the products. Medical device inspection institutions shall have the qualifications for medical device inspection, conduct inspection within the scope of their acceptance, and conduct pre-evaluation on the technical requirements of the products submitted by the applicants.

According to the Administrative Measures for the Registration and Filing of Medical Devices (《醫療器械註冊與備案管理辦法》), when applying for the registration of Class 1 medical devices or the registration of Class 2 and Class 3 medical devices, a product inspection report shall be submitted, which is a self-inspection report prepared by the applicant itself or an inspection report issued by a qualified medical device inspection institution.

**Clinical Evaluation**

According to the Administrative Measures for the Registration and Filing of Medical Devices (《醫療器械註冊與備案管理辦法》), clinical evaluation should be conducted for the registration and filing of relevant device, unless (i) the working mechanism of the medical device is clear, the design is finalised, the production process is mature, and the medical devices of the same category that have been clinically applied for many years without any record of serious adverse events, and the regular use of the medical device will not be changed; or (ii) other non-clinical trial evaluation can prove the safety and effectiveness of such medical device.

On September 18, 2021, the NMPA promulgated the Notice of the NMPA on Issuing the 5 Technical Guiding Principles including the Technical Guiding Principles for Clinical Evaluation of Medical Devices (Notice No. 73 of 2021) (《國家藥監局關於發佈醫療器械臨床評價技術指導原則等5項技術指導原則的通告》(2021年第73號通告)), and organised the formulation of 5 technical guiding principles, including the Technical Guiding Principles for Clinical Evaluation of Medical Devices (《醫療器械臨床評價技術指導原則》), the Technical Guiding Principles for Determining whether to Conduct Clinical Trials of Medical Devices (《決策是否開展醫療器械臨床試驗技術指導原則》), the Technical Guiding Principles for the Clinical Evaluation of Medical Devices (《醫療器械臨床評價等同性論證技術指導原則》), the Technical Guiding Principles for the Clinical Evaluation Report for the Registration (《醫療器械註冊申報臨床評價報告技術指導原則》) and the Technical Guiding Principles for the Comparison and Explanation of Products Included in the Catalogue of Medical Devices Exempted from Clinical Evaluation (《列入免於臨床評價醫療器械目錄產品

對比說明技術指導原則》), applicants for registration may, based on the above principles, decide whether the registered medical devices need to undergo clinical evaluation of medical devices, the clinical evaluation of the equivalence demonstration or the exemption from clinical evaluation, and submit the registration materials to the NMPA for registration and approval.

According to the Technical Guiding Principles for Clinical Evaluation of Medical Devices (《醫療器械臨床評價技術指導原則》), there are three ways to meet the relevant requirements for clinical evaluation for registration or filing of medical devices:

(i) If the relevant device falls into the Exemption Catalogue (as defined below), the applicant must submit materials evidencing that the relevant device meets the description set forth in the Exemption Catalogue;

(ii) If the device does not fall into the exemption catalogue, the applicant may analyse and demonstrate the safety and efficacy of such device based on clinical data or clinical trial data of other medical devices of the same category that have been commercialised;

(iii) If the relevant device does not fall into the exemption catalogue and there are no other devices of the same category, or there is insufficient clinical data for such similar products, the applicant must conduct clinical trials for the relevant device to demonstrate its safety and efficacy.

For example, according to the Technical Guiding Principles for Clinical Evaluation of Medical Devices (《醫療器械臨床評價技術指導原則》), NW-100 is subject to Rule 3 and NW-200 is subject to Rule 2. In addition, NW-100 and NW-200 are classified as two registration units and will obtain separate registration certificates in accordance with the Guiding Principles for the Classification of Medical Devices Registration Units (《醫療器械註冊單元劃分指導原則》).

In summary, applicants for registration should make their own judgement based on the adequacy of clinical data collected. If the applicant has obtained sufficient clinical data, no clinical trial is required; If the applicant believes that the relevant information is insufficient, clinical trials should be conduct to demonstrate the safety and efficacy of such product. Whether a product can be exempted from clinical trials depends on the final review opinion of the NMPA and its provincial branches.

**Clinical Trial**

The Exemption Catalogue (as defined below) is formulated, adjusted and published by the NMPA. On September 28, 2018, the NMPA promulgated the Notice on Issuing the Newly Revised Catalogue of Medical Devices Exempted from Clinical Trials (Notice No. 94 of 2018) (《關於公佈新修訂免於進行臨床試驗醫療器械目錄的通告》(2018年第94號通告)) (the "**2018 Catalogue**"), which came into effect from the date of its publication. The 2018 Catalogue contains two categories, namely medical device products and *in vitro* diagnostic reagents, covering 855 medical device products and 393 *in vitro* diagnostic reagents, respectively. On December 13, 2019, the NMPA promulgated the Notice on

Issuing the List of New and Revised Medical Devices Exempted from Clinical Trials (Notice No. 91 of 2019) (《關於公佈新增和修訂的免於進行臨床試驗醫療器械目錄的通告》(2019年第91號通告)) (the "**2019 Revision**"), which added 148 medical devices and 23 *in vitro* diagnostic reagents, and amended the names and descriptions of 48 medical device products and 4 *in vitro* diagnostic reagents. On January 14, 2021, the NMPA issued the Notice on Issuing the Catalogue of Medical Devices Exempted from Clinical Trials (Second Batch Amendments) (Notice No. 3 of 2021) (《關於發佈免於進行臨床試驗醫療器械目錄(第二批修訂)的通告》(2021年第3號通告)) (the "**2021 Revision**"), which added 37 medical devices and 7 *in vitro* diagnostic reagents, and removed 16 medical devices. On September 16, 2021, the NMPA promulgated the Notice on Issuing the Catalogue of Medical Devices Exempted from Clinical Evaluation (Notice No. 47 of 2021) (《關於發佈免於臨床評價醫療器械目錄的通告》(2021年第47號通告)) (the "**2021 Catalogue**"), which came into effect on October 1, 2021. The 2018 Catalogue, the 2019 Revision, the 2021 Revision and the 2021 Catalogue are collectively referred to as the "**Exempted Catalogues**". The 2021 Catalogue superseded the 2018 Catalogue, the 2019 Revision and the 2021 Revision. The 2021 Catalogue covers 1,010 medical device products, product components that are listed in the 2021 Catalogue and whose intended uses are the same as those prescribed in the 2021 Catalogue are exempt from clinical trials.

For medical device products that are not included in the Exemption Catalogues, the data obtained in clinical trials or clinical applications of similar medical devices shall be analysed and evaluated. If the safety and effectiveness of such medical devices can be demonstrated, the applicant may specify and submit the relevant supporting materials during the registration application process.

According to the Administrative Measures for the Registration and Filing of Medical Devices (《醫療器械註冊與備案管理辦法》), before conducting clinical trials for medical devices, the applicant for the clinical trial shall file the clinical trials with the provincial branch of the NMPA having jurisdiction over the applicant. If a clinical trial for a Class 3 medical device has a higher risk to the human body, the applicant shall obtain approval from the NMPA before conducting the clinical trial for such medical device.

Clinical trials of products that are not included in the Exemption Catalogues shall be conducted in accordance with the Good Clinical Practice for Medical Devices (2016) (《醫療器械臨床試驗質量管理規範(2016)》) (the "**Good Clinical Practice**") jointly promulgated by the NMPA and the NHC on March 1, 2016 and came into effect on June 1, 2016. The Good Clinical Practice covers the entire process of clinical trials of medical devices, including, among others, the protocol design, implementation, monitoring, verification and inspection of clinical trials, as well as the collection, recording, analysing and summarising and reporting of data. Prior to the clinical trial, the applicant shall complete the pre-clinical research of the medical devices for trial, including, among others, the protocol design, implementation, monitoring, verification and inspection of the clinical trial, as well as the collection, recording, analysing and summarising and reporting of the data, and the results shall be able to support the clinical trial. Clinical trials of medical devices shall be conducted in two or more qualified medical device clinical trial institutions. Prior to the clinical trial, the clinical trial shall obtain the consent of the ethics committee of the clinical trial institution of medical devices, and the applicant, the clinical trial institution and the investigator shall reach a written agreement

on the trial design, trial quality control, division of responsibilities in the trial, expenses related to the clinical trials to be borne by the applicant and the principles of treatment of possible injuries in the trial.

On March 30, 2022, the NMPA issued the Notice of the NMPA on the Implementation of Good Clinical Practice for Medical Devices (NMPA Notice No. 21 of 2022) (《國家藥監局關於實施〈醫療器械臨床試驗質量管理規範〉有關事項的通告》(國家藥監局2022年第21號通告)), which came into effect on May 1, 2022 and replaced the Good Clinical Practice for Medical Devices (2016) (《醫療器械臨床試驗質量管理規範(2016)》). According to the NMPA Notice No. 21 of 2022, the activities related to clinical trials of medical devices (including *in vitro* diagnostic reagents) for the purpose of applying for registration within the territory of the People's Republic of China shall comply with the requirements of the Good Clinical Practice for Medical Devices. The Good Clinical Practice for Medical Devices covers the entire process of clinical trials for medical devices, including the design, implementation, supervision, inspection, data collection, data recording, data preservation, data analysis, data aggregation and data reporting of clinical trials for medical devices.

Clinical trials of Class 3 medical devices with relatively high risks for human subjects shall be pre-approved by the NMPA before commencement. The Catalogue of Class 3 Medical Devices Requiring Clinical Trial Approval (2020 Revision) (《需進行臨床試驗審批的第三類醫療器械目錄》(2020年修訂版)) (the "**Catalogue**") is formulated by the NMPA and is adjusted and promulgated from time to time. Prior to clinical trials, Class 3 medical devices that are not listed in the Catalogue shall be filed with the drug regulatory authorities of the province, autonomous region or municipality directly under the central government where the clinical trial is located.

**Registration and Filing**

According to the Administrative Measures for the Registration and Filing of Medical Devices (《醫療器械註冊與備案管理辦法》), which was promulgated by the State Administration for Market Regulation (the "**SAMR**") on August 26, 2021 and came into effect on October 1, 2021, Class 1 medical devices shall be subject to product filing administration. For medical devices manufactured domestically, the filing materials for Class 1 medical devices shall be submit to the drug supervision and administration departments of the city with districts where they are located; for Class 2 medical devices, the medical device registration certificate shall be issued after examination and approval by the drug supervision and administration departments of provinces, autonomous regions and municipalities directly under the central government; for Class 3 medical devices, the medical device registration certificate shall be issued after examination and approval by the National Medical Products Administration. In the process of technical review, if the applicant needs to supplement or correct the materials, the technical review management department shall inform all the contents that need to be supplemented or corrected in a lump sum. The applicant shall provide supplementary information as required by the notice within one year after receiving the supplementary and correction notice. The technical review management department shall complete the technical review within the prescribed time limit after receiving the supplementary materials.

The medical device registration certificate is valid for five years, and the holder of such certificate shall apply for renewal six months prior to the expiration of the validity period of the medical device registration certificate. There is no validity period for the filing period for Class 1 medical devices.

According to the Regulations on the Supervision and Administration of Medical Devices (《醫療器械監督管理條例》) (Order No. 276 of the State Council of the PRC, first promulgated on January 4, 2000 and further amended on March 7, 2014, May 4, 2017 and February 9, 2021, respectively, and the 2021 revision came into effect on June 1, 2021), unless the medical device holder (i) fails to submit an application for renewal of registration of medical devices within the prescribed time limit, or (ii) fails to meet the new mandatory requirements applicable to medical devices, or (iii) fails to complete the matters specified in the registration certificate of medical devices within the prescribed time limit, the registration certificate of medical devices shall be renewed and certified.

**Medical Device Registration and Filing System**

The Regulations on the Supervision and Administration of Medical Devices (2021 Revision) (《醫療器械監督管理條例(2021修訂)》) clarifies the obligations that a registrant or filer of a medical device shall perform (i.e., an enterprise or research and development institution that has obtained the medical device registration certificate or has completed the medical device filing procedures). The registrant or filer of a medical device shall perform the following obligations: (i) establishing a quality management system that is compatible with the product and maintain its effective operation; (ii) formulating a post-marketing research and risk management and control plan and ensure its effective implementation; (iii) carrying out adverse event monitoring and re-evaluation in accordance with the law; (iv) establishing and implementing a product traceability and recall system; and (v) other obligations stipulated by the drug supervision and administration department of the State Council.

**Production Quality Management of Medical Devices**

According to the Measures for the Supervision and Administration of the Production of Medical Devices (2017) (《醫療器械生產監督管理辦法(2017)》), which was promulgated and amended by the CFDA and came into effect on November 17, 2017, the following conditions shall be met for carrying out the production of medical devices: (i) with the production site, environmental conditions, production equipment and professional technicians suitable for the production of medical devices; (ii) with an organisation or full-time inspection personnel and inspection equipment for quality inspection of the medical devices produced; (iii) with a management system to ensure the quality of medical devices; (iv) with after-sales service capabilities suitable for the medical devices produced; (v) meet the requirements of product development and production process documents.

On March 10, 2022, the State Administration for Market Regulation issued the Measures for the Supervision and Administration of the Production of Medical Devices (2022) (《醫療器械生產監督管理辦法(2022)》) (State Administration for Market Regulation Circular [2022] No. 53), which came into effect on May 1, 2022 and replaced the Measures

for the Supervision and Administration of the Production of Medical Devices (2017) (《醫療器械生產監督管理辦法(2017)》). From May 1, 2022, the new application for medical device production and operation activities shall be subject to licensing or filing in accordance with the relevant provisions of the Measures for the Supervision and Administration of the Production of Medical Devices (2022) (《醫療器械生產監督管理辦法(2022)》).

To establish a production enterprise for Class 1 medical devices, the record-filing for the production of Class 1 medical devices shall be filed with the drug supervision and administration department at the city with districts where it is located. To establish a production enterprise for Class 2 and Class 3 medical devices, the application for production license shall be submitted to the food and drug supervision and administration department of the province, autonomous region or municipality directly under the Central Government where it is located. The validity period of the Medical Device Production License (《醫療器械生產許可證》) shall be five years, and if the validity period of the Medical Device Production License (《醫療器械生產許可證》) is to be extended upon expiry, the medical device manufacturer shall apply with the original issuing authority for renewal of the Medical Device Production License (《醫療器械生產許可證》) six months prior to the expiry of the validity period. We have obtained the Medical Device Production License (《醫療器械生產許可證》) for Class 3 medical devices, which is within its validity period.

Pursuant to the Good Manufacturing Practice for Medical Devices (《醫療器械生產質量管理規範》) (the "**Good Manufacturing Practice**"), which was promulgated by the CFDA on December 29, 2014 and came into effect on March 1, 2015, medical device manufacturers shall comply with the requirements of the Good Manufacturing Practice in the process of design and development, production, sales and after-sales services of medical devices. A medical device manufacturer shall, in accordance with the requirements of Good Manufacturing Practice and taking into account the characteristics of its products, establish and improve a quality management system suitable for the medical devices it produces and ensure its effective operation. Enterprises shall implement risk management throughout the whole process of design and development, production, sales and after-sales services, and the measures adopted shall be compatible with the risks of products.

According to the Notice on Issuing Four Guiding Principles including the Guidelines for On-site Inspection of Good Manufacturing Practice for Medical Devices (《關於印發〈醫療器械生產質量管理規範現場檢查指導原則〉等4個指導原則的通知》) promulgated by CFDA and came into effect on September 25, 2015, during the on-site inspection of medical device registration and the on-site inspection of production license (including changes), the inspection team shall, in accordance with the guiding principles, issue a recommended conclusion on the on-site inspection, which is divided into three situations, namely "passing the inspection", "failing the inspection" and "reinspection after rectification". In various supervision and inspection, if it is found that the key items do not meet the requirements, or although there are only general items that do not meet the requirements but such general items may have a direct impact on product quality, the enterprise shall be required to suspend production for rectification; if it is found that the general items do not meet the requirements and do not have a direct impact on product quality, the enterprise

shall be required to rectify within a time limit. The regulatory authorities shall review the recommended conclusions and on-site inspection materials submitted by the inspection team and issue the final inspection results.

**Permit for Medical Device Operation and Operation and Quality Management Standards**

Pursuant to the Regulations on Medical Devices (《醫療器械條例》) and the Measures for the Supervision and Administration of the Operation of Medical Devices (《醫療器械經營監督管理辦法》) promulgated by the CFDA and came into effect on November 17, 2017, an entity engaging in the operation of Class 1 medical devices is not required to obtain approval from or register and file with the NMPA or its local counterparts; an entity engaging in the operation of Class 2 medical devices shall file with the drug supervision and administration department at the city with districts where it is located; an entity engaging in the operation of Class 3 medical devices shall apply to the municipal drug supervision and administration department for an operation permit certificate. A medical device operation permit certificate shall have a validity period of five years and the certificate shall be renewed six months prior to its expiration. According to the Regulations on Medical Devices (《醫療器械條例》) and the Measures for the Supervision and Administration of Medical Devices Operation (《醫療器械經營監督管理辦法》), no entity shall sell or use medical devices that have not been properly registered or filed with the NMPA or its local counterparts. In addition, according to the Measures for the Supervision and Administration of the Operation of Medical Devices (《醫療器械經營監督管理辦法》), a registrant, a filer or a manufacturer of medical devices is not required to obtain an operation permit or make a filing for the sale of medical devices at its domicile or production address. The State Administration for Market Regulation amended the Measures for the Supervision and Administration of Medical Devices Operation (《醫療器械經營監督管理辦法》) on March 10, 2022, and came into effect on May 1, 2022, pursuant to which, the registered holder or filer of a medical device is not required to obtain a business license or record-filing for the sale of the medical devices it registered or filed at its domicile or production site, but it shall meet the prescribed business conditions, and if it stores or sells medical devices in other places, it shall still obtain a business license or conduct record-filing.

According to the Standards on Production and Quality Management of Medical Devices (《醫療器械經營質量管理規範》) promulgated by CFDA and came into effect on December 12, 2014 (First promulgated and implemented on December 12, 2014, and further revised on December 4, 2023. The 2023 revised version will come into effect on July 1, 2024), entities shall adopt effective quality control measures in the procurement, acceptance, storage, sales, transportation and after-sales services of medical devices.

**Centralised Procurement of Medical Devices**

The PRC government has taken measures to encourage centralised procurement of high-value medical consumables through a tender process. In June 2007, the National Health Commission promulgated the Notice on Further Strengthening the Administration of Centralised Procurement of Medical Devices (《關於進一步加強醫療器械集中採購管理的通知》), which requires all non-profit medical institutions established by governments at

all levels, industries and state-owned enterprises to participate in the centralised procurement of medical devices. Centralised procurement is mainly carried out through public tender. On November 25, 2020, the National Healthcare Security Administration (the "**NHSA**") issued the Reply of the NHSA on Proposal No. 7777 of the Third Session of the 13th National People's Congress (Yi Bao Han [2020] No. 165) (《國家醫療保障局對十三屆全國人大三次會議第7777號建議的答覆》(醫保函[2020]165號)), which clearly states that the state is promoting the establishment of a provincial bidding and procurement platform integrating bidding, procurement, transaction, settlement and supervision, and promoting the construction of a regional and national alliance procurement mechanism. At the same time, the NHSA would coordinate the construction of a national unified medical security information platform and a drug and medical consumables procurement management sub-system to achieve national linkage of drug consumables procurement, distribution and supervision, and meet the needs of unified coding, unified mode, unified supervision and territorial management.

**Centralised Procurement of High-value Medical Consumables**

On March 5, 2018, six other government departments including the NHC issued the Notice on Consolidating the Achievements of Eradicating Pharmaceutical Compensation for Medical Treatment and Continuously Deepening the Comprehensive Reform of Public Hospitals (《關於鞏固破除以藥補醫成果持續深化公立醫院綜合改革的通知》), which states that the deepening of the comprehensive reform of public hospitals includes, among other things, the implementation of centralised purchasing of high-value medical consumables on a categorical basis.

On July 19, 2019, the General Office of the State Council published the Circular on the Reform Plan for the Governance of High-Value Medical Consumables (《治理高值醫用耗材改革方案的通知》), which emphasizes "exploring the centralised procurement of high-value medical consumables by category in accordance with the principles of volume-based procurement, volume-price pegging, and the promotion of market competition, encouraging healthcare organisations to jointly carry out volume-based negotiated procurement, and actively exploring cross-provincial alliance procurement."

According to the Guiding Opinions on the Implementation of the Centralised Volume-based Procurement and Use of High-value Medical Consumables Organised by the State (《關於開展國家組織高值醫用耗材集中帶量採購和使用的指導意見》) jointly issued by the NHSA, the NMPA and other relevant government authorities on June 4, 2021, the State will focus on the procurement of some high-value medical consumables with large clinical consumption, high procurement amount, more mature clinical use, sufficient market competition and higher level of homogeneity. All public medical institutions shall participate in the centralised volume-based procurement of such high-value medical consumables.

On September 14, 2023, the Office of the High-value Medical Consumables Joint Organisation Organized by the State (國家組織高值醫用耗材聯合機構辦公室) published the Announcement on State-led Centralised Volume-Based Procurement of Medical Consumables of Artificial Intraocular Lens (IOLs) and Sports Medicine (No. 1) (《國家組織人工晶體類及運動醫學類醫用耗材集中帶量採購公告(第1號)》), to carry out centralised

volume-based procurement of certain lens and sports medicine consumables. Specifically, 11 varieties of artificial IOLs and 20 varieties of sport medicine products were included in the volume-based procurement list. For sports medicine consumables that are not included in this round of volume-based procurement, including bone morphogenetic protein (BMP), local authorities regulate their prices through competitive bidding and price restriction.

On November 10, 2023, the Office of the High-value Medical Consumables Joint Organisation Organized by the State published the Announcement on Centralised Volume-Based Procurement of Medical Consumables of IOLs and Sports Medicine (No. 2) (《國家組織人工晶體類及運動醫學類醫用耗材集中帶量採購公告(第2號)》), which specifies the details of how to carry out centralised volume-based procurement of lens and sports medicine consumables. Specifically, among sports medicine related consumables, products containing bone morphogenetic protein BMP can volunteer to take part in the centralised volume-based procurement.

**Distribution of Medical Devices and Two-Invoice System**

On December 26, 2016, eight government authorities including the SFDA jointly issued the Notice on the Implementation Opinions on the "Two-Invoice System" in Drug Procurement by Public Medical Institutions (Trial) (《關於在公立醫療機構藥品採購中推行「兩票制」的實施意見(試行)的通知》) (the "**Implementation Notice**"). According to the Implementation Notice, the "Two-Invoice System" refers to one invoice issued by a drug manufacturer to a distributor, and one invoice issued by a distributor to a medical institution. The Implementation Notice clarifies that the "Two-Invoice System" shall be gradually implemented in the procurement of drugs by public medical institutions, and other medical institutions shall be encouraged to implement the "Two-Invoice System" and strive to implement at national level by 2018.

On March 5, 2018, six government authorities including the National Health Commission of the PRC jointly issued the Notice on Consolidating the Achievements of Cancelling Drug Markups and Deepening the Comprehensive Reform of Public Hospitals (《關於鞏固破除以藥補醫成果持續深化公立醫院綜合改革的通知》), requiring the implementation of centralised procurement of high-value medical consumables and the gradual implementation of the "Two-Invoice System" for the purchase and sales of high-value medical consumables.

On July 19, 2019, the General Office of the State Council issued the Notice on Printing and Distributing the Reform Plan for the Management of High-value Medical Consumables (《關於印發〈治理高值醫用耗材改革方案〉的通知》), which encourages local governments to reduce the circulation of high-value medical consumables and promote the openness and transparency of purchase and sales through the "Two-Invoice System" and other means. According to the Reply of the National Healthcare Security Administration on Proposal No. 1209 of the Second Session of the 13th National People's Congress (《國家醫療保障局對十三屆全國人大二次會議第1209號建議的答覆》) issued by NHSA on July 23, 2019, considering the huge difference between high-value consumables and pharmaceuticals and the complexity of their clinical use and after-sales services, the issue of the application of "Two-Invoice System" for high-value consumables needs to be further studied.

**Price Controls**

Pursuant to the Notice of Issuing the Opinions on Reform of Pricing System of Pharmaceuticals and Medical Services (《關於印發改革藥品和醫療服務價格形成機制的意見的通知》), which was jointly promulgated by the NDRC, the Ministry of Health of the PRC and the Ministry of Human Resources and Social Security of the PRC and came into effect on November 9, 2009, the management on the pricing of medical devices will be strengthened. For high value medical devices, especially for implantable and interventional medical devices, more reasonable pricing can be achieved by measures such as limiting price differentiation of the product in circulation and publishing market price information.

**Advertisements of Medical Devices**

Pursuant to the Interim Administrative Measures for the Review of Advertisements for Drugs, Medical Devices, Health Food and Formula Food for Special Medical Purposes (《藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法》), which was promulgated by the SAMR on December 24, 2019 and came into effect on March 1, 2020, advertisements for medical devices shall not be released without being reviewed by the relevant administration for market regulation and drug administration of provinces, autonomous regions or centrally-administered municipalities or other authorized administrative authorities. In addition, a publisher shall be responsible for the veracity and legitimacy of the contents of advertisements for medical devices.

The contents of a medical device advertisement shall be based on the contents of the registration certificate or filing certificate approved by the drug administrations, or the registered or filed product instructions. Where the medical device advertisement involves the name, scope of application, functional mechanism or structure or composition, etc. of the medical device, the scopes of the registration certificate or filing certificate, or registered or filed product instruction shall not be exceeded.

According to Medical Security Law (Draft for Comments) (《醫療保障法(徵求意見稿)》), all advertisements for medical devices recommended for personal use must prominently display a disclaimer stating, "Please read the product instructions carefully or purchase and use the product as directed by a health care professional." If the product registration certificate of the medical device stipulates any contraindications or precautions, the advertisement shall include a disclaimer in a prominent position stating, "for contraindications and precautions, please refer to the instructions for details."

**Medical Device Recalls**

According to the Administrative Measures for Medical Device Recalls (《醫療器械召回管理辦法》), which was promulgated by the NMPA on January 25, 2017 and came into effect on May 1, 2017, according to the severity of defects in medical devices, a medical device recall can be divided into: (i) Class I recall, where the use of the medical device may cause or has caused serious health hazards; (ii) Class II recall, where the use of the medical device may cause or has caused temporary or reversible health hazards; or (iii) Class III recall, where the use of the medical device is less likely to cause harm but still needs to be recalled.

A medical device manufacturer shall determine the recall level according to the specific circumstances and scientifically design and implement the recall plan according to the recall level and the sales and use of the medical device.

## OTHER KEY LAWS AND REGULATIONS THAT ARE RELEVANT TO OUR BUSINESS

### Basic Medical Insurance Policy

Pursuant to the Decision on the Establishment of the Urban Employee Basic Medical Insurance Programme (《關於建立城鎮職工基本醫療保險制度的決定》) promulgated by the State Council on December 14, 1998 and the Tentative Measures for the Administration of the Scope of Medical Insurance Coverage for Pharmaceutical Products for Urban Employee (《城鎮職工基本醫療保險用藥範圍管理暫行辦法》) promulgated by the NDRC, the SDA and other authorities, came into effect on May 12, 1999, all employers in cities and towns, including enterprises (state-owned enterprises, collective enterprises, foreign-invested enterprises, private enterprises, etc.), institutions, public institutions, social organizations, private non-enterprise units and their employees are required to participate in basic medical insurance. Pursuant to the Guiding Opinions on the Pilot of Basic Medical Insurance for Urban Residents (《關於開展城鎮居民基本醫療保險試點的指導意見》) promulgated by the State Council on July 10, 2007, urban residents (not urban employees) in the pilot areas can voluntarily participate in the basic medical insurance for urban residents. Pursuant to the Opinions of the State Council on the Integration of the Basic Medical Insurance System for Urban and Rural Residents (《國務院關於整合城鄉居民基本醫療保險制度的意見》) promulgated by the State Council on January 3, 2016, a unified basic medical insurance system for urban and rural residents was established, including the existing urban residents' medical insurance and all the insured personnel of New Rural Cooperative Medical System, covering all urban and rural residents except those who should be covered by the employee's basic medical insurance.

### Medical Insurance Catalogue

Pursuant to the Tentative Measures for the Administration of the Scope of Medical Insurance Coverage for Pharmaceutical Products for Urban Employee (《城鎮職工基本醫療保險用藥範圍管理暫行辦法》), the scope of medical insurance coverage for pharmaceutical products needs to be managed through the formulation of the Medical Insurance Catalogue. A pharmaceutical product listed in the Medical Insurance Catalogue must be clinically needed, safe, effective, reasonably priced, easy to use, available in sufficient quantity, and must meet the following requirements: it is set forth in the Pharmacopoeia of the PRC (current edition) (《中華人民共和國藥典》(現行版)); it meets the standards promulgated by the NMPA; and if imported, it is approved by the NMPA for import. According to the Opinions of the National Healthcare Security Administration and the Ministry of Finance on the Establishment of the Medical Insurance Treatment List System (《國家醫保局、財政部關於建立醫療保障待遇清單制度的意見》), which came into effect in January 2021, all regions shall strictly comply with the National Basic Medical Insurance Drugs Catalogue, and shall not formulate the catalogue by themselves or use any means to add drugs to the catalogue unless expressly provided by the State. After several adjustments, the currently effective Medical Insurance Catalogue (《醫療保險目錄》) is the National Drug Catalogue for Basic Medical Insurance, Work-Related Injury Insurance and

Maternity Insurance (2023) (《國家基本醫療保險、工傷保險和生育保險藥品目錄(2023年)》), which came into effect on December 7, 2023.

**Drug Price**

Pursuant to the Drug Administration Law, for drug products with market-regulated prices in accordance with the law, the drug marketing authorisation holder, the drug manufacturer, the drug distributor and medical institution shall determine the price pursuant to the principles of fairness, reasonableness, integrity and trustworthiness as well as quality for value in order to supply drug users with reasonably priced drug products; and shall comply with the requirements relating to drug price administration promulgated by the State Council's pricing authorities, determine and clearly mark the retail prices of drug products. Pursuant to the Notice on Issuing Opinions on Promoting Drug Price Reform (《關於印發推進藥品價格改革意見的通知》) jointly promulgated by NDRC, NHC, the Ministry of Human Resources and Social Security, the MIIT, the Ministry of Finance, the MOFCOM and the CFDA on May 4, 2015. From June 1, 2015, except for narcotic drugs and first-class psychotropic drugs, the price of drugs set by the government will be cancelled.

**Advertising of Pharmaceutical Products and Insert Sheet, Labels and Packaging of Pharmaceutical Products**

Pursuant to the Interim Administrative Measures for the Review of Advertisements for Drugs, Medical Devices, Health Food and Formula Food for Special Medical Purposes (《藥品、醫療器械、保健食品、特殊醫學用途配方食品廣告審查管理暫行辦法》), which was promulgated by SAMR and came into effect on March 1, 2020, advertisements for drugs, medical devices, health food and formula food for special medical purposes shall be true and legitimate, and shall not contain any false or misleading contents. Holders of registration certificates or filing certificates of drugs, medical devices, health food and formula food for special medical purposes as well as the production enterprises and operating enterprises authorized by such holders of certificates shall be applicants for advertising (the "**Applicants**"). Applicants may entrust agents to apply for the review of advertisements for drugs, medical devices, health food and formula food for special medical purposes. Applicants may submit their applications at the acceptance windows of advertisement review authorities, or may submit their applications for advertisements for drugs, medical devices, health food and formula food for special medical purposes via letters, faxes, e-mails or e-government platforms. The advertisement review authorities shall review the materials submitted by the Applicants and shall complete the review within ten working days from the date of acceptance. After review, for that advertisements that are in line with laws, administrative regulations and the Interim Administrative Measures for the Review of Advertisements for Drugs, Medical Devices, Health Food and Formula Food for Special Medical Purposes, approval decisions of review shall be made and advertisement approval numbers shall be issued. The validity period of the advertisement approval number for drugs, medical devices, health food and formula food for special medical purposes shall be consistent with the shortest validity period of the product registration certificate, filing certificate or production license. If no valid period is prescribed in the product registration certificate, filing certificate or production license, the valid period of the advertisement approval number shall be two years.

Pursuant to the Measures for the Administration of the Insert Sheets and Labels of Drugs (《藥品説明書和標籤管理規定》), which was promulgated by SFDA and came effective on June 1, 2006, the insert sheets and labels of drugs should be reviewed and approved by the SFDA. A drug insert sheet should include the important scientific data, conclusions and information concerning drug safety and efficacy in order to direct the safe and rational use of drugs. The inner label of a drug should bear such information as the drug's name, indication or function, strength, dose and usage, production date, batch number, expiry date and drug manufacturer, and the outer label of a drug should indicate such information as the drug's name, ingredients, description, indication or function, strength, dose and usage, adverse reaction, contraindications, precautions, storage, production date, batch number, expiry date, approval number and drug manufacturer. Pursuant to the Measures for The Administration of Pharmaceutical Packaging (《藥品包裝管理辦法》) which came effective on September 1, 1988, pharmaceutical packaging must comply with the national and professional standards. If no national or professional standards are available, the enterprise can formulate its standards and put into implementation after obtaining the approval of the food and drug administration or bureau of standards at provincial level. The enterprise shall reapply with the relevant authorities if it needs to change its packaging standard. Drugs that without packing standards must not be sold or traded (except for drugs for the military).

**Drug Technology Transfer**

Drug technology transfer refers to the process in which the owner drug manufacturing enterprise as transferee of drug technology transfers the drug production technology to the transferee drug manufacturing enterprise in accordance with the requirements of the relevant laws and regulations on drug technology transfer, and the application for drug registration by the transferee drug manufacturing enterprise. The standards for the process of drug technology transfer registration, including the application, evaluation, review, approval and supervision and administration of drug technology transfer registration, are regulated by the Administrative Measures for Drug Registration (《藥品註冊管理辦法》) and the Administrative Provisions on Drug Technology Transfer Registration (《藥品技術轉讓註冊管理規定》) promulgated by the CFDA on August 19, 2009. According to the above regulations, drug technology transfer is divided into new drug technology transfer and drug production technology transfer. Applications for drug technology transfer shall be submitted to the drug regulatory authorities at the provincial level, and the CFDA shall make the final approval decision based on the comprehensive opinions of the Centre for Drug Evaluation. If the requirements are met, the supplemental application approval document and the drug approval number shall be issued.

## LAWS AND REGULATIONS IN RELATION TO ADMINISTRATION OF PATHOGENIC MICROORGANISM LABORATORIES

According to the Regulations on the Bio-safety Management of Pathogenic Microbe Laboratories (《病原微生物實驗室生物安全管理條例》) promulgated by State Council and latest amended in March 2018, the pathogenic microorganism laboratories are classified into Level 1, Level 2, Level 3 and Level 4 in accordance with its biosafety level for pathogenic microorganisms and the national standards for the bio-safety. Laboratories at

Bio-safety Level 1 and Level 2 are forbidden to conduct experimental activities relating to any highly pathogenic microbes. Laboratories at Bio-safety Level 3 and Level 4 shall meet certain requirements to conduct experimental activities relating to any highly pathogenic microbes. Newly building, rebuilding or expanding of Bio-safety Level 1 or Level 2 laboratories shall file with the relevant health administrative department or veterinary administrative department in the municipal people's government of the place where it is built. The laboratories of Bio-safety Level 3 and Level 4 shall be subject to the state accreditation for laboratories. Laboratories passing accreditation will be granted with Certificates for Bio-safety Laboratories at corresponding level. The certificate will be effective for five years.

## REGULATIONS IN RELATION TO INTELLECTUAL PROPERTY

### Patent

Patents in the PRC are mainly protected by the Patent Law of the PRC (《中華人民共和國專利法》) (the "**Patent Law**"), which was promulgated by the SCNPC on March 12, 1984 and latest amended on October 17, 2020 and came into effect on June 1, 2021, and the Implementation Rules of the Patent Law of the PRC (《中華人民共和國專利法實施細則》) (the "**Implementation Rules**"), promulgated by the State Council on June 15, 2001 and last amended on December 11, 2023 and came into effect on January 20, 2024. The Patent Law and the Implementation Rules provide for three types of patents, namely "invention", "utility model" and "design". "Invention" refers to any new technical solution relating to a product, a process or improvement thereof; "utility model" refers to any new technical solution relating to the shape, structure, or their combination, of a product, which is suitable for practical use; and "design" refers to any new design of the shape, pattern, color or the combination of any two of them, of a product, which creates an aesthetic feeling and is suitable for industrial application. The duration of a patent right for "invention" is 20 years, the duration of a patent right for "utility model" is 10 years and the duration of a patent right for "design" is 15 years, from the date of application. According to the Patent Law, for the purpose of public health, the patent administrative department of the State Council may grant mandatory licensing for patented drugs manufactured and exported to countries or regions which comply with the provisions of the relevant international treaty participated by the PRC.

The newly amended Patent Law introduces patent extensions to patents of new drugs that launched in the PRC, and stipulates that the Patent Administration Department under the State Council shall, upon request of the patentee, extend the patent term of relevant invention patents of the new drug that is approved to be listed on the market in China, to compensate for the time spent for the review and examination and approval of the listing of a new drug on the market. The compensated extension shall not exceed five years, and the total valid patent term after the new drug is approved for the market shall not exceed 14 years. Such newly adopted patent term extension rule benefits the Company through providing longer protection terms of patents applied or registered in the PRC and related to our product candidates. This rule needs to be further elaborated by the competent authority, and the benefits we could enjoy are subject to the relevant clarifications and explanations.

**Trade Secret**

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), promulgated by the SCNPC in September 1993 and last amended on April 23, 2019, the term "trade secrets" refers to technical and business information that is unknown to the public, has utility, may create business interests or profits for its legal owners or holders, and is maintained as a secret by its legal owners or holders. Under the Anti-Unfair Competition Law of the PRC, business persons are prohibited from infringing others' trade secrets by: (i) acquiring a trade secret from the right holder by theft, bribery, fraud, coercion, electronic intrusion, or any other means; (ii) disclosing, using, or allowing another person to use a trade secret acquired from the right holder by any means as specified in the item (i) above; (iii) disclosing, using, or allowing another person use a trade secret in its possession, in violation of its confidentiality obligation or the requirements of the right holder for keeping the trade secret confidential; (iv) abetting a person, or tempting another person into or in acquiring, disclosing, using, or allowing another person to use the trade secret of the right holder in violation of his or her non-disclosure obligation of the requirements of the right holder for keeping the trade secret confidential. If a third party knows or should have known of the above-mentioned illegal conduct but nevertheless obtains, uses or discloses trade secrets of others, the third party may be deemed to have committed a misappropriation of the others' trade secrets. The parties whose trade secrets are being misappropriated may petition for administrative corrections, and regulatory authorities may stop any illegal activities and impose fine on the infringing parties.

**Copyright**

Copyright in the PRC is primarily protected by the Copyright Law of the PRC (《中華人民共和國著作權法》), which was promulgated by the SCNPC on September 7, 1990, last amended on November 11, 2020 and became effective on June 1, 2021, and the Implementation Regulations of the Copyright Law of PRC (《中華人民共和國著作權法實施條例》), which was promulgated by the State Council on August 2, 2002 and last amended on January 30, 2013. These law and regulation provide provisions on the classification of works and the obtaining and protection of copyright.

**Trademarks**

Registered trademarks in the PRC are mainly protected by the Trademark Law of the PRC (《中華人民共和國商標法》), which was promulgated by the SCNPC on August 23, 1982 and latest amended on April 23, 2019 and came into effect on November 1, 2019, and the Implementation Rules of the Trademark Law of the PRC (《中華人民共和國商標法實施條例》), which were promulgated by the State Council on August 3, 2002 and latest amended on April 29, 2014 and came into effect on May 1, 2014. The Trademark Office is responsible for the registration and administration of trademarks throughout China and grants a term of ten years to registered trademarks. When it is necessary to continue using the registered trademark upon expiration of period of validity, a trademark registrant shall make an application for renewal within 12 months before the expiration in accordance with the requirements. If such an application cannot be filed within that period, an extension period of six months may be granted. The period of validity for each renewal of

registration shall be ten years as of the next day of the previous period of validity. If the formalities for renewal have not been handled upon expiration of period of validity, the registered trademarks will be deregistered. Industrial and commercial administrative authorities have the authority to investigate any behavior in infringement of the exclusive right under a registered trademark in accordance with the law. In case of a suspected criminal offense, the case shall be timely referred to a judicial authority and decided in accordance with applicable laws.

**Domain Names**

Domain names are regulated under the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》) issued by the MIIT, on August 24, 2017 and effective from November 1, 2017. The MIIT is the main regulatory authority responsible for the administration of PRC internet domain names. Domain names registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. Communications administrative bureaus at provincial levels shall conduct supervision and administration of the domain name services within their respective administrative jurisdictions. Domain name registration services shall, in principle, be subject to the principle of "first apply, first register." A domain name registrar shall, in the process of providing domain name registration services, ask the applicant for which the registration is made to provide authentic, accurate and complete identity information on the holder of the domain name and other domain name registration related information.

## REGULATIONS IN RELATION TO FOREIGN DIRECT INVESTMENT

Since January 1, 2020, the Foreign Investment Law of the PRC (《中華人民共和國外商投資法》) (the "**Foreign Investment Law**") promulgated by the National People's Congress (the "**NPC**") has come into effect. The Law of the PRC on Sino-Foreign Equity Joint Ventures and the Law of the PRC on Wholly Foreign-Owned and Law of the PRC on Sino-Foreign Cooperative Joint Ventures abolished at the same time. Since then, the Foreign Investment Law has become the basic law regulating foreign-invested enterprises wholly or partially invested by foreign investors. While the organization form, institutional framework and standard of conduct of foreign-invested enterprises shall be subject to the provisions of the Company Law of the PRC and other laws. The PRC government will implement the management system of pre-entry national treatment and the Negative List for foreign investment abolished the original approval and filing administration system for the establishment and change of foreign-invested enterprises. Pre-entry national treatment refers to the treatment accorded to foreign investors and their investments at the stage of investment entry which is no less favourable than the treatment accorded to domestic investors and their investments. Negative List refers to a special administrative measure for the entry of foreign investment in specific sectors as imposed by the PRC. The PRC accords national treatment to foreign investment outside of the Negative List. The current Negative List is the Special Management Measures (Negative List) for the Access of Foreign Investment (2021 Revision) (《外商投資准入特別管理措施(負面清單)(2021年版)》) issued by the NDRC and the MOFCOM on December 27, 2021, which lists the special management measures for foreign investment access for industries regulated by the Negative List, such as equity requirements and senior

management requirements. While strengthening investment promotion and protection, the Foreign Investment Law further regulates foreign investment management and proposes the establishment of a foreign investment information reporting system that replaces the original foreign investment enterprise approval and filing system of the MOFCOM. The foreign investment information reporting is subject to the Foreign Investment Information Reporting Method (《外商投資信息報告辦法》) jointly developed by the MOFCOM and the SAMR, which came into effect on January 1, 2020. According to the Foreign Investment Information Reporting Method, the MOFCOM is responsible for coordinating and guiding the reporting of foreign investment information nationwide. The competent commercial department of the local people's government at or above the county level, as well as the relevant agencies of the Pilot Free Trade Zone and the National Economic and Technological Development Zone, are responsible for reporting information on foreign investment in the region. Foreign investors who directly or indirectly carry out investment activities in China shall submit investment information to the competent commercial department through the enterprise registration system and the National Enterprise Credit Information Publicity System and the reporting methods include initial reports, change reports, cancellation reports, and annual reports. Foreign investors who establish foreign invested enterprises in China or acquire domestic non-foreign-invested enterprises through equity merger and acquisition shall submit initial reports through the enterprise registration system when applying for the registration of the establishment of foreign-invested enterprises or applying for the registration of the change of the acquired enterprises. If the change in the information of initial reports involves registration or filing of the change of enterprises, foreign-invested enterprises shall submit change reports through the enterprise registration system when applying for the registration or filing of change of enterprises. If the change in the information of initial reports does not involve registration or filing of the change of enterprises, foreign-invested enterprises shall submit change reports through the enterprise registration system within 20 working days after the change. Foreign-invested listed companies may report information on changes in investors and their shareholdings only when the cumulative change in the foreign investors' shareholding ratio exceeds 5% or the foreign parties' shareholding or relative holding status have changed.

## LAWS AND REGULATIONS IN RELATION TO TAXATION AND FOREIGN EXCHANGE

### Laws and Regulations in Relation to Taxation

#### *Enterprise Income Tax ("EIT")*

In accordance with the PRC Enterprise Income Tax Law (《中華人民共和國企業所得税法》) (the "**EIT Law**") (promulgated on March 16, 2007 and effective from January 1, 2008 and newly amended on December 29, 2018) and the Regulation on the Implementation of Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》) (promulgated on December 6, 2007 and became effective from January 1, 2008, and revised on April 23, 2019), enterprises are classified as either "resident enterprises" or "non-resident enterprises". The "resident enterprises" are defined as enterprises set up in the PRC under the PRC laws or set up according to the foreign country/region's law whereas whose actual or de facto control is administered from within the PRC. Enterprises

established under the foreign country/region's law with "de facto management bodies" outside the PRC, but have set up institutions or establishments in the PRC or, without institutions or establishments set up in the PRC, have income originating from the PRC, shall be considered as "non-resident enterprises". A resident enterprise shall pay EIT on its income originating from both inside and outside the PRC at an EIT rate of 25%. A non-resident enterprise that has establishments or places of business in the PRC shall pay EIT on its income originating from the PRC obtained by such establishments or places of business, and on its income which deriving outside PRC but has an actual connection with such establishments or places of business, at the EIT rate of 25%. A non-resident enterprise that does not have an establishment or place of business in the PRC, or it has an establishment or place of business in the PRC but the income has no actual connection with such establishment or place of business, shall pay EIT on its passive income derived from the PRC at a reduced rate EIT of 10%.

The Administrative Measures for Determination of High-tech Enterprises (《高新技術企業認定管理辦法》) issued by the Ministry of Science and Technology, the MOF and the State Administration of Taxation (the "**SAT**") on April 14, 2008 and became effective on January 1, 2008 and revised on January 29, 2016 and the EIT Law set out the sort of enterprises that are capable of enjoying tax reduction. Pursuant to the Circular of the State Administration of Taxation on the Issues Concerning Implementation of the Preferential Income Tax Policy for New High-Tech Enterprises (《國家税務總局關於實施高新技術企業所得税優惠政策有關問題的公告》) issued on June 19, 2017, the enterprise income tax rate of new high-tech enterprises requiring national major support should be reduced to 15%. The new high-tech areas with national major support, the administrative measures for the accreditation of new high-tech enterprises and the enterprise income tax law provide for the business types entitled to tax reduction.

***Value-added Tax ("VAT")***

According to Provisional Regulations on Value-added Tax of the PRC (《中華人民共和國增值税暫行條例》) (the "**VAT Regulations**") (promulgated by the State Council on December 13, 1993, came into effect on January 1, 1994, newly amended on November 19, 2017), and The Detailed Rules for the Implementation of the Provisional Regulations of the People's Republic of China on Value-added Tax (Revised in 2011) (《中華人民共和國增值税暫行條例實施細則(2011修訂)》) (promulgated by the MOF and was last amended on October 28, 2011 and came into effect on November 1, 2011), organizations and individuals engaging in the sale of goods or processing, repair and assembly services, the sale of services, intangible assets, immovables and importation of goods in the PRC shall be taxpayers of VAT, and shall pay VAT pursuant to these Regulations. The amount of VAT payable is calculated as "output VAT" minus "input VAT". Pursuant to the VAT Regulations, the rate of VAT is 17% for those engaging in the sale of goods or labor services or tangible personal property leasing services or importation of goods except as otherwise provided by the VAT Regulations. The tax rate of VAT is 11% for the sales of the service of transportation, posting, basic telecommunications, construction and leasing real estate, the sale of real estate and the transfer of land use right, or sell or import the goods listed in the VAT Regulations.

On April 4, 2018, MOF and SAT jointly promulgated the Circular of the Ministry of Finance and the State Administration of Taxation on Adjustment of Value-Added Tax Rates (《關於調整增值税税率的通知》), or Circular 32, according to which for VAT taxable sales acts or importation of goods originally subject to value-added tax rates of 17% and 11% respectively, such tax rates shall be adjusted to 16% and 10%, respectively. Circular 32 became effective on May 1, 2018 and shall supersede existing provisions inconsistent with Circular 32. On March 20, 2019, MOF, SAT and General Administration of Customs ("**GAC**") jointly promulgated the Announcement on Policies for Deepening the VAT Reform (《關於深化增值税改革有關政策的公告》), or Circular 39, according to which for general VAT payers' sales activities or imports that are subject to VAT at a current applicable rate of 16% or 10%, the applicable VAT rate is adjusted to 13% or 9%, respectively. This Announcement came into force on April 1, 2019.

## LAWS AND REGULATIONS IN RELATION TO FOREIGN EXCHANGE

Under the Administrative Regulations of the PRC on Foreign Exchange (《中華人民共和國外匯管理條例》) (the "**Foreign Exchange Administrative Regulations**") (promulgated by the State Council on January 29, 1996, newly amended on August 5, 2008), Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but is not freely convertible for capital account items, such as direct investment or engaging in the issuance or trading of negotiable securities or derivatives unless the prior approval by the competent authorities for the administration of foreign exchange is obtained. In accordance with the Foreign Exchange Administrative Regulations, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of the State Administration of Foreign Exchange (the "**SAFE**") for paying dividends by providing certain evidencing documents (board resolutions, tax certificates, etc.), or for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency (subject to a cap approval by the SAFE) to satisfy foreign exchange liabilities. In addition, foreign exchange transactions involving overseas direct investment or investment and trading in securities, derivative products abroad are subject to registration with the competent authorities for the administration of foreign exchange and approval or filings with the relevant government authorities (if necessary).

According to the Notice of the SAFE on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment (Hui Fa [2015] No.13) (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (匯發[2015]13號) (the "**Circular 13**"), which was promulgated by the SAFE on February 13, 2015 and came into effect on June 1, 2015, and was amended on December 30, 2019, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment are directly reviewed and handled by banks in accordance with the Circular 13. The SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

According to the Circular on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (《關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "**Circular 19**") (promulgated by SAFE on March 30, 2015, and became effective on June 1, 2015 and partially repealed on December 30, 2019), the foreign exchange capital of foreign-invested enterprises shall be subject to the Discretional Foreign Exchange Settlement (the "**Discretional Foreign Exchange Settlement**"). The Discretional Foreign Exchange Settlement refers to the foreign exchange capital in the capital account of a foreign-invested enterprise for which the rights and interests of monetary contribution has been confirmed by the local foreign exchange bureau (or the book-entry registration of monetary contribution by the banks) can be settled at the banks based on the actual operational needs of the foreign-invested enterprise. The proportion of Discretional Foreign Exchange Settlement of the foreign exchange capital of a foreign-invested enterprise is temporarily determined as 100%. The Renminbi converted from the foreign exchange capital will be kept in a designated account. If a foreign-invested enterprise needs to make a further payment from such assigned accounts, it still needs to provide supporting documents and go through the banks' review process.

Pursuant to the Circular on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (Hui Fa [2016] No. 16) (《關於改革和規範資本項目結匯管理政策的通知》(匯發[2016] 16號)) (the "**Circular 16**") (promulgated by SAFE on June 9, 2016, which became effective simultaneously) and as amended on December 4, 2023, enterprises registered in the PRC (including Chinese-funded enterprises and foreign-invested enterprises, excluding financial institutions) may also convert their foreign debts from foreign currency to Renminbi on a self-discretionary basis. The Circular 16 provides an integrated standard for converting foreign exchange under capital account items (including but not limited to foreign exchange capital and foreign debts) on a discretionary basis which applies to all enterprises registered in the PRC. The Circular 16 reiterates the principle that Renminbi converted from foreign currency-denominated capital of a company may not be directly or indirectly used for purposes beyond its business scope or prohibited by PRC laws or regulations, and such converted Renminbi shall not be provided as loans to its non-affiliated entities, except where it is expressly permitted in the business license.

In accordance with the Circular on Further Promoting Cross-border Trade and Investment Facilitation (Hui Fa [2019] No. 28) (《國家外匯管理局關於進一步促進跨境貿易投資便利化的通知》) (匯發[2019]28號), which was issued and came into effect on October 23, 2019 by the SAFE and was amended on December 4, 2023, foreign-invested enterprise engaged in non-investment business are permitted to settle foreign exchange capital in RMB and make domestic equity investments with such RMB funds according to laws and regulations under the condition that the current Special Administrative Measures (Negative List) for Foreign Investment Access are not violated and the relevant domestic investment projects are true and compliant.

According to the Circular of the State Administration of Foreign Exchange on Further Deepening Reforms to Facilitate Cross-Border Trade and Investment (Hui Fa [2023] No. 28) (《國家外匯管理局關於進一步深化改革促進跨境貿易投資便利化的通知》) (匯發[2023]28號), which was issued and came into effect on December 4, 2023 by the SAFE, the

equity transfer consideration paid in foreign currency by domestic entities owe to domestic equity transferors (including institutions and individuals), as well as the foreign exchange funds raised by domestic enterprises listed overseas, can be remitted to the capital project settlement account directly. The funds in the capital project settlement account can be independently settled and utilized.

## LAWS AND REGULATIONS IN RELATION TO ANTI-BRIBERY

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》) promulgated by SCNPC, as amended and effective as of April 23, 2019, and the Interim Provisions on the Prohibition of Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) promulgated by the SAIC on November 15, 1996, any business operator shall not provide or promise to provide economic benefits (including cash, other property or by other means) to a counter-party in a transaction or a third party that may be able to influence the transaction, in order to entice such party to secure a transactional opportunity or competitive advantages for the business operator. Any business operator breaching the relevant anti-bribery rules above-mentioned may be subject to administrative punishment or criminal liability depending on the seriousness of the cases.

## REGULATIONS IN RELATION TO INFORMATION SECURITY AND DATA PRIVACY

The Basic Standards and Practice of Medical Test Laboratory (for Trial Implementation) (《醫學檢驗實驗室基本標準和管理規範(試行)》), which was promulgated by the National Health and Family Planning Commission of PRC and came into force on July 20, 2016, provides that medical laboratories must establish information management and patient privacy protection policies. The Measures for the Administration of General Population Health Information (for Trial Implementation) (《人口健康信息管理辦法(試行)》) as promulgated by the National Health and Family Planning Commission of PRC in 2014 sets forth the operational measures for patient privacy protection in medical institutions. The measures regulate the collection, use, management, safety and privacy protection of general population health information by medical institutions. Medical institutions must establish information management departments responsible for general population health information and establish quality control procedures and relevant information systems to manage this information. Medical institutions must adopt stringent procedures to verify the general population health data collected, timely update and maintain the data, establish policies on the authorized use of this information, and establish safety protection systems, policies, practice and technical guidance to avoid divulging confidential or private information.

On May 28, 2020, the NPC approved the Civil Code of the PRC (《中華人民共和國民法典》) (the "**Civil Code**"), which came into effect on January 1, 2021. Pursuant to the Civil Code, the personal information of a natural person shall be protected by the law. Any organization or individual that need to obtain personal information of others shall obtain such information legally and ensure the safety of such information, and shall not illegally collect, use, process or transmit personal information of others, or illegally purchase or sell, provide or make public personal information of others.

The Personal Information Protection Law of the PRC (《中華人民共和國個人信息保護法》), or the Personal Information Protection Law, released by the SCNPC on August 20, 2021 and effective from November 1, 2021, stipulates the scope of personal information and establishes rules for processing personal information onshore and offshore. The Personal Information Protection Law sets forth certain specific personal information protection requirements, including but not limited to more specific inform and consent requirements in various contexts, strengthened and classified obligations of personal information processors, and more limitations and rules on process of personal information.

On June 10, 2021, the SCNPC promulgated the Data Security Law of People's Republic of China (《中華人民共和國數據安全法》) (the "**PRC Data Security Law**"), which became effective on September 1, 2021. Pursuant to the PRC Data Security Law, data refers to any record of information in electronic or any other form and data processing includes but is not limited to the collection, storage, use, processing, transmission, provision, and public disclosure of data. Industrial sector, telecommunications, transportation, finance, natural resources, health, education, science and technology, and other departments shall undertake the duty to supervise data security in their respective industries and fields. The PRC Data Security Law stipulates that each organization or individual collecting data shall adopt legal and proper methods, and shall not steal or obtain data by other illegal methods, and the data processing activities shall comply with laws and regulations, respect social mores and ethics, comply with commercial ethics and professional ethics, be honest and trustworthy, perform obligations to protect data security, and undertake social responsibility; it shall not endanger national security, the public interest, or individuals' and organizations' lawful rights and interests.

On December 28, 2021, the Cyberspace Administration of China, or the CAC, together with other PRC governmental authorities, promulgated the revised Measures for Cybersecurity Review (《網絡安全審查辦法》), or the Cybersecurity Measures. Pursuant to the Cybersecurity Measures, (i) the purchase of network products and services of a critical information infrastructure operator and data processing activities of an online platform operator that affect or may affect national security shall be subject to the cybersecurity review, (ii) particularly, if a critical information infrastructure operator purchase network products and services that affect or may affect national security, or an online platform operator possessing personal information of over one million users and pursues a listing abroad (國外上市), such operator must apply for cybersecurity review, and (iii) relevant governmental authorities in the PRC may initiate cybersecurity review if such governmental authorities determine any network products and services, and data processing activities affect or may affect national security. On November 14, 2021, the CAC published the Regulations on the Administration of Cyber Data Security (Draft for Comments) (《網絡數據安全管理條例(徵求意見稿)》), or the Draft Cyber Data Regulations. The Draft Cyber Data Regulations provides that data processors conducting the following activities shall apply for cybersecurity review: (i) merger, reorganization, or division of internet platform operators that have acquired a large number of data resources related to national security, economic development, or public interests, which affects or may affect national security; (ii) a listing abroad by a data processor processing personal information of over one million users; (iii) a listing in Hong Kong which affects or may affect national security; or (iv) other data processing activities that affect or may affect national security.

In December 2023, our PRC Legal Adviser conducted a telephone consultation (the "**Consultation**") with China Cybersecurity Review, Certification and Market Regulation Big Data Center (中國網絡安全審查認證和市場監管大數據中心) (the "**CCRC**"), the competent institution appointed by the CAC to be responsible for accepting applications for cybersecurity review submitted by enterprises according to Article 7 of the Cybersecurity Review Measures, checking the application materials prima facie, and organizing the review under the Cybersecurity Review Measures. During the Consultation, our PRC Legal Adviser informed the CCRC official of our proposed [**REDACTED**] and the CCRC official confirmed that our proposed [**REDACTED**] does not fall within the scope of [**REDACTED**] and therefore the cybersecurity review requirement under Article 7 of the effective Cybersecurity Review Measures is not applicable to the Company. Thus, our PRC Legal Adviser advises that, given that Hong Kong does not fall into the scope of "abroad", our [**REDACTED**] in Hong Kong does not constitute [**REDACTED**], and in addition, we do not hold personal information of more than one million users, as described in Article 7 of the Cybersecurity Review Measures, therefore we are not required to proactively apply for cybersecurity review for our proposed [**REDACTED**]. The Cybersecurity Review Measures also provides that a critical information infrastructure operator purchasing network products and services, which affect or may affect national security, must apply for cybersecurity review. Our PRC Legal Adviser is also of the view that we are not obliged to file for the cybersecurity review when purchasing network products and services on the basis that (i) as the Regulations on Protection of Critical Information Infrastructure (《關鍵信息基礎設施安全保護條例》) ("**CIIO Regulation**") stipulate that the competent authorities and the supervision and administration departments of the important industries and sectors involved in Chapter 2 ("**Protection Departments**") of the CIIO Regulation shall be responsible for the security protection of critical information infrastructures, and the Protection Departments shall be responsible for organizing the recognition of the critical information infrastructures within the industries and sectors according to the recognition rules, and shall inform the recognized CIIO accordingly; and (ii) as of the Latest Practicable Date, we had not received any notification from Protection Departments of being identified as a CIIO. Based on the above factors, our PRC Legal Adviser is of the view that we are not required to initiate a submission for cybersecurity review in connection with the [**REDACTED**] under the effective Cybersecurity Review Measures as of the Latest Practicable Date.

On July 7, 2022, CAC promulgated Measures for the Security Assessment of Outbound Data Transfers (《數據出境安全評估辦法》), which became effective on September 1, 2022 and provide that a data processor is required to apply for security assessment for cross-border data transfer in any of the following circumstances: (i) where a data processor provides critical data to offshore entities and individuals; (ii) where a critical information infrastructure operator or a data processor which processes personal information of more than one million individuals provides personal information to offshore entities and individuals; (iii) where a data processor has provided personal information in the aggregate of more than 100,000 individuals or sensitive personal information of more than 10,000 individuals in total to offshore entities and individuals since January 1 of the previous year; or (iv) other circumstances prescribed by the CAC for which declaration for security assessment for cross-board transfer of data is required. As advised by our PRC Legal Adviser, the Measures for the Security Assessment of Outbound Data Transfers are not applicable to us currently, as the volume of personal information we process does not meet the relevant trigger thresholds, and our business does not involve the aforesaid cross-border transfer of critical data.

## REGULATIONS IN RELATION TO PRODUCT LIABILITY

The Product Quality Law of the PRC (《中華人民共和國產品質量法》), promulgated by the SCNPC on February 22, 1993 and latest amended on December 29, 2018 (the "**Product Quality Law**"), is the principal governing law relating to the supervision and administration of product quality. According to the Product Quality Law, manufacturers shall be liable for the quality of products produced by them and sellers shall take measures to ensure the quality of the products sold by them. A manufacturer shall be liable to compensate for any bodily injuries or damage to property other than the defective product itself resulting from the defects in the product, unless the manufacturer is able to prove that: (1) the product has never been circulated; (2) the defects causing injuries or damage did not exist at the time when the product was circulated; or (3) the science and technology at the time when the product was circulated were at a level incapable of detecting the defects. A seller shall be liable to compensate for any bodily injuries or damage to property of others caused by the defects in the product if such defects are attributable to the seller. A seller shall pay compensation if it fails to indicate neither the manufacturer nor the supplier of the defective product. A person who is injured or whose property is damaged by the defects in the product may claim for compensation from the manufacturer or the seller.

Pursuant to the PRC Civil Code (《中華人民共和國民法典》) promulgated by the NPC on May 28, 2020 and came into effect on January 1, 2021, where a patient suffers damage due to defects in drugs, manufacturers may seek compensation from the drug marketing authorisation holder or also from the medical institution. Where the patient seeks compensation from the medical institution, the medical institution, after it has made the compensation, shall have the right to recover the compensation from the liable drug marketing authorisation holder.

The Law of the PRC on the Protection of the Rights and Interests of Consumers (《中華人民共和國消費者權益保護法》) was promulgated on October 31, 1993 and latest amended on October 25, 2013 and came into effect on March 15, 2014 to protect consumers' rights when they purchase or use goods and accept services. All business operators must comply with this law when they manufacture or sell goods and/or provide services to customers. All business operators must pay high attention to protecting customers' privacy and must strictly keep confidential any consumer information they obtain during their business operations.

## REGULATIONS IN RELATION TO PRODUCTION SAFETY

The Production Safety Law of the PRC (《中華人民共和國安全生產法》), promulgated by the SCNPC on June 29, 2002 and latest amended on June 10, 2021 and came into effect on September 1, 2021, is the basic law for governing production safety. It provides that, any entity whose production safety conditions do not meet the requirements may operation entities shall educate and train employees regarding production safety so as to ensure that the employees have the necessary knowledge of production safety, are familiar with the relevant regulations and rules for safe production and the rules for safe operation, master the skills of safe operation in their own positions, understand the emergency measures, and know their own rights and duties in terms of production safety. Employees who fail the education and training programmes on production safety may not commence working in their positions. Safety facilities of new building, rebuilding or expanding project (the "**Construction Project**") shall be designed, constructed and put into operation simultaneously with the main body of the project. Investment in safety facilities shall be included in the budget of the Construction Project.

## REGULATIONS IN RELATION TO ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), promulgated by the SCNPC on December 26, 1989 and latest amended on April 24, 2014 and coming into effect on January 1, 2015 (the "**Environmental Protection Law**"), the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), promulgated by the SCNPC on October 28, 2002 and latest amended on December 29, 2018, and the Administrative Regulations on the Environmental Protection of Construction Project (《建設項目環境保護管理條例》), promulgated by the State Council on November 29, 1998 and latest amended on July 16, 2017 and came into effect on October 1, 2017, enterprises which plan to construct projects shall engage qualified professionals to provide the assessment reports, assessment form, or registration form on the environmental impact of such projects. The assessment reports, assessment form, or registration form shall be filed with or approved by the relevant environmental protection bureau prior to the commencement of any construction work.

According to the Environmental Protection Law and the Regulation on Administration of Discharge Permit issued by the State Council on January 24, 2021 and came into effect on March 1, 2021, enterprises, public institutions and other producers and operators that are subject to the administration of discharge permit shall discharge pollutants in accordance with the requirements of the discharge permit; and those who have not obtained the discharge permit shall not discharge pollutants. The competent authorities in charge of environmental protection shall impose different administrative penalties on individuals or enterprises that violate the Environmental Protection Law. According to the Administrative Measures on Pollutant Emission Permits (Trial) (《排污許可管理辦法(試行)》), promulgated by the Ministry of Environmental Protection on January 10, 2018 and latest amended on August 22, 2019, enterprises, institutions and other producers and operators that have been included in the Classification Management List for Fixed Source Pollution Permits shall apply for and obtain a discharge permit in accordance with the prescribed time limit. According to the Classification Management List for Fixed Source Pollution Permits (2019 Edition) (《固定污染源排污許可分類管理名錄(

(2019年版)》), the manufacturing of biological drugs and products falls into the classification management scope for fixed source pollution permits. The Ministry of Ecology and Environment is authorized to promulgate national environmental quality and pollutant emission standards as well as to supervise national environmental protection works. At the same time, local environmental protection authorities could set local standards that are more stringent than national standards, and in this regard, the enterprises concerned must comply with both national and local standards.

## REGULATIONS IN RELATION TO IMPORT AND EXPORT OF GOODS

According to the Provisions of the PRC on the Administration of Recordation of Customs Declaration Entities (《中華人民共和國海關報關單位備案管理規定》), promulgated by the General Administration of Customs of the PRC on November 19, 2021, which came into effect on January 1, 2022, where the consignee or consignor of imported or exported goods or a customs declaration enterprise applies for recordation, it shall obtain the qualification of market entities; particularly where the consignee or consignor of imported or exported goods applies for recordation, it shall be filed as a foreign trade business. Where the consignee or consignor of imported or exported goods or a customs declaration enterprise has undergone the formalities of recordation for customs declaration entities, branches that meet the requirements of the preceding paragraph may also apply for recordation for customs declaration entities.

## REGULATIONS ON ANTI-UNFAIR COMPETITION

According to the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), or the Anti-Unfair Competition Law (《反不正當競爭法》), promulgated by the SCNPC on September 2, 1993, effective on December 1, 1993 and last amended on April 23, 2019, business operators shall abide by the principles of voluntariness, equality, fairness and honesty, and abide by laws and business ethics in market transactions. The unfair competition as referred to in the Anti-Unfair Competition Law (《反不正當競爭法》) refers to the acts of business operators that violate the provisions of the Anti-Unfair Competition Law (《反不正當競爭法》) in their production and operation activities, disturb the market competition order, and damage the legitimate rights and interests of other business operators or consumers. Operators who violate the provisions of the Anti-Unfair Competition Law (《反不正當競爭法》) shall bear civil liabilities, administrative liabilities and criminal liabilities depending on the specific circumstances.

## REGULATIONS IN RELATION TO EMPLOYMENT AND SOCIAL SECURITIES

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》), promulgated by the SCNPC on July 5, 1994 and latest amended on December 29, 2018 and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), promulgated by the SCNPC on June 29, 2007 and latest amended on December 28, 2012 and came into effect on July 1, 2013, and the Implementing Regulations of the Labor Contracts Law of the PRC (《中華人民共和國勞動合同法實施條例》), which was promulgated by the State Council and came into effect in September 2008, employers shall execute written labor contracts with full-time employees. All employers shall comply with local minimum wage standards. Employers shall establish a comprehensive management system to protect the rights of

their employees, including a system governing occupational health and safety to provide employees with occupational training to prevent occupational injury, and employers are required to truthfully inform prospective employees of the job description, working conditions, working location, occupational hazards, and status of safe production as well as remuneration and other conditions.

According to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated by the SCNPC on October 28, 2010 and latest amended on December 29, 2018, the Interim Regulations on the Collection and Payment of Social Security Funds (《社會保險費徵繳暫行條例》), which was promulgated by the State Council in January 1999 and last amended in March 2019, and the Regulations on the Administration of Housing Provident Fund (《住房公積金管理條例》), which was amended by the State Council on March 24, 2019, employers and/or employees are required to contribute to a number of social security funds, including funds for basic pension insurance, employment insurance, basic medical insurance, occupational injury insurance, maternity leave insurance, and to housing provident funds. These payments are made to local administrative authorities and employers who fail to contribute may be fined and ordered to rectify within a stipulated time limit.

The Prevention and Control of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》), which was promulgated by the SCNPC on October 27, 2001 and latest amended on December 29, 2018 (the "**Prevention and Control of Occupational Diseases Law**"), is the basic law for the prevention and control of occupational diseases. According to the Prevention and Control of Occupational Diseases Law, budget for facilities for the prevention and control of occupational diseases of a construction project shall be included in the budget of the project and those facilities shall be designed, constructed and put into operation simultaneously with the main body of the project. The entity that takes charge of the project should carry out the assessment of the effectiveness of measures for the prevention and control of occupational diseases before the final acceptance of the construction project. In addition, employers shall take required administrative measures to prevent and control occupational diseases in work.

**Employee Stock Incentive Plans**

On February 15, 2012, SAFE issued the Circular on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Publicly Listed Companies (《關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知》) (the "**Share Incentive Rules**"). Under the Share Incentive Rules and relevant rules and regulations, PRC citizens or non-PRC citizens residing in China for a continuous period of not less than one year, who participate in any stock incentive plan of an overseas publicly listed company, subject to a few exceptions, are required to register with SAFE through a domestic qualified agent, which could be a PRC domestic company participating in such stock incentive plan, and complete certain procedures. In addition, the State Administration of Foreign Exchange has issued circulars concerning employee share options or restricted shares. Under these circulars, employees working in the PRC who exercise share options, or whose restricted shares vest, will be subject to PRC individual income tax. The domestic qualified agent have obligations to file documents related to employee share options or restricted shares with relevant tax authorities and to

withhold individual income tax of those employees related to their share options or restricted shares. If the employees fail to pay, or the PRC domestic companies fail to withhold, their individual income tax according to relevant laws, rules and regulations, the PRC domestic companies may face sanctions imposed by the tax authorities or other relevant PRC government authorities.

## REGULATIONS ON OVERSEAS ISSUE AND LISTING OF SECURITIES BY DOMESTIC ENTERPRISES

On February 17, 2023, the CSRC promulgated several regulations in relation to the record-filing administration of overseas offering and listing of domestic enterprises, including the Trial Measures for the Administration of Overseas Offering and Listing of Securities by Domestic Enterprises (《境內企業境外發行證券和上市管理試行辦法》) (the "**Trial Measures for Overseas Listing (《境外上市試行辦法》)**") and a series of ancillary guidelines (together with the Trial Measures for Overseas Listing (《境外上市試行辦法》), the "**Overseas Listing Regulations**"). According to the Overseas Listing Regulations, where a domestic enterprise directly or indirectly issues and lists securities in an overseas market, it shall submit the required documents to the CSRC within three working days after submitting an application for overseas listing.

The Overseas Listing Regulations stipulate that an overseas offering and listing shall not be carried out under any of the following circumstances: (i) where the listing and financing is expressly prohibited by laws, administrative regulations or relevant state provisions; (ii) the overseas offering and listing may endanger national security as legally examined and determined by the relevant competent department of the State Council; (iii) the domestic enterprise or its controlling shareholders or de facto controllers has committed a criminal offence of corruption, bribery, embezzlement, misappropriation of property or disrupting the order of socialist market economic within the last three years; (iv) the domestic enterprise is under investigation due to suspected involvement in criminal action or significant violation of laws and regulations, and no clear conclusion has been reached; or (v) there is a material dispute as to the ownership of the equity interest held by the controlling shareholder or the shareholders under control of the controlling shareholder or the de facto controller.

On February 24, 2023, the CSRC and other three relevant government authorities jointly issued the Provisions on Strengthening the Confidentiality and Archives Management of Overseas Issuance and Listing of Securities by Domestic Enterprises (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the "**Confidentiality Regulations (《保密規定》)**"), which came into effect on March 31, 2023. According to the Confidentiality Regulations (《保密規定》), any domestic enterprise that provides or publicly discloses any documents or information relating to state secrets or work secrets of state authorities to the relevant securities companies, securities service agencies, overseas regulatory authorities and other entities or individuals shall, in accordance with the law, report to the competent authorities for approval and file with the competent confidentiality administrative authorities. The working papers of the securities companies and securities service institutions providing corresponding services for the overseas offering and listing of domestic enterprises generated within the PRC shall be kept within the PRC. If outbound despatch is required, approval procedures shall be carried out in accordance with relevant national regulations.

**Regulations on "Full Circulation" of H Shares**

On November 14, 2019, the CSRC issued the Guidelines on Application for "Full Circulation" of Domestic Unlisted Shares of H Share Companies (the "**Guidelines**") (《H股公司境內未上市股份申請「全流通」業務指引》(「《指引》」)), which was amended and came into effect on August 10, 2023. According to the Guidelines, "Full Circulation" refers to the listing and circulation of the domestic unlisted shares of an H-share company (including unlisted domestic shares held by domestic shareholders prior to overseas listing, unlisted domestic shares that are further issued in the PRC after overseas listing and unlisted shares held by foreign shareholders) on the Hong Kong Stock Exchange. Holders of unlisted domestic shares may, at their own discretion, negotiate and determine the number and proportion of shares to be applied for circulation, and entrust H-share companies to apply for "full circulation", as well as entrust H-share companies to submit the "full circulation" filing documents to CSRC, subject to compliance with relevant laws and regulations as well as policy requirements in respect of state-owned assets management, foreign investment and industry regulation. According to the Guidelines, shareholders of unlisted shares in the PRC should handle the transfer of shares in accordance with the relevant business rules of CSDC, and H-share companies should submit a report on the relevant situation to the CSRC within 15 days after the completion of the transfer of the shares involved in the application to CSDC.

According to the Overseas Listing Regulations, where a domestic enterprise directly issues and lists its securities overseas, the shareholders holding unlisted domestic shares may, after filing, convert the above shares into overseas listed shares in accordance with the law and list and circulate the same on an overseas stock exchange. A domestic enterprise may also submit an application for "full circulation" at the same time when it submits an application for the overseas direct issuance and listing to the CSRC.

On December 31, 2019, China Securities Depository and Clearing Corporation Limited ("**CSDC**") and the Shenzhen Stock Exchange ("**SZSE**") jointly announced the Measures for Implementation of H-share Full Circulation Business (《H股「全流通」業務實施細則》) (the "**Measures for Implementation**"). The businesses in relation to the H-share full circulation business, such as cross-border transfer registration, maintenance of deposit and holding details, transaction entrustment and instruction transmission, settlement, management of settlement participants, services of nominal holders, etc. are subject to the Measures for Implementation.

In order to fully promote the reform of H-share full circulation and clarify the business arrangement and procedures for the relevant shares' registration, custody, settlement and delivery, CSDC promulgated the Guide to the Program for Full Circulation of H-shares (《H股「全流通」業務指南》) on February 7, 2020, which specifies the business preparation, account arrangement, cross-border share transfer registration and overseas centralized custody, and other relevant matters. In February 2020, China Securities Depository and Clearing (Hong Kong) Limited ("**CSDC (Hong Kong)**") also promulgated the Guide of China Securities Depository and Clearing (Hong Kong) Limited to the Program for Full Circulation of H-shares to specify the relevant escrow, custody, agent service, arrangement for settlement and delivery, risk management measures and other relevant matters.

According to the Measures for Implementation and the Guide to the Program for Full Circulation of H-shares, shareholders who apply for H Share Full Circulation ("**Participating Shareholders**") shall complete the cross-border transfer registration for conversion of relevant domestic unlisted shares into H Shares before dealing in the shares, i.e., CSDC as the nominal shareholder, deposits the relevant securities held by Participating Shareholders at CSDC (Hong Kong), and CSDC (Hong Kong) will then deposit the securities at HKSCC in its own name, and exercise the rights to the securities issuer through HKSCC, while HKSCC Nominees as the ultimate nominal shareholder is listed on the register of shareholders of H-share listed companies.

## SANCTIONS LAWS AND REGULATIONS

Our International Sanctions Legal Adviser has provided the following summary of the sanctions regimes imposed by their respective jurisdictions. This summary does not intend to set out the laws and regulations relating to the United States, the European Union, the United Nations and Australian sanctions in their entirety.

### United States

#### *Treasury regulations*

OFAC is the primary agency responsible for administering U.S. sanctions programs against targeted countries, entities, and individuals. "Primary" U.S. sanctions apply to "U.S. persons" or activities involving a U.S. nexus (e.g., funds transfers in U.S. currency even if performed by non-U.S. persons), and "secondary" U.S. sanctions apply extraterritorially to the activities of non-U.S. persons even when the transaction has no U.S. nexus. Generally, U.S. persons are defined as entities organized under U.S. law (such as companies and their U.S. subsidiaries); any U.S. entity's domestic and foreign branches (sanctions against Iran and Cuba also apply to U.S. companies' foreign subsidiaries or other non-U.S. entities owned or controlled by U.S. persons); U.S. citizens or permanent resident aliens ("green card" holders), regardless of their location in the world; individuals physically present in the United States; and U.S. branches or U.S. subsidiaries of non-U.S. companies.

Depending on the sanctions program and/or parties involved, U.S. law also may require a U.S. company or a U.S. person to "block" (freeze) any assets/property interests owned, controlled or held for the benefit of a sanctioned country, entity, or individual when such assets/property interests are in the United States or within the possession or control of a U.S. person. Upon such blocking, no transaction may be undertaken or effected with respect to the asset/property interest — no payments, benefits, provision of services or other dealings or other type of performance (in case of contracts/agreements) — except pursuant to an authorization or license from OFAC.

OFAC's comprehensive sanctions programs currently apply to Cuba, Iran, North Korea, Syria, the Crimea region of Russia/Ukraine, and the self-proclaimed Luhansk People's Republic (LPR) and Donetsk People's Republic (DPR) regions (the comprehensive OFAC sanctions program against Sudan was terminated on October 12, 2017). OFAC also prohibits virtually all business dealings with persons and entities

identified in the SDN List. Entities that a party on the SDN List owns (defined as a direct or indirect ownership interest of 50% or more, individually or in the aggregate) are also blocked, regardless of whether that entity is expressly named on the SDN List. Additionally, U.S. persons, wherever located, are prohibited from approving, financing, facilitating, or guaranteeing any transaction by a non-U.S. person where the transaction by that non-U.S. person would be prohibited if performed by a U.S. person or within the United States.

**United Nations**

The United Nations Security Council (the "**UNSC**") can take action to maintain or restore international peace and security under Chapter VII of the United Nations Charter. Sanctions measures encompass a broad range of enforcement options that do not involve the use of armed force. Since 1966, the UNSC has established 30 sanctions regimes.

The UNSC sanctions have taken a number of different forms, in pursuit of a variety of goals. The measures have ranged from comprehensive economic and trade sanctions to more targeted measures such as arms embargoes, travel bans, and financial or commodity restrictions. The UNSC has applied sanctions to support peaceful transitions, deter non-constitutional changes, constrain terrorism, protect human rights and promote non-proliferation.

There are 14 ongoing sanctions regimes which focus on supporting political settlement of conflicts, nuclear non-proliferation, and counter-terrorism. Each regime is administered by a sanctions committee chaired by a non-permanent member of the UNSC. There are ten monitoring groups, teams and panels that support the work of the sanctions committees.

United Nations sanctions are imposed by the UNSC, usually acting under Chapter VII of the United Nations Charter. Decisions of the UNSC bind members of the United Nations and override other obligations of United Nations member states.

**European Union**

Under European Union sanction measures, there is no 'blanket' ban on doing business in or with a jurisdiction targeted by sanctions measures. It is not generally prohibited or otherwise restricted for a person or entity to do business (involving non-controlled or unrestricted items) with a counterparty in a country subject to European Union sanctions where that counterparty is not a Sanctioned Person and not engaged in prohibited activities, such as exporting, selling, transferring or making certain controlled or restricted products available (either directly or indirectly) to, or for use in a jurisdiction subject to sanctions measures, provided that no funds and economic resources are made available to the Sanctioned Persons.

**United Kingdom and United Kingdom overseas territories**

As of January 1, 2021, the United Kingdom is no longer an EU member state. EU law including EU sanctions measures continued to apply to and in the United Kingdom until December 31, 2020. EU sanctions measures had also been extended by the United Kingdom on a regime by regime basis to apply in the United Kingdom overseas territories, including the Cayman Islands. Starting from January 1, 2021, the United Kingdom applies its own sanctions programs and has extended its autonomous sanctions regimes to apply to and in the United Kingdom overseas territories.

**Australia**

The Australian restrictions and prohibitions arising from the sanctions laws apply broadly to any person in Australia, and any Australian anywhere in the world, companies incorporated overseas that are owned or controlled by Australians or persons in Australia, and/or any person using an Australian flag vessel or aircraft to transport goods or transact services are subject to United Nations sanctions.

## OVERVIEW

We are a pioneer in applying genetic engineering to the pharmaceutical industry in China, with over 30 years of proven track record in the R&D, manufacturing, and commercialization of biopharmaceutical products and medical devices. We focus on four large and fast-growing therapeutic areas: orthopedics, metabolic diseases, oncology, and hematology.

Led by our former Director, Mr. Li Bangliang, our predecessor, Hangzhou Jiuyuan Gene Engineering Co., Ltd. (杭州九源基因工程有限公司), was established in Hangzhou, Zhejiang on December 31, 1993. After multiple rounds of changes in our shareholding structure, our predecessor was converted into a joint stock limited company, 杭州九源基因工程股份有限公司. As of the Latest Practicable Date, the registered capital of the Company was RMB200,000,000, divided into 200,000,000 Shares with a nominal value of RMB1.00 each.

## KEY MILESTONE

The following table summarizes our key business development milestones:

| Year | Milestone |
|---|---|
| 1993 | The predecessor of our Company, Hangzhou Jiuyuan Gene Engineering Co., Ltd. (杭州九源基因工程有限公司) was established |
| 1996 | We launched Jilifen in China |
| 1997 | Jipailin was approved for sale in China |
| 1998 | Jilifen was awarded with the second prize of Zhejiang Scientific and Technological Progress Award (浙江省科技進步獎) by the People's Government of Zhejiang Province<br><br>Jilifen was awarded with the first prize of Hangzhou Science and Technology Progress Award (杭州市科學技術進步獎) by the People's Government of Hangzhou |
| 1999 | Our "Recombinant Human Granulocyte Colony Stimulating Factor and its Products (重組人粒細胞集落刺激因子及其製品)" was included in the National Torch Program by the Ministry of Science and Technology of the PRC |
| 2000 | Recombinant Human bone morphogenetic protein-2 was included in the National High-tech R&D Program of China (863 Program) |
| 2001 | We were recognized as a Postdoctoral Research Station by the Ministry of Human Resources of the PRC |

| Year | Milestone |
|---|---|
| 2003 | We obtained NDA Approval for Jijufen in China |
| 2006 | We obtained NDA Approval for Yinuojia in China |
| 2008 | We were honored as one of the National High-tech Enterprises (國家高新技術企業) |
| 2009 | Guyoudao obtained NDA approval in China |
| 2010 | We were recognized as the Key High-tech Enterprises in the National Torch Program (國家火炬計劃重點高新技術企業) by the Ministry of Science and Technology of the PRC |
| 2011 | We obtained IND approval for Jixinfen in China |
| | We established a Hangzhou academician expert workstation |
| | We were awarded with the 13th China Patent Excellence Award (第13屆中國專利優秀獎) by the China National Intellectual Property Administration for the invention patent of "A Method for the Purification and Production of Enoxaparin Sodium (一種依諾肝素鈉的純化生產方法)" |
| | Our project "Research on the Industrialisation and Development of Enoxaparin Sodium, an Antithrombotic Therapeutic Drug (抗血栓治療藥物依諾肝素鈉的產業化開發研究)" was included in the Scientific and Technological Major Program for the Significant New Drugs Development (重大新藥創製科技重大專項) by the National Health Commission of the PRC |
| 2012 | We were recognized as a Green Enterprise of Zhejiang Province (浙江省綠色企業) by the Department of Environment Protection of Zhejiang Province |
| 2015 | We were recognized as a National Intellectual Property Advantage Enterprise (國家知識產權優勢企業) by the China National Intellectual Property Administration |
| | We were awarded with the 17th China Patent Excellence Award (第17屆中國專利優秀獎) by China National Intellectual Property Administration for the invention of "the Production Method of Recombinant Human Interleukin 11 Expressed by Pichia pastoris (畢赤酵母表達重組人白介素11的生產方法)" |

| Year | Milestone |
|---|---|
| 2016 | We obtained IND approval for JY29, for treating diabetes in China |
| 2017 | We obtained IND approval for JY29, for losing weight in China |
| | Guyoudao was included in the List of Excellent Domestic Medical Equipment Products (優秀國產醫療設備產品目錄) by China Association of Medical Equipment |
| 2019 | Our project "Industrialisation and Development of Liraglutide Injection, a Novel GLP-1 Receptor Agonist for the Treatment of Type 2 Diabetes Mellitus (用於治療2型糖尿病的新型GLP-1受體激動劑利拉魯肽註射液的產業化開發)" was included in the Scientific and Technological Major Program for the Significant New Drugs Development (重大新藥創製科技重大專項) by the National Health Commission of the PRC |
| 2020 | We were granted "2020 Top 100 Chinese Pharmaceutical Innovative Enterprises (2020中國醫藥創新企業一百強)" by the Healthcare Executive (E藥經理人) |
| | We were awarded with the 21th China Patent Excellence Award (第21屆中國專利優秀獎) by the China National Intellectual Property Administration for the invention patent of "A Method for Determining the Fine Structure of Enoxaparin Sodium Based on Capillary Electrophoresis (一種基於毛細管電泳的依諾肝素鈉精細結構測定方法)" |
| 2021 | We obtained IND approval for JY29-2 for diabetes indication in China |
| 2022 | We obtained NDA Approval of Jifuwei in China |
| | We obtained IND approval for one Category I innovative antibody drug candidate (JY47) in China |
| 2023 | We obtained NDA approval of Jitansu in China |
| | NDA approval for liraglutide was obtained in China |
| | We obtained IND approval for one biosimilar antibody drug candidate (JY43) in China |

## OUR SUBSIDIARY

As of the Latest Practicable Date, we had one subsidiary, Cosmotrust Biopharmaceutical.

Cosmotrust Biopharmaceutical was established in the PRC on June 24, 2020 with a registered capital of RMB1,000,000. Its registered business scope includes the wholesale, import and export of pharmaceuticals, operation of Class 3 medical devices business and sales of Class 1 and Class 2 medical devices. As of the Latest Practicable Date, Cosmotrust Biopharmaceutical had been wholly owned by our Company since its establishment, and had no material operation.

## ESTABLISHMENT AND MAJOR SHAREHOLDING CHANGES OF OUR COMPANY

### A. Establishment of our Company in 1993

Led by our former Director, Mr. Li Bangliang, the predecessor of the Company was established on December 31, 1993 in Hangzhou with an initial registered capital of US$2,100,000 by Zhongmei Huadong, Lin'an Fushi Biotechnology Company (臨安福士生物技術公司) ("**Lin'an Fushi**"), Taiwan Yuyou Construction Co., Ltd. (臺灣裕友建設有限公司), and Senlion Investments Limited (香港源裕投資有限公司), holding 30%, 20%, 35%, and 15% of the Company's then registered capital, respectively. Except Zhongmei Huadong, each of these entities exited its investment in the Company and ceased to be our Shareholder prior to the Track Record Period.

There had been a series of equity transfers and capital increases from the establishment of our Company to December 31, 2020.

Immediately before the Track Record Period, the shareholding structure of our Company was as follows:

| No. | Shareholder | Registered capital *(US$)* | Equity interest *(%)* |
|---|---|---|---|
| (1) | Zhongmei Huadong | 1,412,720 | 21.06 |
| (2) | Zhejiang Wangxin | 1,150,884 | 17.16 |
| (3) | Hangzhou Huasheng | 1,089,988 | 16.25 |
| (4) | CQFE | 1,006,200 | 15.00 |
| (5) | Highland Pharma | 670,800 | 10.00 |
| (6) | Hangzhou Weitai | 671,036 | 10.00 |
| (7) | Hangzhou Investment | 584,580 | 8.71 |
| (8) | Yingyuan Investment | 121,792 | 1.82 |
| | **Total** | **6,708,000** | **100.00** |

## B. Changes in Shareholding Structure of our Company during the Track Record Period

During the Track Record Period, there were several equity transfers by the Shareholders, a summary of which is set out below:

| Date of agreement | Settlement date | Transferor | Transferee | Registered capital transferred | Consideration | Basis of consideration |
|---|---|---|---|---|---|---|
| July 31, 2023 | August 29, 2023 | Yingyuan Investment[1] | Mr. Wu Qiyuan (吳啟元)[1] | US$121,792[1] | RMB868,194 | Arm's length negotiation with reference to the registered capital of our Company to be transferred |
| July 31, 2023 | August 15, 2023 | Hangzhou Weitai[2] | Chengheda[2] | US$245,525 | RMB6,275,000 | Arm's length negotiation with reference to the registered capital of our Company to be transferred and the audited net assets of our Company as of December 31, 2022 |
| | August 15, 2023 | | Nanbeiju[2] | US$169,226 | RMB4,325,000 | |
| | August 15, 2023 | | Qingfanghao[2] | US$129,121 | RMB3,300,000 | |
| | August 20, 2023 | | Mr. Li Bangliang (李邦良)[2] | US$78,255 | RMB2,000,000 | |
| | August 14, 2023 | | Mr. Wu Qiyuan[2] | US$48,909 | RMB1,250,000 | |
| August 28, 2023 | December 1, 2023 | Zhejiang Wangxin* | Wanliyang* | US$328,692 | RMB40,670,000 | Arm's length negotiation with reference to the Company's financial condition as of March 31, 2023 |

* Denotes the Pre-**[REDACTED]** Investor(s) of our Company, further details of which are set out in the paragraphs headed "— Pre-**[REDACTED]** Investments" in this section.

*Notes:*

1 At our Company's establishment, Lin'an Fushi was one of the shareholders. Our former director, Mr. Wu Qiyuan, indirectly held certain equity interest of our Company through it. In 2000, Lin'an Fushi decided to exit from our Company, and Mr. Wu intended to acquire the relevant equity interest.

However, under the then effective regulation, sino-foreign companies should be held by foreign entities or natural persons in collaboration with Chinese entities. Therefore, Mr. Wu entered into a nominee shareholding arrangement with Yingyuan Investment, pursuant to which Yingyuan Investment agreed to hold the equity interest in our Company (a then sino-foreign company) on behalf of Mr. Wu. In December 2000, Yingyuan Investment, as the nominee shareholder of Mr. Wu, acquired the equity in registered capital of US$100,000 from Lin'an Fushi at nil consideration, based on arm's length negotiation and taking into account the historical relationship between Mr. Wu and Lin'an Fushi.

In August 2008, our Company increased its registered capital from US$5,508,000 to US$6,708,000 by capitalizing its distributable profit of 2007. As a result, the registered capital directly held by Yingyuan Investment was proportionately increased to US$121,792.

As natural persons are explicitly permitted to be Chinese joint venturers in sino-foreign companies by Foreign Investment Law of the PRC, the nominee shareholding arrangement between Mr. Wu and Yingyuan Investment was terminated and the relevant equity interests were transferred from Yingyuan Investment back to Mr. Wu Qiyuan in 2023.

2 Hangzhou Weitai was established in 2006 under the PRC laws by certain members of the then management and key employees of our Company as a long-term equity incentive platform. To simplify and enhance the management of employee shareholding in our Company, we adopted some nominee shareholding arrangements in 2006.

Upon the establishment of Hangzhou Weitai, there were ten registered shareholders in total. Among them, five were nominee shareholders, who themselves were also beneficial owners of Hangzhou Weitai and our employees, held equity interests on behalf of other management members and employees of our Company. Immediately prior to termination of the nominee shareholding arrangement in 2023, there were ten registered shareholders in total, holding equity interests for themselves and/or other existing or retired employees, and/or reserved equity interests for other employees.

To dissolve the historical nominee shareholding arrangements and allocate the reserved equity interests to employees, in August 2023, Hangzhou Weitai transferred (i) the equity interests in registered capital of US$48,909 previously held on behalf of Mr. Wu Qiyuan, who ceased to be our Director from December 2023, back to Mr. Wu Qiyuan himself; (ii) the equity interests in registered capital of US$374,646 previously held on behalf of other employees to Qingfanghao and Chengheda, two employee shareholding platforms; (iii) the equity interests in registered capital of US$78,225 to Mr. Li Bangliang in recognition of his contributions to the growth and development of our Group as a former Director; and (iv) the equity interests in registered capital of US$169,226 to Nanbeiju, an employee shareholding platform.

For details of each of Chengheda, Nanbeiju and Qingfanghao, please refer to the paragraphs headed "— Employee Shareholding Platforms" in this section.

Upon the completion of the above equity transfers, the shareholding structure of our Company was as follows:

| No. | Shareholder | Registered capital *(US$)* | Equity interest *(%)* |
|---|---|---|---|
| (1) | Zhongmei Huadong | 1,412,720 | 21.06 |
| (2) | Hangzhou Huasheng | 1,089,988 | 16.25 |
| (3) | CQFE | 1,006,200 | 15.00 |
| (4) | Zhejiang Wangxin | 822,192 | 12.26 |
| (5) | Highland Pharma | 670,800 | 10.00 |
| (6) | Hangzhou Investment | 584,580 | 8.71 |
| (7) | Wanliyang | 328,692 | 4.90 |
| (8) | Chengheda | 245,525 | 3.66 |
| (9) | Mr. Wu Qiyuan | 170,701 | 2.54 |
| (10) | Nanbeiju | 169,226 | 2.52 |
| (11) | Qingfanghao | 129,121 | 1.92 |
| (12) | Mr. Li Bangliang | 78,255 | 1.17 |
| | **Total** | **6,708,000** | **100.00** |

*Note:* The percentages in the table above do not aggregate to 100% due to rounding differences.

## C. Conversion into a Joint Stock Company

On December 5, 2023, our Company was converted into a joint stock company with its Chinese corporate name changed to 杭州九源基因工程股份有限公司. Upon the completion of the conversion, the registered capital of the Company became RMB200,000,000 which was divided into 200,000,000 Shares with a nominal value of RMB1.00 each.

Pursuant to the promoters' agreement dated November 13, 2023 which was signed by all the then Shareholders, (i) a portion of the Company's net assets value in an amount of RMB881,430,405.32 as of August 31, 2023 was converted into 200,000,000 Shares with a nominal value of RMB1.00 each, which were issued to the then Shareholders in proportion to their respective equity interests in the registered capital of our Company, and (ii) the remaining net assets value of RMB681,430,405.32 was credited as capital reserves of our Company.

Upon the completion of the conversion, the shareholding structure of our Company was as follows:

| No. | Shareholder | Number of shares | Shareholding *(%)* |
|---|---|---|---|
| (1) | Zhongmei Huadong | 42,120,453 | 21.06 |
| (2) | Hangzhou Huasheng | 32,498,151 | 16.25 |
| (3) | CQFE | 30,000,000 | 15.00 |
| (4) | Zhejiang Wangxin | 24,513,775 | 12.26 |
| (5) | Highland Pharma | 20,000,000 | 10.00 |
| (6) | Hangzhou Investment | 17,429,338 | 8.71 |
| (7) | Wanliyang | 9,800,000 | 4.90 |
| (8) | Chengheda | 7,320,364 | 3.66 |
| (9) | Mr. Wu Qiyuan | 5,089,475 | 2.54 |
| (10) | Nanbeiju | 5,045,498 | 2.52 |
| (11) | Qingfanghao | 3,849,762 | 1.92 |
| (12) | Mr. Li Bangliang | 2,333,184 | 1.17 |
| | **Total** | **200,000,000** | **100.00** |

*Note:* The percentages in the table above do not aggregate to 100% due to rounding differences.

Our PRC Legal Adviser has confirmed that all the required consents, approvals, authorization or filings in relation to the changes of our shareholding described above have been made and obtained and the aforesaid changes in our shareholding have been legally and duly completed and settled.

## MATERIAL ACQUISITION, MERGER AND DISPOSAL

Throughout the Track Record Period and up to the Latest Practicable Date, we did not conduct any acquisitions, mergers or disposals that we consider to be material to us.

## EMPLOYEE SHAREHOLDING PLATFORMS

In recognition of the contributions of our employees and to incentivize them to further promote our development, Chengheda, Nanbeiju and Qingfanghao were established in the PRC as our employee shareholding platforms.

### A. Qingfanghao

Qingfanghao is a limited partnership established in the PRC on July 21, 2023 and managed by its executive and general partner, Ms. Huang Xiu (our secretary of the Board and a joint company secretary), who holds 7.58% partnership interest in Qingfanghao. Pursuant to the partnership agreement dated July 20, 2023, the general partner will exercise Qingfanghao's voting rights in the Company. As of the Latest Practicable Date,

the remaining 92.42% partnership interest in Qingfanghao was held by 25 limited partners, who are employees or retired employees of our Group. None of these limited partners holds one-third of partnership interest or more in Qingfanghao. Qingfanghao directly held approximately 1.92% equity interest in the Company as of the Latest Practicable Date.

**B. Chengheda**

Chengheda is a limited partnership established in the PRC on July 20, 2023 and managed by its executive and general partner, Mr. Sun Handong (our deputy general manager), who holds approximately 11.95% partnership interest in Chengheda. Pursuant to the partnership agreement dated July 20, 2023, the general partner will exercise Chengheda's voting rights in the Company. As of the Latest Practicable Date, the remaining 88.05% partnership interest in Chengheda was held by 26 limited partners, including: (i) one Director, namely Mr. Zhou Wei (our executive Director and deputy general manager), who held approximately 3.98% partnership interest in Chengheda; (ii) one member of senior management of our Company, namely Mr. Li Hui (our deputy general manager), who held approximately 9.96% partnership interest in Chengheda; (iii) two Supervisors, namely, Mr. Ye Jiancai and Mr. Xu Feihu, who held approximately 0.40% and 1.99% partnership interest, respectively, in Chengheda; and (iv) 22 other employees of our Group, who held an aggregate of approximately 71.72% partnership interest in Chengheda. None of these limited partners holds one-third of partnership interest or more in Chengheda. Chengheda directly held approximately 3.66% equity interest in the Company as of the Latest Practicable Date.

**C. Nanbeiju**

Nanbeiju is a limited partnership established in the PRC on July 21, 2023 and managed by its executive and general partner, Mr. Fu Hang (our executive Director, chairman of the Board and general manager), who holds 34.68% partnership interests in Nanbeiju. Pursuant to the partnership agreement dated July 20, 2023, the general partner will exercise Nanbeiju's voting rights in the Company. As of the Latest Practicable Date, the remaining 65.32% partnership interest in Nanbeiju was held by 38 limited partners, including: (i) one Director, namely Mr. Zhou Wei (our executive Director and deputy general manager), who held approximately 14.45% partnership interest in Nanbeiju; (ii) two members of senior management of our Company, namely, Ms. Huang Xiu (our secretary of the Board and a joint company secretary) and Ms. Yang Yanmei (our financial controller), who held approximately 4.62% and 4.05% partnership interest, respectively, in Nanbeiju; (iii) one Supervisor, namely Mr. Ye Jiancai, who held approximately 0.58% partnership interest in Nanbeiju; and (iv) 34 other employees of our Group, who held an aggregate of approximately 41.62% partnership interest in Nanbeiju. None of these limited partners holds one-third of partnership interest or more in Nanbeiju. Nanbeiju directly held approximately 2.52% equity interest in the Company as of the Latest Practicable Date.

**PRE-[REDACTED] INVESTMENTS**

Our Company has completed several rounds of investments from the Pre-[**REDACTED**] Investors through equity subscriptions and transfers. For further details, please refer to the paragraphs headed "— Establishment and Major Shareholding Changes of Our Company" above.

## A. Principal terms of the Pre-[REDACTED] Investments

The following table summarizes the key terms of the Pre-**[REDACTED]** Investments to our Company made by the Pre-**[REDACTED]** Investors:

| Pre-[REDACTED] Investors[1] (Transferee) | Former Shareholder (Transferor) | Date of agreement | Settlement date | Amount of registered capital subscribed for/ acquired | Amount of consideration paid | Approximate cost per Share paid (HK$)[7] | Discount to the [REDACTED][8] | Basis of consideration |
|---|---|---|---|---|---|---|---|---|
| Hangzhou Investment[2] | N/A | February 23, 1997 | February 23, 1997 | US$480,000 | US$600,000 | 0.27 | [REDACTED]% | Arm's length negotiation with reference to the registered capital of our Company to be subscribed for and the audited net assets of our Company as at December 31, 1996 |
| Hangzhou Huasheng[3] | Hangzhou Huadong Medicine Group Co., Ltd. (杭州華東醫藥(集團)公司)[3] | April 3, 2002 | April 24, 2002 | US$895,000 | RMB6,070,783.6 | 0.21 | [REDACTED]% | Arm's length negotiation with reference to our audited asset as of December 31, 2000 and a discount of 30% thereto |
| Highland Pharma | Provsan S.A. | October 2008 | November 28, 2008 | US$670,800 | US$2,500,000 | 0.98 | [REDACTED]% | Arm's length negotiation with reference to the registered capital of our Company to be transferred and the financial condition of our Company |
| Zhejiang Wangxin[4] | Wangxin (Hong Kong) International Investment Limited[4] | May 30, 2012 | November 16, 2012 | US$1,150,884 | HK$27,605,503.92 | 1.13 | [REDACTED]% | Arm's length negotiation with reference to the registered capital of our Company to be transferred and the audited net assets of our Company as at December 31, 2011 |
| CQFE[5] | Provsan S.A.[5] | December 16, 2019 | September 18, 2020 | US$1,006,200 | CHF15,187,707 | 4.65[9] | [REDACTED]% | Arm's length negotiation with reference to the registered capital of the Company to be transferred |
| Wanliyang[6] | Zhejiang Wangxin | August 28, 2023 | December 1, 2023 | US$328,692 | RMB40,670,000 | 4.57 | [REDACTED]% | Arm's length negotiation with reference to the Company's financial condition as of March 31, 2023 |

*Notes:*

1 Former shareholders who transferred their equity interest in our Company to other shareholders and ceased to be our Shareholders are not treated as Pre-[**REDACTED**] Investors.

2 As at the Latest Practicable Date, the ultimate controller of Hangzhou Investment is Hangzhou Municipal Government. In February 1997, Hangzhou Municipal Government initially invested in our Company through another controlled entity, Hangzhou Finance and Development Company (杭州市財務開發公司). In October 1997, because of an internal arrangement of Hangzhou Municipal Government, Hangzhou Finance and Development Company transferred its investment in our Company to Hangzhou Investment.

3 In 2002, Huadong Medicine was held as to approximately 20% by its then single largest shareholder, Hangzhou Huadong Medicine Group Co., Ltd.

As part of its corporate structuring, Hangzhou Huadong Medicine Group Co., Ltd. transferred the equity interest in our Company to Hangzhou Huasheng in 2002 and reinvested a portion of the cash consideration from the equity transfer into Hangzhou Huasheng. After these transactions, Hangzhou Huasheng became an associate company of Hangzhou Huadong Medicine Group Co., Ltd.

In August 2008, our Company increased its registered capital from US$5,508,000 to US$6,708,000 by capitalizing its distributable profit of 2007. As a result, the registered capital directly held by Hangzhou Huasheng was proportionately increased to US$1,089,988 .

4 Both Zhejiang Wangxin and Wangxin (Hong Kong) International Investment Limited were subsidiaries of Insigma Technology Co., Ltd. (浙大網新科技股份有限公司) when the transfer was conducted in 2012.

5 Both CQFE and Provsan S.A. are members of the Esteve Group. As part of the internal corporate structuring of the Esteve Group, on December 16, 2019, CQFE and Provsan S.A. (a then wholly owned subsidiary of CQFE) entered into an equity transfer agreement, pursuant to which CQFE acquired the equity interest in registered capital of US$1,006,200 from Provsan S.A. at a consideration of CHF15,187,707.

6 For details of relationship between Wanliyang and Zhejiang Wangxin, please refer to the paragraphs headed "— Pre-[**REDACTED**] Investments — G. Information about our Pre-[**REDACTED**] Investors" in this section.

7 The approximate cost per Share paid is calculated based on exchange rate as of the Latest Practicable Date.

8 The discount to the [**REDACTED**] is calculated based on the assumption that the [**REDACTED**] is HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the indicative [**REDACTED**] range of HK$[**REDACTED**] to HK$[**REDACTED**]), assuming that the [**REDACTED**] is not exercised.

9 If calculated using the exchange rate of CHF1.00 to HK$8.53 on the settlement date, i.e., September 18, 2020, the approximate cost per Share paid is HK$4.32.

10 For details of shareholding to be held by each Pre-[**REDACTED**] Investor upon the [**REDACTED**], please refer to the paragraphs headed "— Shareholding and Corporate Structure Immediately Following the Completion of the [**REDACTED**]" in this section.

**B. Lock-up period**

Pursuant to the applicable PRC laws and regulations, within the 12 months following the [**REDACTED**], no existing Shareholders (including the Pre-[**REDACTED**] Investors) may dispose of any of the Shares held by them.

**C. Use of Proceeds**

We utilized the proceeds from the Pre-[**REDACTED**] Investments in the principal business of our Group, including rental of a laboratory, construction of a plant and other operating expenses. As of the Latest Practicable Date, the net proceeds from the Pre-[**REDACTED**] Investments had been fully utilized.

**D. Strategic Benefits**

The Pre-[**REDACTED**] Investments not only fueled our research and development and business operation, but also demonstrated the investors' confidence in our business operation and strengths, and our growth prospects. The Pre-[**REDACTED**] Investors also brought us valuable industrial knowledge and experience and improved our corporate governance.

**E. Special Rights of the Pre-[REDACTED] Investors**

None of the Pre-[**REDACTED**] Investors was granted any special rights.

**F. Sole Sponsor's Confirmation**

On the basis that (i) the considerations for the Pre-[**REDACTED**] Investments were all settled more than 28 clear days before the date of the first submission of our first [**REDACTED**] to the Stock Exchange, and (ii) none of the Pre-[**REDACTED**] Investors was granted any special rights, the Sole Sponsor confirms that the Pre-[**REDACTED**] Investments are in compliance with Chapter 4.2 of the Guide for New Listing Applicants.

**G. Information about our Pre-[REDACTED] Investors**

Our existing Pre-[**REDACTED**] Investors include Hangzhou Huasheng, Zhejiang Wangxin, CQFE, Highland Pharma, Hangzhou Investment, and Wanliyang. To the best knowledge of our Directors, save as disclosed below, each of our Pre-[**REDACTED**] Investors is an independent third party. The background information on our Pre-[**REDACTED**] Investors is as set out below.

***a) Hangzhou Huasheng***

Hangzhou Huasheng is a limited liability company incorporated in the PRC, whose principal business is corporation management consulting, technical consulting on pharmaceutical technology and wholesale and retail of chemical raw materials. It is owned as to approximately 39.57% by Hangzhou Ruizhi Sifeng

Technology Co., Ltd. (杭州銳智思豐科技有限公司), 18.73% by Ningbo Ruizhi Sidong Enterprise Management Partnership (Limited Partnership) (寧波睿智思東企業管理合夥企業(有限合夥)), 16.86% by Ningbo Ruizhisibang Enterprise Management Partnership (Limited Partnership) (寧波睿智思邦企業管理合夥企業(有限合夥)), 11.88% by Zhejiang Ruizhi Sihua Technology Co., Ltd. (浙江睿智思華科技有限公司), and 12.96% by five independent individuals, each holding less than 5% equity interest in Hangzhou Huasheng. Hangzhou Huasheng will continue to be a substantial shareholder of our Company upon the [**REDACTED**], and therefore a connected person of our Company under the Listing Rules.

The largest shareholder of Hangzhou Huasheng, namely Hangzhou Ruizhi Sifeng Technology Co., Ltd., is a wholly-owned subsidiary of Hangzhou Wanyuhe Pharmaceutical Technology Co., Ltd. (杭州萬裕和醫藥科技有限公司), which is owned as to 99% by Wang Zhiying (王志英), the spouse of Mr. Li Bangliang (our former Director) and the mother-in-law of Mr. Zhou Wei (our executive director), and 1% by Li Yuemin (李閱敏), the adult daughter of Mr. Li Bangliang and the spouse of Mr. Zhou Wei.

The executive and general partner of Ningbo Ruizhi Sidong Enterprise Management Partnership (Limited Partnership) is Pan Huifang (潘慧芳), who held approximately 0.12% partnership interests. As of the Latest Practicable Date, the remaining 99.88% partnership interests were held by 32 other partners, including Xu Zhengding (徐正定), Zhou Shunhua (周順華), Yao Xiaoling (姚曉翎) (the spouse of Mr. Fu Hang (傅航), our Director), Tao Sufang (陶素芳) and Zhou Yongliang (周永亮), who held approximately 14.63%, 14.63%, 10.98%, 9.76% and 5.49% partnership interests, respectively, and the other 27 partners, each of whom held less than 5% of the partnership interests. To the best of our Directors' knowledge, information and belief having made all reasonable enquiries, except Yao Xiaoling, all partners of Ningbo Ruizhi Sidong Enterprise Management Partnership (Limited Partnership) are independent third parties.

The executive and general partner of Ningbo Ruizhisibang Enterprise Management Partnership (Limited Partnership) is Zhou Yongliang, who held approximately 3.52% partnership interests. As of the Latest Practicable Date, the remaining 96.48% partnership interests was held by 32 other partners, including Shao Lingmin (邵玲敏), Pan Huifang, Wan Lingling (萬玲玲), Cheng Shaolin (程紹林), and Wu Weidong (吳衛東), who held approximately 13.55%, 12.06%, 10.84%, 6.78% and 6.10% partnership interests, respectively, and the other 27 partners, each of whom held less than 5% of the partnership interests. To the best of our Directors' knowledge, information and belief having made all reasonable enquiries, all partners of Ningbo Ruizhisibang Enterprise Management Partnership (Limited Partnership) are independent third parties.

Zhejiang Ruizhi Sihua Technology Co., Ltd. is owned as to approximately 17.12% by Zhou Yongliang, 14.81% by Hu Jianhua (胡建華), 11.54% by Song Yiting (宋依婷), 5.77% by Chen Yuqin (陳玉琴) and 50.76% by 19 individuals, each holding less than 5% equity interest in Zhejiang Ruizhi Sihua Technology Co., Ltd. To the best of our Directors' knowledge, information and belief having made all reasonable enquiries, all these individuals are independent third parties.

*b) Zhejiang Wangxin*

Zhejiang Wangxin is a limited liability company incorporated under the laws of the PRC, and is primarily engaged in investment consulting, investment management, and planning of marketing promotion. It is a wholly-owned subsidiary of Insigma Technology Co., Ltd. (浙大網新科技股份有限公司), an information technology consulting and service company whose shares are listed on Shanghai Stock Exchange (stock code: 600797) and an independent third party upon the [**REDACTED**]. To the best of our Directors' knowledge, information and belief having made all reasonable enquiries, no shareholders of Insigma Technology Co., Ltd. hold 10% or more equity interest therein.

*c) CQFE*

CQFE is a company established in Spain, and is primarily engaged in securities investment, equity investment management in the fields of chemicals, pharmaceuticals, gases and medical equipment, and real estate investment. It is held as to approximately 27.03%, 27.03%, 27.03% and 18.90%, respectively, by four entities incorporated in Spain, which are independent third parties. CQFE will continue to be a substantial shareholder of our Company upon the [**REDACTED**], and therefore a connected person of our Company under the Listing Rules.

*d) Highland Pharma*

Highland Pharma is a private company limited by shares incorporated under the laws of Ireland and primarily engaged in investment holding. Highland Pharma is a wholly-owned subsidiary of Nice Bonus Limited (增好有限公司), which is held as to 99% and 1% by Yang Loon Chun (楊麟振) and Chan Yin Fung (陳燕鳳), two independent third parties upon the [**REDACTED**].

*e) Hangzhou Investment*

Hangzhou Investment is a limited liability company incorporated in the PRC, and is primarily engaged in the operation of state-owned assets within the scope of authorization by the municipal government. Hangzhou Investment is held as to 90.59% and 9.41% by Hangzhou Municipal Government and Zhejiang Financial Development Co., Ltd. (浙江省財務開發有限責任公司), respectively. Zhejiang Financial Development Co., Ltd. is an independent third party wholly owned by Zhejiang Provincial Department of Finance.

*f) Wanliyang*

Wanliyang is a limited liability company incorporated in the PRC, whose principal business is investment activities permitted by laws, regulations and policies, the production and sales of electronic components and machinery and equipment, sales of chemical raw materials and products and warehousing services.

Wanliyang is owned as to approximately 61.90%, 19.43% and 18.67% by Jinhua Huiyang Enterprise Management Co., Ltd. (金華匯揚企業管理有限公司), Huang Heqing (黃河清) and Wu Yuehua (吳月華), respectively. Jinhua Huiyang Enterprise Management Co., Ltd. is owned as to 51.00% and 49.00% by Huang Heqing and Wu Yuehua, respectively. To the best of our Directors' knowledge, information and belief having made all reasonable enquiries, each of these individuals are independent third parties.

Wanliyang holds 5.35% shareholding in Insigma Technology Co., Ltd., which holds 100% equity interest of Zhejiang Wangxin, one of our Pre-[**REDACTED**] Investors.

## PUBLIC FLOAT

Upon completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised) and the conversion of Unlisted Shares into H Shares, [**REDACTED**] Unlisted Shares will be converted into H Shares and [**REDACTED**] on the Stock Exchange. The [**REDACTED**] Unlisted Shares held by our Shareholders as of the Latest Practicable Date will not be considered as part of the public float as those Shares are Unlisted Shares which will not be converted into H Shares and [**REDACTED**] on the Stock Exchange following the completion of the [**REDACTED**].

Upon the completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised) and the conversion of Unlisted Shares into H Shares, the H Shares held by certain of our Shareholders, or directly or indirectly controlled by our core connected persons, will not be counted towards the public float. Details of these Shareholders are set out below:

- Zhongmei Huadong is our single largest shareholder and a substantial shareholder and the [**REDACTED**] H Shares held by it will not count towards the public float;

- Hangzhou Huasheng is one of our substantial shareholders and the [**REDACTED**] H Shares held by it will not count towards the public float;

- CQFE is one of our substantial shareholders and the [**REDACTED**] H Shares held by it will not count towards the public float;

- Nanbeiju is a limited partnership managed by its executive and general partner, Mr. Fu Hang (our executive Director, chairman of the Board and general manager), who holds [34.68]% partnership interests in Nanbeiju. Therefore, the [**REDACTED**] H Shares held by it will not count towards the public float.

To the best knowledge of our Director, save as disclosed above, upon the completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised) and conversion of Unlisted Shares into H Shares, [**REDACTED**] H Shares held or controlled by our Shareholders who are not our core connected persons, representing approximately [**REDACTED**]% of our total issued Shares, will be counted towards the public float, which is in compliance with the requirement under Rule 8.08 of the Listing Rules.

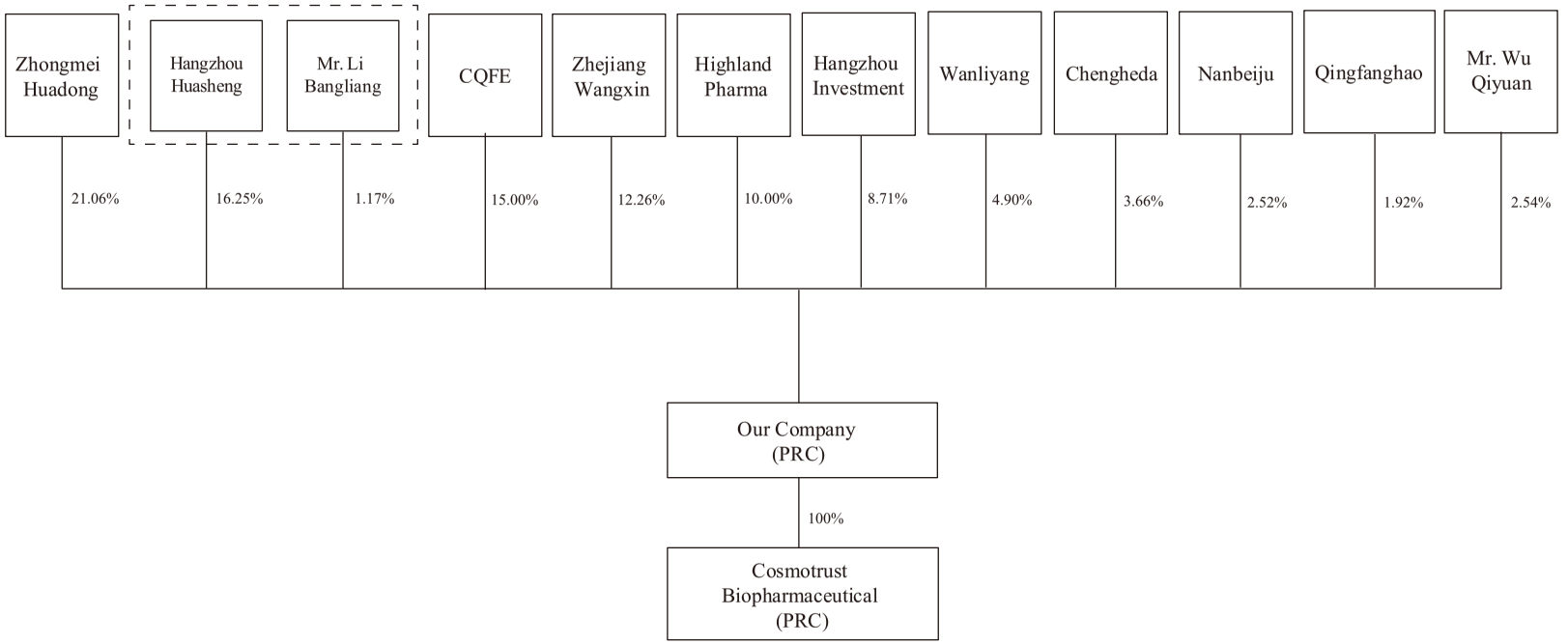
## CAPITALIZATION OF OUR COMPANY

The table below sets out the capitalization of our Company as at the Latest Practicable Date and upon the completion of the [**REDACTED**] and conversion of the Unlisted Shares into H Shares (assuming that the [**REDACTED**] is not exercised):

| | | As at the Latest Practicable Date | | Immediately following the completion of the [REDACTED] and conversion of the Unlisted Shares into H Shares (assuming the [REDACTED] is not exercised) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| No. | Shareholder | Number of Unlisted Shares | Ownership percentage of shareholding in the Unlisted Shares | Number of H Shares | Ownership percentage of shareholding in the H Shares | Number of Unlisted Shares | Ownership percentage of shareholding in the Unlisted Shares | Number of Total Shares | Ownership percentage of shareholding in the Total issued Share Capital |
| (1) | Zhongmei Huadong | 42,120,453 | 21.06% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (2) | Hangzhou Huasheng | 32,498,151 | 16.25% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (3) | CQFE | 30,000,000 | 15.00% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (4) | Zhejiang Wangxin | 24,513,775 | 12.26% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (5) | Highland Pharma | 20,000,000 | 10.00% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (6) | Hangzhou Investment | 17,429,338 | 8.71% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (7) | Wanliyang | 9,800,000 | 4.90% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (8) | Chengheda | 7,320,364 | 3.66% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (9) | Mr. Wu Qiyuan | 5,089,475 | 2.54% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (10) | Nanbeiju | 5,045,498 | 2.52% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (11) | Qingfanghao | 3,849,762 | 1.92% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (12) | Mr. Li Bangliang | 2,333,184 | 1.17% | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| (13) | Other public H Shareholders | – | – | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| **Total** | | **200,000,000 Shares** | **100%** | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

## SHAREHOLDING AND CORPORATE STRUCTURE IMMEDIATELY BEFORE COMPLETION OF THE [REDACTED]

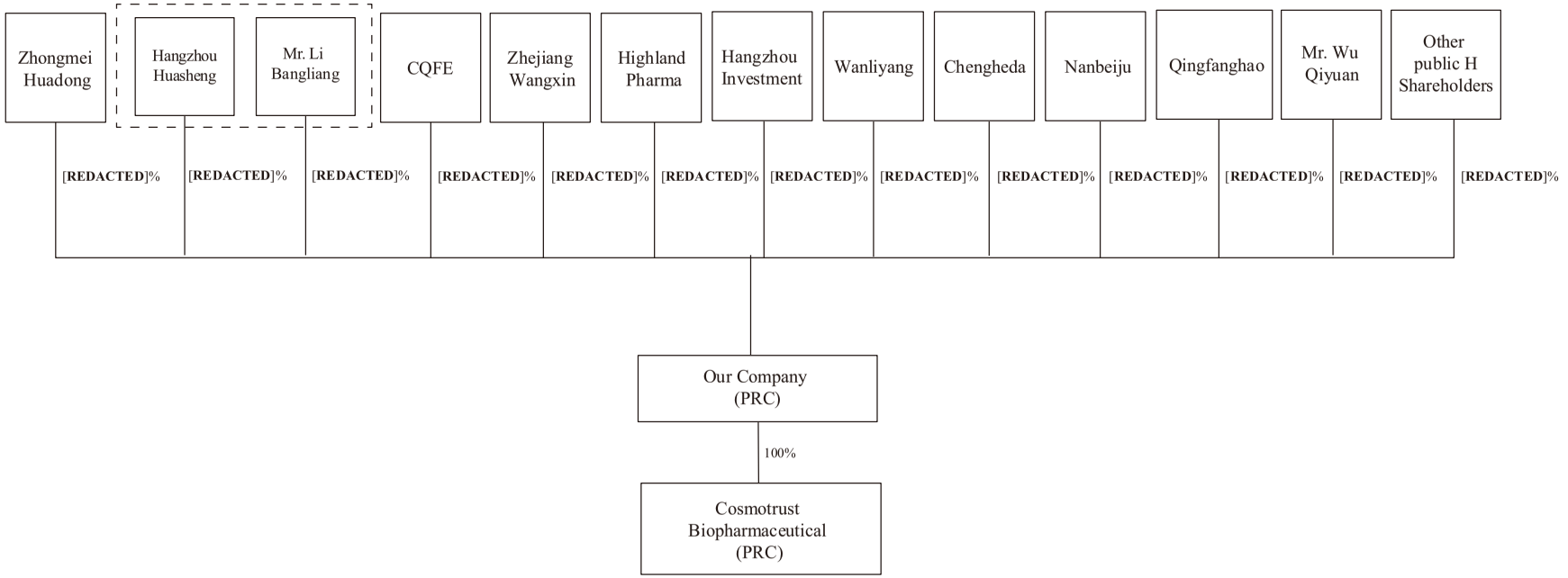
The following chart illustrates the shareholding structure and corporate structure of the Group immediately prior to the completion of the [**REDACTED**] and conversion of the Unlisted Shares into H Shares:




*Note:* Mr. Li Bangliang is deemed to be interested in the Shares directly held by Hangzhou Huasheng. For details, please refer to the section headed "Substantial Shareholders" in this document.

## SHAREHOLDING AND CORPORATE STRUCTURE IMMEDIATELY FOLLOWING THE COMPLETION OF THE [REDACTED]

The following chart illustrates the shareholding structure and corporate structure of our Group immediately following the completion of the **[REDACTED]** and conversion of the Unlisted Shares into H Shares (assuming the **[REDACTED]** is not exercised):




*Note:* Mr. Li Bangliang is deemed to be interested in the Shares directly held by Hangzhou Huasheng. For details, please refer to the section headed "Substantial Shareholders" in this document.

## OVERVIEW

Founded in 1993, we are a pioneer in applying genetic engineering to the pharmaceutical industry in China, with over 30 years of proven track record in the R&D, manufacturing and commercialization of biopharmaceutical products and medical devices. We focus on four large and fast-growing therapeutic areas: orthopedics, metabolic diseases, oncology, and hematology. Collectively, these four therapeutic areas accounted for 52.0% of the total pharmaceutical sales in China in 2022, and outpaced the broader Chinese pharmaceutical industry from 2018 to 2022, a trend which is expected to continue in the near future, according to CIC.

Centred around these therapeutic areas, we have built a diversified product portfolio comprising eight marketed products, including China's first recombinant human bone morphogenetic protein-2 ("**rhBMP-2**") bone repair material, Guyoudao, and over ten product candidates, including China's potentially first semaglutide biosimilar, JY29-2, as of the Latest Practicable Date. Our strategy starts by identifying therapeutic targets with significant market potential in our focused areas. Once the targets are identified, we pursue the development of China's innovative and first follow-on products, leveraging our established R&D platforms, manufacturing capabilities, and sales and distribution network in China.

Our marketed product portfolio includes one innovative drug-device combination, two biological products, and five chemical drugs in orthopedics, oncology and hematology. Several of our products hold a leading position in their respective product category in terms of market share, according to CIC. In addition, three of our marketed products are domestically developed first-to-market products in their respective product class in China. Notably, our drug-device combination, Guyoudao, is the first product containing bone repair material with rhBMP-2 approved for sale in China, and ranked second by sales revenue in China's bone repair material market in 2022, according to CIC. Each of Jilifen and Jipailin, two of our oncology and hematology products, is China's first domestically developed and commercialized generic biologics or small molecule drug in their respective drug class, according to CIC. Revenue generated from all of our marketed products accounted for 87.6%, 93.8% and 92.5% of our total revenue for the years ended December 31, 2021, 2022, and the nine months ended September 30, 2023, respectively.

Our major marketed products are as follows:

- ***Guyoudao* 骨优导®**: Guyoudao is an innovative drug-device combination product and a bone repair material with rhBMP-2. The marketing approval for Guyoudao was obtained in October 2009 and it was subsequently launched in 2010. According to CIC, Guyoudao is the first bone repair material with rhBMP-2 approved for sale in China, making us the second company in the world with a commercialized rhBMP-2 product. Guyoudao ranked second by sales revenue in the bone repair material market in China in 2022, with a market share of 17.2% nationally according to the same source.

- ***Yinuojia* 亿诺佳®**: Yinuojia is a generic enoxaparin sodium product which was approved for sale in March 2006. Yinuojia ranked fourth among all enoxaparin sodium products in China in 2022 in terms of sales revenue, with a market share of 8.1% nationally, according to CIC.

- ***Jilifen* 吉粒芬®**: Jilifen, commercialized in 1996, is the first domestically developed human granulocyte colony-stimulating factor ("**hG-CSF**") approved for sale in China, according to CIC. In terms of sales revenue, Jilifen ranked eighth in 2022 among all G-CSF drugs in China, taking up a market share of 1.8% nationally, according to CIC.

- ***Jijufen* 吉巨芬®**: Jijufen is a human interleukin-11 ("**hIL-11**") injection approved for sale in 2003. In terms of sales revenue, Jijufen ranked fourth among all interleukin-11 drugs in China in 2022, taking up a market share of 8.2% nationally, according to CIC.

- ***Jipailin* 吉派林®**: Jipailin is the first domestically developed generic low molecular weight heparin sodium product commercialized in China according to CIC, which was approved for sale in September 1997. Jipailin had a market share of 0.5% nationally in the low molecular weight heparin sodium market in China in 2022 in terms of sales revenue, according to CIC.

The following table sets forth selected information of all of our marketed products as of the Latest Practicable Date:

| Marketed Products | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Product** | **Generic Name** | **Classification** | **Description** | **Intended Indications** | **First Approval Date** | **Product Type** | **Inclusion in NRDL[1]** | **Regulator** |
| **Orthopedics** | | | | | | | | |
| 骨优导®<br>**Guyoudao** | Bone repair material (recombinant human bone morphogenetic protein-2) | Innovative drug-device combination | First marketed rhBMP-2 bone repair product in China | Filling and repair of bone defects, bone nonunion, bone delayed union, and graft repair of spinal fusion, joint fusion, and orthopedic bone graft | Oct 10, 2009 | Class 3 medical device (drug-device combination) | N/A[2] | NMPA |
| **Oncology** | | | | | | | | |
| 吉粒芬®<br>**Jilifen** | Human granulocyte colony stimulating factor injection | Biologics | First marketed G-CSF product in China | Neutropenia | Nov 7, 1996 | Recombinant protein | Yes, Part B | NMPA |
| 吉巨芬®<br>**Jijufen** | Human interleukin-11 injection | Biologics | A platelet-derived growth factor product produced through recombinant DNA technology | Chemotherapy-induced thrombocytopenia | Sep 18, 2003 | Recombinant protein | Yes, Part B | NMPA |
| 吉欧停®<br>**Jiouting** | Palonosetron hydrochloride injection | Generic chemical drug | Long-acting 5-HT3 receptor antagonist | Nausea and vomiting induced by radiation therapy, chemotherapy or postoperatively | Dec 19, 2008 | Small molecule drug | Yes, Part B[3] | NMPA |
| 吉芙惟®<br>**Jifuwei** | Fulvestrant injection | Generic chemical drug | Estrogen receptor antagonist | Advanced breast cancer | Jun 28, 2022 | Small molecule drug | Yes, Part B[3] | NMPA |
| 吉坦苏®<br>**Jitansu** | Fosaprepitant dimeglumine injection | Generic chemical drug | Neurokinin-1 receptor antagonists | Chemotherapy-induced nausea and vomiting | Aug 1, 2023 | Small molecule drug | Yes, Part B | NMPA |
| **Hematology** | | | | | | | | |
| 吉派林®<br>**Jipailin** | Low molecular weight heparin sodium injection | Generic chemical drug | First domestic low molecular weight heparin sodium injection product marketed in China | Venous thromboembolic diseases | Sep 5, 1997 | Small molecule drug | Yes, Part B | NMPA |
| 亿喏佳®<br>**Yinuojia** | Enoxaparin sodium injection | Generic chemical drug | Enoxaparin sodium | Venous thromboembolic diseases | Mar 18, 2006 | Small molecule drug | Yes, Part B[3] | NMPA |

*Notes:*

(1) The NRDL comprises Part A and Part B. Patients purchasing pharmaceuticals included in Part A of the NRDL are entitled to reimbursement of the entire amount of the purchase price, while patients purchasing pharmaceuticals included in Part B of the NRDL are required to pay a deductible amount and obtain reimbursement for the remainder of the purchase price. The amount of the deductible differs from region to region in the PRC. In principle, the NRDL was subject to a dynamic adjustment entitled to once a year. For details, please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — National Reimbursement Drug List." The market demand for our marketed products is highly sensitive to the coverage of the NRDL. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — If the products we sell are excluded or removed from national, provincial or other government sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be adversely affected."

(2) Since there is no national-level reimbursement list for medical devices, the reimbursement policies for medical devices vary across different regions. As of the Latest Practicable Date, Guyoudao had been included in the medical device reimbursement list of ten provinces and municipalities, namely Shanghai, Jilin, Anhui, Guangdong, Jiangxi, Hebei, Hainan, Hubei, Gansu and Chongqing.

(3) In June 2021, Jiouting (5mL: 0.25mg) won in the bidding process under the fifth batch of national centralized volume-based drug procurement scheme. In July 2022, Jiouting (1.5mL: 0.075mg) won in the bidding process under the seventh batch of national centralized volume-based procurement scheme. In March 2023, Yinuojia won in the bidding process under the eighth batch of national centralized volume-based procurement scheme. In November 2023, Jifuwei won in the bidding process under the ninth batch of national centralized volume-based procurement scheme. For details, please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — The Drug Centralized Procurement in '4+7 Cities' and Nationwide."

Beyond our offerings in orthopedics, oncology and hematology, we have nearly 18 years of experience in metabolic disease drug development. We initiated our research into the agonists to GLP-1 receptor, a key therapeutic target in metabolic diseases, in 2005. Based on our peptide drug technology platform, we developed the first biosimilar candidate to liraglutide (a GLP-1 receptor agonist) to have obtained the IND approval in China. We transferred this product candidate to Zhongmei Huadong between 2017 and 2019. For details, please refer to the paragraphs headed "— Collaboration Arrangements — Transfer Agreements of Liluping (Liraglutide) with Zhongmei Huadong" in this section. Through our collaborative efforts with Zhongmei Huadong, this candidate became the first liraglutide biosimilar approved for the treatment of T2DM as well as obesity and overweight in China in March and June 2023, respectively.

Benefiting from the R&D experience we accumulated, we further developed another GLP-1 receptor agonist, JY29-2. JY29-2 is a semaglutide biosimilar and we are developing it under the brand name of Jiyoutai (吉优泰®) for the treatment of type 2 diabetes mellitus ("**T2DM**"), and under the brand name of Jikeqin (吉可亲®) for the treatment of obesity and overweight. JY29-2 (Jiyoutai) is the first semaglutide biosimilar in China to have obtained the IND approval and completed a Phase III clinical trial. According to CIC, JY29-2 (Jiyoutai) has the potential to become the first-to-market semaglutide biosimilar in China. In January 2024, we obtained the IND approval from the NMPA to evaluate our JY29-2 (Jikeqin) for the treatment of obesity and overweight. Semaglutide products recorded global sales of US$10.9 billion by generic name in 2022, making it one of the top ten best-selling drugs by generic name worldwide in 2022 and potentially the top three best-selling drugs worldwide in 2023, according to CIC.

As of the Latest Practicable Date, we had built a diversified candidate pipeline which spans across our focused therapeutic areas. Our major product candidates are as follows:

- ***JY29-2 (Jiyoutai 吉优泰®)***: JY29-2 (Jiyoutai) is the first semaglutide biosimilar in China to have obtained IND approval and completed a Phase III clinical trial. We expect to file the NDA for JY29-2 (Jiyoutai) with the NMPA in the first half of 2024 and obtain the NDA approval for T2DM in the second half of 2025.

- ***JY29-2 (Jikeqin 吉可亲®)***: JY29-2 (Jikeqin) is a semaglutide biosimilar targeting obesity and overweight. We obtained IND approval for JY29-2 (Jikeqin) in January 2024. We are currently preparing for the Phase III trial of JY29-2 (Jikeqin) and expect to start patient enrollment for this trial in 2024.

- ***JY23***: JY23 is a next-generation bone repair material developed by combining rhBMP-2 with various osteoconductive biomaterials. Compared to Guyoudao, JY23 has shown improved controlled release and osteoconduction properties in preclinical studies. As of the Latest Practicable Date, JY23 was in the CMC stage, and we expect to submit an IND application to the NMPA for JY23 in the first quarter of 2025.

- ***JY06 (Jixinfen 吉新芬®)***: Jixinfen is a long-acting G-CSF and a Category III biological product designed to treat hemotherapy-induced neutropenia. We submitted the NDA to the NMPA for JY06 (Jixinfen) in May 2023 and expect to obtain the NDA approval in 2024.

The following table sets forth selected information of our major product candidates as of the Latest Practicable Date:

| Product Candidates[1] | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Product Candidate | Generic Name | Product Type | Expected Classification | Dosage Form | Target/MoA | Intended Indications | Pre-clinical | IND | Phase I | Phase II | Phase III | NDA | Commer-cialization |
| **Metabolic Diseases Drugs** | | | | | | | | | | | | | |
| **JY29-2 吉优泰® Jiyoutai** | Semaglutide | Peptide | Biosimilar | Subcutaneous injection | Glucagon-like peptide-1 (GLP-1) receptor agonist | T2DM | | | | | Phase III clinical trial completed | | |
| **JY29-2 吉可亲® Jikeqin[2]** | | | | | | Obesity and overweight | | | | | | | |
| **JY29-2 (Oral)** | | | | Tablets | | Obesity and overweight | | | | | | | |
| **JY54** | Amylin analog | Peptide | Category I innovative drug | Subcutaneous injection | Amylin analogues | Obesity and overweight | | | | | | | |
| **JY05** | Dulaglutide | Fusion protein | Biosimilar | Subcutaneous injection | GLP-1 receptor agonist | T2DM | | | | | | | |
| **Orthopedics** | | | | | | | | | | | | | |
| **JY23** | Bone repair material with rhBMP-2 | Drug-device combination | Innovative drug-device combination | Bone graft | A combination of osteoinductive growth factor and carrier | Bone repair | | | | | | | |
| **JY41** | Romosozumab | Monoclonal antibody | Category III biologics | Subcutaneous injection | Sclerostin inhibitor | Osteoporosis | | | | | | | |
| **Oncology** | | | | | | | | | | | | | |
| **JY06 吉新芬® Jixinfen** | Polyethylene glycol conjugated granulocyte colony-stimulating factor (PEG-G-CSF) | Recombinant protein | Category III biologics | Subcutaneous injection | PEG-G-CSF | Neutropenia | | | | | | Filed NDA on May 9, 2023 | |
| **JY49[3]** | Avatrombopag maleate | Small molecule drug | Generic chemical drug | Tablets | Thrombopoietin receptor agonist | Thrombocytopenia induced by chronic liver diseases | | | | | | | |
| **JY47** | SIRPα monoclonal antibody | Monoclonal antibody | Category I innovative drug | Intravenous injection | CD47-SIRPα blockade | Solid tumors | | | | | | | |
| **JY43** | Daratumumab | Monoclonal antibody | Biosimilar | Intravenous injection | CD38 inhibitor | Multiple myeloma | | | | | | | |
| **JY43-2** | Daratumumab (with recombinant human hyaluronidase) | Monoclonal antibody | Biosimilar | Subcutaneous injection | CD38 inhibitor with recombinant human hyaluronidase | Multiple myeloma | | | | | | | |

*Notes:*

(1) As of the Latest Practicable Date, we expected to conduct all the clinical trials of our product candidates in China and hold the exclusive rights to develop and commercialize such product candidates worldwide.

(2) After communicating with the Center for Drug Evaluation of NMPA, it has agreed that we can directly enter the Phase III clinical trial on JY29-2 (Jikeqin).

(3) We have completed the bioequivalence studies on JY49 as of the Latest Practicable Date, and no additional clinical trials are required for this drug candidate. We plan to file the NDA with the NMPA in the first quarter of 2024.

In addition, we produce, sell and export various APIs leveraging our over 30 years of experience in drug manufacturing and well-established manufacturing facilities. During the Track Record Period, our products, primarily including APIs we produced, were sold to over 20 countries in Asia, Europe, Africa and South America. We are also developing a recombinant human hyaluronidase to be used as a biopharmaceutical excipient, which enables the administration of drugs through subcutaneous injections. Our sales from APIs have diversified our revenue streams, enabling us to navigate market and regulatory changes and maintaining a steady financial growth trajectory.

With over 30 years of R&D experience, we have established six product development platforms which formed the bedrock of our R&D capabilities. They enable us to quickly identify therapeutic targets with significant market potential and develop our pipeline products towards commercialization. Our R&D team had approximately 110 members as of September 30, 2023, over 60% of whom have obtained a Ph.D. degree or a master's degree, collectively covering a broad range of academic disciplines. Key members of our R&D team had an average of over 20 years of experience in the pharmaceutical industry as of September 30, 2023.

We have built strong capabilities in drug manufacturing and quality control over the past three decades. As of the Latest Practicable Date, we had two manufacturing sites located in Hangzhou, Zhejiang Province with a total area size of approximately 28,000 square meters, which are designed and constructed in compliance with applicable GMP requirements in China. We have in-house manufacturing capabilities for therapeutic protein drugs, peptide drugs, small molecule drugs, drug-device combinations and APIs, meeting the demand of commercial sales of our products and the clinical development of our product candidates. Our manufacturing and quality assurance team had approximately 500 members as of September 30, 2023, led by key personnel with an average of over 15 years of experience in the pharmaceutical industry.

Empowered by our in-house sales and marketing team and third-party distributors, we have established a nationwide sales and distribution network. As of September 30, 2023, our sales and distribution network covered over 1,200 Class III hospitals and more than 2,500 other hospitals and medical institutions, located in over 95% of the prefecture-level districts and counties in China. Our professional in-house sales and marketing team had over 700 employees as of September 30, 2023. The management personnel, which accounted for over 30% of the sales and marketing team, had spent an average of more than nine years working with us as of September 30, 2023. We mostly rely on our in-house sales and marketing personnel to carry out our product promotion initiatives both domestically and overseas. Our vertically integrated and centralized marketing approach improves the efficiency of our resource allocation and allows for quick response to evolving market demands.

Our diversified portfolio of marketed products and APIs has enabled us to achieve steady financial results during the Track Record Period. Our revenue was RMB1,307.3 million, RMB1,125.4 million and RMB1,022.7 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. Our net profit was RMB119.4 million, RMB59.9 million and RMB111.2 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. For 2021, 2022 and the nine months ended September 30, 2023, our

gross profit margin was 72.7%, 75.9% and 78.4%, respectively, and our net profit margin was 9.1%, 5.3% and 10.9%, respectively. For details, please see "Financial Information."

## OUR COMPETITIVE STRENGTHS

### Over 30 years of R&D and commercialization experience in orthopedics, oncology and hematology, with Guyoudao as the first rhBMP-2 bone repair material commercialized in China

Established in 1993, we are a pioneer in applying genetic engineering to the pharmaceutical industry in China. Over three decades, we have accumulated rich experience and built proven technical capabilities in the R&D, manufacturing and commercialization of drug and drug-device combination products. We are one of a few pharmaceutical companies that have developed and commercialized biological drugs, chemical drugs and medical devices in China, according to CIC. We have built a diversified product portfolio with multiple products with large market share in their respective product category in orthopedics, oncology and hematology, three rapidly expanding therapeutic areas we focus on. Notably, three of our marketed products are the first domestically developed drug-device combination, generic biologics or chemical drug in their respective product class to receive approval for sales in China.

**Orthopedics.** With over 2.9 million diagnosed cases in China in 2022, bone injuries have become a prevalent bone disease in China, according to CIC. The market for bone repair material in China increased rapidly with a CAGR of 47.1% from RMB551.9 million in 2018 to RMB2,586.8 million in 2022. The market is expected to reach RMB7,218.6 million by 2032, at a CAGR of 10.8% from 2022 to 2032, harboring significant market potential.

Guyoudao, our marketed product in orthopedics, is an innovative implantable drug-device combination which contains rhBMP-2. It received marketing approval from the NMPA in October 2009 and commenced commercial sales in 2010. According to CIC, Guyoudao is the first bone repair material with rhBMP-2 approved for sale in China, making us the second company in the world with a commercialized rhBMP-2 product. From 2021 to 2022, the sales revenue of Guyoudao increased by 25.1% from RMB355.1 million to RMB444.3 million. From the nine months ended September 30, 2022 to the corresponding period in 2023, the sales revenue of Guyoudao increased by 66.2% from RMB335.7 million to RMB558.0 million. According to CIC, we ranked second by sales revenue in China's bone repair material market in 2022, capturing a market share of 17.2%.

rhBMP-2 is an osteoinductive protein that promotes bone and cartilage formation and presents therapeutic potential for bone defects, bone nonunion, bone delayed union, spinal fusion, joint fusion, and other orthopedic conditions that require grafting. Leveraging our recombinant protein drug technology platform and established protein expression systems, we produce our rhBMP-2 using a distinct truncated human amino acid fragment. Compared to BMP-2 derived from animals, rhBMP-2 demonstrates better osteoinductive properties and can be manufactured on a large scale with consistent product quality. As of the Latest Practicable Date, we held an invention patent on the method of producing Guyoudao.

Our product has combined rhBMP-2 with biomaterial as carrier, which can be fully degraded in the body and enables the active agent to be released in the injured area to achieve osteoinductive effect. has been adopted by hundreds of hospitals in China, demonstrating its effectiveness in promoting fast bone formation and increased bone regeneration volume. The increasing adoption of Guyoudao aligns with, and significantly contributes to, the emerging trend of accelerated bone recovery pathways after orthopedic surgeries in China. In addition, according to the CIC, the complex and prolonged regulatory approval process for drug-device combination products, such as Guyoudao, establishes a significant entry barrier for new market entrants. This heightened threshold consequently shapes a more exclusive competitive landscape for such products.

Because of its clinical value, Guyoudao has been recommended by the "Expert Consensus on Clinical Diagnosis and Treatment Techniques for Osteonecrosis of the Femoral Head ("**ONFH**")" (《股骨頭壞死臨床診療技術專家共識》) and the "Expert Consensus on Clinical Prevention and Treatment of ONFH" (《股骨頭壞死臨床藥物防治專家共識》), both issued by the Bone Microcirculation Professional Committee of Chinese Microcirculation Society in 2022, and the "Clinical Diagnosis and Treatment Standards for ONFH" (《股骨頭壞死臨床診療規範》) issued by the Chinese Medical Association in both 2015 and 2016. Guyoudao has also received multiple awards and recognitions, including Outstanding Medical Device Produced in China (優秀國產醫療設備產品) awarded by China Association of Medical Equipment in 2017, and was included in the National High-tech R&D Program (863 Program) (國家高技術研究發展計劃(863計劃)) of the Ministry of Science and Technology in 2000.

In addition to Guyoudao, we are also developing JY23, a next-generation bone repair material by combining rhBMP-2 with various biomaterials. Compared to Guyoudao, JY23 showed better controlled release and osteoconduction properties in preclinical studies. As of the Latest Practicable Date, JY23 was under CMC development and we expect to submit an IND application for JY23 in the first quarter of 2025. Leveraging our research on JY23, we are actively researching on and developing more innovative rhBMP-2-based bone repair materials. For details, please refer to the paragraphs headed "Industry Overview — Orthopedic Disease Treatment Market — Bone Repair Material Market — Future trends for bone repair material market in China."

**Oncology.** We had five marketed oncology drug products and one near-commercial stage product candidate as of the Latest Practicable Date:

- ***Jilifen* 吉粒芬®**. Commercialized in 1996, Jilifen is manufactured through genetic engineering and is the first domestically developed hG-CSF product in China according to CIC. Jilifen is prescribed as a treatment for neutropenia, whether it is congenital, idiopathic, or induced by chemotherapy, aplastic anemia, myelodysplastic syndrome, or bone marrow transplantation.

  The sales revenue of Jilifen was RMB166.0 million in 2022, with a market share of 1.8% of the G-CSF drug market in China and ranked eighth nationally in the same year according to CIC. Jilifen was included in the National Torch Program (國家火炬計劃) by the Ministry of Science and Technology in 1999. Jilifen has been included in part B of the NRDL since 2017.

- ***Jijufen* 吉巨芬®**. Jijufen is a human interleukin-11 injection produced through recombinant DNA technology and can be used to prevent and treat low platelet count in patients who are undergoing chemotherapy.

  The sales revenue of Jijufen was RMB94.3 million in 2022 with a market share of 8.2% of the IL-11 drug market in China, and ranked 4th nationally in the same year according to CIC. Jijufen received the China Patent Excellence Award (中國專利優秀獎) from the State Intellectual Property Office of China in 2015. Jijufen has been included in part B of the NRDL since 2009.

- ***Jiouting* 吉欧停®**. Jiouting is a generic palonosetron hydrochloride injection, which is a long-lasting 5-HT3 receptor antagonist with a strong binding affinity for this receptor. Jiouting can be used to prevent and treat nausea and vomiting induced by radiation therapy, chemotherapy or postoperatively.

  The sales revenue of Jiouting was RMB67.8 million in 2022, with a market share of 14.0% of the palonosetron hydrochloride market in China and ranked second nationally in the same year according to CIC. Jiouting was included in the National Torch Program in 2011 and named a National Key New Product in 2010 by the Ministry of Science and Technology. Jiouting has been included in part B of the NRDL since 2017 and won the bid in the nationwide centralized volume-based drug procurement scheme in 2021.

- ***Jifuwei* 吉芙惟®**. Jifuwei, a generic fulvestrant injection, is an estrogen receptor antagonist used as a treatment of advanced breast cancer. Jifuwei obtained its marketing approval in June 2022 and became the third domestically developed fulvestrant product in China, according to CIC. It has been included in part B of the NRDL since its commercialization in 2022 and won the bid in the nationwide centralized volume-based drug procurement scheme in 2023.

- ***Jitansu* 吉坦苏®**. Jitansu is a generic fosaprepitant dimeglumine injection used to treat chemotherapy-induced nausea and vomiting. We received approval for sale for Jitansu from the NMPA in August 2023 and we expect to commercialize it in 2024.

- ***JY06 (Jixinfen* 吉新芬®*)***. Jixinfen is a long-acting G-CSF product modified by propylene glycol ("**PEG**") and a Category III biological product. We submitted the NDA for JY06 (Jixinfen) to the NMPA in May 2023 and expect to obtain the approval for sale in 2024.

**Hematology.** Our marketed drug products in hematology consisted of Yinuojia and Jipailin as of the Latest Practicable Date:

- ***Yinuojia* 亿诺佳®**. Yinuojia is an enoxaparin sodium product approved for sale in China in March 2006. Yinuojia is a low molecular weight heparin product that has strong anti-factor Xa effect and relatively weak anti-factor IIa effect. It

can be used to prevent and treat deep vein thrombosis and thrombus formation during hemodialysis. When administered concurrently with aspirin, Yinuojia can be used to treat unstable angina and non-ST myocardial infarction.

The sales revenue of Yinuojia was RMB235.4 million in 2022 with a market share of 8.1% of the heparin product market in China and ranked fourth nationally in the same year according to CIC. Yinuojia has received multiple awards and recognitions. In particular, Yinuojia is designated as a National Science and Technology Major Project in the Significant New Drug Development category by the Ministry of Science and Technology in 2007, and it received the China Patent Excellence Award from the China National Intellectual Property Administration in 2011. Yinuojia has been included in part B of the NRDL since 2009 and won the bid in the nationwide centralized volume-based drug procurement scheme in 2023.

- ***Jipailin* 吉派林®**. Jipailin is the first domestically developed low molecular weight heparin sodium product commercialized in China according to CIC and was approved for sale in China in 1997. Jipailin inhibits clotting of blood in blood vessels by inhibiting the activity of factor Xa. Therefore, Jipailin can be used to prevent and treat deep vein thrombosis, in particular postoperatively, and thrombus formation during hemodialysis. Jipailin can also be administered concurrently with aspirin to treat unstable angina and non-Q-wave myocardial infarction.

  The sales revenue of Jipailin was RMB47.7 million with a market share of 0.5% of the low molecular weight heparin sodium market in China in 2022, according to CIC. Jipailin was designated as a National New Product (國家級新產品) by the Ministry of Science and Technology in 1998. Jipailin has been included in Part B of the NRDL since 2004.

**A rich pipeline in the field of metabolic diseases, with China's potentially first semaglutide biosimilar**

Since we initiated research on GLP-1 receptor agonist in 2005, we have accumulated 18 years of expertise in metabolic disease drug development. We have designed and developed the biosimilar candidates to liraglutide and semaglutide, and both of which are the first of their class to have obtained IND approval in China. Particularly, JY29-2 (Jiyoutai 吉优泰®), the semaglutide biosimilar we developed, is potentially the first-to-market semaglutide biosimilar in China according to CIC. Our pipeline of metabolic disease drugs also includes JY54 and JY05, two promising drug candidates under preclinical development as of the Latest Practicable Date.

- ***JY29-2 (Jiyoutai* 吉优泰® *and Jikeqin* 吉可亲®)**. JY29-2, a semaglutide biosimilar, is a GLP-1 receptor agonist that can potentially be used for various metabolic diseases, including diabetes, obesity and overweight. JY29-2 (Jiyoutai) is the first semaglutide biosimilar in China that has obtained an IND approval and completed a Phase III clinical trial, according to CIC. The Phase

III clinical trial of JY29-2 (Jiyoutai) for the treatment of T2DM was completed in October 2023 and we expect to obtain the NDA approval for it in 2025. Given its advanced clinical development status, we expect it to be the first-to-market semaglutide biosimilar in China. In addition, in January 2024, we obtained the IND approval from the NMPA to evaluate JY29-2 (Jikeqin) for the treatment of obesity and overweight. We are currently in the preparation for the Phase III clinical trial to evaluate JY29-2 (Jikeqin) for this indication and expect to start patient enrollment in 2024. We are also conducting additional development on the semaglutide biosimilar by exploring an oral form to improve the convenience of drug administration and combination strategies to further enhance the efficacy of semaglutide.

As diabetes and obesity are affecting global health, GLP-1 receptor agonists have been increasingly adopted by population with diabetes or weight management needs, demonstrating significant market potential. GLP-1 receptor agonists have received wide recognition in international market and surpassed insulin to become the most widely used medication for T2DM globally in 2023. GLP-1 receptor agonist also harbors a significant market potential in China. According to CIC, China's GLP-1 receptor agonist for T2DM market expanded from RMB0.7 billion in 2018 to RMB6.0 billion in 2022, representing a CAGR of 69.7% and is projected to grow to RMB66.7 billion by 2032 at a CAGR of 27.1%. The market of GLP-1 receptor agonists for obesity and overweight in China is also expected to increase from RMB0.4 billion in 2023 to RMB45.5 billion in 2032 according to CIC.

Semaglutide products have achieved significant commercial success in the global market. Ozempic®, given as a subcutaneous injection for T2DM, recorded sales revenue of US$8.5 billion worldwide in 2022. Rybelsus®, given as a tablet for T2DM, recorded sales revenue of US$1.6 billion worldwide in 2022. WEGOVY®, given as a subcutaneous injection for weight management, recorded sales revenue of US$877 million worldwide in 2022. Semaglutide products ranked among the top ten best-selling drugs by generic name in the world in 2022, and has the potential to become the top three best-selling drugs with global sales of US$14.5 billion in the nine months ended September 30, 2023, according to CIC.

In addition, as of the Latest Practicable Date, there were over 200 clinical trials sponsored by the originator manufacturer or academic institutions for evaluating semaglutide for 28 indications, including T2DM with chronic kidney disease, metabolism and nutrition disorder, and hepatobiliary disorders, demonstrating significant market potential for semaglutide.

- ***JY54***. JY54 is a long-acting amylin analog and our self-developed drug candidate which is expected to be a Category I innovative drug pursuant to the drug categorizations promulgated by NMPA. It can induce satiating effect by delaying gastric emptying and reducing glucagon secretion, and it is intended for glycemic control and body weight management. As of the Latest Practicable Date, JY54 was under CMC development and was undergoing

preclinical animal studies. We expect to submit an IND application of JY54 for the treatment of obesity and overweight in the fourth quarter of 2024. We are also researching on potential combination therapy of JY54 and semaglutide as a more effective treatment for diabetes and obesity than monotherapy.

- ***JY05***. JY05 is a dulaglutide biosimilar and a long-acting GLP-1 receptor agonist. Dulaglutide drugs recorded global sales of US$7.4 billion in 2022, ranking top 20 among all drugs worldwide in terms of sales revenue by generic name in 2022, according to CIC. As of the Latest Practicable Date, JY05 was under CMC development and we plan to explore potential opportunities to collaborate with third parties to launch it in the overseas market.

In addition to our current pipeline, we also independently developed a liraglutide biosimilar. It received IND approval in 2016, which is the first liraglutide biosimilar to have received an IND approval in China. This liraglutide biosimilar, which later became known as Liluping, was transferred to Zhongmei Huadong through a series of agreements in 2017 and 2019. Liluping was approved for the treatment of T2DM by the NMPA in March 2023, making it the first liraglutide biosimilar approved for sale in China. In June 2023, it is further approved for use in weight management among patients with obesity by the NMPA, making it the first and only liraglutide product approved for the treatment of obesity in China.

Liraglutide products recorded an aggregate of global sales of US$1.7 billion in 2022, ranking among the top 100 best-selling drugs by generic name in the world in 2022, according to CIC. According to our agreements with Zhongmei Huadong, we received transfer fee in the aggregate of RMB105.0 million and are entitled to royalties at a fixed percentage based on the annual net sales of Liluping during the first six years of its commercialization. We have the right to sell the API of Liluping to overseas markets, and are engaged by Zhongmei Huadong to provide outsourcing manufacturing services for Liluping. For details, please refer to the paragraphs headed "— Collaboration Arrangements — Transfer Agreements of Liluping (Liraglutide) with Zhongmei Huadong" in this section.

**Superior R&D capabilities evidenced by multiple established product development platforms and strong IP protection capabilities**

We have established a highly effective R&D system which enables us to continually develop drug candidates in high potential therapeutic areas, including metabolic diseases, orthopedics, oncology and hematology. With over 30 years of proven track record, our R&D team has built broad expertise in fields ranging from new drug discovery, drug efficacy assessment, CMC, preclinical research, clinical studies, and regulatory filing.

As of the Latest Practicable Date, our R&D team had approximately 110 members, over 60% of whom had obtained a doctorate degree or a master's degree, collectively covering a broad range of academic disciplines. Key members of the R&D team had an average of over 20 years of experience in the pharmaceutical industry as of the Latest Practicable Date. Because of our strong R&D capabilities, we have participated in

numerous research projects at national or provincial level. We had undertaken three National Science and Technology Major Project (國家科技重大專項) and our marketed products had won a total of 11 national awards as of the Latest Practicable Date.

Through three decades of R&D efforts, we have built six product development platforms that enable us to continuously develop and advance our pipeline products:

- ***Recombinant protein drug technology platform.*** We use three mature protein expression systems to produce functional recombinant therapeutic proteins, namely E. Coli expression system, yeast expression system, and mammalian cell expression system. Leveraging our protein expression systems, we have produced multiple marketed and near-commercial stage drug products, such as Jilifen, Jijufen, and JY06 (Jixinfen).

- ***Peptide drug technology platform.*** We started the R&D of peptide drug in 2005, and have built strong capabilities in R&D, process development, and manufacturing of peptide drugs since then. In addition to our semaglutide biosimilar JY29-2 and the liraglutide biosimilar which later became known as Liluping, we are also developing JY54 (amylin analogue), a Category I innovative peptide drug candidate, and JY05 (dulaglutide biosimilar) using our peptide drug technology platform.

- ***Innovative drug-device combination technology platform.*** Our drug-device combination technology platform focuses on developing drug-device combination through combining recombinant proteins and biomaterials. Building on this platform, we have developed Guyoudao, the first commercialized rhBMP-2 bone repair material product in China. We continue to develop next-generation bone repair materials with improved effectiveness leveraging this technology platform.

- ***Antibody drug technology platform.*** Our comprehensive antibody drug technology platform covers the key steps in the development of antibody drugs and effectively facilitates the development process from the discovery and optimization of innovative antibody. As of the Latest Practicable Date, we had obtained the IND approvals for two antibody drug candidates, including JY47, a Category I innovative antibody drug candidate, and JY43, a daratumumab biosimilar. JY47 is a SIRPα-specific monoclonal antibody intended for the treatment of advanced solid tumors, and JY43 is a CD38-targeted monoclonal antibody intended for the treatment of multiple myeloma. We are also developing JY41, a romosozumab biosimilar and sclerostin inhibitor for the treatment of osteoporosis. Furthermore, we continue to explore the therapeutic potential of combination therapies based on our antibody drug candidates and improve the formulations of those antibody drugs. In addition to developing our own antibody products, we also provide pre-clinical R&D services to other pharmaceutical companies. An antibody drug candidate developed with our R&D services had entered a Phase III clinical trial as of the Latest Practicable Date.

- ***Long-acting technology platform.*** Therapeutic proteins and peptides usually require frequent administration, either via injection or oral dosing. To implement a simple dosing schedule and improve long-term patient compliance, we have utilized various long-acting technologies, including lipidation, PEGylation and Fc-fusion, to extend half-life of a drug and achieve long-acting therapeutic effect. JY29-2, the semaglutide biosimilar we developed and modified with lipidation technology, had completed the Phase III clinical trial for T2DM in October 2023 and received IND approval for obesity and overweight in January 2024. In addition, we have submitted the NDA for JY06 (Jixinfen), a G-CSF product modified by PEG, with the NMPA in May 2023. We also provide preclinical drug R&D services for other pharmaceutical companies using our long-acting technologies. A long-acting insulin drug candidate developed using our lipidation technology had obtained the IND approval as of the Latest Practicable Date.

- ***Subcutaneous injection technology platform.*** According to CIC, in terms of injectable drug delivery, 90.6% of adverse events are associated with intravenous injections. Transitioning to subcutaneous drug administration can effectively reduce the risk of adverse events and enhance tolerability of a drug. Our platform is specialized in using recombinant human hyaluronidase to realize subcutaneous drug administration. Hyaluronidase can temporarily hydrolyze subcutaneous hyaluronic acid, thus improving the drugs' dispersion and permeability in tissue. Therefore, combining hyaluronidase with drug substance allows for large-volume subcutaneous delivery for drugs that originally require intravenous administration, and thereby offering enhanced safety and convenience for patients. We have internally developed a recombinant human hyaluronidase, JY53, and expect to submit an application of drug master file registration for JY53 as an excipient in 2024. Based on this platform, we are conducting preclinical research on JY43-2, a daratumumab biosimilar for the treatment of multiple myeloma. JY43-2 contains recombinant human hyaluronidase and can be administered subcutaneously. Compared to current intravenous daratumumab products, JY43-2 is more tolerable and easier to use, potentially leading to improved long-term patient compliance. We expect to submit an IND application to the NMPA for JY43-2 in 2025.

We have established a patent portfolio to protect our diversified products and product candidates. As of the Latest Practicable Date, we held 15 registered patents and eight pending patent applications in China, and two pending PCT applications. We had received multiple awards and recognitions, including three China Patent Excellence Award (中國專利優秀獎) from the China National Intellectual Property Administration and recognition as a National Intellectual Property Advantageous Enterprise (國家知識產權優勢企業) by the same authority. In building our patent portfolio, we have established a comprehensive patent strategy and accumulated rich experience in patent warning and patent challenge.

**A professional in-house sales and marketing team and a nationwide sales and distribution network**

Our professional in-house sales and marketing team consisted of over 700 employees as of September 30, 2023, most of whom hold a bachelor's degree or above in medicine, sales and marketing, or other related disciplines. Notably, the management personnel, which accounted for over 30% of our sales and marketing team, had spent an average of more than nine years working with us as of September 30, 2023. This team, equipped with rich industry knowledge and expertise, is critical in implementing our marketing strategies and building our brand image.

Our marketing strategies are overseen by the sales and marketing personnel at the headquarters level, who adeptly coordinate the resources to support and expand our national sales and distribution network. This dedicated team at our headquarters is responsible for designing our branding and pricing strategies, promoting the development of clinical consensus over the use of our products and their evidence-based value among clinicians, as well as planning and managing distribution channels. Importantly, we mostly rely on our in-house sales force across the country for product promotion activities, instead of external promoters and distributors. The vertically integrated and centralized approach to promotion improves our resource allocation efficiency, allowing for quick response to changing market demands, thereby enhancing our product recognition in medical community and our control over the sales channels.

We have established a nationwide sales and distribution network focusing on our targeted therapeutic areas. As of September 30, 2023, our network spanned 30 provinces and autonomous regions across China, covering over 95% of the prefecture-level districts and counties in China. Our sales and distribution network served more than 3,700 hospitals and other medical institutions.

Given our diverse product line-up, including an innovative drug-device combination and first-to-market generic biological or chemical drugs, we regularly provide trainings to enhance the industry knowledge and marketing skills of our marketing personnel. We believe these communications equip the healthcare professionals with comprehensive information about our products, allowing for informed choices between our products and market alternatives. They also enable us to collect market feedback on our products, based on which we are able to continuously refine and enrich our product portfolio in response to unmet medical needs.

**GMP-standard commercial-scale manufacturing sites and quality control system**

We have over thirty years of experience in recombinant biologics manufacturing and quality management, making us one of China's most long-standing genetic engineering pharmaceutical companies. As of the Latest Practicable Date, our manufacturing and quality assurance team consisted of approximately 500 members, responsible for the manufacturing and quality control of our drug products, drug-device combination, APIs, and various product candidates. Key members of this team had an average of over 15 years of experience in the pharmaceutical industry as of the Latest Practicable Date.

Our manufacturing facilities located in Hangzhou, Zhejiang Province have the capability to produce therapeutic proteins, peptides, small molecules, and drug-device combination products, with a total area size of approximately 28,000 square meters. In particular, we have rich experience in manufacturing functional recombinant therapeutic proteins through three validated protein expression systems, and we can produce injectables in various forms, including small volume parenteral solution and lyophilized powder for injection.

We apply high standards in the design and construction of our manufacturing facilities for drug products, medical devices, and APIs. Our facilities are designed and constructed in accordance with the GMP requirements in China. In addition, the production line for the API of one of our biological products, Jilifen (hG-CSF), is certified in accordance with EU GMP standards. We have also adopted an effective quality control system and rigorous procedures to ensure the quality of our products throughout the manufacturing process.

**A seasoned management team with deep industry insights**

We are led by a seasoned senior management team which guides and supports our transition into a leading biopharmaceutical company in China. Members of our senior management team have in-depth knowledge and expertise of the pharmaceutical industry and they possess an average of more than 20 years of pharmaceutical industry experience.

Led by our former Director, Mr. Li Bangliang, we were established in 1993. Mr. Li has over 50 years of experience in China's pharmaceutical industry. He served as our chairman of the Board for over twenty years and led the development of our Company through his visionary decision making. During his successful career trajectory, he has won multiple awards and recognitions for his contribution, including the title of National Pharmaceutical Industry Outstanding Entrepreneur (全國醫藥行業優秀企業家) awarded by the NMPA in 1996 and the National May 1st Labor Medal (全國「五一」勞動獎章) and the title of National Model Worker (全國勞動模範) awarded by the All-China Federation of Trade Unions (全國總工會) in 1999 and 2020, respectively.

Our chairman of the Board and executive director, Mr. Fu Hang, has over 40 years of experience in the pharmaceutical industry, with more than 20 years in the senior management. Since Mr. Fu became our general manager in 2024, he has led our quick development in both R&D and market expansion. Under his leadership, we have achieved considerable growth both in China and overseas. We entered the ranking of Top Pharmaceutical Industry Enterprises (醫藥工業企業) in 2021 published by the MIIT and ranked 188 out of 500. We also entered the ranking of Top 100 Chinese Pharmaceutical Innovative Enterprises (醫藥創新企業百強) in 2020 published by Healthcare Executive (E藥經理人), a well-known healthcare publication in China.

Mr. Zhou Wei, our executive director and deputy general manager, has over 25 years of experience in pharmaceutical marketing. He headed the construction of our nationwide sales and distribution network, which paved the way for our quick market expansion.

Mr. Sun Handong, our deputy general manager, has over 30 years of experience in the pharmaceutical industry and has led the R&D of our multiple market-leading products.

Mr. Li Hui, our deputy general manager, has over 30 years of experience in drug manufacturing and has built our production systems.

Ms. Huang Xiu, our secretary to the Board, has over 15 years of experience in the internal management of pharmaceutical companies. She is responsible for the matters related to our Board of Directors of our Company and has led the improvement of our organizational efficiency.

Ms. Yang Yanmei, our financial controller, has over 13 years of experience in corporate finance and has led the construction of our internal finance systems and internal control systems.

The members of our senior executive team had on average worked with us for over 18 years as of the Latest Practicable Date. They are driven by a strong sense of mission and are committed to contributing to the well-being of humanity through progress in genetic engineering.

## OUR STRATEGIES

We aim to continually solidify our market leadership in our strategically focused therapeutic areas in China. Over the long-term, our objective is to become a top-tier biopharmaceutical company in China driven by strong R&D and commercialization capabilities. To achieve our goal, we plan to implement the following strategies:

### Advance the development of our product candidates, enrich our product pipeline and further grow our drug development platforms

We believe continued investment in R&D is critical to our long-term growth. Having established a diversified product pipeline and built expertise in R&D and commercialization, we will continue to implement our patient-oriented research and strengthen our market-leading position. In particular, we believe metabolic diseases, orthopedics, oncology and hematology drugs have significant market potential given the rapidly increasing and unmet clinical needs in these therapeutic areas. We intend to continually advance the development and commercialization of our product candidates in these areas to meet growing market demand.

We plan to increase our investment in R&D so as to advance the clinical research and NDA approvals of our product candidates. In the next three years, we expect to commercialize three product candidates to the market and file IND application for five product candidates in China. Below is selected information of our product candidates under development as of the Latest Practicable Date:

For metabolic diseases product candidates, we had completed the Phase III clinical trial for JY29-2 (Jiyoutai) for the treatment of T2DM in October 2023, and expect to obtain the NDA approval in the second half of 2025. In addition, we obtained the IND approval from the NMPA to evaluate JY29-2 (Jikeqin) for the treatment of obesity and overweight in January 2024. We are currently in the preparation for the Phase III clinical trial to evaluate JY29-2 (Jikeqin) for this indication. We also expect to submit an IND application for JY54, another metabolic disease product candidate, in the fourth quarter of 2024.

We also plan to advance the development of our product candidates in other therapeutic areas. For orthopedic product candidates, we expect to file IND for JY23, a rhBMP-2 bone repair material, in the first quarter of 2025. JY41, a sclerostin inhibitor, was under CMC development as of the Latest Practicable Date.

For oncology product candidates, we submitted the NDA for JY06 (Jixinfen), a long-acting G-CSF product, in May 2023 and expect to obtain approval for sale in 2024. We completed the bioequivalence study for JY49, an avatrombopag product, in October 2023 and expect to submit the NDA in the first quarter of 2024 in China. We received an IND approval for JY47, a SIRPα-specific monoclonal antibody, in December 2022 and expect to initiate a Phase I clinical trial in 2024. We also received an IND approval for JY43, a daratumumab biosimilar, in April 2023 and are conducting preclinical research on JY43-2, a daratumumab subcutaneous injection on top of JY43. We expect to submit an IND application for JY43-2 in 2025 and initiate a Phase I clinical trial afterwards. In addition, we collaborated with Nanjing King-Friend Biochemical Pharmaceutical Co., Ltd. (南京健友生化製藥股份有限公司) ("**Nanjing King-Friend**") in the development of a long-acting G-CSF product. Nanjing King-Friend expects to submit an IND application to FDA in 2025.

Leveraging our track record of more than 30 years, we expect to effectively advance the development and commercialization of our product candidates. By expanding our pipeline products in metabolic diseases, orthopedics, oncology and hematology, we expect to further increase our market share.

In addition to the advancement of our product candidates, we also plan to further improve our drug development platforms by enhancing our R&D technologies. We believe more advanced drug development platforms will allow us to develop various biological products in a more efficient manner. We also plan to carry out our R&D activities overseas either in-house or through collaborating with third parties to benefit from the opportunities in the overseas market.

**Continue to expand our market and strengthen our commercialization capabilities**

We are committed to expanding and empowering our professional in-house sales and marketing team and helping our sales and marketing personnel to deepen their expertise. We also aim to strengthen our nationwide sales and distribution network to further increase the market share of our existing products and support the expected commercialization of three product candidates with high growth potential in the next three years, consisting of JY29-2 (Jiyoutai), JY06 (Jixinfen) and JY49 (avatrombopag maleate).

We plan to strengthen our collaborations with established academic institutions and organize academic conferences and seminars, so as to introduce our products to healthcare professionals, and promote the inclusion of our products in clinical practice guidelines. We will further increase the market penetration of our products and enhance our brand awareness through promotion activities, indication expansion of current products and the commercialization of new products. We also plan to actively participate in price negotiations and when suitable opportunities arise, procure our products' entry into the NRDL to benefit more patients.

We aim to further increase the accessibility of our existing products especially those which have demonstrated significant market potential. We will expand the sales and marketing channels for such products to satisfy unmet clinical needs and solidify our leading market position in the respective market segments. Meanwhile, we will continue to invest in the marketing and promotion of our product candidates in our focused therapeutic areas, such as orthopedics, where we have already achieved a leading position and metabolic diseases, where we are rapidly developing.

We will strengthen our sales and distribution network in areas we have already covered and also further expand its geographic coverage. We believe our commercialization capabilities and our extensive sales and distribution network will facilitate the rapid commercialization of our product candidates in the future. We have assembled a dedicated team for overseas sales of our APIs and drug products and will actively promote our product sales in overseas markets.

We will continue to enlarge and empower our in-house sales and marketing team to cover our focused therapeutic areas to cover our focused therapeutic areas. We will timely adjust the role and responsibilities of our sales and marketing personnel based on evolving market demand and our marketing strategies, so as to better unleash the talent of our employees. We will also provide comprehensive training programs to our sales and marketing personnel to continually enhance their knowledge about our products and their professional skills.

We plan to further integrate our sales and marketing team with our R&D and production teams, to create stronger synergistic effects among our internal teams. We also plan to continue to promote our product sales abroad and will actively seek suitable overseas partners to strengthen our capabilities in commercializing our products abroad.

**Enhance our manufacturing and quality control capabilities**

Our investment in production facilities and equipment is planned based on the sales of our marketed products and our product candidate commercialization timeline. We aim to provide a stable supply of our marketed products and support product candidate commercialization.

We plan to further enhance our manufacturing capacity by expanding our product sites and building new production lines, considering the growing demand for our products and commercial sales of future products. In particular, we plan to expand, in the near future, the manufacturing facilities for the production of JY29-2, our semaglutide biosimilar candidate, considering the significant but currently unmet market demand for semaglutide products both domestically and worldwide. We believe the new manufacturing facilities will provide strong support for our commercialization of JY29-2 and its API. We will also increase the utilization rate of our existing production sites.

In addition, we plan to lower our product cost by enhancing supply chain management, optimizing our production lines with automated and data-driven manufacturing processes, and improving operational efficiency. In the meantime, we will continue to improve our process robustness, accelerate the process from scale-up to commercial production, and drive more efficient use of resources.

We plan to leverage our rich experience and manufacturing capabilities to obtain additional quality system certifications and adopt advanced standards for entries into overseas markets. We will also maintain and continue to improve our quality control system.

**Pursue collaboration opportunities to expand our business**

We will actively pursue collaboration opportunities with companies which can create a complementary and mutually beneficial relationship. We plan to work with leading pharmaceutical companies to promote the overseas sales of our marketed products and our product candidates. We plan to license out the development and commercialization rights of our own products in overseas markets, which can expand our product reach and diversify our revenue source. We also aim to actively identify drug assets that can synergize with our existing product portfolio and secure their development and commercialization rights in China.

**Recruit, develop and retain our talent**

We will continue to offer our employees with various opportunities to support their continuous learning and development. We aim to maximize the potential of our talent through rotation, objective and key results management and comprehensive trainings. We plan to further invest in our training programs to help our employees develop the competencies and skill sets required for carrying out their responsibilities, from specialized knowledge, professional development to regulatory compliance.

We will enhance our incentive schemes to provide qualified employees with equity participation and promotion opportunities, offer competitive compensation packages and improve employee performance reviews. In addition, we will continue to partner with elite academic institutions in China to provide opportunities for highly talented students and graduates. We will also attract and retain highly skilled talent in our core business areas and enhance our talent density. We will also actively look for opportunities to bring in talent with overseas experience to help us navigate through the market opportunities abroad.

## OUR PRODUCTS

### Our Marketed Products

With our continuous growth over the years, we have established a diversified product portfolio primarily comprising:

- Orthopedic: one innovative drug-device combination product for bone repair under Guyoudao brand;

- Oncology: five products for the treatment of (i) neutropenia, (ii) chemotherapy-induced thrombocytopenia, (iii) nausea and vomiting induced by radiation therapy, chemotherapy or postoperatively, (iv) advanced breast cancer, or (v) chemotherapy-induced nausea and vomiting, each under Jilifen, Jijufen, Jiouting, Jifuwei and Jitansu brand, respectively, including two biological products and three generic chemical drugs; and

- Hematology: two generic chemical drugs for the treatment of venous thromboembolic diseases, each under Jipailin and Yinuojia brand, respectively.

Leveraging our manufacturing infrastructure for producing our marketed drugs, we also manufacture APIs and sell to a range of overseas markets.

The following table sets forth a breakdown of revenue from sales of our products by therapeutic areas in both absolute amounts and as percentages of our revenue for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| | | | | | *(unaudited)* | | | |
| Orthopedics | 355,146 | 27.2% | 444,340 | 39.5% | 335,733 | 39.4% | 558,028 | 54.6% |
| Oncology | 488,905 | 37.4% | 328,079 | 29.2% | 250,412 | 29.4% | 195,111 | 19.1% |
| Hematology | 301,712 | 23.1% | 283,100 | 25.2% | 222,753 | 26.1% | 193,137 | 18.9% |
| Other[(1)] | 122,664 | 9.4% | 49,586 | 4.4% | 35,683 | 4.2% | 29,166 | 2.9% |
| **Total** | 1,268,427 | 97.0% | 1,105,105 | 98.2% | 844,581 | 99.1% | 975,442 | 95.4% |

*Note:*

(1) It mainly consists of APIs.

The following table sets forth the sales revenue of our marketed products in terms of revenue contribution in absolute amounts and as percentages of our total revenue for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| | | | | | *(unaudited)* | | | |
| Guyoudao | 355,146 | 27.2% | 444,340 | 39.5% | 335,733 | 39.4% | 558,028 | 54.6% |
| Yinuojia | 243,329 | 18.6% | 235,375 | 20.9% | 186,528 | 21.9% | 168,040 | 16.4% |
| Jilifen | 145,838 | 11.2% | 165,964 | 14.7% | 122,620 | 14.4% | 112,138 | 11.0% |
| Jijufen | 97,181 | 7.4% | 94,298 | 8.4% | 71,103 | 8.3% | 63,785 | 6.2% |
| Jipailin | 58,383 | 4.5% | 47,725 | 4.2% | 36,225 | 4.3% | 25,097 | 2.5% |
| Jiouting | 245,886 | 18.8% | 67,817 | 6.0% | 56,689 | 6.7% | 14,077 | 1.4% |
| Jifuwei | – | – | – | – | – | – | 5,111 | 0.5% |
| **Total** | 1,145,763 | 87.6% | 1,055,519 | 93.8% | 808,898 | 94.9% | 946,276 | 92.5% |

The following table sets forth the sales volume and average selling price of our marketed products for the periods indicated:

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Sales volume *('000 units)* | Average selling price[(1)] *(RMB/unit)* | Sales volume *('000 units)* | Average selling price[(1)] *(RMB/unit)* | Sales volume *('000 units)* | Average selling price[(1)] *(RMB/unit)* | Sales volume *('000 units)* | Average selling price[(1)] *(RMB/unit)* |
| Guyoudao | 3.2 | 110,983.1 | 4.1 | 108,375.6 | 3.1 | 108,301.0 | 5.2 | 107,313.1 |
| Yinuojia | 14.8 | 16,441.1 | 14.7 | 16,011.9 | 11.2 | 16,654.3 | 11.8 | 14,240.7 |
| Jilifen | 8.4 | 17,361.7 | 9.7 | 17,109.7 | 7.1 | 17,270.4 | 6.0 | 18,689.7 |
| Jijufen | 3.9 | 24,918.2 | 3.9 | 24,179.0 | 2.9 | 24,518.3 | 3.2 | 19,932.8 |
| Jiouting | 9.5 | 25,882.7 | 5.7 | 11,897.7 | 4.6 | 12,323.7 | 3.8 | 3,704.5 |
| Jipailin | 12.4 | 4,708.3 | 10.2 | 4,678.9 | 7.7 | 4,704.5 | 5.5 | 4,563.1 |
| Jifuwei | – | – | – | – | – | – | 0.05 | 102,220.0 |

*Note:*

(1) Average selling price is calculated by dividing revenue by sales volume.

The following table sets forth selected information of all of our marketed products as of the Latest Practicable Date:

| Marketed Products | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Product** | **Generic Name** | **Classification** | **Description** | **Intended Indications** | **First Approval Date** | **Product Type** | **Inclusion in NRDL[1]** | **Regulator** |
| **Orthopedics** | | | | | | | | |
| 骨优导®<br>**Guyoudao** | Bone repair material (recombinant human bone morphogenetic protein-2) | Innovative drug-device combination | First marketed rhBMP-2 bone repair product in China | Filling and repair of bone defects, bone nonunion, bone delayed union, and graft repair of spinal fusion, joint fusion, and orthopedic bone graft | Oct 10, 2009 | Class 3 medical device (drug-device combination) | N/A[2] | NMPA |
| **Oncology** | | | | | | | | |
| 吉粒芬®<br>**Jilifen** | Human granulocyte colony stimulating factor injection | Biologics | First marketed G-CSF product in China | Neutropenia | Nov 7, 1996 | Recombinant protein | Yes, Part B | NMPA |
| 吉巨芬®<br>**Jijufen** | Human interleukin-11 injection | Biologics | A platelet-derived growth factor product produced through recombinant DNA technology | Chemotherapy-induced thrombocytopenia | Sep 18, 2003 | Recombinant protein | Yes, Part B | NMPA |
| 吉欧停®<br>**Jiouting** | Palonosetron hydrochloride injection | Generic chemical drug | Long-acting 5-HT3 receptor antagonist | Nausea and vomiting induced by radiation therapy, chemotherapy or postoperatively | Dec 19, 2008 | Small molecule drug | Yes, Part B[3] | NMPA |
| 吉芙惟®<br>**Jifuwei** | Fulvestrant injection | Generic chemical drug | Estrogen receptor antagonist | Advanced breast cancer | Jun 28, 2022 | Small molecule drug | Yes, Part B[3] | NMPA |
| 吉坦苏®<br>**Jitansu** | Fosaprepitant dimeglumine injection | Generic chemical drug | Neurokinin-1 receptor antagonists | Chemotherapy-induced nausea and vomiting | Aug 1, 2023 | Small molecule drug | Yes, Part B | NMPA |
| **Hematology** | | | | | | | | |
| 吉派林®<br>**Jipailin** | Low molecular weight heparin sodium injection | Generic chemical drug | First domestic low molecular weight heparin sodium injection product marketed in China | Venous thromboembolic diseases | Sep 5, 1997 | Small molecule drug | Yes, Part B | NMPA |
| 亿喏佳®<br>**Yinuojia** | Enoxaparin sodium injection | Generic chemical drug | Enoxaparin sodium | Venous thromboembolic diseases | Mar 18, 2006 | Small molecule drug | Yes, Part B[3] | NMPA |

*Notes:*

(1) The NRDL comprises Part A and Part B. Patients purchasing pharmaceuticals included in Part A of the NRDL are entitled to reimbursement of the entire amount of the purchase price, while patients purchasing pharmaceuticals included in Part B of the NRDL are required to pay a deductible amount and obtain reimbursement for the remainder of the purchase price. The amount of the deductible differs from region to region in the PRC. In principle, the NRDL was subject to a dynamic adjustment entitled to once a year. For details, please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — National Reimbursement Drug List." The market demand for our marketed products is highly sensitive to the coverage of the NRDL. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — If the products we sell are excluded or removed from national, provincial or other government sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be adversely affected."

(2) Since there is no national-level reimbursement list for medical devices, the reimbursement policies for medical devices vary across different regions. As of the Latest Practicable Date, Guyoudao had been included in the medical device reimbursement list of ten provinces and municipalities, namely Shanghai, Jilin, Anhui, Guangdong, Jiangxi, Hebei, Hainan, Hubei, Gansu and Chongqing.

(3) In June 2021, Jiouting (5mL: 0.25mg) won in the bidding process under the fifth batch of national centralized volume-based drug procurement scheme. In July 2022, Jiouting (1.5mL: 0.075mg) won in the bidding process under the seventh batch of national centralized volume-based procurement scheme. In March 2023, Yinuojia won in the bidding process under the eighth batch of national centralized volume-based procurement scheme. In November 2023, Jifuwei won in the bidding process under the ninth batch of national centralized volume-based procurement scheme. For details, please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — The Drug Centralized Procurement in '4+7 Cities' and Nationwide."

***Orthopedic Product***

*Guyoudao 骨优导® (rhBMP-2 Bone Repair Material)*

*Innovative drug-device combination product, China's first approved rhBMP-2 bone repair material*

Guyoudao is an innovative drug-device combination product and a bone repair material with rhBMP-2, which can be used for the filling and repair of bone defects, bone nonunion, bone delayed union, spinal fusion, joint fusion, and other orthopedic conditions that require grafting. The marketing approval for Guyoudao was obtained in October 2009 and it was subsequently launched in 2010. According to CIC, Guyoudao is the first bone repair material with rhBMP-2 approved for sale in China, making us the second company in the world with a commercialized rhBMP-2 product.

For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, our sales of Guyoudao were RMB355.1 million, RMB444.3 million and RMB558.0 million, respectively, accounting for 27.2%, 39.5% and 54.6% of our total revenue for the same periods, respectively. The sales revenue of Guyoudao increased by 25.1% from 2021 to 2022, and increased by 66.2% from the nine months ended September 30, 2022 to the corresponding period in 2023. According to CIC, we ranked the second among all manufacturers in the bone repair material market in China as measured by revenue in 2022, with a market share of 17.2%.

Guyoudao was initially developed by the Hangzhou Huadong Medicine (Group) Gene Technology Research Institute (杭州華東醫藥(集團)基因技術研究所). Pursuant to the Asset Transfer Agreement between us and Hangzhou Huadong Medicine Group Co., Ltd. (杭州華東醫藥集團有限公司) entered in August 2010, all know-how and pertinent intellectual property rights in connection with Guyoudao was transferred to us. We also obtained relevant certificates with respect to Guyoudao, including medical device registration certificate and medical device production license, from the original registration authorities. As of the Latest Practicable Date, we held one patent on the method for producing recombinant human bone morphogenetic protein-2 mature peptide, with the expiry date being July 2030.

Leveraging our experience in developing Guyoudao, we are conducting various research and development activities to maximize the commercial potential of rhBMP-2. For example, we are currently developing JY23, a next-generation bone repair material developed by combining rhBMP-2 with bioactive materials. Please refer to the paragraphs headed "— Our Products — Our Product Candidates Under Development" in this section for more details.

The National Healthcare Security Administration (國家醫保局) implemented the centralized volume-based procurement ("**VBP**") scheme for high-value medical consumables since 2020, which focuses on medical devices and consumables with mature, high-volume clinical usage and sufficient market competition. In 2023, the Joint Office for the Procurement of High-Value Medical Consumables (國家組織高值醫用耗材聯合採購辦

公室) published the 4th VBP List for High-Value Consumables ("**4th VBP List**"), which covers, among other things, certain orthopedic medical devices. According to CIC, medical devices included in the 4th VBP List experience considerable price reductions. BMP bone repair materials, characterized by their unique combination of biologics with medical device and innovativeness, are not included in this list. BMP bone repair materials are merely subject to certain price restrictions to be imposed by relevant regulatory authorities. Such price restrictions, when compared to the pricing policies applicable to the medical devices included in the 4th VBP List, are expected to exert less downward pressure on the prices of BMP bone repair materials. As of the Latest Practicable Date, the implementation details of such price restriction policies are to be published by the relevant regulatory authorities.

*Product Structure*

Guyoudao consists of rhBMP-2 as an active agent and medicinal gelatin, soy lecithin and hydroxyapatite as carrier. See below for an illustrative diagram of Guyoudao:


Each of the active agent and excipients is described below.

Precisely quantifiable rhBMP-2

rhBMP-2 is an osteoinductive protein that plays a critical role in the differentiation of mesenchymal stem cells into osteoblasts, thus promoting bone and cartilage formation. By enhancing osteogenesis at implantation site, rhBMP-2 accelerates the healing and repair of bone injuries and reduces the necessity for subsequent intervention due to its biodegradable nature. Consequently, rhBMP-2 presents therapeutic potential for the filling and repair of bone defects, bone nonunion, bone delayed union, spinal fusion, joint fusion, and other orthopedic conditions that require grafting.

Leveraging our recombinant protein drug technology platform and advanced protein expression systems, we produce the rhBMP-2 in Guyoudao using a distinct truncated human amino acid fragment, and we are able to accurately control the effective content and purity of protein. The production process of recombinant protein can be tightly controlled to ensure purity, consistency, and sterility of the products. Compared to animal-derived BMP-2, rhBMP-2 demonstrates better osteoinductive properties, a much lower risk of immune rejection, as well as higher scalability and consistency for commercial manufacturing.

Carrier

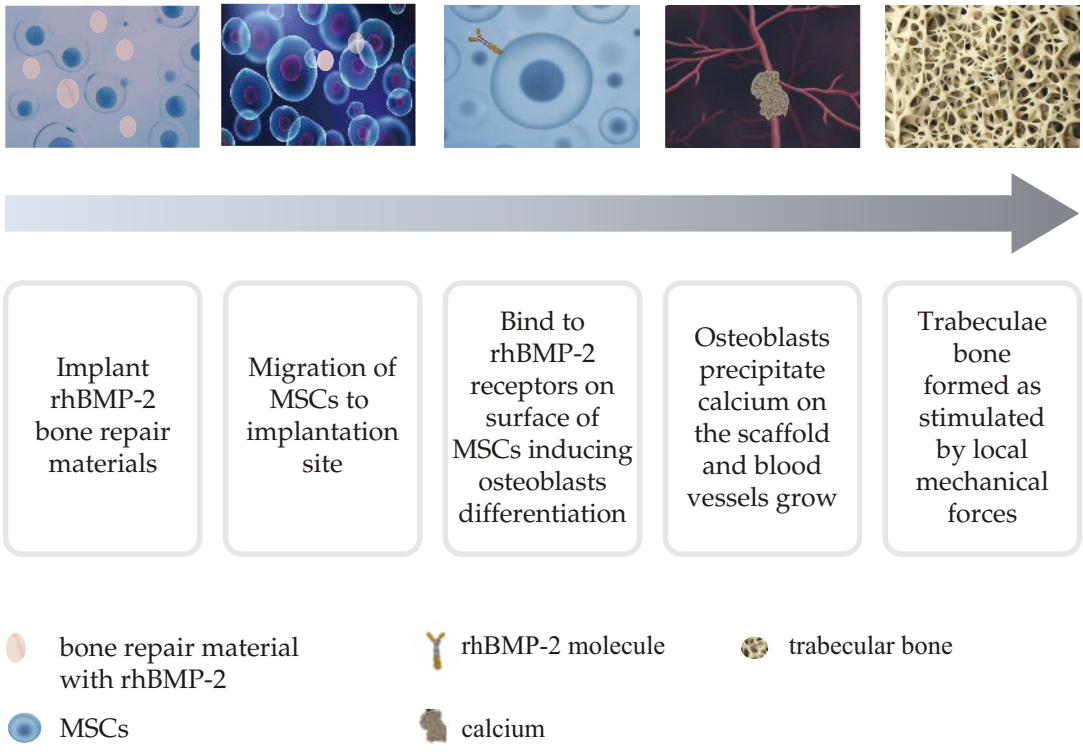
Guyoudao was coated with soy lecithin and gelatin to create sustained-release medical systems, so that rhBMP-2 can be gradually released and trigger or modulate new bone formation. In the meantime, the porous hydroxyapatite scaffold can induce the cells to migrate into the scaffold structure and improve osteoconduction and remodeling at the implant site.

Moreover, we maintain cold chain management system to ensure product stability and biological activity, and we scientifically designed its multi-layer sterile packaging to ensure contamination-free use of the product.

*Mechanism of Action*

Normal bone formation and healing involves the coordinated interaction between bone-forming cells and biologic signals, where the osteoblasts and their precursors, the mesenchymal stem cells ("**MSCs**"), serve as the principal workforce in this process. When Guyoudao is implanted in the body, rhBMP-2 induces the migration of MSCs to the site of implantation. rhBMP-2 provides an environment where MSCs multiply prior to differentiation. rhBMP-2 binds to specific receptors on the surface of MSCs, inducing them to differentiate into osteoblasts. Osteoblasts produce new bone and initiate the release of biologic signals that direct the formation and remodeling of bone. These biologic signals further attract MSCs and other bone-forming cells to the site of bone formation as well as cause the differentiation of MSCs into osteoblasts. As the body continues to remodel bone in response to the local environmental and mechanical forces, normal trabecular bone will form.

The following diagram illustrates the mechanism of action of Guyoudao:



*Clinical Benefits*

We believe the following clinical benefits have contributed to the success of Guyoudao:

- *Higher healing speed.* A trial conducted on 75 trial subjects with distal tibial fractures compared patients who received Guyoudao, bone dust and minimally invasive plate osteosynthesis ("**MIPPO**") technique versus patients treated with MIPPO technique only. The result showed that the average fracture healing time of the experimental group was 17.61 ± 2.25 weeks while that of the control group was 20.03 ± 3.39 weeks. Another trial conducted on 90 cases of femoral neck fracture comparing patients who applied Guyoudao and cannulated compression screw with patients who applied cannulated compression screw only. The result showed that the average fracture healing time of the experimental group was 6.84±1.01 months, significantly shorter than that of the controlled group, which is 7.68±1.09 months.

- *Improved bone regeneration and restoration*. As rhBMP-2 can induce high osteoinductive activity, Guyoudao can effectively improve the quality of bone formation. Various clinical studies have demonstrated that the implementation of Guyoudao can effectively reduce the risk of bone non-union and delayed union and achieve better outcomes in bone regeneration. In particular, a trial conducted on 42 trial subjects with non-traumatic found that, for patients whose necrotic stage was in the IIb and IIc stages according to Association Research Circulation Osseous classification system or fall under type C and L1 category under the China-Japan Friendship Hospital classification system, the use of artificial bone substitutes together with Guyoudao achieved better outcomes in bone repair than the controlled group. Another clinical trial on 20 trial subjects with neglected femoral neck fractures has shown that the treatment of modified dynamic hip screw with autogenous bone and Guyoudao was effective in achieving fracture reduction, postoperative success of implant placement and less complications.

- *Replace autologous bone graft and avoid secondary intervention*. Another primary advantage of Guyoudao is that it is an alternative to autograft, which is the use of autogenous bone for implantation into a void or defect elsewhere in the body. Various trials conducted on patients with calcaneal fractures, lumbar degenerative diseases and cervical spondylosis compared patients who received Guyoudao versus autograft. The results indicate that Guyoudao heals patients as well as autograft. In addition, Guyoudao saves patients from the pain and complications of the secondary bone harvesting procedure required for autograft.

- *Favorable biocompatibility and degradability.* Guyoudao uses medicinal gelatin, soybean lecithin and hydroxyapatite as carrier. Compared with other bone repair materials, the carrier of Guyoudao is closer to human tissue, thereby allowing for better biocompatibility with surrounding tissues and favorable biodegradability. These advantages of the carrier improve the efficacy of this product and significantly reduce the safety risks resulted from residual carrier staying around the implantation site. Moreover, the carrier of Guyoudao enables the sustained release of its active agent, i.e. rhBMP-2, leading to enhanced therapeutic effects and safety.

*Market Opportunity and Competition*

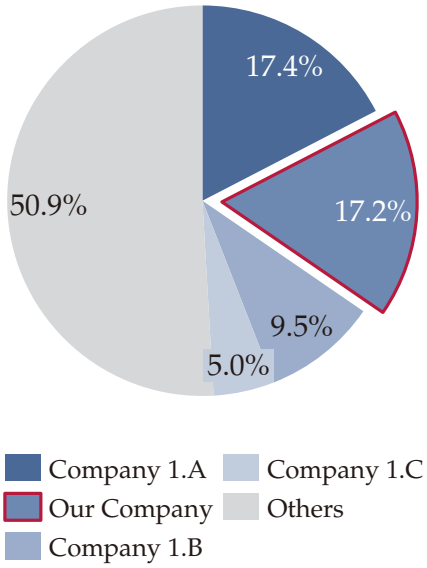
Bone injuries have become a prevalent bone disease in China. The incidence of bone injuries in China have increased from approximately 2.6 million in 2018 to approximately 2.9 million in 2022 and is expected to reach approximately 4.0 million by 2032 attributable to the rapidly aging population and changes in people's transportation and outdoor sports activity patterns that contribute to a higher frequency of bone injury accidents, according to the same source. As a result, the bone repair materials market in China has seen a steady growth in recent years, with its market size expanded from RMB551.9 million in 2018 to RMB2,586.8 million in 2022 at a CAGR of 47.1%. Based on historical growth trends, the market size is projected to reach RMB7,128.6 million by 2032, at a CAGR of 10.8%.

In the bone repair material market, bone morphogenetic proteins are recognized for their role in inducing bone tissue formation. Among these proteins, BMP-2 stands out as one of the factors with the strongest osteoinductive ability and has been recommended by a number of osteonecrosis of the femoral head (ONFH) clinical practice guidelines and expert consensus in China as a recommended therapy for ONFH patients. In particular, it has been recommended by the "2022 Expert Consensus on Clinical Diagnosis and Treatment Techniques for ONFH" (《股骨頭壞死臨床診療技術專家共識 (2022年)》), the "2022 Expert Consensus on Clinical Drug Prevention and Treatment of ONFH" (《股骨頭壞死臨床藥物防治專家共識 (2022年)》), both issued by the Bone Microcirculation Professional Committee of Chinese Microcirculation Society, and the "Clinical Diagnosis and Treatment Standards for ONFH" (《股骨頭壞死臨床診療規範》) issued by the Chinese Medical Association in both 2015 and 2016.

Because of its effectiveness in promoting fast bone formation and increased bone regeneration volume, Guyoudao has been adopted by hundreds of hospitals in China as of the Latest Practicable Date and has demonstrated considerable market demand. The increasing adoption of Guyoudao aligns with, and contributes to, the emerging trend of accelerated and enhanced recovery pathways after orthopedic surgeries in China. In addition to orthopedic surgeries, rhBMP-2 products also have the potential to be used in cranial and maxillofacial applications in the future, such as cranioplasty, alveolar bone grafts, and repairing defects of the jaw, and dentistry applications such as dental implants, harboring significant market potential.

According to CIC, the top four manufacturers in the bone repair materials market in China accounted for approximately 49.1% of the total market share in 2022. We ranked the second among all bone repair materials manufacturers in China as measured by revenue in 2022, according to the same source. The following chart sets forth the top four companies in China's bone repair materials market in terms of revenue in 2022, as well as our position in the ranking:

**Market share breakdown by revenue, 2022**




*Source: NMPA; CIC*

- *Company 1.A, headquartered in Shanxi, China, was founded in 1999. It focuses on the R&D, production and sales of biological tissue materials.*
- *Company 1.B, headquartered in Beijing, China, was listed on Shanghai Stock Exchange in 2021. It was founded in 2004 and is dedicated to the R&D, production and sales of implantable medical devices for tissue regeneration and repair.*
- *Company 1.C, headquartered in Beijing, China, was founded in 2002. It is committed to the R&D, production, and sales of Class 3 medical devices (medical biomaterials).*

*Major Awards and Recognition*

The following table sets forth major awards and recognitions that Guyoudao has received in the past years:

| Awards and recognitions | Grantor | Year |
|---|---|---|
| Outstanding Medical Device Produced in China | China Association of Medical Equipment | 2017 |
| National High-tech R&D Program (863 Program) | Ministry of Science and Technology | 2000 |

***Oncology Products***

As of the Latest Practicable Date, our oncology product portfolio comprised five products, namely Jilifen, Jijufen, Jiouting, Jifuwei and Jitansu. For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, our sales of oncology products were RMB488.9 million, RMB328.1 million and RMB195.1 million, respectively, accounting for 37.4%, 29.2% and 19.1% of our total revenue for the same periods, respectively.

According to CIC, oncology was the second largest therapeutic area in China in terms of sales revenue of pharmaceuticals in 2022, accounting for 17.4% of the overall pharmaceutical market in the same year. In terms of sales revenue, the oncology pharmaceutical market grew at a CAGR of 10.3% from RMB143.3 billion in 2018 to RMB212.0 billion in 2022. The significant unmet clinical demands, increase in patients' affordability and willingness to pay for treatment, favorable government policies will continue to drive the rapid growth of the oncology pharmaceutical market in China, according to the same source.

*Jilifen 吉粒芬® (hG-CSF Injection)*

*China's first domestically developed hG-CSF product*

With the approval for sale obtained in October 1996, Jilifen is the first domestically developed human granulocyte colony stimulating factor (hG-CSF) in China, according to CIC. Jilifen is primarily used for the treatment for neutropenia (low white blood cells), whether it is congenital, idiopathic, or induced by chemotherapy, aplastic anemia, myelodysplastic syndrome, or bone marrow transplantation. The G-CSF in Jilifen is produced by genetic engineering and the level of bioactivity of the protein is equivalent to human G-CSF. G-CSF stimulates the survival and proliferation of myeloid progenitor cells, as well as their differentiation towards neutrophilic granulocytes. In addition, G-CSF stimulates the release of mature neutrophils from bone marrow and brings about their activation. According to publicly available information of certain clinical studies, G-CSF has demonstrated that it is useful in treating patients suffering from neutropenia during or after chemotherapy and in mobilizing peripheral blood progenitor cells for harvesting and transplantation.

Jilifen was developed by us in-house with its approval for sales obtained in October 1996. As of the Latest Practicable Date, we held one patent in connection with Jilifen, with the expiry date being October 2030. See below for an illustrative diagram of Jilifen:

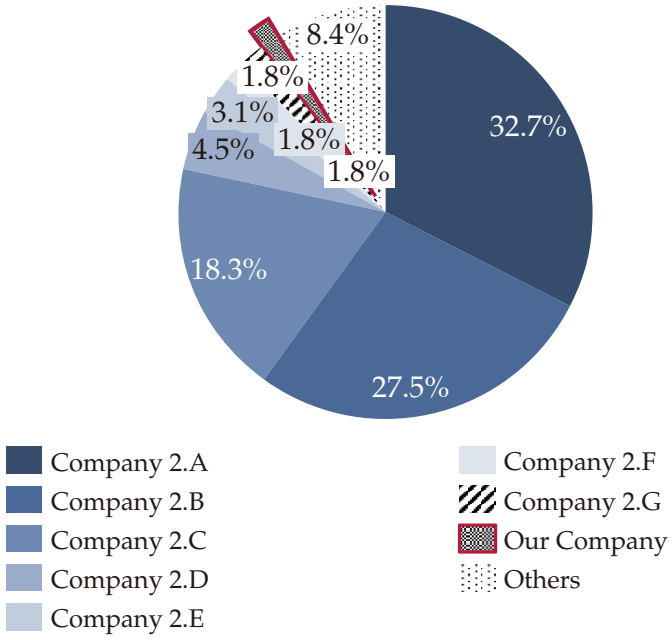

G-CSF has been recommended by a number of clinical practice guidelines and expert consensus as a recommended therapy for preventing and treating neutropenia caused by tumor radiotherapy and chemotherapy. In particular, G-CSF has been recommended by the "NCCN Guidelines: Hematopoietic Growth Factors Version 1 (2023)" issued by the National Comprehensive Cancer Network as well as the "Guidelines for the Standardized Management of Neutropenia Associated with Tumor Radiotherapy and Chemotherapy" (《腫瘤放化療相關中性粒細胞減少症規範化管理指南》) issued by the Chinese Society of Clinical Oncology in 2021.

Jilifen has been included in Part B of the NRDL since 2004. Our revenue derived from sales of Jilifen amounted to RMB145.8 million, RMB166.0 million and RMB112.1 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 11.2%, 14.7% and 11.0% of our total revenue during the respective period. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Revenue" for more details.

According to CIC, the G-CSF market grew from RMB5.1 billion in 2018 to RMB9.4 billion in 2022, at a CAGR of 16.3%, and is expected to stabilize at around RMB10.9 billion by 2032. In China, there are over 100 approved G-CSF products, including 8 long-acting varieties. Notably, we were the first in China to receive approval for a short-acting G-CSF product. Jilifen, our hG-CSF product, generated sales revenue of RMB166.0 million in 2022, representing a market share of 1.8%, and ranking eighth in terms of sales revenue among our competitors.

The following chart sets forth the competitive landscape of China's G-CSF market in terms of revenue in 2022 as well as our position in the ranking:

**Competitive Landscape of the G-CSF Market in China, 2022**




*Source: CIC*

- *Company 2.A, headquartered in Shandong, China, was founded in 1992. It focuses on the R&D, production and sales of drugs used to treat common diseases and other diseases that seriously endanger human health.*

- *Company 2.B, headquartered in Shandong, China, was founded in 1994. It is committed to the R&D, production, and sales of new drugs, mainly including monoclonal antibodies and fusion proteins.*

- *Company 2.C, headquartered in Jiangsu, China, and listed on the Shanghai Stock Exchange, was founded in 1997. It is primarily dedicated to the R&D, production, and sales of oncology drugs, endocrine therapy drugs, and cardiovascular drugs.*

- *Company 2.D, headquartered in Tokyo, Japan, was founded in 1949. It is dedicated to the R&D, production, and sales of new drugs primarily for the treatment of cancer and kidney diseases.*

- *Company 2.E, headquartered in Fujian, China, and listed on the Shanghai Stock Exchange, was founded in 1996. It is dedicated to the R&D, production, and sales of recombinant proteins and long-acting modified drugs.*

- *Company 2.F, headquartered in Tokyo, Japan, was founded in 1925. It is primarily dedicated to the R&D, production, and sales of oncology and immunology new drugs.*

- *Company 2.G, headquartered in Shenzhen, China, and listed on the Shanghai Stock Exchange, was founded in 1989. It is dedicated to the R&D, production, and sales of recombinant protein drugs and microbial preparations.*

The following table sets forth major awards and recognitions that Jilifen has received in the past years:

| **Awards and recognitions** | **Grantor** | **Year** |
|---|---|---|
| Torch Program | Ministry of Science and Technology | 1999 |
| National Key New Product | State Scientific and Technological Commission | 1997 |

*Jijufen 吉巨芬® (Human Interleukin-11 Injection)*

With the approval for sale obtained in September 2003, Jijufen is among the first few domestically developed biological products of interleukin-11 (IL-11) injection. It is produced through recombinant DNA technology and can be used to prevent and treat low platelet count in patients who are undergoing chemotherapy. IL-11 stimulates platelet production. The primary hematopoietic activity of IL-11 is stimulation of megakaryocytopoiesis and thrombopoiesis. At the molecular level, IL-11 binds to the IL-11 receptor (IL-11Rα) on various cells involved in hematopoiesis, including hematopoietic stem cells, megakaryocyte progenitor cells and megakaryocytes. Binding of IL-11 to IL-11Rα stimulates the proliferation of hematopoietic stem cells and megakaryocyte progenitor cells and induces megakaryocyte maturation resulting in increased platelet production. Platelets produced in response to IL-11 are morphologically and functionally normal and possess a normal life span. See below for an illustrative diagram of Jijufen:

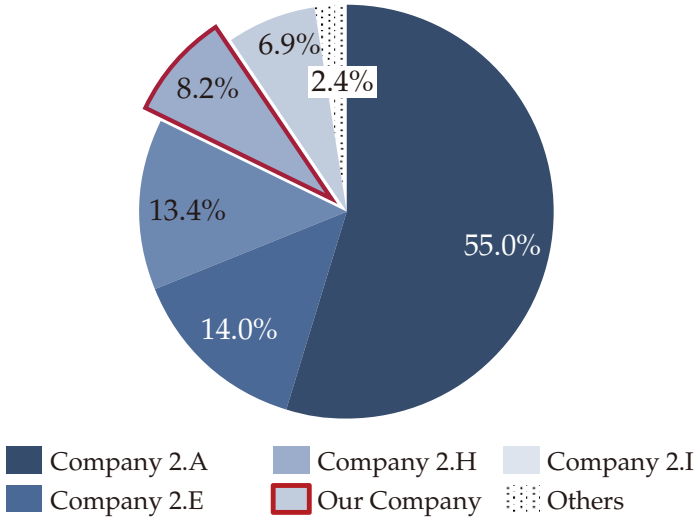
IL-11 has been recommended by a number of expert consensuses as a recommended therapy for preventing and treating low platelet count in patients who are undergoing chemotherapy. In particular, IL-11 has been recommended by the "Consensus on the clinical diagnosis, treatment and prevention of cancer treatment-induced thrombocytopenia in China (2023 edition)" (《中國腫瘤藥物相關血小板減少診療專家共識(2023版)》) issued by the Society of Chemotherapy, China Anti-Cancer Association in 2023, and the "Expert Consensus on the Clinical Application of hIL-11 in the Prevention and Treatment of Thrombocytopenia" (《重組人白介素-11防治血小板減少症臨床應用中國專家共識》) issued by certain expert committees including the Anti-tumor Drug Safety Management Expert Committee of the Chinese Society of Clinical Oncology in 2021.

Jijufen has been included in Part B of the NRDL since 2009. Our revenue derived from sales of Jijufen amounted to RMB97.2 million, RMB94.3 million and RMB63.8 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 7.4%, 8.4% and 6.2% of our total revenue during the respective period. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Revenue" for more details.

According to CIC, the IL-11 market is expected to stabilize at around RMB1.1 billion by 2032. Six IL-11 drugs were approved by the NMPA as of the Latest Practicable Date. Jijufen, our IL-11 product, generated sales revenue of RMB94.3 million in 2022, with market shares of 8.2%, ranking fourth in terms of sales revenue among our competitors.

The following chart sets forth the competitive landscape of China's IL-11 market in terms of revenue in 2022 as well as our position in the ranking:

**Competitive Landscape of the IL-11 Market in China, 2022**




*Source: CIC*

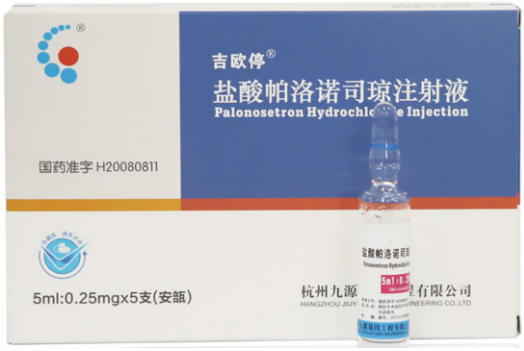
- *Company 2.H, headquartered in Shandong, China, was founded in 1997. It is primarily dedicated to the R&D, production, and sales of recombinant protein drugs.*

- *Company 2.I, headquartered in Beijing, China and listed on the Shenzhen Stock Exchange, was founded in 1994. It focuses on the R&D, production, and sales of genetically engineered drugs.*

Jijufen received the China Patent Excellence Award issued by the China National Intellectual Property Administration in 2015.

*Jiouting 吉欧停® (Palonosetron Hydrochloride Injection)*

With the approval for sale obtained in December 2008, Jiouting is among the first few domestically developed generic products of palonosetron hydrochloride injection that can be used to prevent and treat nausea and vomiting induced by radiation therapy, chemotherapy or postoperatively. Chemotherapeutic agents produce nausea and vomiting by releasing serotonin from the enterochromaffin cells of the small intestine. The released serotonin then activates 5-HT3 receptors, which have been demonstrated to selectively participate in the emetic response, located on vagal afferents to initiate the vomiting reflex. Palonosetron is a 5-HT3 receptor antagonist with a strong binding affinity for the receptors and little or no affinity for other receptors, which enables it to inhibit vomiting reflux. See below for an illustrative diagram of Jiouting:



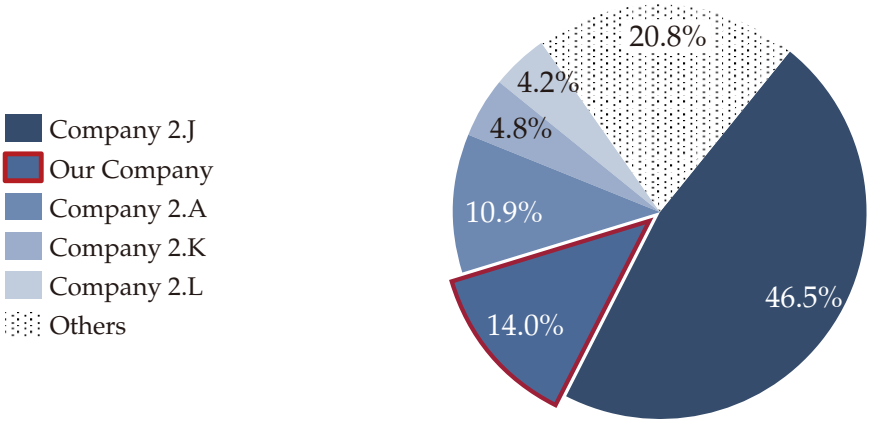

Palonosetron has been recommended by a number of clinical practice guidelines and expert consensuses as a recommended therapy for antiemesis. In particular, palonosetron has been recommended by the "NCCN Guidelines: Antiemesis" issued by the National Comprehensive Cancer Network in 2023, and the "Expert Consensus on the Prevention and Treatment of Nausea and Vomiting Related to Cancer Drug Therapy" (《腫瘤藥物治療相關噁心嘔吐防治專家共識》) issued by the China Anti-Cancer Association in 2022.

Jiouting has been included in Part B of the NRDL since 2017. In June 2021, Jiouting (5mL: 0.25mg) won in the bidding processes under the fifth batch of the national VBP List. In July 2022, Jiouting (1.5mL: 0.075mg) won in the bidding processes under the seventh batch of the national VBP List. Our revenue derived from sales of Jiouting amounted to RMB245.9 million, RMB67.8 million and RMB14.1 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 18.8%, 6.0% and 1.4% of our total revenue during the respective period. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Revenue" for more details.

According to CIC, the palonosetron market experienced a decline in 2022 due to reduced prices following its inclusion in the national VBP Lists. Post-VBP, palonosetron injection saw over a 70% price reduction. The palonosetron market is projected to stabilize around RMB0.5 billion by 2032, according to the same source. Jiouting, our palonosetron product, generated revenues of RMB67.8 million in 2022, holding market shares of 14.0% and maintaining the second rank nationally in terms of sales revenue among our competitors.

The following chart sets forth the competitive landscape of China's palonosetron market in terms of revenue in 2022 as well as our position in the ranking:

**Competitive Landscape of the Palonosetron Market in China, 2022**




*Source: Menet; CIC*

- *Company 2.J, headquartered in Jiangsu, China, was founded in 1997. It focuses on the R&D, production and sales of innovative drugs.*
- *Company 2.K, headquartered in Sichuan, China, was founded in 2001. It is dedicated to the R&D, production, and sales of chemical drugs, and traditional Chinese medicine.*
- *Company 2.L, headquartered in Switzerland, was founded in 1976. It is dedicated to the R&D, production, and sales of oncology and rare disease drugs.*

The following table sets forth major awards and recognitions that Jiouting has received in the past years:

| Awards and recognitions | Grantor | Year |
|---|---|---|
| Torch Program | Ministry of Science and Technology | 2011 |
| National Key New Products | Ministry of Science and Technology | 2010 |

*Jifuwei 吉芙惟® (Fulvestrant Injection)*

*China's third domestically developed fulvestrant product*

Jifuwei was developed by us in-house with its approval for sale obtained in June 2022. Jifuwei, a generic fulvestrant injection, is an estrogen receptor antagonist used as a treatment of advanced breast cancer. Fulvestrant competitively and reversibly binds to estrogen receptors present in cells. When fulvestrant binds to estrogen receptor monomers, it inhibits receptor dimerization, activation functions are rendered inactive, translocation of receptor to the nucleus is reduced, and degradation of the estrogen receptor is accelerated. This results in anti-estrogenic effects and inhibits the growth of estrogen-sensitive human breast cancer cell lines. See below for an illustrative diagram of Jifuwei:


Fulvestrant has been recommended by a number of clinical practice guidelines as a recommended therapy for breast cancer. In particular, fulvestrant has been recommended by the "NCCN Guidelines: Breast Cancer Version 5 (2023)" issued by the National Comprehensive Cancer Network, and the "Breast Cancer Diagnosis and Treatment Guidelines (2022)" (《乳腺癌診療指南(2022版)》) issued by the National Health Commission.

Jifuwei has been included in Part B of the NRDL since 2022. In November 2023, Jifuwei won in the bidding process under the ninth batch of national VBP List. During the Track Record Period, sales of Jifuwei accounted for nil, nil and 0.5% of our total revenue in 2021, 2022 and the nine months ended September 30, 2023, respectively. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Revenue" for more details.

According to the CIC, the market size of fulvestrant in China has grown rapidly, from RMB429.7 million in 2018 to RMB1,010.9 million in 2022, at a CAGR of 23.8% and is projected to reach RMB2,431.9 million by 2032, at a CAGR of 9.2% from 2022 to 2032. Fulvestrant was first introduced to the China breast cancer drug market in 2019. As of the Latest Practicable Date, there were eight approved fulvestrant products in China. The competitive landscape of fulvestrant injections is dominated by imported products, which account for approximately 65% of the market share.

*Jitansu 吉坦苏® (Fosaprepitant Dimeglumine Injection)*

Jitansu is a generic fosaprepitant dimeglumine injection used to treat chemotherapy-induced nausea and vomiting. Fosaprepitant is a phosphorylated analog of aprepitant with water-solubility, enabling it to convert to aprepitant after intravenous injection. Aprepitant is a selective high-affinity antagonist of human substance P/neurokinin 1 (NK1) receptors present in both the central and peripheral nervous systems which play roles in the vomiting reflex. The binding of the aprepitant to NK-1 receptors may attenuate vagal afferent signals and contribute to the antiemetic effect. Jitansu was developed by us in-house with its approval for sale obtained in August 2023. See below for an illustrative diagram of Jitansu:


Fosaprepitant has been recommended by a number of clinical practice guidelines and expert consensuses as a recommended therapy for antiemesis. In particular, fosaprepitant has been recommended by the "NCCN Guidelines: Antiemesis Version 2 (2023)" issued by the National Comprehensive Cancer Network in 2023, and the "Expert Consensus on the Prevention and Treatment of Nausea and Vomiting Related to Cancer Drug Therapy (2022)" (《腫瘤藥物治療相關噁心嘔吐防治專家共識(2022年版)》) issued by the China Anti-Cancer Association in 2022.

According to CIC, in terms of sales revenue, the fosaprepitant drug market in China grew from RMB1.3 million in 2019 to RMB909.9 million in 2022 and is projected to reach RMB1,345.5 million by 2032, at a CAGR of 4.0% from 2022 to 2032.

*Hematology Products*

As of the Latest Practicable Date, our hematology product portfolio comprised two products, namely Yinuojia and Jipailin. For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, our sales of hematology products were RMB301.7 million, RMB283.1 million and RMB193.1 million, respectively, accounting for 23.1%, 25.2% and 18.9% of our total revenue for the same periods, respectively.

According to CIC, hematology was the third largest therapeutic area in China in terms of sales revenue of pharmaceuticals in 2022, accounting for 13.5% of the overall pharmaceutical market in the same year. In terms of sales revenue, the hematology pharmaceutical market grew at a CAGR of 3.0% from RMB146.9 billion in 2018 to RMB165.2 billion in 2022. The significant unmet clinical demands and the introduction of effective new therapeutic treatments will continue to drive the rapid growth of the hematology pharmaceutical market in China, according to the same source.

Our two hematology products during the Track Record Period, namely Yinuojia and Jipailin, are used to prevent and treat thrombosis, a medical condition where blood clots form within blood vessels, potentially causing partial or complete blockages that disrupt normal blood flow, leading to serious complications such as tissue or organ ischemia, hypoxia, necrosis, or congestion and edema. A related condition, thromboembolism, occurs when a blood clot, known as a thrombus, breaks free from its original site and travels through the bloodstream to obstruct other vessels. According to CIC, the incidence of thrombosis in China has increased from 27.4 million in 2018 to 28.9 million in 2022 and is expected to reach 32.3 million by 2032. Both of Yinuojia and Jipailin belong to a class of drug of low molecular weight heparin, or LMWH. The market size of LMWHs in China has grown from RMB8,774.6 million in 2018 to RMB9,701.5 million in 2022, at a CAGR of 2.5%, and it is projected to decline to RMB8,224.8 million by 2032, according to the same source.

*Yinuojia 亿诺佳® (Enoxaparin Sodium Injection)*

*China's second domestically developed enoxaparin sodium product*

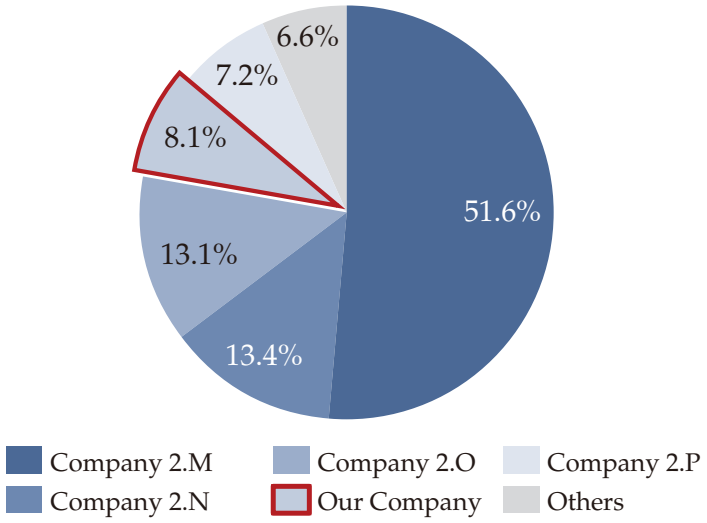
Yinuojia is the second domestically developed enoxaparin sodium generic drug commercialized in China. Yinuojia is a low molecular weight heparin product that has strong anti-factor Xa effect and relatively weak anti-factor IIa effect. It can be used to prevent and treat deep vein thrombosis and thrombus formation during hemodialysis. When administered concurrently with aspirin, Yinuojia can be used to treat unstable angina and non-ST myocardial infarction.

Yinuojia was developed by us in-house with its approval for sale obtained in March 2006. As of the Latest Practicable Date, we held one patent in connection with Yinuojia, with the expiry date being January 2032. See below for an illustrative diagram of Yinuojia:


Yinuojia has been included in Part B of the NRDL since 2009. In March 2023, Yinuojia won in the bidding processes under the eighth batch of the national VBP List. Our revenue derived from sales of Yinuojia amounted to RMB243.3 million, RMB235.4 million and RMB168.0 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 18.6%, 20.9% and 16.4% of our total revenue during the respective period. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Revenue" for more details.

The following table sets forth major competing drugs of Yinuojia approved for sale in China:

**Competitive Landscape of the Enoxaparin Market in China, 2022**




*Source: NMPA; CIC*

- *Company 2.M, headquartered in France, is a multinational pharmaceutical and healthcare company, focusing on cardiovascular disease, oncology, diabetes, and vaccines.*
- *Company 2.N, headquartered in Shenzhen, China, was founded in 2004. It is dedicated to the export of enoxaparin sodium API and low molecular weight heparin preparations.*
- *Company 2.O, headquartered in Jiangsu, China and listed on the Shanghai Stock Exchange, was founded in 2000. It is a pharmaceutical group focusing on drug R&D, production and sales.*
- *Company 2.P, headquartered in Jiangsu, China, and listed on the Shenzhen Stock Exchange, was founded in 2008. It is a manufacturer of polysaccharide and protease drugs.*

The following table sets forth major awards and recognitions that Yinuojia has received in the past years:

| **Awards and recognitions** | **Grantor** | **Year** |
|---|---|---|
| National Science and Technology Major Project in the Significant New Drug Development category | Ministry of Science and Technology | 2007 |
| China Patent Excellence Award | China National Intellectual Property Administration | 2011, 2019 |

*Jipailin 吉派林® (Low Molecular Weight Heparin Sodium Injection)*

*China's first domestically developed low molecular weight heparin sodium product*

Jipailin was developed by us in-house and is the first domestically developed low molecular weight heparin sodium product commercialized in China and was approved for sale in China in 1997. Jipailin inhibits clotting of blood in blood vessels by inhibiting the activity of factor Xa. Therefore, Jipailin can be used to prevent and treat deep vein thrombosis, in particular postoperatively, and thrombus formation during hemodialysis. Jipailin can also be administered concurrently with aspirin to treat unstable angina and non-Q-wave myocardial infarction. See below for an illustrative diagram of Jipailin:


Jipailin has been included in Part B of the NRDL since 2004. Our revenue derived from sales of Jipailin amounted to RMB58.4 million, RMB47.7 million and RMB25.1 million in 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 4.5%, 4.2% and 2.5% of our total revenue during the respective period. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Revenue" for more details.

Jipailin received the award of National Key New Product granted by the Ministry of Science and Technology in 1998.

***Metabolic Disease Product***

Beyond our offerings in orthopedics, oncology and hematology, we have nearly 18 years of experience in metabolic disease drug development. We initiated our research into the agonists to GLP-1 receptor, a key therapeutic target in metabolic disease, in 2005. Based on our peptide drug technology platform, we developed the first biosimilar candidate to liraglutide, a GLP-1 receptor agonist, to have obtained IND approval in China. We transferred this product candidate to Zhongmei Huadong between 2017 and 2019 and entered into agreements with Zhongmei Huadong (together, the "**Liraglutide Transfer Agreements**"). Pursuant to the Liraglutide Transfer Agreements, we transferred the biosimilar formulation of the liraglutide product (which later came to be known as Liluping) to Zhongmei Huadong and collaborate with Zhongmei Huadong in preparing samples, conducting clinical trials, developing the technology for commercial production and filing for NDA, until Zhongmei Huadong obtained approval for sale. Please refer to the paragraphs headed "— Collaboration Arrangements — Transfer Agreements of Liluping (Liraglutide) with Zhongmei Huadong" in this section for more details.

Through our collaborative efforts with Zhongmei Huadong, this candidate became the first liraglutide biosimilar approved for sale in China in March 2023. Benefiting from the R&D experience we accumulated, we further developed another GLP-1 receptor agonist, JY29-2, which became the first semaglutide biosimilar in China that obtained the IND approval and completed a Phase III clinical trial. JY29-2 has the potential to become the first-to-market semaglutide biosimilar in China according to CIC. Semaglutide products recorded global sales of US$10.9 billion in 2022, making it one of the top ten best-selling drugs by generic name worldwide in 2022, according to CIC.

***APIs and Excipients***

Leveraging our manufacturing infrastructure, we also produce various APIs and sell to a range of overseas markets. Besides drug products and substances, we are also advancing the development of excipients. JY53, a recombinant human hyaluronidase, is an excipient which allows the subcutaneous administration of antibody drugs, offering an alternative to intravenous injection and facilitating dose optimization. JY53 is currently undergoing CMC development, and we expect to submit a drug master file registration application for it in the first half of 2024.

For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, our revenue derived from sales of APIs and excipients were RMB122.7 million, RMB49.6 million and RMB29.2 million, respectively, accounting for 9.4%, 4.4% and 2.9% of our total revenue for the same periods, respectively. The decrease of our revenue derived from APIs and excipients were partially due to the adverse impact of the geopolitical conflict on our overseas sales of enoxaparin APIs. Please refer to the paragraphs headed "Financial Information — Period to Period Comparison of Results of Operations" for more details.

The following table sets forth selected information about our APIs and excipients as of the Latest Practicable Date.

| APIs and Excipients | | | | |
|---|---|---|---|---|
| **Product** | **Generic Name** | **Product Type** | **Description** | **Status** |
| **JY16** | Fulvestrant | API | • Fulvestrant is an estrogen receptor antagonist that binds to estrogen receptors in breast cancer cells. | Marketed |
| **JY07** | Enoxaparin sodium | API | • Low molecular weight heparin, an anticoagulant drug, is mainly used for the prevention and treatment of thrombosis-related diseases, such as deep vein thrombosis, pulmonary embolism, myocardial infarction. | Marketed |
| **JY05** | Dulaglutide | API | • Dulaglutide is a long-acting GLP-1 receptor agonist used for the treatment of type 2 diabetes. | Under development |
| **JY14** | G-CSF | API | • G-CSF stimulates the neutrophil development, production and release from the bone marrow by binding to its cognate cell surface receptor. G-CSF is commonly used in preventing and treating chemoradiotherapy-induced neutropenia. | Marketed |
| **JY06** | PEG-G-CSF | API | • Compared to ordinary G-CSF drugs, PEG-G-CSF has extended circulating half-life which allows for reduced dose frequency and improved patient compliance. | Under development |
| **JY29** | Liraglutide | API | • Liraglutide a GLP-1 receptor agonist for the treatment of type 2 diabetes. It also delays gastric emptying and gastrointestinal peristalsis, and reduces food intake and increases satiety by suppressing the appetite. | Marketed |
| **JY29-2** | Semaglutide | API | • Semaglutide is a long-acting GLP-1 receptor agonist for the treatment of type 2 diabetes and obesity and overweight. | Under development |
| **JY23** | rhBMP-2 | API | • rhBMP-2 effectively induces the differentiation of mesenchymal stem cells and bone progenitor cells into osteoblasts. | Marketed |
| **JY53** | Recombinant human hyaluronidase | Excipient | • By breaking down hyaluronic acid in skin tissue, hyaluronidase can increase membrane permeability and improve the absorption and dispersion of parenterally administered fluids and drugs into tissue.<br>• As an innovative excipient, hyaluronidase can be administered concurrently with antibodies and enables the shift from intravenous injection to subcutaneous injection and dose optimization. | Under development |
| / | Recombinant human enterokinase | Industrial enzyme | • Enterokinase is a specific protease that cleaves after lysine at its cleavage site Asp-Asp-Asp-Asp-Lys. Enterokinase is a commonly used enzyme for the cleavage of fusion proteins. | Marketed |

**Our Product Candidates Under Development**

Our diversified candidate pipeline spans across metabolic disease, orthopedics, and oncology. In the metabolic disease domain, our candidates include JY29-2, injectable semaglutide biosimilar for the treatment of T2DM under the brand name of Jiyoutai, for the treatment of obesity and overweight under the brand name of Jikeqin, and oral tablet of semaglutide; JY54, an expected Category I innovative drug we are developing for the treatment of metabolic diseases including obesity and overweight; and JY05, a dulaglutide biosimilar for the treatment of T2DM. In orthopedics, we are developing JY23, a next-generation bone repair material with rhBMP-2. We are also developing JY41, a romosozumab product, for osteoporosis caused by various factors. On the oncology front, JY06 (Jixinfen), a PEG-G-CSF product, is intended as a treatment for chemotherapy-induced neutropenia; JY49 is designed for treating thrombocytopenia; JY47 is a Category I innovative drug targeting solid tumors; and both JY43 and JY43-2 are developed to address multiple myeloma. Each of these candidates underlines our commitment to innovation and addressing diverse medical challenges.

The following table sets forth selected information of our major product candidates as of the Latest Practicable Date:

| Product Candidates[1] | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Product Candidate | Generic Name | Product Type | Expected Classification | Dosage Form | Target/MoA | Intended Indications | Pre-clinical | IND | Phase I | Phase II | Phase III | NDA | Commer-cialization |
| **Metabolic Diseases Drugs** | | | | | | | | | | | | | |
| **JY29-2 吉优泰® Jiyoutai** | Semaglutide | Peptide | Biosimilar | Subcutaneous injection | Glucagon-like peptide-1 (GLP-1) receptor agonist | T2DM | | | | | Phase III clinical trial completed | | |
| **JY29-2 吉可亲® Jikeqin[2]** | | | | | | Obesity and overweight | | | | | | | |
| **JY29-2 (Oral)** | | | | Tablets | | Obesity and overweight | | | | | | | |
| **JY54** | Amylin analog | Peptide | Category I innovative drug | Subcutaneous injection | Amylin analogues | Obesity and overweight | | | | | | | |
| **JY05** | Dulaglutide | Fusion protein | Biosimilar | Subcutaneous injection | GLP-1 receptor agonist | T2DM | | | | | | | |
| **Orthopedics** | | | | | | | | | | | | | |
| **JY23** | Bone repair material with rhBMP-2 | Drug-device combination | Innovative drug-device combination | Bone graft | A combination of osteoinductive growth factor and carrier | Bone repair | | | | | | | |
| **JY41** | Romosozumab | Monoclonal antibody | Category III biologics | Subcutaneous injection | Sclerostin inhibitor | Osteoporosis | | | | | | | |
| **Oncology** | | | | | | | | | | | | | |
| **JY06 吉新芬® Jixinfen** | Polyethylene glycol conjugated granulocyte colony-stimulating factor (PEG-G-CSF) | Recombinant protein | Category III biologics | Subcutaneous injection | PEG-G-CSF | Neutropenia | | | | | | Filed NDA on May 9, 2023 | |
| **JY49[3]** | Avatrombopag maleate | Small molecule drug | Generic chemical drug | Tablets | Thrombopoietin receptor agonist | Thrombocytopenia induced by chronic liver diseases | | | | | | | |
| **JY47** | SIRPα monoclonal antibody | Monoclonal antibody | Category I innovative drug | Intravenous injection | CD47-SIRPα blockade | Solid tumors | | | | | | | |
| **JY43** | Daratumumab | Monoclonal antibody | Biosimilar | Intravenous injection | CD38 inhibitor | Multiple myeloma | | | | | | | |
| **JY43-2** | Daratumumab (with recombinant human hyaluronidase) | Monoclonal antibody | Biosimilar | Subcutaneous injection | CD38 inhibitor with recombinant human hyaluronidase | Multiple myeloma | | | | | | | |

*Notes:*

(1) As of the Latest Practicable Date, we expected to conduct all the clinical trials of our product candidates in China and hold the exclusive rights to develop and commercialize such product candidates worldwide.

(2) After communicating with the Center for Drug Evaluation of NMPA, it has agreed that we can directly enter the Phase III clinical trial on JY29-2 (Jikeqin).

(3) We have completed the bioequivalence studies on JY49 as of the Latest Practicable Date, and no additional clinical trials are required for this drug candidate. We plan to file the NDA with the NMPA in the first quarter of 2024.

***Metabolic Disease Product Candidates***

*JY29-2 (Jiyoutai 吉优泰® and Jikeqin 吉可亲®) Semaglutide Injection*

We are developing JY29-2, a semaglutide biosimilar, under the brand name of Jiyoutai for the treatment of T2DM and under the brand name of Jikeqin for the treatment of obesity and overweight. JY29-2 (Jiyoutai) is the first semaglutide biosimilar in China to have obtained IND approval and completed a Phase III clinical trial. According to CIC, it has the potential to become the first-to-market biosimilar of semaglutide in China. In January 2024, we obtained the IND approval from the NMPA to evaluate JY29-2 (Jikeqin) for the treatment of obesity and overweight. We are currently preparing for the Phase III trial to evaluate JY29-2 (Jikeqin) for this indication and expect to start patient enrollment for the trial in 2024. In addition, we are developing the oral tablet of semaglutide for the treatment of obesity and overweight.

Semaglutide is a peptide akin to the hormone glucagon-like peptide-1 (GLP-1) but is modified with a fatty acid side chain. Semaglutide employs the following dual mechanisms to combat diabetes. By emulating the actions of the hormone GLP-1, it augments the production of insulin, the hormone responsible for reducing blood sugar levels. Moreover, it curtails the production of glucagon, a hormone that facilitates the release of stored carbohydrates from the liver and prompts the creation of new glucose. Additionally, semaglutide diminishes food intake by suppressing appetite and decelerating digestion in the stomach, aiding in the reduction of hunger, food cravings, and body fat, thus ameliorating obesity and being overweight.

Semaglutide boasts the following key advantages:

- *Superior efficacy in glycemic control.* The originator manufacturer conducted extensive clinical studies on semaglutide, involving over 24,500 patients in its SUSTAIN and PIONEER series clinical studies for the treatment of diabetes. The trials revealed that semaglutide, either alone or combined with other medications, significantly controls blood sugar levels (superior to sitagliptin, insulin glargine, liraglutide, and other antidiabetic drugs) without increasing hypoglycemia risk. It also offers weight reduction, cardiovascular, and renal benefits. Specifically in Chinese populations, the SUSTAIN China study showed that semaglutide significantly lowers glycated hemoglobin (HbA1c) in T2DM patients, with a maximum reduction of 1.8% and a high achievement rate of HbA1c target at 86.1%. It also significantly reduces fasting blood sugar without increasing the risk of hypoglycemic events.

- *Superior efficacy in body weight control.* The originator manufacturer's STEP and OASIS series clinical studies on the weight control effectiveness of semaglutide, which involve over 6,000 patients, have shown remarkable results. The STEP 1 study indicated a rapid and effective weight reduction effectiveness of semaglutide. The mean change in body weight from baseline to week 68 was –14.9% in the semaglutide group with over two-thirds losing more than 10%, and over a third losing more than 20%, compared to just a 2.4% reduction in the placebo group. For the trial product estimand (showing

the effect if the drug or placebo was taken as intended), the corresponding changes were –16.9% and –2.4%, respectively. In the STEP 7 study of the Asian population (80% Chinese), semaglutide significantly reduced the body weight of overweight/obese patients, with an average weight loss of 12.1% and over 34% of participants achieving more than 15% weight loss. Additional benefits in terms of changes in systolic blood pressure, fasting blood sugar, and lipid levels were also observed.

- *Significant cardiovascular benefits.* The originator manufacturer conducted a series of clinical studies, including SELECT, SUSTAIN 6, and PIONEER 6, involving over 24,000 patients to investigate the cardiovascular benefits of semaglutide. The trials have shown that semaglutide reduces the risk of major adverse cardiovascular events in patients with diabetes, obesity, or overweight who have cardiovascular diseases or are at high cardiovascular risk. Additionally, semaglutide effectively alleviates symptoms of heart failure and enhances physical capability. Results from the SELECT study revealed that over five years, semaglutide significantly reduced the risk of major adverse cardiovascular events by 20% in patients with a history of cardiovascular disease who are obese or overweight. The risk of composite heart failure events, including cardiovascular death, urgent heart failure visits, and hospitalizations, was reduced by 18%, and the risk of death decreased by 19%. Semaglutide also showed significant effectiveness in reducing other cardiovascular risk factors such as blood pressure, cholesterol, and blood sugar.

- *Patient-friendly dose schedule and high patient adherence.* By optimizing the structure of the fatty acid side chain and peptide chain, the half-life of semaglutide in the body is prolonged, allowing for a dosing regimen of only one subcutaneous injection per week, enhancing the convenience and compliance of patients. Additionally, semaglutide is available in oral tablet form. This oral formulation reduces patients' fear associated with injections. The once-daily intake further ensures ease of access and high adherence to the medication regimen.

- *Broad indications.* In light of the clinical performance of semaglutide, the originator manufacturer and other organizations have expanded its indications globally to encompass 28 different conditions, including NASH (non-alcoholic steatohepatitis), Alzheimer's disease, and cardiovascular diseases, beyond its initial approvals for diabetes and obesity, with nearly 200 ongoing clinical trials. For NASH, the originator manufacturer conducted a Phase II study named NN9931-4296, which showed that 66.7% of patients treated with 0.4mg of semaglutide experienced a reduction in NASH pathology without worsening liver fibrosis. the originator manufacturer is also currently conducting a Phase III study named ESSENCE for NASH.

We obtained the IND approval for JY29-2 (Jiyoutai) for the treatment of T2DM in September 2021, making it the first semaglutide biosimilar to have obtained IND approval in China. The Phase I clinical trial of JY29-2 (Jiyoutai) was completed in January 2022, demonstrating pharmacokinetic similarity between JY29-2 (Jiyoutai) and the control drug (Ozempic®) in healthy subjects. The Phase III clinical trial of JY29-2 (Jiyoutai) was completed in October 2023, which demonstrated that JY29-2 (Jiyoutai) and the control drug (Ozempic®) had similar clinical efficacy and safety profiles. We plan to submit the NDA for JY29-2 (Jiyoutai) in the first half of 2024, which has the potential to be the first-to-market semaglutide biosimilar in China given its advanced clinical development status. We expect to receive NDA approval for JY29-2 (Jiyoutai) in the second half of 2025. We also plan to develop an oral form of semaglutide for the treatment of obesity and overweight, which was in early R&D stage as of the Latest Practicable Date.

As diabetes and obesity are affecting global health, GLP-1 receptor agonists have been increasingly adopted by population with T2DM or weight management needs, demonstrating significant market potential. GLP-1 receptor agonists have received wide recognition in international market and surpassed insulin to become the most widely used medication for T2DM globally in 2023. GLP-1 receptor agonist also harbors a significant market potential in China. According to CIC, China's GLP-1 receptor agonist for T2DM market expanded from RMB0.7 billion in 2018 to RMB6.0 billion in 2022, representing a CAGR of 69.7% and is projected to grow to RMB66.7 billion by 2032 at a CAGR of 27.1%. The market of semaglutide products for T2DM as well as obesity and overweight is expected to increase from RMB2.5 billion in 2022 to RMB43.9 billion in 2032 with a CAGR of 33.0% in China, according to CIC.

As of the Latest Practicable Date, we had two granted patents and one pending patent application for JY29-2, including a design patent for the appearance of the JY29-2 injection pen, an invention patent on the preparation method of JY29-2, and one pending patent application for the formulation of JY29-2.

*JY54 Amylin Analog*

JY54 is a long-acting amylin analog product we developed in-house and intended for the treatment of obesity and overweight. It is expected to be a Category I innovative drug pursuant to the drug categorizations promulgated by NMPA. JY54 is currently undergoing CMC development and animal studies, and we expect to submit an IND application for JY54 in the fourth quarter of 2024.

This medication's multifaceted mechanisms of action ensure its therapeutic effectiveness. It acts directly on the brain to suppress appetite, while slowing down intestinal digestion and emptying. Additionally, it inhibits the production of glucagon, the hormone responsible for increasing the release of stored carbohydrates from the liver and the synthesis of new glucose.

JY54 possesses the following key strengths:

- *Unique molecular design.* Through amino acid substitution and fatty acid chain modifications, JY54 achieves favorable physicochemical properties. These include a decreased propensity for fibrosis, enhanced water solubility and stability, and an extended half-life.

- *High efficacy.* Preliminary results regarding JY54's biological activity and pharmacodynamics in *in vitro* and *in vivo* studies have indicated it has favorable therapeutic potential for the treatment of obesity and T2DM.

- *Promising combination potential.* JY54 has a distinct mechanism of action from that of GLP-1 analogs, which allows it to be co-administered with one or more GLP-1 analogs such as semaglutide or other targeted drugs. Such combination treatments hold the potential to further enhance weight-loss outcomes.

As of the Latest Practicable Date, there was only one marketed amylin analog product, Symlin®, globally. It is a short-acting amylin analog and was approved by the FDA in 2005 for the adjuvant treatment in patients with type 1 or 2 diabetes undergoing insulin therapy. As of the same date, there were five clinical-stage amylin analogs globally, with the most advanced one in terms of clinical development stage currently in a Phase III clinical trial in combination with semaglutide for the treatment of overweight and obesity and T2DM in the U.S. Based on the currently available clinical data in the public domain, the combination use of amylin analog and semaglutide demonstrates significant potential to yield promising clinical efficacy for the treatment of overweight and obesity and T2DM.

We had one pending patent application in China and one PCT application on the peptide derivatives and usage of JY54 as of the Latest Practicable Date.

*JY05 Dulaglutide Injection*

JY05 is a biosimilar of dulaglutide intended for the treatment of T2DM. JY05 is currently undergoing CMC development. In the future, we plan to seek collaborations opportunities to develop JY05 in the international market.

JY05, given as a subcutaneous injection, is a long-acting GLP-1 receptor agonist. It exerts its effective glucose-lowering effects through various mechanisms, including promoting the synthesis and secretion of insulin, inhibiting the secretion of glucagon and preventing the apoptosis of β-cells, which are cells in the islets of the pancreas that produce insulin.

Dulaglutide boasts the following advantages:

- *Significant efficacy and safety.* Clinical results suggested that dulaglutide's hypoglycemic effect surpasses that of other antidiabetic drugs like metformin, saxagliptin, exenatide, and insulin glargine. Moreover, it exhibits a good safety profile with gastrointestinal reactions being the most commonly reported side effects.

- *Renal-protective effects.* Evidence suggests that dulaglutide demonstrates commendable renal protective properties, making it a suitable antidiabetic medication for T2DM patients with renal impairment.

- *High market potential.* Dulaglutide has been launched in many countries globally and has consistently held the top sales position among GLP-1 medications for several years attributed by its therapeutic advantages. Characterized by low renal clearance, dulaglutide ensures sustained therapeutic activity; following the administration of 0.75 or 1.5 mg doses, it exhibits a consistent elimination half-life of approximately five days, irrespective of the dosage. Its efficacy remains remarkably consistent across diverse demographic variables, including age, gender, race, and body weight. Moreover, the effectiveness does not substantially vary in patients with hepatic or renal impairments, obviating the need for dosage adjustments.

The global market size of dulaglutide for T2DM has increased from US$3.2 billion in 2018 to US$7.4 billion in 2022 with a CAGR of 23.5%, and is expected to increase to US$9.2 billion in 2032, according to CIC. The global sales revenue of dulaglutide in 2022 are among the top list of metabolic disease drugs for the treatment of T2DM globally, according to the same source.

***Orthopedic Product Candidates***

*JY23 rhBMP-2 Bone Repair Material*

JY23 is a next-generation bone repair material developed by combining rhBMP-2 with biomaterials. Compared to Guyoudao, JY23 has superior sustained release and osteoconduction properties. JY23 is currently in the CMC stage, and we expect to submit an IND application to the NMPA for JY23 in the first quarter of 2025.

JY23 has the following key advantages:

- *Osteoinductive (new bone formation stimulation) and osteoconductive (bone growth stimulation) properties.* Bioactive material of JY23 has been shown to facilitate bone healing at the operative site as well as activate cellular osteogenesis. Containing rhBMP-2, a potent osteoinductive cytokine, JY23 possess strong osteoinductive and osteoconductive properties, making it an effective bone repair material.

- *Superior sustained release.* Compared to Guyoudao, JY23 has better sustained release properties. By loading bioactive glass with BMP-2, JY23 can achieve prolonged, low-dose rhBMP-2 release without affecting the material characteristics, thereby reducing the risk of side effects that are majorly evoked by high dosages and burst release kinetics.

The market of bone repair material in China is expected to increase from RMB551.9 million in 2018 to RMB2,586.8 million in 2022 at a CAGR of 47.1%. Based on historical growth trends, this market size is projected to reach RMB7,218.6 million by 2032, at a CAGR of 10.8%.

*JY41 Romosozumab Injection*

JY41 is a biosimilar of romosozumab for the treatment of osteoporosis caused by various factors. JY41 is currently in the CMC development stage.

JY41 is a humanized IgG2 monoclonal antibody targeting sclerostin, a negative regulator of bone formation. By binding to sclerostin, it counteracts the activity of the negative regulator, promoting bone formation and reducing bone resorption, thus alleviating symptoms of osteoporosis.

Romosozumab presents the following key advantages:

- *Superior efficacy.* Clinical trial results indicate that romosozumab is superior to the common current treatment of osteoporosis in enhancing bone density. The 2023 edition of the American College of Physicians clinical guidelines recommends the use of romosozumab for female patients with primary osteoporosis and an extremely high risk of fractures.

- *Patient-friendly dose schedule.* Compared with those osteoporosis treatments which require frequent dosing, romosozumab, with a dosing frequency of once a month, is convenient for patients and promotes sustained treatment adherence.

- *Broad indications.* Besides its approved indications for postmenopausal female osteoporosis and male osteoporosis, the originator manufacturer is conducting clinical research on romosozumab for the treatment of glucocorticoid osteoporosis and premenopausal osteoporosis. Romosozumab stands as the only anti-sclerostin antibody drug approved by the FDA. As of the Latest Practicable Date, there had been no approved anti-sclerostin antibody drugs in China, leaving the Chinese market for anti-sclerostin antibody drugs untapped, signaling immense market potential.

The prevalence of osteoporosis in China has increased from 97.7 million in 2018 to 110.9 million in 2022 and is expected to reach 145.9 million by 2032, according to CIC, harboring significant market potential.

***Oncology Product Candidates***

*JY06 (Jixinfen 吉新芬®) PEG-G-CSF Injection*

JY06 (Jixinfen), a Category III biological product, is a polyethylene glycol-modified human granulocyte colony-stimulating factor (PEG-G-CSF) for treating neutropenia caused by chemotherapy. We submitted NDA for JY06 (Jixinfen) to the NMPA in May 2023 and expect to obtain the approval for sale in 2024.

JY06 (Jixinfen) is a long-acting G-CSF developed using PEG modification technology. It functions by binding to specific cell surface receptors on hematopoietic stem cells, stimulating the proliferation, differentiation, maturation, and activation of these stem cells. This ultimately leads to their conversion into white blood cells, elevating patients' white blood cell levels and treating neutropenia resulting from chemotherapy.

PEG-G-CSF offers the following key benefits:

- *Superior efficacy.* The PEG modification enhances the solubility, bioavailability, and stability of PEG-G-CSF, ensuring a more consistent elevation of white blood cell levels.

- *Patient-friendly dose schedule.* By virtue of its PEG modification, JY06 (Jixinfen) extends its metabolic duration in the body. This allows for a once-per-chemotherapy-cycle dosing, mitigating the pain of repeated injections for patients and eliminating the need for bi-daily routine blood tests during chemotherapy sessions.

- *Potential for outpatient chemotherapy.* The infrequent dosing and stable white blood cell-boosting action of PEG-G-CSF allows for standardized multi-cycle chemotherapy regimens and outpatient chemotherapy. This can help reduce patients' hospital stay durations and enhance hospital bed turnover rates.

The market of PEG-G-CSF products in China is expected to increase from RMB6,485.7 million in 2022 to RMB8,694.3 million in 2032 with a CAGR of 3.0%, according to CIC, harboring significant market potential.

We have one granted invention patent on the preparation method of JY06 (Jixinfen) as of the Latest Practicable Date.

*JY49 Avatrombopag Maleate*

JY49 is a chemical generic avatrombopag maleate for treating thrombocytopenia. We completed the bioequivalence study for JY49 in October 2023 and expect to submit the NDA in the first quarter of 2024.

JY49 is a second-generation oral thrombopoietin (TPO) receptor agonist (TPO-RA). It stimulates the proliferation and differentiation of megakaryocytes in bone marrow progenitor cells, thereby increasing platelet production. Notably, while binding to and stimulating the TPO receptor, it does not compete with TPO, resulting in a synergistic effect on platelet production in conjunction with TPO's role.

Avatrombopag presents the following advantages:

- *Unique chemical structure.* Unlike other TPO-RAs, avatrombopag's chemical formula lacks the hydrazide and does not chelate with metal cations in the blood, preventing a drop in blood drug concentration that could affect its efficacy.

- *Impressive safety profile.* Avatrombopag has no reported hepatotoxic adverse events or incidences of cataracts.

- *High patient compliance.* The absorption of avatrombopag is not affected by dietary restrictions, and its use does not require regular blood cell count monitoring.

- *Recommended in clinical guidelines.* Avatrombopag is included as a recommended drug in authoritative international and domestic guidelines, such as the "2019 Guidelines for Immune Thrombocytopenia" published by the American Society of Hematology (ASH).

*JY47 SIRPα Monoclonal Antibody Injection*

JY47 is a humanized IgG1 Signal Regulatory Protein α (SIRPα)-specific monoclonal antibody injection and is classified as a Category I innovative drug, intended for the treatment of solid tumors. We received an IND approval for JY47 in December 2022 and expect to initiate a Phase I clinical trial in 2024.

SIRPα is a typical inhibitory immune receptor within the SIRP family. Its binding to the ligand CD47 that produces a "don't eat me" signal, preventing macrophages from phagocytosing healthy cells. JY47 binds with high affinity and specificity to the SIRPα protein on the surface of cancer cells, obstructing the interaction between SIRPα and CD47. This inhibits the CD47-SIRPα signaling pathway, amplifying the phagocytic activity of macrophages towards cancer cells and potentially enhancing the cytotoxic activity of NK cells and T cells against cancer cells, thereby exerting an anti-tumor effect.

JY47 boasts the following advantages:

- *Innovative mechanism and potential for combination therapy.* The mechanism of action of CD47-SIRPα blockade differs from that of PD-1/PD-L1 blockade, positioning it as the next-generation immune checkpoint blockade strategy for various malignancies post PD-1/PD-L1 treatment. JY47's innovative mechanism holds promise for combination with multiple drugs, potentially becoming a broad-spectrum anticancer agent for diverse tumor types.

- *Favorable safety profile.* Given that CD47 is expressed in normal tissue cells throughout the body, therapies targeting CD47 might exhibit hematotoxicity, particularly attacking normal cells like red blood cells and platelets. However, since SIRPα is limited to myeloid cells, JY47, by selectively binding to myeloid cells, can inherently avoid severe drug-related adverse events such as anemia, thrombocytopenia, and coagulation abnormalities, enhancing therapeutic safety and tolerability.

- *Broad target patient demographics.* JY47 binds with high affinity to SIRPα-V1, V2, and V8, covering over 90% of the population's genotypes. In clinical trials and subsequent clinical applications, there's no need to select patients based on genotype.

We had one PCT patent application (currently in national phase in China) on the compound and usage of JY47 as of the Latest Practicable Date.

*JY43 Daratumumab Intravenous Injection and JY43-2 Daratumumab Subcutaneous Injection*

JY43 and JY43-2 are biosimilars to daratumumab intravenous injection and daratumumab subcutaneous injection, respectively. Both are used for the treatment of multiple myeloma.

We received an IND approval for JY43 in April 2023. As a monoclonal antibody targeting CD38, JY43 binds to the tumor cell surface receptor CD38 and induces tumor cell apoptosis through various immune-related mechanisms, including complement-dependent cytotoxicity (CDC), antibody-dependent cellular cytotoxicity (ADCC), antibody-dependent cellular phagocytosis (ADCP), Fcγ receptor-mediated responses, the depletion of CD38+ immunosuppressive cells, and the activation of killer T cells CD38+ and helper T cells CD4+.

Daratumumab boasts the following advantages:

- *Remarkable clinical efficacy.* Clinical trials conducted by the originator manufacturer for daratumumab demonstrated that using daratumumab alone or in combination treatments for relapsed or refractory multiple myeloma patients significantly improved response rates, prolonged progression-free survival, and offered better outcomes than previous treatment regimens, enhancing the survival odds for these patients in subsequent treatment lines.

- *Favorable safety profile.* Clinical trials for daratumumab indicated a high tolerability among patients, with a low discontinuation rate due to adverse events.

- *Endorsed in clinical guidelines domestically and internationally.* Daratumumab has been included in the 2020 "Chinese Multiple Myeloma Guidelines," the 2021 National Comprehensive Cancer Network Guidelines, and the 2022 "Chinese Multiple Myeloma Guidelines." It is explicitly listed as a cornerstone therapy for clinical treatment of multiple myeloma, applicable in first-line, second-line, and post-second-line treatments.

- *Potential for expanded indications.* Beyond its approval for treating multiple myeloma, daratumumab has also been approved for treating primary light-chain amyloidosis. Clinical studies are underway for its application in conditions such as glioblastoma, systemic lupus erythematosus, and primary lymphoma-like hematopoietic malignancies, among others.

We are also conducting preclinical research on JY43-2, a daratumumab subcutaneous injection developed based on JY43. By incorporating a novel excipient, recombinant hyaluronidase, into the formulation, it enables subcutaneous injection. Hyaluronic acid, acting as the "scaffold" of the interstitium, impedes the diffusion and absorption of the injected fluid. Typically, standard subcutaneous injections cannot administer large volumes (generally no more than 2ml). Hyaluronidase can temporarily hydrolyze subcutaneous hyaluronic acid, thus improving the drugs' dispersion and permeability in tissue, allowing for the subcutaneous administration of drugs and dose optimization. We expect to submit the IND application for JY43-2 in 2025.

Daratumumab subcutaneous injection offers the following advantages:

- *Equivalent therapeutic efficacy.* The efficacy profile of daratumumab administered via intravenous and subcutaneous injections are comparable.

- *Enhanced safety.* Compared to daratumumab intravenous injection, the subcutaneous formulation results in fewer infusion-related reactions.

- *Improved patient compliance.* The administration time for daratumumab intravenous injection ranges from three to seven hours, while the subcutaneous injection takes only 3-5 minutes. This significantly reduces the administration duration, minimizing discomfort for the patient associated with intravenous infusions.

According to CIC, the global market size of daratumumab had reached to US$8.0 billion in 2022. The market size of daratumumab in China is projected to increase from RMB1,005.4 million in 2022 to RMB1,829.7 million in 2032, at a CAGR of 6.2%. As of the Latest Practicable Date, there was one daratumumab drug approved in China, which was available in both intravenous and subcutaneous injection. As of the same date, there were two domestically developed IND-approved daratumumab biosimilars in China, including JY43, both of which are intravenous injections.

## RESEARCH AND DEVELOPMENT

### Our R&D Team and Capabilities

Our research and development activities are primarily conducted through our R&D center in Hangzhou, Zhejiang. Our R&D team comprised of experts with extensive experience in drug discovery, pre-clinical development, CMC, clinical development regulatory affairs, covering the entire R&D cycle. We primarily rely on our in-house R&D team for the development of product candidates, ultimately bringing them to market in a timely and cost-effective manner. As of the Latest Practicable Date, our R&D team consisted of over 110 full-time employees, over 60% of whom held master's or higher degrees.

Our R&D team maintains close interaction with our production and sales and marketing teams to advance our research and development projects in an efficient manner. For example, our production and sales and marketing teams participate early in our research and development process, which enables us to reduce the risk of unanticipated technological obstacles in the manufacturing stage and focus on projects with attractive market potential. In addition, our R&D team assists our production team in resolving technical issues and improving manufacturing processes and techniques.

We place great emphasis on industry-academia collaboration, maintaining long-term scientific research partnerships with prestigious universities and research institutions. These collaborations allow us to merge academic expertise with practical insights, catalyzing innovation and propelling R&D advancements in various fields. The synergy of the collaborations is expected to (i) facilitate our participation in government-sponsored pharmaceutical research and development programs, (ii) expediate our R&D endeavors, and (iii) attract top talent worldwide to join our R&D team, and ultimately improving the speed, performance and efficiency of our research and development.

In line with industry practice, we engage CROs to support our product development. Our CROs provide us with an array of services, which primarily include molecule discovery, *in vitro* biological assays, analytics, formulation and process development, clinical monitoring and project management, data collection and management, statistics analysis, biological sample management and report preparation, or a combination of these services.

We select CROs based on their qualifications, reputation and accomplishments, experience in conducting pre-clinical or clinical studies on similar pharmaceutical products, research and project management capabilities and resources, as well as their testing facilities.

We closely monitor and manage the activities of these CROs to ensure their progress and quality, including requiring CROs to comply with GCP requirements and conducting comprehensive review and analysis of laboratory tests and clinical trial results and reports.

In 2021 and 2022 and the nine months ended September 30, 2023, our research and development costs were RMB132.6 million, RMB158.3 million, and RMB100.4 million, representing 10.1%, 14.1% and 9.8% of our total revenue, respectively. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Research and Development Costs" for more details about our research and development costs.

Our research and development capabilities have been recognized by various levels of the PRC government. Please refer to the paragraphs headed "— Awards and Recognitions" in this section for more details. We plan to continue to strengthen our R&D capabilities by attracting an increasing number of talents with extensive experiences in the relevant therapeutic areas or segments to join our R&D team.

**Our Product Development Platforms**

Through three decades of R&D efforts, we have built six product development platforms that enable us to continuously develop and advance our pipeline products:

- ***Recombinant protein drug technology platform***. We use three mature protein expression systems to produce functional recombinant therapeutic proteins, namely E. Coli expression system, yeast expression system, and mammalian cell expression system. Leveraging our protein expression systems, we have produced multiple marketed and clinical-stage drug products, such as Jilifen, Jijufen, and JY06 (Jixinfen).

- ***Peptide drug technology platform***. We started the R&D of peptide drug in 2005 and have built strong capabilities in R&D, process development, and manufacturing of peptide drugs since then. In addition to our semaglutide biosimilar JY29-2 and the liraglutide biosimilar which later became known as Liluping, we are also developing JY54 (amylin analogue), a Category I innovative drug, and JY05 (dulaglutide biosimilars) using our peptide drug technology platform.

- ***Innovative drug-device combination technology platform***. Our drug-device combination technology platform focuses on developing drug-device combination through combining recombinant proteins and biomaterials. Building on this platform, we have developed Guyoudao, the first commercialized rhBMP-2 bone repair material product in China.

  By carefully altering the composition and structure of the medical device materials surrounding rhBMP-2, we can delay the degradation time of the rhBMP-2 carrier material while preserving the protein's activity, thereby achieving a slower and controlled release of the protein in the surrounding tissues. This approach ensures that patients receive safer and more effective treatment outcomes.

  We plan to continue to develop next-generation bone repair materials with improved effectiveness leveraging our drug-device combination technology platform.

- ***Antibody drug technology platform***. Our comprehensive antibody drug technology platform covers the key steps in the development of antibody drugs and effectively facilitates the development process from the discovery to the optimization of innovative antibody.

  As of the Latest Practicable Date, we had obtained the IND approvals for two antibody drug candidates, including JY47, a Category I innovative antibody drug candidate, and JY43, a biosimilar antibody drug candidate. JY47 is a SIRPα-specific monoclonal antibody intended for the treatment of advanced solid tumors, and JY43 is a CD38-targeted monoclonal antibody for the treatment of multiple myeloma. We are also developing JY41, a biosimilar antibody and sclerostin inhibitor intended for the treatment of osteoporosis. Furthermore, we continue to explore the therapeutic potential of combination therapies based on our antibody drug candidates and improve the formulations of those antibody drugs. In addition to developing our own antibody products, we also provide pre-clinical R&D services to other pharmaceutical companies. For example, we provided preclinical research and CMC services for an antibody drug candidate, which had entered a Phase III clinical trial as of the Latest Practicable Date.

- ***Long-acting technology platform***. Therapeutic proteins and peptides offer numerous advantages, including high biological activity, strong specificity, high solubility, and low toxicity. However, they also face challenges such as short half-lives in the body, the need for frequent injections, increased economic burden on patients, and reduced patient compliance. The short duration of action has become a bottleneck in the clinical application of therapeutic protein and peptide drugs, highlighting the urgent need for the development of efficient, simple, and safe long-acting technologies.

  To facilitate a simpler dosing schedule and improve long-term patient compliance, we have adopted various long-acting technologies, including lipidation, PEGylation, and Fc-fusion, successfully extending the duration of action of proteins/peptides, increasing their half-lives in the body, achieving long-acting therapeutic effect, and enhancing efficacy and patient adherence.

  - Lipidation technology involves attaching fatty acid chains to drugs, increasing their stability and biological activity in the body. This modification extends the drug's half-life, reducing the frequency of dosing, and thus enhancing its therapeutic effect.

  - PEGylation technology involves linking polyethylene glycol molecules to drugs, thereby prolonging their half-lives in the body, decreasing the usage frequency, and improving patient compliance.

  - Fc-fusion technology extends the circulating time of drugs in the body and enhances their stability by combining them with Fc proteins. This allows the drug to exert its therapeutic effects over a longer duration.

JY29-2 (Jiyoutai), the semaglutide biosimilar modified with fatty acid, had completed the Phase III clinical trial in October 2023. In addition, we have submitted the NDA for JY06 (Jixinfen), a G-CSF product modified by PEG, with the NMPA in May 2023. We also provide preclinical drug R&D services for other pharmaceutical companies using our long-acting technologies. A long-acting insulin drug candidate developed using our lipidation technology had obtained the IND approval as of the Latest Practicable Date.

- ***Subcutaneous injection technology platform.*** According to CIC, in terms of injectable drug delivery, 90.6% of adverse events are associated with intravenous injections. Transitioning to subcutaneous drug administration can effectively reduce the risk of adverse events, and enhance tolerability of a drug. The combination of hyaluronidase as a novel excipient with drugs can change the drug formulation, transitioning from traditional intravenous injection to a more convenient and safer subcutaneous injection method.

  Our platform is specialized in using recombinant human hyaluronidase to realize subcutaneous drug administration. Recombinant hyaluronidase degrades hyaluronic acid in tissues like the skin. In skin tissue, hyaluronic acid fills the interstitial spaces within the collagen matrix, acting as a physical barrier that prevents the flow of large volumes of fluid in the subcutaneous space. Hyaluronidase can temporarily hydrolyze subcutaneous hyaluronic acid, thus improving the dispersion and permeability of the drugs in tissue. Therefore, combining hyaluronidase with drug substance allows for large-volume subcutaneous delivery for drugs that originally require intravenous administration, and thereby offering enhanced safety and convenience for patients. Leveraging this platform, we can combine various biopharmaceuticals with recombinant hyaluronidase to create fixed-dose combination drugs for subcutaneous injection. Compared to traditional intravenous drug injections, this method is more convenient and safer enhancing patient compliance and therapeutic effectiveness.

  We have internally developed a recombinant human hyaluronidase, JY53, and expect to submit an application of drug master file registration for JY53 as an excipient in 2024. Based on this platform, we are developing JY43-2, a daratumumab biosimilar for the treatment of multiple myeloma. JY43-2 contains recombinant human hyaluronidase and can be administered subcutaneously. Compared to current intravenous daratumumab products, JY43-2 is more tolerable and easier to use, potentially leading to improved long-term patient compliance. We expect to submit an IND application to the NMPA for JY43-2 in 2025.

**Research and Development Process**

Before initiating any research and development endeavor, we conduct comprehensive market assessments to gauge if the potential product addresses unserved medical necessities in China and offers commercial feasibility, and in the case of a generic drug, if it would be the pioneering generic version in a high-entry-barrier market. We meticulously cherry-pick our R&D ventures by weighing the medical needs against the drug's commercial prospects, factoring in potential market size, competition and the probability of successful development.

Each R&D venture we embark upon requires the green light from our project committee, comprising our top-tier management and seasoned R&D specialists. Our executive team examines the feasibility study outcomes of product candidates, making the conclusive decision on the commencement of new projects.

Once a project is approved, it is assigned a unique code, and a project leader. The project leader is responsible for team formation, project management, intellectual property application and inter-department coordination. Additionally, we conduct monthly evaluations of ongoing R&D projects to ensure they are on track with expectations. During these assessments, if a project is found to be behind schedule or facing adverse market competition shifts, we may opt to pause the initiative.

Please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs" for further details about the laws and regulations relating to the registration of pharmaceutical products in the PRC.

## COLLABORATION ARRANGEMENTS

**Transfer Agreements of Liluping (Liraglutide) with Zhongmei Huadong**

In August 2017 and May 2019, we entered into exclusive technology transfer agreements with Zhongmei Huadong in relation to the technology transfer and development of the diabetes and obesity indications, respectively, with respect to the liraglutide injection (which later came to be known as Liluping) (together "**Liraglutide Transfer Agreements**"). Pursuant to the Liraglutide Transfer Agreements, we exclusively transferred to Zhongmei Huadong the IND approval and relevant technology and intellectual property in relation to the diabetes and obesity indications of Liluping, including but not limited to (i) formulation and quality standards; (ii) all regulatory application materials and approvals; (iii) all research materials and technical data; and (iv) all related patents and patent applications. In addition, we agreed to collaborate with Zhongmei Huadong in preparing samples, conducting clinical trials, developing the technology for commercial production and filing for NDA, until Zhongmei Huadong obtained approval for sale. In exchange, Zhongmei Huadong is obligated to pay RMB80.0 million transfer fee for diabetes indication and RMB25.0 million for obesity indication by installments. Furthermore, the Liraglutide Transfer Agreements specify that the rights and interests of selling API of Liluping to overseas markets shall rest with us. As of the Latest Practicable Date, our rights to and interests of the diabetes and obesity indication of Liluping technology as well as the related documents and materials had been duly

transferred to Zhongmei Huadong and we had received all transfer fee of RMB80.0 million and RMB25.0 million. In addition, pursuant to the Liraglutide Transfer Agreements, we are entitled to royalties at a fixed percentage based on the annual net sales of Liluping by Zhongmei Huadong in relation to the diabetes indication during the first six years of its commercial launch. As of the Latest Practicable Date, Zhongmei Huadong had received the NDA approval for T2DM of Liluping in March 2023 and received the NDA approval for obesity and overweight of Liluping in June 2023.

The Liraglutide Transfer Agreements shall remain effective until termination or expiration of the agreement. The Liraglutide Transfer Agreements can be terminated upon force majeure or mutual consent. Pursuant to the Liraglutide Transfer Agreements, in the occurrence of Liluping receiving the NDA approval, Zhongmei Huadong is exclusively entitled to all rights and interests to the drug registration approval and the new drug certificate with respect to Liluping, and we reserve the right to sell the API of Liluping to overseas markets.

In April 2022, we entered into a supplementary arrangement to the Liraglutide Transfer Agreements with Zhongmei Huadong, pursuant to which, we granted Zhongmei Huadong a non-exclusive right to distribute the API of Liluping in the overseas market, except for certain overseas countries where Zhongmei Huadong was granted an exclusive right. In exchange, we are entitled to single-digit percentage royalties based on the annual net sales of Liluping API by Zhongmei Huadong to overseas markets during the first fifteen years of its overseas sales. Please refer to the section headed "Connected Transactions" for more details.

**Collaboration Agreement for a Long-acting G-CSF Product with Nanjing King-Friend**

In June 2023, we entered into a license and collaboration agreement in respect of the development of a long-acting G-CSF product (the "**G-CSF Collaboration Agreement**") with Nanjing King-Friend Biochemical Pharmaceutical Co., Ltd. (南京健友生化製藥股份有限公司) ("**Nanjing King-Friend**"), an Independent Third-Party company listed on the Shanghai Stock Exchange (stock code: 603707) since 2017.

Pursuant to the G-CSF Collaboration Agreement, we agree to produce and supply, and Nanjing King-Friend agrees to purchase from us, JY06 (PEG-G-CSF API and G-CSF API). In addition, we agree to provide Nanjing King-Friend with the analytical method (the "**analytical method**") for the PEG-G-CSF product, G-CSF product and their APIs in support of the regulatory registration of the PEG-G-CSF product and G-CSF product with the FDA by Nanjing King-Friend. The intellectual property right of the analytical method belongs to us and Nanjing King-Friend is entitled to use the method in connection with the G-CSF Collaboration Agreement. In exchange such, Nanjing King-Friend is obligated to pay a one-time fixed license fee to us. We shall provide necessary assistance in support of the regulatory registration of the PEG-G-CSF product and G-CSF product with the FDA by Nanjing King-Friend pursuant to the G-CSF Collaboration Agreement.

## PRODUCTION AND QUALITY CONTROL

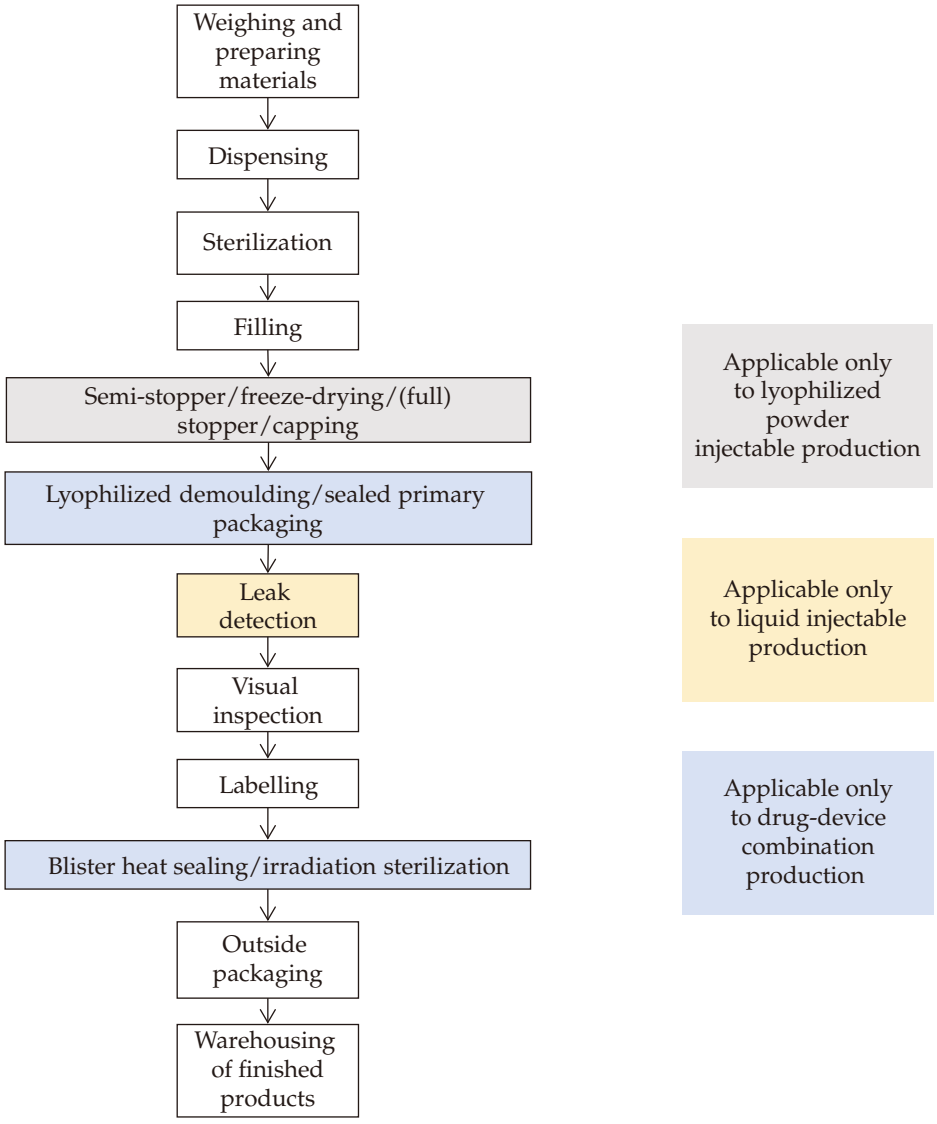
During the Track Record Period and up to the Latest Practicable Date, we obtained production licenses for our manufacturing facilities, and drug/device registration certificates approving the production for each of our products and APIs manufactured in-house. Please refer to the paragraphs headed "— Licenses, Permits and Certificates" in this section for more details about our major licenses, permits and certificates. We conduct manufacturing of our products in compliance with the current effective GMP requirements. Please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to Drug Manufacturing Enterprises — Good Manufacturing Practices" for more details.

During the Track Record Period, we produced all of our products in-house. In addition, we produced certain APIs used in our products in-house.

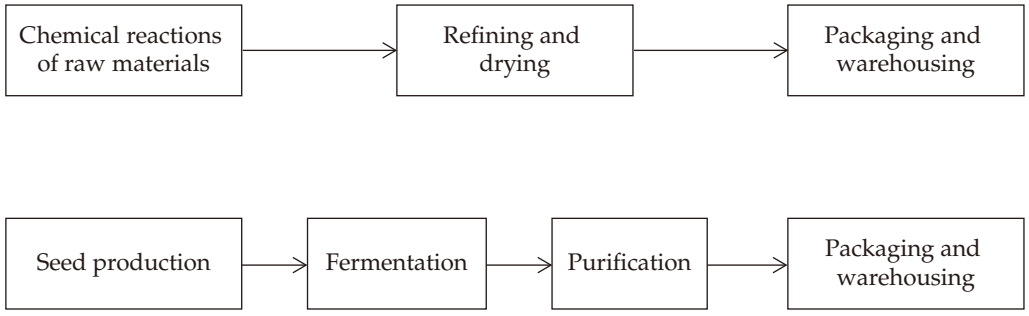
### Production Process

We operate specific production processes for our pharmaceutical products, medical devices and APIs.

The following diagram summarizes the production process for our lyophilized powder injectable pharmaceutical products, liquid injectable pharmaceutical products, and drug-device combination product. Our product in the form of lyophilized powder injectable manufactured pursuant to the process below is Jijufen. Our products in the form of liquid injectable manufactured pursuant to the process below are Jilifen, Jiouting, Jifuwei, Jitansu, Yinuojia and Jipailin. Our drug-device combination product manufactured pursuant to the process below is Guyoudao.




The following diagrams summarize the major steps of the production process of our chemical APIs and biologic APIs, respectively.



**Production Facilities**

Our production activities are currently carried out at our facilities at two sites: Jiuyuan medical device center for the production of Guyoudao and rhBMP-2 API, and Jiuyuan headquarters for the production of pharmaceutical products and APIs. All of our production sites and facilities are located in Hangzhou, Zhejiang province. Our key production processes are highly automated and can be used to produce different kinds of pharmaceuticals in the same injectable form without the need to significantly modify the existing production facilities and equipment. Therefore, we are able to adjust our production schedule to meet market demand and our sales target in response to market demand. We use state-of-the-art equipment in our production processes which provides better quality control and assurance and increases our production efficiency.

As of the Latest Practicable Date, we believe our facilities and equipment are in good working condition.

We own all of our production facilities and workshops. We conduct regular maintenance and repair work in compliance with the latest version of Chinese GMP requirements and applicable cGMP requirements.

The following table sets forth a summary of our production facility as of the Latest Practicable Date.

| Facility | Location | Site Area *(sq.m.)* | GFA *(sq.m.)* | Drug/Device Product Workshop | Major Products Produced | API Workshops |
|---|---|---|---|---|---|---|
| Jiuyuan headquarters | Hangzhou, Zhejiang | 25,734.00 | 21,987.77 | Small molecule injectable solution | Jiouting, Jipailin, Yinuojia, Jitansu, Jifuwei | Small molecule API |
| | | | | Large molecule injectable solution | Jilifen, Jijufen, JY06 (Jixinfen) | Large molecule API |
| | | | | Peptides — large molecule injectable solution | Liluping (liraglutide) | Peptide — large molecule API |
| Jiuyuan medical device center | Hangzhou, Zhejiang | 2,195.80 | 4,191.22 | Drug-device combination | Guyoudao | Guyoudao API |

The following table sets forth the designed production capacity, actual production volume and utilization rates of the production lines which are used in the production of our major products as of the dates and for the periods indicated.

| | | As of/Year ended December 31, | | | | | | As of/Nine months ended September 30, | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2021 | | | 2022 | | | 2023 | | |
| Production lines | Unit | Designed production capacity[1] | Production volume | Utilization rate[2] (%) | Designed production capacity[1] | Production volume | Utilization rate[2] (%) | Designed production capacity[1] | Production volume | Utilization rate[2] (%) |
| Small molecule injectable solution[3] | 10,000 vials | 3,010 | 1,581 | 53 | 3,010 | 1,423 | 47 | 2,258 | 875 | 39 |
| Large molecule injectable solution | 10,000 vials | 520 | 480 | 92 | 520 | 474 | 91 | 390 | 296 | 76 |
| Peptides — large molecule injectable solution[4] | 10,000 vials | 1,300 | – | – | 1,300 | – | – | 975 | 29 | 3 |
| Drug-device combination[5] | 10,000 pieces | 70 | 18 | 25 | 70 | 23 | 32 | 53 | 28 | 53 |

*Notes:*

(1) The designed production capacity is computed based on effective production days of a given period.

(2) Utilization rate is calculated by dividing the production volume by the designed production capacity.

(3) The utilization rates of our small molecule injectable solution production lines in 2022 and the first nine months of 2023 were relatively low primarily due to the declines in the sales volume of our two small molecule drug products, Jiouting and Yinuojia, after their inclusion in the VBP Lists.

(4) We began the production of the API and injection products of Liluping (liraglutide) pursuant to a one-year manufacturing services contract with Zhongmei Huadong entered in April 2023 following Zhongmei Huadong's receipt of NDA approval for the T2DM indication of Liluping (liraglutide) in March 2023.

(5) The increase of utilization rates of our drug-device combination production line during the Track Record Period was in line with the increase of revenue and sales volume of our drug-device combination product, Guyoudao. Please refer to the paragraphs headed "Financial Information — Period to Period Comparison of Results of Operations" for more details.

Our production plan is devised based on an annual, monthly and quarterly rolling forecasts of market demand at the beginning of each year with reference to historical sales records and anticipated level of sales orders, which will be adjusted in accordance with actual demand and inventory levels. Please refer to the paragraphs headed "— Production and Quality Control — Inventory Management" in this section for more details.

We plan to construct new production lines in line with the expected commercialization timeline of our product candidates, and to upgrade and further automate our existing production facilities to prepare for the potential increase in demand for our products and the launch of new products.

**Raw Material Suppliers and Procurement**

The principal raw materials used for the production of our pharmaceutical and medical device products primarily consist of APIs, chemicals used to produce APIs, excipients and packaging materials. During the Track Record Period, we produced APIs for most of our products in-house. We sourced raw materials used to produce our APIs, certain other APIs and other raw materials for our products from qualified suppliers in China.

We adopt stringent supplier selection procedures. Potential suppliers are assessed based on various factors including their product offerings, quality, corporate management, reputation and business scale and pricing. Our suppliers are required to possess all licenses and permits necessary for their operations. We also procure small-batch samples from potential suppliers to inspect such samples to determine if they meet our requirements. Only those suppliers which fulfil all our requirements are selected. We maintain a whitelist of qualified suppliers and we only source raw materials from these suppliers. We routinely review and assess our suppliers' performance and check their qualifications to ensure the legality and quality of our raw materials, and update the approved suppliers list. Those suppliers who fail to meet our requirements are removed from our whitelist.

We generally place purchase orders with our raw material suppliers on an as needed basis and do not have agreements with them lasting longer than one year. Nevertheless, we are able to maintain long-term business relationships with most of our raw material suppliers. The purchase price of our raw materials is primarily based on the prevailing market prices for raw materials of similar quality. We normally pay our suppliers via wire transfer or bank acceptance bills. Typically, we are required to make full prepayment, or are given 60 days' credit terms, by our suppliers. Our suppliers are generally responsible for arranging the delivery of raw materials to our production facilities at their own costs. We are entitled to return any raw materials that do not meet our requirements.

Our principal raw materials are generally readily available in the market through a number of suppliers. We believe we have alternative sources for our principal raw materials with comparable quality and pricing. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortage or delay in the supply of raw materials. During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant increases in the prices of our major raw materials or fluctuations in raw material costs which had a material adverse impact on our results of operations or gross profit margins. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — Our operations are dependent on the supply of certain raw materials. If the supply of raw materials decreases or the cost increases, our ability to conduct our business could be materially impaired and our operations, revenue and profitability could be adversely affected."

## Quality Management

We believe that an effective quality control system is essential to ensure the quality of our products and for our business to thrive. We have obtained PRC GMP certifications for all of our production workshops and production lines. We have also received EU GMP certification for the production line of the API of one of our biological products, Jilifen (hG-CSF).

Our senior management team is actively involved in formulating internal quality control policies and monitoring our overall quality control process. We have established comprehensive quality control procedures and protocols including Quality Management Review System and Quality Management Manual that span across the entire production lifecycle from raw material sourcing till the final products are delivered to customers. Our quality control department is independent from our production department and is responsible for the implementation of such procedures and protocols. Most of our quality control and assurance personnel have pharmaceutical or related educational background. We also conduct regular training so that our quality control and assurance personnel understand the regulatory requirements applicable to the operation of our production facilities. In addition, we utilize equipment and devices to inspect, test and ensure the quality of our raw materials, production-in-progress and final products.

Key aspects of our quality control and assurance procedures are as follows:

### *Procurement of Raw Materials and Quality Control*

We purchase raw materials used in our production only from screened and approved suppliers. Please refer to the paragraphs headed "— Production and Quality Control — Raw Material Suppliers and Procurement" for more details about our supplier selection procedures. We conduct timely examination of our incoming raw materials to confirm they meet our quality requirements. Our warehousing personnel verify the incoming raw materials by checking packaging information before taking delivery. Incoming raw materials are stored in quarantined areas upon receipt. Our quality control team subsequently conducts random sample testing to verify the quality. Our warehousing personnel dispatch incoming raw materials for use in our production processes that have passed such quality control tests.

### *Product In-process Quality Control*

*Product in-process quality control.* Our quality control team is responsible for verifying that our production processes continuously comply with GMP requirements. We require our production operators to adhere to our standard operating and equipment operation procedures and our quality control team regularly inspects our production processes on-site. After the completion of each production process, we perform cleaning procedures to prevent contamination or cross contamination, and our quality control team verifies that the production line has been properly cleaned before we proceed to the next production process. All of our cleaning procedures have been validated before their implementation.

*Final Product Quality Control*

Each batch of final products is subject to sample tests by our quality control team. Before we deliver our final products to customers, our quality control team inspects the documentation relating to the quality of a product, including its batch records, laboratory testing records, production process records and other information that may impact product quality. Our quality director conducts a final review of all documents and make the final decision as to whether the products can be released for sale. Final products that do not meet our quality standards can not be released and they are destroyed or otherwise disposed of based on the judgement of our quality director. Only final products that have been released by our quality control personnel can be sold into the market.

**Inventory Management**

Our inventory consists primarily of finished products and production materials, including APIs and other raw material, reagent, and packaging materials. We have established an inventory management system that monitors each stage of the warehousing process. Our warehousing personnel are responsible for receiving inspection, warehousing, storage and distribution of production materials and finished products. All materials and products are stored in different areas in warehouse according to their storage condition requirement, properties, usage and batch number. Our warehousing personnel regularly check to ensure consistency among the raw material or product, logbook and material card.

**PRODUCT RETURNS AND WARRANTIES**

We generally do not accept any product returns, except for returns of defective products, or products received in error or damaged in shipping. For defective products, we are fully responsible for the cost of return and replacement of these products. In respect of the return policy with our distributors, please refer to the paragraphs headed "— Sales, Marketing and Distribution — Distribution — Distributor Management" in this section for the key terms of our distribution agreements.

We receive feedback from our distributors and end customers. We treat such feedback and complaints seriously. We have implemented detailed procedures on how to handle quality complaints and provide for the contingency for any adverse patient reaction to our products. Our sales and marketing team is responsible for following up customer complaints to ensure that they have been dealt with appropriately.

We did not provide any warranties on our products and did not have any provisions for warranty claims during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, the amounts of our product returns and exchanges were insignificant; we had not experienced any material complaint or product liability or other legal claims from our customers due to problems associated with the quality of our products.

We have also established product recall procedures with reference to relevant requirements, including GMP, and have prescribed recall guidelines and processes, which specify responsible persons to notify upon a recall and the handling procedure of the recalled products. During the Track Record Period and up to the Latest Practicable Date, we did not have any product recall due to quality problems.

## SALES, MARKETING AND DISTRIBUTION

We sell our drug products primarily to distributors, which distribute such products to hospitals, other medical institutions and pharmacies in national and overseas markets. For our drug-device combination product, Guyoudao, we sell it directly or through our distributors to hospitals in China. In addition, to a lesser extent, we sell APIs directly to pharmaceutical companies in overseas markets.

We promote our products primarily through our in-house sales and marketing team through various marketing activities. We also engage third-party promoters to promote our products in a small number of medical institutions located in lower-tier cities or regions or that are otherwise not covered by our in-house sales and marketing team.

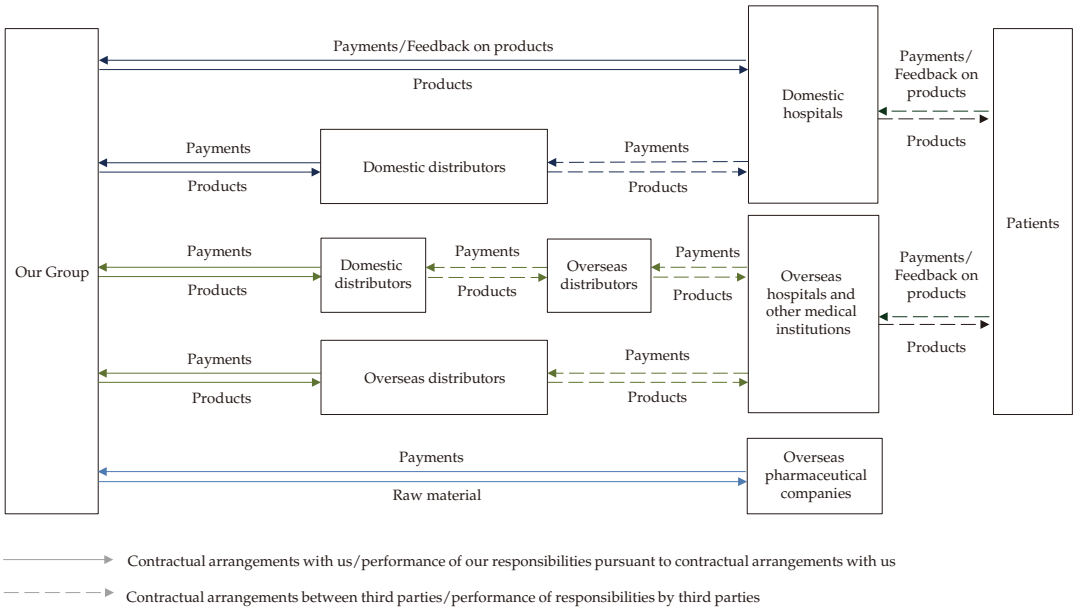
The following table sets forth a breakdown of our revenue from sales of products by distribution channels during the Track Record Period.

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | *RMB'000* | *% of revenue* | *RMB'000* | *% of revenue* | *RMB'000* | *% of revenue* | *RMB'000* | *% of revenue* |
| | | | | | *(unaudited)* | | | |
| **Distributors** | 952,082 | 72.8% | 830,941 | 73.8% | 642,266 | 75.4% | 658,637 | 64.4% |
| *Domestic distribution* | 935,023 | 71.5% | 829,583 | 73.7% | 641,263 | 75.3% | 657,425 | 64.3% |
| *Overseas distribution* | 17,059 | 1.3% | 1,358 | 0.1% | 1,003 | 0.1% | 1,212 | 0.1% |
| **Direct sales** | 316,345 | 24.2% | 274,164 | 24.4% | 202,315 | 23.7% | 316,805 | 31.0% |
| *Domestic direct sales* | 189,354 | 14.5% | 223,129 | 19.8% | 165,376 | 19.4% | 286,723 | 28.0% |
| *Overseas direct sales* | 126,991 | 9.7% | 51,035 | 4.5% | 36,939 | 4.3% | 30,082 | 2.9% |
| Total[(1)] | 1,268,427 | 97.0% | 1,105,105 | 98.2% | 844,581 | 99.1% | 975,442 | 95.4% |

*Note:*

(1) Total revenue from sales of products by distributors and direct sales accounted for less than 100.0% of our total revenue during the Track Record Period, as we also generated revenue from provision of R&D and other services which accounted for 3.0%, 1.8% and 4.6% of our total revenue in 2021, 2022 and the nine months ended September 30, 2023, respectively. Please refer to the paragraphs headed "Financial Information — Description of Major Components of Our Results of Operations — Revenue — Revenue by Nature" for more details.

The following diagram illustrates the interactions among our distributors, hospitals and other medical institutions, pharmacies, patients and us in connection with sales, marketing and distribution of our products in the domestic and overseas markets.




## Sales and Marketing

### *In-House Sales and Marketing Team*

Our marketing strategies are implemented by our in-house sales and marketing team that are aligned across various therapeutic areas and geographic regions. Our in-house sales and marketing team generates market demand for our products among medical professionals primarily through its academic promotion efforts to enhance medical professionals' knowledge and understanding of the usage, clinical effects and advantages of our products. Our professional in-house sales and marketing team consisted of over 700 employees as of September 30, 2023, most of whom hold a bachelor's degree or above in medicine, sales and marketing, or other related disciplines. Notably, the management personnel, which accounted for over 30% of our sales and marketing team, had spent an average of more than nine years working with us as of September 30, 2023.

We regularly provide in-house and external trainings to enhance the industry knowledge and marketing skills of our sales and marketing team. We place particular emphasis on training our sales representatives, who are categorized into different levels based on their experience and capabilities and receive tailored mandatory and elective trainings.

We have also put in place measures and policies for our employees involved in sales and marketing activities, including ongoing training and signing agreements with our marketing and sales personnel, which contain representations and undertakings to comply with applicable PRC laws and regulations and our internal policies. Please refer to the paragraphs headed "— Risk Management and Internal Control — Internal Control — Anti-bribery" in this section for more details.

***Marketing Support***

Our sales and marketing team is responsible for developing our marketing management information system, managing the overall effectiveness of the sales and marketing initiatives and analyzing business data in order to optimize the efficiency of our sales and marketing efforts. Our sales and marketing team works closely with several departments at the headquarters level on the promotion of our products. We believe this centralized approach enables us to continuously enhance our brand recognition, market share and market penetration in an efficient manner.

- *Marketing department (市場部).* Our marketing department is responsible for developing the overall marketing and promotion strategies for each of our products. Before a product is launched, our marketing department conducts market research and analysis and establishes its branding strategies.

- *Business development department (商務部).* Our business development department is responsible for managing business channels, reviewing and supervising sales-related contracts and processes ensuring compliance with specifications and relevant laws and regulations.

- *Market access department (市場准入部).* Our market access department is responsible for analyzing applicable laws and regulations in China's pharmaceutical industry and formulating corresponding growth strategies in a timely manner; when suitable opportunities arise, procuring our products' entry into the NRDL or other government-sponsored medical insurance programs; and preparing tender documents and participating in the centralized tender process.

***Other Marketing Activities***

We organize, sponsor and participate in a wide variety of academic conferences, seminars and symposia to continuously enhance our brand recognition. We cooperate with academic organization and attend national and regional academic conferences, sharing the latest industry developments and our experience in the relevant therapeutic areas. In addition, our medical representatives routinely communicate with healthcare professionals to provide them with the most updated product information regarding the usage, clinical efficacy, safety and other features of our products and provide them with other product information such as the latest clinical research results. Such communications also enable us to collect valuable feedback and market intelligence on our products, including feedback on the therapeutical value and quality of our products, as well as relevant suggestions on product improvement and iteration. Based on the

market feedback, we are able to continuously optimize our existing portfolio of products and to identify potential new products with unmet medical needs for commercialization.

*Third-party Promoters*

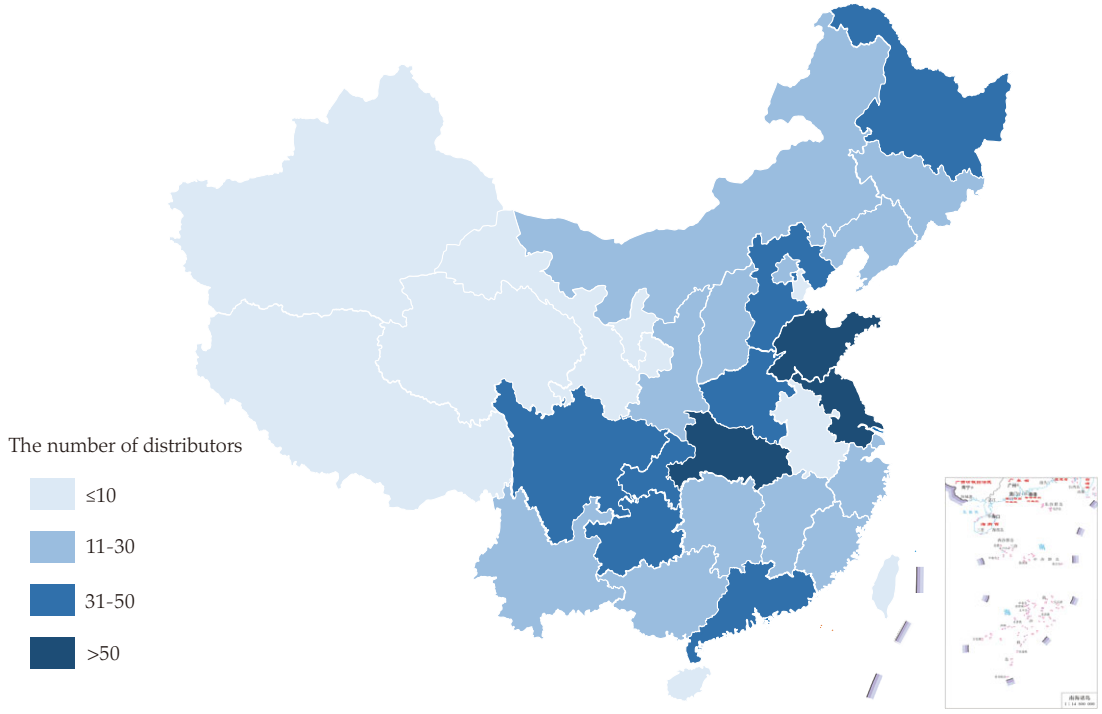
We engage third-party promoters to provide marketing services to supplement the capabilities of our sales and marketing team. We select third-party promoters based on their qualifications, reputation, experience, and service capabilities. We generally enter into service agreements with such third-party promoters, pursuant to which they are responsible for carrying out marketing activities within the service scope we commissioned. Our third-party promoters are promotion service providers, the scope of whose services includes conducting market research, disseminating our product information to healthcare professionals, such as the mechanism of action and therapeutic benefits of our products, and collecting market intelligence and feedback. Our third-party promoters receive service fees from us based on their scope of service. We also require our third-party promoters to strictly comply with the anti-bribery requirements in our promotion agreements as well as other applicable laws and regulations.

**Distribution**

We sell our drug products primarily to third-party distributors, who are our direct customers and are responsible for on-selling and delivering our products generally to hospitals and other medical institutions. For our drug-device combination product, we also sell it to third-party distributors in addition to directly selling it to hospitals in China. Consistent with industry practices, our distributors are not engaged to provide marketing and promotion services for our products. We believe this distribution model helps extend our coverage in a cost-effective manner while retaining proper control over our distribution network and marketing and promotion process.

*Distribution Network*

As of September 30, 2023, our domestic distribution network comprised 757 distributors spanning 30 provinces, municipalities and autonomous regions across China. The following map illustrates the geographical coverage of our distributors in the domestic distribution network as of September 30, 2023.




The following table sets forth the movement of the number of our distributors in the domestic distribution network for the periods indicated below.

| | Year ended December 31, | | Nine months ended September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| Number of distributors at the beginning of the period | 681 | 709 | 743 |
| Addition of new distributors[(1)] | 210 | 201 | 204 |
| Termination of existing distributors[(2)] | 182 | 167 | 190 |
| Net increase in distributors | 28 | 34 | 14 |
| **Number of distributors at the end of the period** | **709** | **743** | **757** |

*Notes:*

(1) New distributors refer to distributors who (i) had at least one transaction with us in the relevant period; and (ii) did not have any transaction with us in the immediately preceding financial year.

(2) Terminated distributors refer to distributors who (i) did not have any transaction with us in the relevant period; and (ii) had at least one transaction with us in the immediately preceding financial year.

Throughout the Track Record Period, we also had 14 distributors for distribution of our products in certain overseas markets, including four distributors located in China and their four respective overseas sub-distributors, as well as six overseas distributors.

The following table sets forth the movement of the number of our distributors in the overseas distribution network for the periods indicated below.

| | Year ended December 31, | | Nine months ended September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| Number of distributors at the beginning of the period[(1)] | 8 | 13 | 5 |
| Addition of new distributors[(2)] | 6 | 1 | 3 |
| Termination of existing distributors[(3)] | 1 | 9 | 0 |
| Net increase/(decrease) in distributors | 5 | (8) | 3 |
| **Number of distributors at the end of the period** | **13** | **5** | **8** |

*Notes:*

(1) The numbers of distributors in this table are calculated on entity level, without combining distributors belonging to the same group.

(2) New distributors refer to distributors who (i) had at least one transaction with us in the relevant period; and (ii) did not have any transaction with us in the immediately preceding financial year.

(3) Terminated distributors refer to distributors who (i) did not have any transaction with us in the relevant period; and (ii) had at least one transaction with us in the immediately preceding financial year.

Please refer to the paragraphs headed "— Sales, Marketing and Distribution — Sales to International Markets" in this section for more details about our overseas distribution model.

During the Track Record Period, sales to our distributors generated approximately RMB952.1 million, RMB830.9 million and RMB658.6 million, which approximately accounted for 72.8%, 73.8% and 64.4% of our total revenue for the years ended December 31, 2021, 2022, and the nine months ended September 30, 2023, respectively. During the same periods, sales to our five largest distributors, calculated on the group level, generated RMB595.5 million, RMB499.7 million and RMB400.7 million, which approximately accounted for 45.6%, 44.4% and 39.2% of our total revenue, respectively.

Ms. Ma Honglan (馬紅蘭), a non-executive Director, also serves as a supervisor of Zhongmei Huadong, a substantial shareholder of the Company, and an assistant to the chairperson of Huadong Medicine's board of directors. See "Directors, Supervisors and

Senior Management" and "Relationship with Our Single Largest Group of Shareholders — Independence from Our Single Largest Group of Shareholders — Management Independence" of this document for more details. To the best knowledge of our Directors, (i) save for those being members in the group of Huadong Medicine, our distributors are Independent Third Parties; and (ii) save for one distributor owned by our ex-employee, the sales to which generated an aggregate of approximately RMB18,000 of revenue during the Track Record Period, none of our distributors are controlled by our Directors, Supervisors, senior management or current or ex-employees. Our business with the above-mentioned distributors have been conducted on normal commercial terms in our ordinary course of business. In addition, to the best knowledge of our Directors, there is no other family, business, employment, trust, guarantee, cash flow, financing, shareholding or other relationship between our distributors and us. Certain of our distributors belong to same medical product distribution groups, which are ultimately owned by a common shareholder, and we collaborate with different entities within a same group to facilitate our distributorship in the local areas, which is a practice consistent with the industry norm as confirmed by CIC. To the best knowledge of our Directors, there is no other family, business, employment, trust, guarantee, cash flow, financing, shareholding or other relationship between each of our five largest distributors, consolidated on the group level, for each of the years ended December 31, 2021 and 2022, and the nine months ended September 30, 2023, on the one hand, and each of our other distributors, on the other hand.

There were no material disputes or litigations between the terminated distributors and us during the Track Record Period and up to the Latest Practicable Date.

***Terms of Distribution Agreements***

We have a seller-buyer relationship with our distributors. We retain no ownership over the products that we sell to them, and all significant risks and rewards associated with these products are transferred to them upon delivery to and acceptance by them. Consequently, we recognize revenue from sales to our distributors upon delivery of our products to and acceptance by them. Our distributors on-sell our products to their customers, which do not have any contractual relationships with us and are not imposed with any of our control or oversight.

We enter into written distribution agreements with our distributors in the domestic distribution network. Key terms of such distribution agreements include the following:

- ***Term.*** The distribution agreements generally have a term of one year.

- ***Designated distribution area.*** Distributors are generally not allowed to sell or distribute our products outside of their designated distribution areas.

- ***Exclusivity.*** Distributors are granted the distributorship of specified certain types of products in their designated distribution areas generally on a non-exclusive basis.

- ***Sub-distributors.*** Due to the implementation of the "Two-Invoice System" in China, generally our distributors are legally prohibited from engaging sub-distributors for distribution of our products to public medical institutions in the PRC. For distribution of our products to private medical institutions in the PRC, we do not require our distributors to seek our prior approval to engage sub-distributors. We do not have contractual relationships with sub-distributors engaged by our distributors, nor do we manage such sub-distributors directly. Instead, we rely on our distributors to supervise their respective sub-distributors.

- ***Sales target and minimum purchase requirement.*** Our agreements with distributors generally do not specify an agreed annual sales target or minimum annual purchase amount.

- ***Pricing.*** Our selling prices to distributors are fixed during the term of the distribution agreements. In the event of a retail price change as a result of regulatory or policy changes or centralized tender processes during the term of distribution agreement, we and the relevant distributor may negotiate price adjustments accordingly. However, in the event that any retail price changes after our products are delivered to our distributors but before they are sold to medical institutions, we may bear the upside potential as well as downside risk from any such retail price change for the relevant products. For more details, please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — We may experience difficulties in our sales efforts as a result of pricing regulations or other policies such as volume-based procurement and 'Two-Invoice System' that are intended to reduce healthcare costs, which could subject us to pricing and volume pressures and adversely affect our operations, revenue and profitability."

- ***Resale price management.*** We generally do not control the prices at which our distributors resell our products to their customers.

- ***Inventory level.*** We generally do not require our distributors to maintain a minimum inventory level.

- ***Return of products.*** Our distributors are required to inspect the products on delivery. We generally do not allow product returns or exchanges except as a result of quality defects or for products received in error or damaged in shipping. We generally do not accept the return of non-defective unsold or expired products for reasons not attributable to us. Our product return policy is in line with the market practice of the pharmaceutical industry in China, according to CIC.

- ***Access to information.*** Distributors are required to provide us with access to information at our request, including providing us with procurement, sales and inventory data of our products or with access to such information through their information technology system.

- ***Credit terms.*** We generally grant our distributors credit terms of 30 to 90 days, with longer terms granted to our distributors of drug-device combination product. We also require prepayments for product deliveries to our distributors in certain instances from a credit control perspective.

- ***Confidentiality.*** Both parties have non-disclosure obligations, and undertake to only use each other's trade secrets and other business information to the extent necessary and not to disclose such trade secrets or other business information to any third party.

- ***Termination.*** We may terminate the distribution agreements in the event of, among others, (i) any material breach by our distributors, such as sales outside of their designated distribution areas and providing falsified sales data; or (ii) any other breach by our distributors that is not remedied within a prescribed time-period.

Our distributors in the overseas distribution network either place individual purchase orders with us for each purchase, which provide for general terms for our distribution arrangement, such as place and methods of delivery, quality of the products, the designated geographical area, amount for distribution, payment, and other rights and obligations. We also enter into written distribution agreements with some distributors, which usually have a term ranging from three to five years. In some cases, the contracts provide an exclusivity clause which stipulates that the distributors shall distribute our products in an exclusive manner in a designated territory, and the distributors are not allowed to sell or distribute our products outside of their designated distribution areas. We generally specify approximate tentative yearly forecast in the distribution arrangement, and if the overseas distributor cannot realize minimum orders, we are entitled to appoint another distributor in the designated area. We generally grant a distributor credit term of 30 to 90 days. Defect products, once detected, will be reported by the distributors to us. The contracts typically have a termination clause which stipulates that the contracts can be terminated upon material default by either party or force majeaure.

***Distributor Management***

We select our distributors based on their proven distribution abilities, familiarity with their own target markets, financial strength, credit records and scale of operations. We require all our distributors to possess all licenses and permits necessary for the sales and distribution of pharmaceutical products. We require our distributors to adhere to the latest GSP standards for cold-chain storage and transportation so that they can deliver our products to covered medical institutions and pharmacies in a safe and timely manner.

Where a distributor breaches the relevant distribution agreement, including non-compliance with applicable laws and regulations, we will give the distributor a notice and require rectification. If no remedial action is taken within a prescribed time period, we will have the right to terminate the relevant distribution agreement. During the Track Record Period, we did not terminate our business relationship with any distributors due to their breach of their distribution agreements or their non-compliance with regulatory requirements.

*Prevention of Cannibalization*

In order to manage the risk of cannibalization of sales among our distributors in the domestic distribution network, we have adopted the following measures:

- *Geographic restrictions.* We specify the designated distribution area for which our distributors are responsible in our distribution agreements with them. The agreements also prohibit distributors from selling our products outside their respective designated distribution areas without our prior written consent.

- *End customer monitoring.* Our distributors focus on different distribution channels (such as hospitals, other medical institutions and pharmacies) and target distinct end customers. We communicate closely with end customers and their respective personnel, such as healthcare professionals, through our academic conferences and other marketing activities in order to understand the actual usage of our products.

Our Directors are of the view that the above measures are sufficient to mitigate potential cannibalization and competition among our domestic distributors. We believe that the risk of cannibalization of sales among our distributors in the overseas distribution network is remote, as we limit the number of overseas distributors within the same geographical area throughout the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material cannibalization or competition among our distributors in the domestic and overseas distribution network within the same geographical area.

*Inventory Management and Control*

We have implemented the following policies and measures, which, combined with our product return policies and the independence of our distributors, help ensure that our sales to distributors reflect genuine market demand and mitigate the risk of inventory accumulation in the distribution channels.

We generally grant our distributors credit terms of 30 to 90 days, with longer terms granted to our distributors of drug-device combination products. We believe that the short credit term requires our distributors to effectively manage their cash flow and ensure that procurements are made based on actual demand. This is particularly effective for our small-to medium-scale distributors, which we believe generally have more limited capital resources.

In addition, we are entitled to require distributors to provide us with access to their sales data at our request. In general, we review and evaluate sales data of our distributors on a monthly basis to enable us to make periodic assessments of actual market demand for our products and analyze the inventory levels of our distributors. We actively adjust our sales strategy and geographic or product coverage of each distributor based on market demand and each distributor's capacity. During the Track Record Period and up to the Latest Practicable Date, we did not notice any unusually large procurements that were

inconsistent with distributors' past practices, nor did we notice any abnormally high inventory level of our distributors.

*Anti-corruption and Anti-bribery Measures*

Distributors are generally subject to anti-corruption and anti-bribery obligations pursuant to the terms of our distribution agreements, under which distributors (i) are required to comply with relevant laws and regulations, including anti-corruption and anti-bribery laws and regulations; and (ii) are prohibited from making, proposing, promising or authorizing payment of money or anything of value to government officers or other personnel acting on behalf of government authorities or State-owned enterprises for the purpose of affecting their behaviors or decisions. For more details, please refer to the paragraphs headed "— Risk Management and Internal Control" in this section.

During the Track Record Period and up to the Latest Practicable Date, we did not provide financing to any of our distributors except for credit terms we granted to them under the relevant distribution agreements. There were no material product returns from our distributors during the Track Record Period. Please refer to the paragraphs headed "— Product Returns and Warranties" in this section for more details.

**Direct Sales in Domestic Market**

Besides distributorship model, we also sell our drug-device combination product directly to hospitals in China. We enter into standardized annual direct sales agreements with these direct sales customers while individual sales contracts are separately entered into for each purchase. Pursuant to such annual direct sales agreements, we are responsible for the delivery of our products to our direct sales customers. Generally, we do not allow product returns or exchanges except for defective products, which is subject to approval by our designated personnel. Our direct sales customers are required to regularly confirm the inventory level with us to avoid the products exceeding the expiration date.

**Sales to International Markets**

During the Track Record Period, our products, primarily consisting of APIs and also a small quantity of drug products, were sold to over 20 countries in Asia, Europe, Africa and South America. During the Track Record Period, we directly sold APIs to overseas pharmaceutical companies, and sold our drug products to distributors in the overseas distribution network, who are responsible for on-selling and delivering our products to overseas hospitals and other medical institutions. For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023, revenues derived from our sales of products to international markets were RMB136.6 million, RMB51.8 million and RMB30.3 million, respectively, accounting for 10.4%, 4.6% and 3.0% of our total revenue for the same periods, respectively.

### Logistics Arrangement

We generally use third-party logistics service providers to transport our products to our distributors and other direct customers. We have entered into logistics service agreements with these providers, pursuant to which they are responsible for any loss caused by their negligence during the course of their logistics services, including transfer, loading, unloading, transportation and delivery to our customers.

## PRICING

We are dedicated to closely monitoring new policies affecting the pricing of pharmaceuticals and medical devices in China and formulating strategies to stay competitive and profitable. Our pricing strategy and regulation are primarily dictated by three key mechanisms: the centralized tender process, the volume-based procurement, and the NRDL.

### Centralized Tender Process

We participate in the centralized tender process, a mechanism that involves a comprehensive evaluation of pharmaceutical products based on selection criteria such as product type, quality, production costs, and the prices of substitute pharmaceutical products. The approval procedures are stringent and require careful adherence to the set guidelines. As a company, we strive to meet these criteria to ensure our products are included in the process. The impact of this process on our company is significant as it determines the maximum retail prices at which we can sell our products to patients through hospitals and pharmacies. This indirectly limits the wholesale prices at which we can sell the relevant products to our distributors.

### Volume-based Procurement

In addition to the centralized tender process, three of our marketed drug products, namely Jiouting, Yinuojia, Jifuwei, participated in national centralized volume-based procurement ("**VBP**") schemes. This mechanism operates on the principle of purchasing larger quantities of pharmaceutical products at lower prices. As part of this process, we undergo a similar evaluation and approval procedure based on specific criteria. While this allows us to sell our products in larger volumes, it also exerts downward pressure on the prices at which we sell our products to our distributors, thus impacting our gross profits and gross profit margins.

The National Healthcare Security Administration (國家醫保局) implemented the centralized volume-based procurement scheme for high-value medical consumables since 2020, which focuses on medical devices and consumables with mature, high-volume clinical usage and sufficient market competition. In 2023, the Joint Office for the Procurement of High-Value Medical Consumables (國家組織高值醫用耗材聯合採購辦

公室) published the 4th VBP List for High-Value Consumables (the "**4th VBP List**"), which covers, among other things, certain orthopedic medical devices. According to CIC, medical devices included in the 4th VBP List experience considerable price reductions. BMP bone repair materials, characterized by their unique combination of biological with medical device and innovativeness, are not included in this list. BMP bone repair materials are merely subject to certain price restrictions to be imposed by relevant regulatory authorities. Such price restrictions may result in uncertainties with respect to the impact of such price restrictions on the sales volume and revenue of Guyoudao. As of the Latest Practicable Date, the implementation details of such price restriction policies are to be published by the relevant regulatory authorities.

**National Reimbursement Drug List**

During the Track Record Period, all of our marketed drug products were included in the NRDL. Please refer to the paragraphs headed "— Our Products — Our Marketed Products" in this section for more details. To achieve this, our products undergo evaluation and approval procedure based on the NRDL's selection criteria. Being part of the NRDL has substantial implications for our company as it determines the medical insurance reimbursement standards for our products. However, this may also lead to a decrease in the price of our products in certain provinces due to the transparent, multi-party negotiation mechanism for pricing.

Since there is no national-level reimbursement list for medical devices, the reimbursement policies for medical devices vary across different regions. As of the Latest Practicable Date, our drug combination product were included in the medical device reimbursement list of ten provinces and municipalities, namely Shanghai, Jilin, Anhui, Guangdong, Jiangxi, Hebei, Hainan, Hubei, Gansu and Chongqing.

Our pricing strategy and regulation are a delicate balance of participation in these mechanisms. We strive to meet the criteria in each process, but we also must navigate the potential downward pressure on our pricing. For further details of risks associated with pricing regulation. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — We may experience difficulties in our sales efforts as a result of pricing regulations or other policies such as volume-based procurement and 'Two-Invoice System' that are intended to reduce healthcare costs, which could subject us to pricing and volume pressures and adversely affect our operations, revenue and profitability."

## OUR CUSTOMERS AND SUPPLIERS

### Our Customers

Our customers primarily consist of our distributors and hospitals which directly purchase medical products from us. Our five largest customers during the Track Record Period primarily included our distributors. The aggregate sales to our five largest customers, calculated on the group level with entities controlled by the same group combined together, for 2021, 2022 and the nine months ended September 30, 2023 were RMB725.9 million, RMB539.4 million and RMB451.0 million, respectively, representing 55.5%, 47.9% and 44.1% of our revenue for the respective period. Sales to our largest customer for 2021, 2022 and the nine months ended September 30, 2023 were RMB330.9 million, RMB263.1 million and RMB226.2 million, respectively, representing 25.3%, 23.4% and 22.1% of our revenue for the respective period. We generally grant credit terms of 30 to 90 days, with longer terms granted to our distributors/customers of drug-device combination product. Our distributors generally settle with us by wire transfer and bank acceptance bill. Save for Huadong Medicine (on the group level), all of our five largest customers are Independent Third Parties. Save for Huadong Medicine (on the group level), none of our Directors, their respective associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our five largest customers in each year during the Track Record Period.

The following table sets forth certain information of our five largest customers during the Track Record Period:

| Five largest customers for the nine months ended September 30, 2023 | Customer background | Products/ services sold | Business relationship since | Sales amount *(RMB'000)* | Percentage of total sales |
|---|---|---|---|---|---|
| Customer Group A | A global pharmaceutical group headquartered in Beijing and listed on the Shanghai Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2010 | 226,181 | 22.1% |
| Huadong Medicine and its subsidiaries | A global pharmaceutical group headquartered in Hangzhou and listed on the Shenzhen Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products, R&D services | 2011 | 101,396 | 9.9% |

| Five largest customers for the nine months ended September 30, 2023 | Customer background | Products/ services sold | Business relationship since | Sales amount *(RMB'000)* | Percentage of total sales |
|---|---|---|---|---|---|
| Customer Group B | A global pharmaceutical group headquartered in Shanghai and dual-listed in Shanghai Stock Exchange and Hong Kong Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2011 | 50,200 | 4.9% |
| Customer Group C | A global pharmaceutical group headquartered in Hong Kong and listed on the Hong Kong Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2012 | 48,265 | 4.7% |
| Customer D | A global pharmaceutical company headquartered in Ukraine, focusing on development, production, wholesale and retail of drugs | Medical products | 2009 | 24,980 | 2.4% |
| | | | | **451,022** | **44.1%** |

| Five largest customers for 2022 | Customer background | Products/ services sold | Business relationship since | Sales amount *(RMB'000)* | Percentage of total sales |
|---|---|---|---|---|---|
| Customer Group A | A global pharmaceutical group headquartered in Beijing and listed on the Shanghai Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2010 | 263,053 | 23.4% |
| Huadong Medicine and its subsidiaries | A global pharmaceutical group headquartered in Hangzhou and listed on the Shenzhen Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products, R&D services | 2011 | 91,154 | 8.1% |
| Customer Group C | A global pharmaceutical group headquartered in Hong Kong and listed on the Hong Kong Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2012 | 74,897 | 6.7% |

| Five largest customers for 2022 | Customer background | Products/ services sold | Business relationship since | Sales amount *(RMB'000)* | Percentage of total sales |
|---|---|---|---|---|---|
| Customer Group B | A global pharmaceutical group headquartered in Shanghai and dual-listed in Shanghai Stock Exchange and Hong Kong Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2011 | 63,029 | 5.6% |
| Customer D | A global pharmaceutical company headquartered in Ukraine, focusing on development, production, wholesale and retail of drugs | Medical products | 2009 | 47,267 | 4.2% |
| | | | | **539,400** | **47.9%** |

| Five largest customers for 2021 | Customer background | Products/ services sold | Business relationship since | Sales amount *(RMB'000)* | Percentage of total sales |
|---|---|---|---|---|---|
| Customer Group A | A global pharmaceutical group headquartered in Beijing and listed on the Shanghai Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2010 | 330,885 | 25.3% |
| Customer D | A global pharmaceutical company headquartered in Ukraine, focusing on development, production, wholesale and retail of drugs | Medical products | 2009 | 122,481 | 9.4% |
| Customer Group C | A global pharmaceutical group headquartered in Hong Kong and listed on the Hong Kong Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2012 | 107,191 | 8.2% |
| Huadong Medicine and its subsidiaries | A global pharmaceutical group headquartered in Hangzhou and listed on the Shenzhen Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products, R&D services | 2011 | 96,971 | 7.4% |

| Five largest customers for 2021 | Customer background | Products/ services sold | Business relationship since | Sales amount *(RMB'000)* | Percentage of total sales |
|---|---|---|---|---|---|
| Customer Group B | A global pharmaceutical group headquartered in Shanghai and dual-listed in Shanghai Stock Exchange and Hong Kong Stock Exchange, focusing on development, production, wholesale and retail of drugs | Medical products | 2011 | 68,403 | 5.2% |
| | | | | **725,931** | **55.5%** |

## Our Suppliers

Our suppliers primarily include suppliers of the raw materials and equipment to support the manufacturing of our pharmaceutical and medical device products. Purchases from our five largest suppliers, calculated on the group level with entities controlled by the same group combined together, for 2021, 2022 and the nine months ended September 30, 2023 were RMB217.1 million, RMB139.1 million and RMB107.9 million, respectively, representing 54.5%, 56.4% and 62.8% of our total purchase cost for the respective period. Purchases from our largest supplier for 2021, 2022 and the nine months ended September 30, 2023 were RMB161.5 million, RMB95.0 million and RMB44.0 million, respectively, representing 40.6%, 38.5% and 25.6% of our purchase cost for the respective period. We do not have substantial reliance on any single supplier. We believe that we have long and stable relationships with our existing major suppliers. According to CIC, it is common for pharmaceutical companies in China to have high supplier concentrations. Please refer to the paragraphs headed "Risk Factors — Risks Relating to our Business and Industry — We had a limited number of suppliers during the Track Record Period and the loss of one or more of our key suppliers could disrupt our operations."

Save for Huadong Medicine, all of our five largest suppliers during the Track Record Period are Independent Third Parties. Save for Huadong Medicine, none of our Directors, their respective associates or any Shareholder who, to the knowledge of our Directors, owned more than 5% of our issued share capital as of the Latest Practicable Date, has any interest in any of our five largest suppliers in each year during the Track Record Period.

We do not specify credit terms in contracts with our suppliers. Payments are made typically according to the contract terms on payment schedule. The following table sets forth certain information of our five largest suppliers during the Track Record Period:

| **Five largest suppliers for the nine months ended September 30, 2023** | **Supplier background** | **Products/ services purchased** | **Business relationship since** | **Purchase amount** *(RMB'000)* | **Percentage of total purchases** |
|---|---|---|---|---|---|
| Nanjing King-Friend Biochemical Pharmaceutical Co., Ltd. (南京健友生化製藥股份有限公司) | A global pharmaceutical company headquartered in Nanjing and listed on the Shanghai Stock Exchange, focusing on R&D, production, and sales of drugs | Raw material (heparin sodium) | 2008 | 43,978 | 25.6% |
| Supplier A | A global pharmaceutical company headquartered in Yantai and listed on the Shenzhen Stock Exchange, focusing on R&D, production, and sales of drugs | Raw material (heparin sodium) | 2009 | 40,483 | 23.6% |
| Shandong Weigao Group Medical Polymer Co., Ltd. (山東威高集團醫用高分子製品股份有限公司) and its subsidiaries | A leading solution provider and manufacturer of pharmaceutical raw materials headquartered in Weihai | Raw material (prefilled syringes) | 2009 | 14,767 | 8.6% |
| Hangzhou Heta Pharm & Chem Co., Ltd. (杭州海達醫藥化工有限公司) | A leading pharmaceutical company headquartered in Hangzhou, providing wholesale and retail of APIs and intermediates | Raw material (fulvestrant) | 2022 | 4,351 | 2.5% |
| Chemical Reagent and Equipment Branch of Huadong Medicine | A wholesale company of medical products headquartered in Hangzhou | Raw material (mainly R&D consumables), manufacturing equipment | 2010 | 4,320 | 2.5% |
| | | | | **107,899** | **62.8%** |

| Five largest suppliers for 2022 | Supplier background | Products purchased | Business relationship since | Purchase amount *(RMB'000)* | Percentage of total purchases |
|---|---|---|---|---|---|
| Nanjing King-Friend Biochemical Pharmaceutical Co., Ltd. (南京健友生化製藥股份有限公司) | A global pharmaceutical company headquartered in Nanjing and listed on the Shanghai Stock Exchange, focusing on R&D, production, and sales of drugs | Raw material (heparin sodium) | 2008 | 95,019 | 38.5% |
| Shandong Weigao Group Medical Polymer Co., Ltd. (山東威高集團醫用高分子製品股份有限公司) and its subsidiaries | A leading solution provider and manufacturer of pharmaceutical raw materials headquartered in Weihai | Raw material (prefilled syringes) | 2009 | 20,122 | 8.2% |
| Guoxin Pharmaceutical Technology (Beijing) Co., Ltd. (國信醫藥科技(北京)有限公司) | A leading CRO headquartered in Beijing, providing one-stop customized R&D and commissioned production services for innovative drugs to global pharmaceutical and biotechnology companies | CRO service | 2020 | 13,000 | 5.3% |
| Chemical Reagent and Equipment Branch of Huadong Medicine | A wholesale company of medical products headquartered in Hangzhou | Raw material (mainly R&D consumables), manufacturing equipment | 2010 | 6,739 | 2.7% |
| Supplier A | A global pharmaceutical company headquartered in Yantai and listed on the Shenzhen Stock Exchange, focusing on R&D, production and sales of pharmaceutical products | Raw material (heparin sodium) | 2009 | 4,204 | 1.7% |
| | | | | **139,084** | **56.4%** |

| Five largest suppliers for 2021 | Supplier background | Products purchased | Business relationship since | Purchase amount *(RMB'000)* | Percentage of total purchases |
|---|---|---|---|---|---|
| Nanjing King-Friend Biochemical Pharmaceutical Co., Ltd. (南京健友生化製藥股份有限公司) | A global pharmaceutical company headquartered in Nanjing and listed on the Shanghai Stock Exchange, focusing on R&D, production, and sales of drugs | Raw material (heparin sodium) | 2008 | 161,541 | 40.6% |
| Syntegon Technology GmbH (formerly known as Robert Bosch Packaging Technology Co., Ltd. (羅伯特博世包裝技術有限公司)) | A pharmaceutical complete packaging solution provider | Raw material (prefilled syringes) | 2018 | 19,346 | 4.9% |
| Supplier Group B | A global pharmaceutical group headquartered in Beijing and listed on the Shanghai Stock Exchange, focusing on development, production, wholesale and retail of drugs | Raw material (mainly R&D consumables), R&D equipment | 2010 | 12,656 | 3.2% |
| Shandong Weigao Group Medical Polymer Co., Ltd. (山東威高集團醫用高分子製品股份有限公司) and its subsidiaries | A leading solution provider and manufacturer of pharmaceutical raw materials headquartered in Weihai | Raw material (prefilled syringes) | 2009 | 11,921 | 3.0% |
| Chemical Reagent and Equipment Branch of Huadong Medicine | A wholesale company of medical products headquartered in Hangzhou | Raw material (mainly R&D consumables), manufacturing equipment | 2010 | 11,674 | 2.9% |
| | | | | **217,138** | **54.5%** |

### Overlapping of Customers and Suppliers

The following table sets forth the details of our major customers being also a supplier, and our major supplier being a customer, during the Track Record Period:

| Customer/ Supplier | Ranking | Year/period of being a customer (Year/period) | Revenue (RMB in thousands) | % of our total revenue | Nature of revenue | Year/period of being a supplier (Year/period) | Purchase (RMB in thousands) | % of our total purchase | Nature of purchase |
|---|---|---|---|---|---|---|---|---|---|
| Huadong Medicine and/or its subsidiary(ies) | Among five largest customers and five largest suppliers during each year or period in the Track Record Period | Nine months ended September 30, 2023 | 101,396 | 9.9% | Medical products, R&D services | Nine months ended September 30, 2023 | 4,320 | 2.5% | Raw materials, manufacturing equipment |
| | | 2022 | 91,154 | 8.1% | Medical products, R&D services | 2022 | 6,739 | 2.7% | Raw materials, manufacturing equipment |
| | | 2021 | 96,971 | 7.4% | Medical products, R&D services | 2021 | 11,674 | 2.9% | Raw materials, manufacturing equipment |
| Customer Group A/ Supplier Group B | Among five largest customers during each year or period in the Track Record Period and five largest suppliers in 2021 | Nine months ended September 30, 2023 | 226,181 | 22.1% | Medical products | Nine months ended September 30, 2023 | 1,353 | 0.8% | Raw materials, R&D equipment |
| | | 2022 | 263,053 | 23.4% | Medical products | 2022 | 1,466 | 0.6% | Raw materials, R&D equipment |
| | | 2021 | 330,885 | 25.3% | Medical products | 2021 | 12,656 | 3.2% | Raw materials, R&D equipment |

According to CIC, it is common in the pharmaceutical industry that a supplier of a market player may also be its customer or vice versa, due to their relatively broad range of business activities ranging from R&D, production, wholesale and retail of products, and the level of our Group's overlapping of customers and suppliers is not anomalous compared with the industry norm. Negotiations of the terms of our sales to and purchases from these overlapping customers and suppliers were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Our Directors confirmed that all of our sales to and purchases from these overlapping customers and suppliers were entered into after due consideration taking

into account the prevailing purchase and selling prices at the relevant times, conducted in the ordinary course of business under normal commercial terms and on arm's length basis.

## INTELLECTUAL PROPERTY RIGHTS

As of the Latest Practicable Date, we had (i) 15 registered patents and eight pending patent applications in the PRC; (ii) two pending PCT applications; and (iii) one registered domain name in the PRC. As of the Latest Practicable Date, we had 36 registered trademarks in the PRC, which we consider to be or may be material to our business. Please refer to the paragraphs headed "Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights" set out in Appendix VI to this document for more details of our intellectual property rights.

We rely on intellectual property rights to protect our technologies, inventions and improvements that we believe are important to maintain the market share of our products. The intellectual property rights that our products have relate principally to their compound, compositions, preparation methods and/or production processes. Please refer to the paragraphs headed "— Our Products" in this section for further details of the intellectual property rights for our major products.

In order to protect our intellectual property rights, we generally require our employees to enter into confidentiality agreements. These agreements typically provide that all relevant intellectual properties developed by our employees during the course of their employment with us become our intellectual properties and are treated as trade secrets. Our employees are contractually required to refrain from disclosing confidential information to third parties unless authorized in writing by our Board. We also follow procedures, such as patent searches, to ensure that we do not infringe on the intellectual property rights of others and are not engaged in the sale of counterfeit pharmaceutical products.

During the Track Record Period and up to the Latest Practicable Date, we had not been sued on the basis of, and had not undergone arbitration in respect of, nor had we received any notification from third parties claiming infringement of any intellectual property or sales of counterfeit pharmaceutical products that have had a material adverse effect on our business. In addition, during the Track Record Period and up to the Latest Practicable Date, we had not been the subject of any adverse finding in an investigation or audit by any governmental authorities in respect of the infringement of any intellectual property of third parties or sales of counterfeit pharmaceutical products that had a material adverse effect on our business. However, despite our internal control procedures, we are still subject to risks relating to intellectual property rights. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — Failure to adequately protect our intellectual property, or if the scope of our intellectual property fails to sufficiently protect our proprietary rights, other pharmaceutical companies could compete against us more directly, which may have a material adverse impact on our business and results of operations" and "Risk Factors — Risks Relating to Our Business and Industry — We may become subject to intellectual property infringement claims, which could expose us to substantial liability, harm our reputation,

limit our research and development or other business activities and/or impair our ability to commercialize our product candidates."

## EMPLOYEES

As of September 30, 2023, we had 1,375 full-time employees, all of whom are located in the PRC. The following table sets forth a breakdown of our total number of employees by function as of September 30, 2023:

| Function | Number of Employees | % of total employees |
|---|---|---|
| Manufacturing | 335 | 24.4 |
| Quality control | 136 | 9.9 |
| Research and development | 109 | 7.9 |
| Sales and marketing | 705 | 51.3 |
| Others (including operational and management) | 90 | 6.5 |
| **Total** | **1,375** | **100.0%** |

We believe we have maintained good relationships with our employees. Our employees do not negotiate their terms of employment through any labor union or by way of collective bargaining agreements. As of the Latest Practicable Date, we did not experience any strikes or any labor disputes with our employees which have had or are likely to have a material effect on our business.

As required by laws and regulations in China, we participate in various employee social security plans that are organized by municipal and provincial governments including, among other things, pensions, medical insurance, unemployment insurance, maternity insurance, work-related injury insurance, and housing fund plans through a PRC government-mandated benefit-contribution plan. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses, and certain allowances of our employees, up to a maximum amount specified by the local government from time to time.

Our employees typically enter into standard employment contracts with us. We place a high value on recruiting, training, and retaining qualified employees. We maintain high standards on selecting and recruiting talent worldwide and provide competitive compensation packages. Remuneration packages for our employees mainly comprise base salary and performance-based bonus. To maintain and enhance the quality, knowledge and skill levels of our workforce as well as their familiarity with industry quality standards and work safety standards, we provide our employees with periodic training, including orientation programs for new employees, technical training, professional and management training and health and safety training.

## LAND AND PROPERTIES

We occupy certain properties in the PRC in connection with our business operation. According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our interests in land or buildings, for the reason that, as of the date of the most recent audited consolidated balance sheet of our Group, none of the properties owned and leased by us had a carrying amount of 15% or more of our consolidated total assets.

### Owned Properties

#### *Land*

As of the Latest Practicable Date, we obtained real estate ownership certificates for 11 parcels of land with total site area of approximately 31,548.8 sq.m. in the PRC. These parcels of land are located at Hangzhou, Zhejiang province in the PRC primarily for the use of production facilities, administrative offices and R&D buildings. Our PRC Legal Adviser have confirmed that the use of our land does not contravene the use specified in the real estate ownership certificates. All of the 11 parcels of land with buildings on it were pledged to secure our bank borrowings. Please refer to the paragraphs headed "Financial Information — Indebtedness" for more details.

#### *Buildings*

As of the Latest Practicable Date, we occupied 15 buildings with an aggregate gross floor area of approximately 42,644.5 sq.m. in the PRC. These buildings are located in Hangzhou, Zhejiang province and primarily for the use of production facilities, administrative offices and R&D buildings. Our PRC Legal Adviser has confirmed that our use of buildings and structures does not contravene the use specified in the real estate ownership certificates with respect to our buildings and structures. Please refer to the paragraphs headed "Risk Factors — Our legal right to certain properties may be challenged" for more details.

### Leased Properties

As of the Latest Practicable Date, we leased 19 properties with an aggregate gross floor area of approximately 3,173.6 sq.m., which were primarily used as production facilities, administrative offices, contact center and employee dormitories. Our leases generally have a term ranging from one to three years. We will consider renewal of the leases upon their expiry. Please refer to the paragraphs headed "Risk Factors — Our legal right to certain properties may be challenged" for more details.

## INSURANCE

We maintain property insurance covering physical damage to, or loss of, our facilities, equipment, office furniture and inventory; employer's liability insurance covering death or work injury of employees; and clinical trial insurance covering us against liability in the event of injury to any trial subject caused by serious adverse events in our clinical trials. We are not required under PRC laws and regulations to, and we generally do not, purchase any product liability insurance or key person insurance. We contribute to social security insurance for our employees in accordance with applicable PRC laws, rules and regulations.

During the Track Record Period and up to the Latest Practicable Date, we did not submit any material insurance claims, nor did we experience any material difficulties in renewing our insurance policies.

Our Directors believe that our insurance coverage is adequate and in line with industry norm. However, the risks related to our business and operations may not be fully covered by insurance. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — We have limited insurance coverage, and any claims beyond our insurance coverage may result in our incurring substantial costs and a diversion of resources."

## AWARDS AND RECOGNITIONS

The table below sets forth our recent major awards and recognitions (other than those disclosed in the "— Our Products"):

| Year | Award/Recognition | Award Issuing Authority |
|---|---|---|
| 2023 | Zhejiang Provincial Key Enterprise Research Institute in Genetic Biopharmaceuticals (浙江省基因生物製藥重點企業研究院) | Department of Science and Technology of Zhejiang Province (浙江省科學技術廳) |
| 2022 | Zhejiang Provincial Intellectual Property Demonstration Enterprise (浙江省知識產權示範企業) | Zhejiang Market Regulation Administration (浙江省市場監督管理局) |
| 2020 | High-Tech Enterprise (高新技術企業) | Zhejiang Science and Technology Department (浙江省科學技術廳), Zhejiang Municipal Finance Department (浙江省財政廳), and Zhejiang Taxation Bureau, State Taxation Administration (國家税務總局浙江省税務局) |
| 2022 | Technology Small Giant Enterprise (科技小巨人企業) | Department of Science and Technology of Zhejiang Province (浙江省科學技術廳) |
| 2020 | 2020 Top 100 Chinese Pharmaceutical Innovative Enterprises (2020中國醫藥創新企業一百強) | Healthcare Executive (E藥經理人) |
| 2017 | List of Excellent Domestic Medical Equipment Products (優秀國產醫療設備名錄) | China Association of Medical Equipment (中國醫學裝備協會) |
| 2015 | National Intellectual Property Advantage Enterprise (國家知識產權優勢企業) | China National Intellectual Property Administration (國家知識產權局) |
| 2012 | Green Enterprise of Zhejiang Province (浙江省綠色企業) | Department of Environment Protection of Zhejiang Province (浙江省環境保護廳)<br>Economy and information Technology Commission of Zhejiang (浙江省經濟和信息化委員會) |

| Year | Award/Recognition | Award Issuing Authority |
|---|---|---|
| 2010 | Key High-tech Enterprises in the National Torch Program (國家火炬計劃重點高新技術企業) | Ministry of Science and Technology of the PRC (國家科學技術部) |
| 2008 | Innovative Pilot Enterprise (創新型試點企業) | Department of Science and Technology of Zhejiang Province (浙江省科學技術廳), with six other governmental authorities in Zhejiang province |
| 2005 | Zhejiang Science and Technology Award (浙江省科學技術獎) | Department of Science and Technology of Zhejiang Province (浙江省科學技術廳)<br>The People's Government of Zhejiang Province (浙江省人民政府) |
| 2003 | Foreign-invested Advanced Technology Enterprises (外商投資先進企業) | Department of Foreign Trade and Economic Cooperation of Zhejiang Province (浙江省對外貿易經濟合作廳) |

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

### ESG Governance

We recognize our responsibility to uphold high standards in health, safety, social and environmental practices. We are committed to, after our [**REDACTED**], complying with the reporting requirements related to environmental, social and governance ("**ESG**"). We understand the environmental and social-related risks that will affect our business, upon our [**REDACTED**], we will establish a two-tiered ESG governance framework comprising of our Board and an ESG committee.

The Board will take the overall responsibility for managing the impact of the material ESG risks and opportunities affecting the Group, formulating and establishing the Group's ESG-related mechanisms, policies and objectives, and reviewing the Group's performance against the ESG objectives on an annual basis and revising the ESG policy as appropriate if significant deviations from the objectives are identified.

Our ESG committee, consisting of our senior management and staff with a solid understanding of current and emerging ESG issues and our business, will directly report to the Board on ESG issues. The ESG committee will be responsible for (i) assessing and managing our ESG-related risks and opportunities, and deliberating on the formulation of, among others, our ESG strategic plans, management structure, systems, strategies and implementation rules so as to ensure the continuous execution and implementation of our ESG policies; (ii) making guidelines for and reviewing the identification and ranking of our important ESG issues; (iii) determining our key ESG issues; (iv) reviewing our ESG work and internal monitoring systems, and making recommendations on their

appropriateness and effectiveness; (v) reviewing our ESG-related disclosure documents, including but not limited to the annual ESG reports; (vi) monitoring our ESG-related risks and making inquiries on and formulating corresponding measures for major issues that affect our performance of ESG-related work, and reviewing and supervising how such issues are handled; and (vii) providing ESG-related training and materials to the Board of Directors.

**Materiality Assessment**

We have identified following ESG material issues that are applicable to the Group's business, taking into account the Group's business development direction and actual operating conditions.

| **Material Issues** | **Quantified Disclosures** | **Unit** |
|---|---|---|
| Business ethics and anti-corruption | Number of concluded proceedings for corruption | case |
| | Training hours completed per employee for anti-corruption | hour/person |
| Response to climate change | Greenhouse gas emissions | $CO_2$-e |
| Employee training and development | Average training hours completed per employee | hour/person |
| Employee health and safety | Lost days due to work injury per capita | day/person |
| Product quality and safety | Pass rate for official inspection/audit | % |
| Protecting intellectual property rights | Number of intellectual property applications | item |

**Risk Management**

We have adopted a series of risk management policies which set out a risk management framework to identify, assess, evaluate and monitor key risks associated with our strategic objectives on an ongoing basis. The following internal policies and programs outline our approach to risk management:

- The relevant departments in our Company are responsible for implementing our risk management policy and carrying out our day-to-day risk management practice. Each department is responsible for identifying and evaluating risks associated with its working scope. In order to standardize risk management across our Group and set a common level of transparency and risk management performance, the relevant departments will (i) identify the source of the risks and potential impact, (ii) monitor the development of such risks, and (iii) prepare risk management reports periodically for ESG committee's review.

- Our ESG committee will coordinate, oversee and manage the overall risks associated with our business operations and quality control, respectively, mainly including (i) reviewing our corporate risk in light of our corporate risk tolerance, (ii) maintaining a key risk list and leading corresponding risk management activities, and (iii) organizing revision and update of the key risk list. Our ESG committee will be responsible for carrying out the risk prevention and management activities with relevant department and conduct irregular reviews.

- Our Board will be responsible for (i) reviewing the risk management information, (ii) reviewing annual risk management report of the Group, and (iii) overseeing ESG committee to promulgating annual risk evaluations.

- We will carry out a corporate risk assessment at least once a year which covers current and potential risks that the Group faces, including but not limited to ESG risks and strategic risks from disruptive forces (such as climate change). The Board will, by themselves or by engaging external experts to, assess such risks, review our existing strategies, objectives and internal control, and make necessary improvements to reduce the risks. The Board and the ESG committee will keep monitoring our approaches to risk management, including climate-related risks and risks monitored as part of standard operation procedures, to ensure that appropriate mitigation measures are implemented in regular management reviews.

- The decisions on the reduction, transfer, acceptance or control of the risks are affected by various factors. We will incorporate climate-related issues, including the analysis on physical and transition risks, into its risk assessment process and risk appetite setting. We will consider the risks and opportunities in its strategic and financial planning process if such risks and opportunities are deemed to be material. After reviewing the environmental, social and climate-related risks and our performance in response to such risks each year, we may revise and alter our ESG strategies as appropriate.

We are adopting various strategies and measures to identify, assess, manage and mitigate ESG and climate-related risks, including but not limited to:

- Reviewing and evaluating ESG reports of comparable companies in the industry so as to ensure timely identification of all ESG-related risks.

- Discussing with the management from time to time so as to ensure that all material ESG areas are identified and reported.

- Discussing key ESG principles and practices with key stakeholders to ensure that important aspects are covered.

- Formulating specific ESG risk management approaches and quantified performance indicators so as to identify and consider ESG risks and opportunities and separate ESG risks and opportunities from other business risks and opportunities.

- Setting targets for environmental KPIs, including emissions, pollution and other impacts on the environment, so as to reduce emissions and consumption of natural resources.

We have carried out the following analysis on the ESG-related risks and actual and potential impact of such risks on business, strategy and financial performance:

| **Type of Risks** | | | **Potential Impact** |
|---|---|---|---|
| Physical risks | Acute risks | Frequent occurrence of typhoons, floods, droughts and other extreme weather | • Losses in operating assets and equipment, business interruption resulting in loss of sales |
| | Chronic risks | Climate change and rising average temperature | • Increased energy consumption in factories and offices resulting in higher energy costs<br>• Decreased employees' productivity and increased labor costs |
| Transition risks | Regulatory risks | Industry low-carbon policy requirements | • Government's quotas allocation on carbon emission and pressure on carbon costs |
| | | Tightening regulatory requirements | • Fines, loss of business, closure of business, and negative publicity on the brand and its reputation<br>• Stricter supply chain compliance requirements |
| | | Litigation risks | • Litigation risk brought from the interruption of supply chain, resulting in our failure to perform the contract(s) on time |
| | Market and technology risks | Costs for transition to low-carbon emission technology | • Increased cost on upgrading facilities for energy saving and high efficiency |

| Type of Risks | | Potential Impact |
|---|---|---|
| | Changes in customers' behavior and preferences | • Loss of orders and decreased revenue resulting from insufficient disclosure of carbon neutrality goals and data<br>• Demand from downstream corporate customers to upstream suppliers to provide green and low-carbon biomedical products and to formulate carbon-neutral strategic goals |
| | Rising raw material costs | • Decreasing quantity and quality of raw materials<br>• Increased R&D costs resulting from insufficient resources of supplies |
| | Uncertain demand | • Possible increased demand for medicines and other pharmaceutical products resulting from the emergence of new chronic diseases and other diseases |
| Reputation risks | Negative publicity | • Negative publicity on our reputation resulting from its inability to respond to shareholders' expectation caused by insufficient disclosure on the reduction targets and information on emission |

In addition, we shall take measures to mitigate, adapt and build resilience to the impact of the environment on our business, strategies and financial performance, as summarized below:

| Important Areas | Key Measures |
|---|---|
| Waste Management | • Requiring proper handling and disposal of waste and engaging qualified third-party waste disposal processor<br>• Carrying out hazardous waste storage in accordance with relevant standards, and establishing a system for standardized management of hazardous waste |
| Energy and resources saving | • Establishing "Energy Resource Management System"<br>• Prompting energy saving awareness among management and employees |

**Goals, Targets and Policies**

We monitor the following indicators to assess and manage our environmental and climate-related risks arising from our business and production activities:

- *Power consumption.* We regularly monitor our electricity consumption levels and implement measures to improve energy efficiency. For the years ended December 31, 2021, 2022 and 2023, our electricity consumption levels were 15.2 GWh, 16.5 GWh and 17.0 GWh, respectively.

- *Emission of greenhouse gases.* We regularly monitor the level of greenhouse gas emissions. For the years ended December 31, 2021, 2022 and 2023, our greenhouse gas emissions were 17.3 thousand tons of $CO_2$-e, 17.8 tons of $CO_2$-e, and 18.5 thousand tons of $CO_2$-e, respectively. The waste gas is properly treated before discharge.

- *Water consumption.* We regularly monitor our water consumption levels and implement measures to promote water conservation. For the years ended December 31, 2021, 2022 and 2023, our water consumption levels were 162.9 thousand tons, 161.3 thousand tons and 182.1 thousand tons, respectively.

- *Discharge of hazardous waste.* We regularly monitor the level of our hazardous waste discharge. For the years ended December 31, 2021, 2022 and 2023, our hazardous waste discharge levels were 88.7 thousand tons, 85.5 thousand tons and 93.8 thousand tons, respectively.

The ESG committee will set targets for each material key performance indicator at the beginning of each financial year in accordance with the disclosure requirements under Appendix 27 to the Listing Rules and any other relevant rules and regulations after [**REDACTED**]. Relevant targets of the material key performance indicators will be reviewed annually to ensure that they are still suitable for our needs. When setting the targets for environment-related KPIs, we will take into account our respective consumption or emission levels during the Track Record Period, and consider our future business expansion in a comprehensive and prudent manner, with a view to crafting a balance between business growth and environmental protection and achieving sustainable development.

We intend to adopt governance measures which are in compliance with pertinent ESG-related laws and regulations, and to monitor and collect ESG-related data so as to prepare our disclosure report after [**REDACTED**] and in accordance with the Environmental, Social and Governance Reporting Guide, Appendix 27 to the Listing Rules in due course. We strive to reduce the negative impact on the environment through our commitment to energy conservation and sustainable development. We believe that employees are the most valuable resource to us, and are committed to respecting their dignity and treating them with respect. We will continue to promote work-life balance and create a positive workplace for all of our employees.

## LICENSES, PERMITS AND CERTIFICATES

We are required to obtain and renew certain certificates, permits, and licenses for providing our services. Please refer to the section headed "Regulatory Overview" for more information about the material certificates, permits, and licenses required for our business operations in the PRC. During the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite certificates, permits and licenses that are material for our operation, and all of such certificates, permits and licenses are within their respective effective periods. We had not experienced any material difficulty in renewing such certificates, permits and licenses during the Track Record Period and up to the Latest Practicable Date, and we currently do not expect to have any material difficulty in renewing them when they expire, if applicable. During the Track Record Period and up to the Latest Practicable Date, we have not been penalized by the relevant government authorities for any non-compliance relating to maintenance and renewal of our material certificates, permits and licenses.

As of the Latest Practicable Date, we have obtained all requisite licenses, approvals, and permits from relevant authorities that are material to our operations. The table below sets forth the relevant details about the material licenses required for our operation in the PRC:

| License/Permit | Holder | Purpose | Issuing Authority | Validity Period/ Expiry Date |
|---|---|---|---|---|
| Drug Production License (藥品生產許可證) | Hangzhou Jiuyuan | Production of pharmaceutical products | Zhejiang Medical Products Administration (浙江省藥品監督管理局) ("**Zhejiang MPA**") | January 6, 2023 – November 8, 2025 |
| Manufacture License for Medical Devices (醫療器械生產許可證) | Hangzhou Jiuyuan | Production of medical devices | Zhejiang MPA | January 12, 2021 – January 11, 2026 |
| Business Operation License of Medical Devices (醫療器械經營許可證) | Hangzhou Jiuyuan | Trading of medical devices | Hangzhou Administration for Market Regulation (杭州市市場監督管理局) | January 21, 2024 – January 20, 2029 |
| Medical Device Registration Certificate (醫療器械註冊證書) | Hangzhou Jiuyuan | Registration of the bone repair material | Zhejiang MPA | September 27, 2027 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of recombinant human granulocyte colony stimulating factor injection in various specifications | Zhejiang MPA | July 19, 2025; July 23, 2025 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of API (low molecular weight heparin sodium) | Zhejiang MPA | May 6, 2025 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of low molecular weight heparin sodium injection in various specifications | Zhejiang MPA | January 13, 2025 |

| License/Permit | Holder | Purpose | Issuing Authority | Validity Period/ Expiry Date |
|---|---|---|---|---|
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of API (enoxaparin sodium) | Zhejiang MPA | November 29, 2025 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of enoxaparin sodium injection in various specifications | Zhejiang MPA | November 29, 2025; December 16, 2025 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of fulvestrant injection | Zhejiang MPA | June 27, 2027 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of recombinant human interleukin-11 injection | Zhejiang MPA | January 13, 2025 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of API (palonosetron hydrochloride) | Zhejiang MPA | April 17, 2028 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of palonosetron hydrochloride injection | Zhejiang MPA | April 17, 2028 |
| Drug Registration Certificate (藥品註冊證書) | Hangzhou Jiuyuan | Registration of fosaprepitant injection | Zhejiang MPA | July 31, 2028 |

## BUSINESS ACTIVITIES WITH REGIONS SUBJECT TO INTERNATIONAL SANCTIONS

Certain countries or organizations, including the United States, the European Union, the United Nation, the United Kingdom, and Australia (together, the "**Relevant Jurisdictions**"), have, through executive order, legislations or other government means, implemented measures that impose economic sanctions against certain countries, regions or targeted industry sectors, groups of companies or persons, and/or organizations within such countries and regions.

During the Track Record Period, we sold products, including APIs we produced, to certain customers in Egypt, Hong Kong SAR, Russia (excluding Crimea, Luhansk People's Republic, Donetsk People's Republic, Kherson and Zaporizhzhia regions of Ukraine), Turkey, Ukraine (excluding Crimea, Luhansk People's Republic, Donetsk People's Republic, Kherson and Zaporizhzhia regions of Ukraine) and Venezuela (together, the "**Relevant Regions**"), contributing an aggregate of RMB123.2 million, RMB47.5 million, and RMB27.7 million for the years ended December 31, 2021, 2022 and the nine months ended September 30, 2023, respectively, accounting for 9.4%, 4.2% and 2.7% of our total revenue during the respective period.

We have engaged Hogan Lovells, our International Sanctions Legal Adviser to perform procedures to assess our compliance with International Sanctions laws and regulations and evaluate our risk of exposure and potential penalties imposed under the International Sanctions laws and regulations.

As advised by our International Sanctions Legal Adviser who has performed the procedures they consider necessary, although the Relevant Regions were subject to various sanctions during the Track Record Period, none of them was a country or territory subject to a general and comprehensive export, import, financial or investment embargo under sanctions related law or regulation of a Relevant Jurisdiction (such country or territory, the "**Comprehensively Sanctioned Countries**"). Further, our sales involving the Relevant Regions denominated in USD, RMB and EUR during the Track Record Period were not Primary Sanctioned Activities or Secondary Sanctionable Activities for the purpose of the guidance in Chapter 4.4 of the Guide for New Listing Applicants issued by the Stock Exchange, given that (i) none of our customers located in the Relevant Regions were identified on the Specially Designated Nationals and Blocked Persons List maintained by OFAC or the relevant restricted parties lists maintained by the European Union, Australia and the United Nations; and (ii) the sales did not involve nexus to the United States, the European Union, the United Kingdom or Australia other than payments received denominated in USD and EUR. Further, given the scope of the [**REDACTED**] and the expected [**REDACTED**] as set out in this document, our International Sanctions Legal Adviser is of the view that the involvement by parties in the [**REDACTED**] will not implicate any applicable International Sanctions on such parties, including our Company, our [**REDACTED**], Shareholders, the Stock Exchange and its listing committee and group companies, and accordingly the sanctions risk exposure to our Company, [**REDACTED**] and Shareholders, and persons who might, directly or indirectly, be involved in permitting the [**REDACTED**], [**REDACTED**] and [**REDACTED**] of our Shares (including the Stock Exchange, its listing committee and related group companies) is very low.

Our Directors confirm that we do not have present intention to undertake any business involving directly or indirectly the Comprehensively Sanctioned Countries. We will not knowingly or intentionally conduct any business with any Sanctioned Persons, or any business in any Comprehensively Sanctioned Countries that will cause us to violate International Sanctions, and we will not use the [**REDACTED**] from the [**REDACTED**] to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, the Comprehensively Sanctioned Countries or Sanctioned Targets. Our Directors will continuously monitor the [**REDACTED**] from the [**REDACTED**], as well as any other funds raised through the Stock Exchange, to ensure that such funds will not be used to finance or facilitate, directly or indirectly, activities or business with, or for the benefit of, Comprehensively Sanctioned Countries or Sanctioned Persons where this would be in breach of International Sanctions.

Based on our current understanding and as advised by our International Sanctions Legal Adviser, we believe that we are not subject to sanctions risk that could have a material adverse effect on our transactions involving the Relevant Regions during the Track Record Period. For more details, please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — We could be adversely affected as a result of any sales we make to certain countries that are, or become subject to, sanctions

administered by the United States, the European Union, the United Nations, the United Kingdom, Australia and other relevant sanctions authorities."

## LEGAL PROCEEDINGS AND COMPLIANCE

### Legal Proceedings

We may from time to time be subjected to legal proceedings, disputes or other claims that arise in the ordinary course of business. As of the Latest Practicable Date, we were not a party to any ongoing material litigation, arbitration or administrative proceedings, and we are not aware of any claims or proceedings contemplated by government authorities or third parties which would materially and adversely affect our business. Our Directors are not involved in any actual or threatened material claims or litigation.

### Compliance

Except for the non-compliance incidents disclosed below, as advised by our PRC Legal Adviser, we had complied with the relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

#### *Social Insurance and Housing Provident Funds*

During the Track Record Period, we engaged third-party human resource agencies to pay social insurance premium and housing provident funds for certain of our employees in the locations where those employees work. We use such agency arrangements mainly because our sales personnel work in a number of cities across the nation where we do not have legal entities to pay social insurance premium or housing provident funds for them locally.

Pursuant to the arrangements between us and such third-party human resource agencies, the human resource agencies are required to pay social insurance premiums and housing provident funds for our relevant employees in a timely manner. These third-party human resources agencies have confirmed in writing that they have paid such contributions according to our agreements with them. Despite the agreements between us and the third-party human resource agencies, if such agencies fail to pay the social insurance premiums or housing provident funds for and on behalf of our employees as they agreed or if such arrangements are challenged by government authorities, we may be subject to additional contribution, late payment fee and/or penalties imposed by the relevant PRC authorities for failing to discharge our obligations in relation to payment of social insurance and housing provident funds as an employer or be ordered to rectify.

During the Track Record Period, we did not make social insurance and housing provident fund contributions for some of our employees in full, primarily because the implementation and interpretation of the relevant PRC laws and regulations among different local government authorities vary, and are difficult for our responsible staff to strictly follow due to their lack of comprehensive understanding of the relevant laws and regulations. Pursuant to relevant PRC laws and regulations, if we fail to pay the full amount of social insurance contributions as required, we may be ordered to pay the

outstanding social insurance contributions within a prescribed time limit and may be subject to an overdue fine of 0.05% of the delayed payment per day from the date on which the payment is payable. If such payment is not made within the stipulated period, the competent authority may further impose a fine from one to three times the amount of any overdue payment. If we fail to pay the full amount of housing provident fund as required, the housing provident fund management center may order us to make the outstanding payment within a prescribed time limit. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement.

As of the Latest Practicable Date, no administrative action or penalty had been imposed on us by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order to settle the deficit amount. Moreover, as of the Latest Practicable Date, we were not aware of any material complaint filed by our employees regarding our social security insurance and housing provident fund policy.

Pursuant to the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilizing the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated in September 2018 by the Ministry of Human Resources and Social Security, administrative enforcement authorities are prohibited from organizing and conducting centralized collection of enterprises' historical social insurance arrears. We undertake to make timely payments for the deficient amount and overdue charges, as soon as requested by the competent government authorities.

We have taken the following rectification measures to prevent future occurrences of such noncompliance:

- We have established new branches in the cities where the aforementioned employees work and caused the locally registered branches to enter into the employment contracts with such employees working in the same city;

- We are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees;

- We have designated our human resources department to review and monitor the reporting and contributions of social insurance and housing provident fund on a regular basis;

- We will keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident funds; and

- We will consult our PRC legal counsel on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant regulatory developments.

Our Directors believe that such non-compliance would not have a material adverse effect on our business and results of operations, considering that: (i) to our knowledge and based on the written confirmations issued by the competent government authorities of our Company, we had not been subject to any administrative penalties during the Track Record Period and up to the Latest Practicable Date; (ii) we were neither aware of any material employee complaints filed against us nor involved in any labor disputes with our employees with respect to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date; (iii) during the Track Record Period and up to the Latest Practicable Date, we had not received any notification from the relevant PRC authorities requiring us to pay for the shortfalls or any overdue charges with respect to social insurance and housing provident funds; (iv) we undertake to make timely payments for the outstanding amount and late charges, as soon as requested by the competent government authorities; and (v) considering the foregoing and assuming that (a) there is no material change to current PRC laws and regulations and the practice in policy implementation and inspection of local governments in connection with the aforementioned issue, and (b) there is no material employee complaints with respect to contributions of social insurance and housing provident funds, our PRC Legal Adviser is of the view that, the likelihood that we will be subject to a material administrative penalty by the relevant competent social insurance and housing provident fund authorities is remote. As a result, we did not make any provisions in connection with these non-compliances during the Track Record Period and up to the Latest Practicable Date.

## RISK MANAGEMENT AND INTERNAL CONTROL

### Risk Management

We are exposed to various risks in our business operations, and we believe that risk management is important to our success. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry" for more details. We have established our risk management systems to identify, assess, monitor and mitigate the risks that may hinder our success including strategic risks, operational risks, financial risks and legal risks.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [**REDACTED**], we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system;
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;
- provide anti-corruption and anti-bribery compliance training periodically to our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against noncompliance in employee handbooks;
- organize training sessions for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies [**REDACTED**] in Hong Kong;

- enhance our reporting and records system for production facilities, including centralizing their quality control and safety management systems and conducting regular inspections of the facilities;

- establish a set of emergency procedures in the event of major quality-related issues; and provide enhanced training programs on quality assurance and product safety procedures.

**Internal Control**

We have engaged an independent internal control consultant to assess our internal control system in connection with the [**REDACTED**]. The internal control consultant has conducted a review procedure on our internal control system in certain aspects, including financial reporting and disclosure controls, corporate level controls, information system control management and other procedures for our operations. We had improved our internal control system by adopting and implementing the corresponding enhanced internal control measures. Going forward, we will continue to regularly review and improve these internal control policies, measures and procedures.

We are committed to establishing and maintaining risk management and internal control systems. We have adopted and implemented a comprehensive risk management policy encompassing risks that may arise in research and development, procurement management, production management, and sales management. Our risk management and internal control systems also cover the general functional operations such as human resources, financial management, asset management, warehousing and logistics management, information system management and corporate governance as well as decision-making processes. Meanwhile, we are committed to supervising and evaluating the effectiveness of risk management and internal control system to ensure that the system is rectified and effectively controlled as our business develops.

*Anti-bribery*

We maintain a strict code of conduct and anti-corruption policies among our employees and distributors. We believe we will be less affected by the increasingly stringent measures taken by the PRC government to correct corruptive practices in the pharmaceutical industry. We strictly prohibit bribery or other improper payments in our business operations. This prohibition applies to all business activities, anywhere globally, whether involving government officials or healthcare professionals. Improper payments prohibited by this policy include bribes, kickbacks, excessive gifts or entertainment, or any other payment made or offered to obtain an undue business advantage. We keep accurate books and records that reflect transactions and asset dispositions in reasonable detail. Requests for false invoices or payment of unusual, excessive or inadequately described expenses should be rejected and promptly reported. Misleading, incomplete or false entries in our books and records are not acceptable. We will also ensure that future sales team personnel comply with applicable promotion and advertising requirements, including restrictions on promoting drugs for unapproved uses or patient populations and limitations on industry-sponsored scientific and educational activities.

*Conflict of Interest*

Our code of conduct defines the scope of conflicts of interest, including supplier and customer relationships, financial interests and personnel matters. Our employees, including but not limited to our Directors, may not have or be suspected of having a personal interest in business dealings with our suppliers, customers, competitors or distributors; accept monetary, financial or other benefits from our suppliers, customers, competitors or distributors; have close relatives who work for our suppliers, customers, competitors or distributors; serve as a consultant or director in an association or company in the same market or industry. At the same time, employees shall keep confidential information strictly confidential and agree on the definition of confidential information, the content covered, the use of intellectual properties, including but not limited to any transfer of know-how, acquisition of technologies, and potential breach liabilities.

## OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

As of the Latest Practicable Date, Huadong Medicine, through its wholly-owned subsidiary Zhongmei Huadong, held approximately 21.06% of our total issued share capital and was our single largest Shareholder. Immediately following the completion of the [**REDACTED**], Huadong Medicine, through Zhongmei Huadong, will be interested in approximately [**REDACTED**]% of our total issued share capital, assuming the [**REDACTED**] is not exercised. Therefore, upon completion of the [**REDACTED**], our Group will not have any controlling shareholder as defined under the Listing Rules, while Huadong Medicine and Zhongmei Huadong will remain as our Single Largest Group of Shareholders.

Huadong Medicine is a joint-stock company established under the PRC law, with its shares listed on the Shenzhen Stock Exchange (stock code: 000963). Huadong Medicine is a large comprehensive pharmaceutical enterprise specializing in pharmaceutical R&D, production and marketing. Zhongmei Huadong, a wholly-owned subsidiary of Huadong Medicine, focuses on the R&D, production and sales of pharmaceutical products, covering core areas in treatment of diabetes, immune transplantation, chronic kidney disease and digestive disorders.

## INDEPENDENCE FROM OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

### Management Independence

Our Board consists of nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. Ms. Ma Honglan (馬紅蘭) ("**Ms. Ma**"), who is a supervisor of Zhongmei Huadong and an assistant to the chairperson of Huadong Medicine's board of directors, is also our non-executive Director. We believe that we are able to carry on our business independently from our Single Largest Group of Shareholders from a management perspective for the following reasons:

- Ms. Ma, serving as our non-executive Director, is not involved in the daily management and business operations of our Group or our Single Largest Group of Shareholders. Our daily management and business operations are carried out by our senior management team, all of whom have substantial experience in the industry in which our Group is engaged, and will therefore be able to make business decisions that are in the best interests of our Group;

- as of the Latest Practicable Date, save as disclosed above, none of our Directors (including all independent non-executive Directors) or members of our senior management held any positions in our Single Largest Group of Shareholders. Accordingly, our management is independent from our Single Largest Group of Shareholders;

- each of our Directors is aware of his or her fiduciary duties as a Director which requires, among other things, that he or she acts for the benefit and in the best interests of our Group and does not allow any conflict between his or her duties as a Director and his or her personal interest;

- we have three independent non-executive Directors and certain matters of our Company must always be referred to the independent non-executive Directors for review; and

- we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Single Largest Group of Shareholders, which would support our independent management. For more details, please refer to the paragraphs headed "— Corporate Governance Measures" in this section.

Based on the above, our Directors believe that our Board as a whole and together with our senior management are able to perform the managerial role in our Group independently from our Single Largest Group of Shareholders.

**Operational Independence**

We do not rely on our Single Largest Group of Shareholders for our administration, staffing, sales and marketing or company secretarial functions. We have our own departments specializing in these respective areas which have been in operation and are expected to continue to operate separately and independently from our Single Largest Group of Shareholders. Our Group independently holds all the material intellectual property rights, licenses, qualifications and permits required for conducting our Group's business.

During the Track Record Period, we conducted certain transactions with our Single Largest Group of Shareholders and their associates, and such transactions are expected to continue upon the [**REDACTED**] and will constitute continuing connected transactions under Chapter 14A of the Listing Rules. For more details, please refer to the section headed "Connected Transactions" in this document. However, in terms of nature and transaction amounts, these are not significant to us and do not affect our operational independence.

We operate our business independently from our Single Largest Group of Shareholders. We have independent production capabilities and independent access to our customers and suppliers. We also have our own R&D team, make our decisions relating to our R&D and maintain our pipeline products independently from Zhongmei Huadong. There is no overlapping between the marketed products of our Company and those of Zhongmei Huadong. However, it is not uncommon for any two pharmaceutical companies to have overlapping indications and potential candidates in their pipeline products. As of the Latest Practicable Date, our Company and Zhongmei Huadong were conducting clinical trials on generic semaglutide products, which are intended to tap an enormous market characterized by multiple players and competitors. For more details, please refer to the paragraphs headed "Industry Overview — Semaglutide" in this document. To the best of our knowledge and after due and careful enquiries, there is no other overlapping in our and Zhongmei Huadong's pipeline products.

Backed by our existing diverse and robust marketed product portfolio, strong financial results and operational independence in all material respects, our Directors are of the view that we are capable of operating independently from our Single Largest Group of Shareholders.

**Financial Independence**

Our Group has an independent internal control, accounting and financial management system as well as an independent finance department which makes financial decisions according to our Group's own business needs. As of the Latest Practicable Date, there were no outstanding loans, or advances and balances of a non-trade nature due to or from, pledges or guarantees provided by or granted to our Single Largest Group of Shareholders, and we are capable of obtaining financing from independent third parties without relying on any guarantee or security provided by our Single Largest Group of Shareholders.

Based on the above, our Directors believe that we are capable of maintaining financial independence from our Single Largest Group of Shareholders. For our historical equity financing activities, please refer to the paragraphs headed "History, Development and Corporate Structure — Pre-[**REDACTED**] Investments" in this document.

## CORPORATE GOVERNANCE MEASURES

Our Group will comply with the provisions of the Corporate Governance Code, which sets out principles of good corporate governance.

Our Directors recognize the importance of good corporate governance in the protection of our Shareholders' interests. We have adopted the following measures to safeguard good corporate governance standards and to manage potential conflicts of interest between our Group and our Single Largest Group of Shareholders:

- We have established internal control mechanisms to identify connected transactions, and we will comply with the applicable Listing Rules if we enter into connected transactions with our Single Largest Group of Shareholders or any of their associates after [**REDACTED**];

- Where a general meeting is to be held for considering proposed transactions in which our Single Largest Group of Shareholders have a material interest, our Single Largest Group of Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;

- We have appointed three independent non-executive Directors, and we believe our independent non-executive Directors possess sufficient experience. They will review whether there is any conflict of interest between our Group and our Single Largest Group of Shareholders annually and provide impartial and professional advice to protect the interest of our minority Shareholders. For details of the independent non-executive Directors, please refer to the section headed "Directors, Supervisors and Senior Management" in this document;

- We will disclose decisions on matters reviewed by the independent non-executive Directors either in the annual reports or by way of announcements as required by the Listing Rules;

- Where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Group's expense; and

- We have appointed Maxa Capital Limited as our Compliance Adviser to provide advice and guidance to us in respect of compliance with the Listing Rules, including various requirements relating to corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest that may arise between our Group and our Single Largest Group of Shareholders, and to protect minority Shareholders' interests after the [**REDACTED**].

## OVERVIEW

Prior to the **[REDACTED]**, our Company has entered into a number of transactions with our connected persons in our ordinary and usual course of business. Upon the **[REDACTED]**, the transactions disclosed in this section will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

## OUR CONNECTED PERSONS

| Connected Persons | Connected Relationship |
|---|---|
| Zhongmei Huadong | Zhongmei Huadong is one of our substantial Shareholders. |
| Huadong Medicine | Huadong Medicine was the holding company of Zhongmei Huadong as of the Latest Practical Date and therefore a connected person of our Company. In addition, Huadong Medicine's associate(s) (together with Huadong Medicine, the "**Huadong Medicine Connected Person(s)**") are also our connected persons. |
| Hangzhou Zhangtongtai Pharmaceutical Co., Ltd. (杭州張同泰藥業有限公司) ("**Hangzhou Zhangtongtai**") | Hangzhou Zhangtongtai is an associate of Hangzhou Huasheng, one of our substantial Shareholders. As of the Latest Practical Date, Hangzhou Zhangtongtai was a subsidiary of Hangzhou Zhangtongtai Investment Management Co., Ltd. (杭州張同泰投資管理有限公司), which was owned as to 30.0% by Hangzhou Huasheng. |

## SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

| | Transactions | Applicable Listing Rules | Waivers Sought | Proposed Annual Caps for the Year ending December 31, 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | |
| **Partially Exempt Continuing Connected Transactions** | | | | | | |
| *Subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements* | | | | | | |
| 1 | Procurement Framework Agreement | 14A.35<br>14A.76(2)<br>14A.105 | Announcement requirement | [11,800] | [14,100] | [17,000] |

| | Transactions | Applicable Listing Rules | Waivers Sought | Proposed Annual Caps for the Year ending December 31, 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|
| | | | | | *(RMB'000)* | |
| 2 | Revenue-Sharing Royalty Arrangement under the Liraglutide Transfer Agreements | 14A.35<br>14A.52<br>14A.76(2)<br>14A.105 | Announcement requirement<br><br>The requirement of limiting the term of agreement to three years or less | [16,700] | [19,200] | [22,100] |
| 3 | Technology Development Services Agreement | 14A.35<br>14A.76(2)<br>14A.105 | Announcement requirement | [12,000] | N/A | N/A |
| | **Non-exempt Continuing Connected Transactions** | | | | | |
| | *Subject to the reporting, annual review, announcement, circular, and independent Shareholders' approval requirements* | | | | | |
| 4 | Manufacturing Services Framework Agreement | 14A.105 | Announcement, independent Shareholders' approval requirements | [144,700] | [161,000] | [179,700] |
| 5 | Pharmaceutical Products Distribution Framework Agreement | 14A.105 | Announcement, independent Shareholders' approval requirements | [65,700] | [81,100] | [104,000] |
| | **Fully Exempt Continuing Connected Transactions** | | | | | |
| | *Exempt from the reporting, announcement, annual review and independent Shareholders' approval requirements* | | | | | |
| 6 | API Overseas Sales Arrangements | 14A.52<br>14A.76(1) | The requirement of limiting the term of agreement to three years or less | [35] | [70] | [140] |
| 7 | Medical Products Procurement | 14A.76(1) | N/A | [600] | [600] | [600] |

## PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

### 1. Procurement Framework Agreement

*Principal Terms*

On [●], our Company [entered] into a procurement framework agreement with Huadong Medicine (on behalf of Huadong Medicine Connected Persons) (the "**Procurement Framework Agreement**"), pursuant to which Huadong Medicine Connected Persons will supply our Group with medical products and equipment, including (i) raw materials and medical consumables for drug production, and research and development; (ii) medical equipment for drug quality inspection; (iii) drugs; and (iv) other supplementary services.

The term of the Procurement Framework Agreement will [commence on the [**REDACTED**] until December 31, 2026] and may be renewed subject to the relevant requirements under the relevant laws, regulations, and the Listing Rules. Under the terms of the Procurement Framework Agreement, our Group and Huadong Medicine Connected Persons will enter into agreements or purchase orders to set out the specific terms and conditions for specific procurement of products or services.

*Reasons for the Transaction*

Huadong Medicine Connected Persons are principally engaged in the distribution and sales of medicines, medical consumables and equipment, and are known for their extensive range of product offerings.

As we have established a diversified pharmaceutical product portfolio, procurement of the relevant medical consumables and equipment and supplementary services is essential to our daily operation and is in line with our ordinary and usual course of business. Huadong Medicine Connected Persons have been providing us with medical consumables and equipment with high quality, stable and quick delivery at a reasonable price since 2001. We believe that Huadong Medicine Connected Persons are familiar with our safety and quality standards, and will be able to meet our demands efficiently.

*Pricing Policy*

The prices for procuring medical consumables and equipment, and supplementary services from Huadong Medicine Connected Persons will be charged at rates no less favorable than rates at which our Group pays independent third parties for comparable transactions and will be determined by the parties through arm's length negotiations with reference to, among others, (i) the prevailing market rates of comparable medical consumables and equipment, and supplementary services provided by the independent third parties; and (ii) the winning price in a public bidding process, determined through thorough assessment by our internal departments when the procurement of equipment valued at over RMB100,000.

***Historical Transaction Amounts***

Our purchase amounts for the medical consumables and equipment, and supplementary services from Huadong Medicine Connected Persons were approximately RMB11.7 million, RMB6.7 million and RMB4.3 million, for the years ended December 31, 2021, and 2022 and the nine months ended September 30, 2023, respectively.

***Annual Caps and Basis of Caps***

Our proposed annual caps of the transactions under the Procurement Framework Agreement for the years ending December 31, 2024, 2025 and 2026 are RMB[11.8] million, RMB[14.1] million and RMB[17.0] million, respectively.

The proposed annual caps were estimated with reference to, amongst others, (i) the historical transaction amounts during the Track Record Period; (ii) our expected rising demands for medical products and equipment from Huadong Connected Persons in the following three years in line with our expected future business growth; and (iii) the medical consumables and equipment, and supplementary services our Group expects to procure from Huadong Medicine Connected Persons.

***Listing Rules Implications***

As one or more of the applicable percentage ratios in respect of the transactions under the Procurement Framework Agreement are expected to be more than 0.1% but all of them are less than 5% on an annual basis, such transactions will, upon the [**REDACTED**], be subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**2. Revenue-Sharing Royalty Arrangement under the Liraglutide Transfer Agreements**

***Background***

*A. Exclusive transfer of liraglutide-related intellectual property to Zhongmei Huadong*

We have nearly 18 years of experience in metabolic disease drug development and initiated our research into the agonists to GLP-1 receptor in 2005. Based on our peptide drug technology platform, we developed the first biosimilar candidate to liraglutide.

In August 2017, we entered into an exclusive technology transfer agreement with Zhongmei Huadong in relation to the technology transfer and development of the diabetes indication (the "**Liraglutide Transfer Agreement (Diabetes Indication)**") and later in May 2019, we entered into an exclusive technology transfer agreement with Zhongmei Huadong in relation to the technology transfer and development of the obesity indication (the "**Liraglutide Transfer Agreement (Obesity Indication)**", together with Liraglutide Transfer Agreement (Diabetes Indication), the "**Liraglutide Transfer Agreements**").

Pursuant to the Liraglutide Transfer Agreements, as a one-off transaction, we exclusively transferred to Zhongmei Huadong the IND approval and relevant technology and intellectual property in relation to diabetes and obesity indications of liraglutide (the "**IP Subjects**"), including but not limited to (i) formulation and quality standards; (ii) all regulatory application materials and approvals; (iii) all research materials and technical data; and (iv) all related patents and patent applications. In addition, we agreed to collaborate with Zhongmei Huadong in preparing samples, conducting clinical trials, developing the technology for commercial production and filing for NDA, until Zhongmei Huadong obtained approval for sale.

*B. Transfer fees*

Under the Liraglutide Transfer Agreements, Zhongmei Huadong should pay us an RMB80.0 million transfer fee for diabetes indication and an RMB25.0 million transfer fee for obesity indication in installments. The transfer fee under each of the Liraglutide Transfer Agreements was determined based on the appraised value of the IP Subjects, being approximately RMB80.7 million and RMB25.3 million, assessed by an independent valuer using the Black-Scholes option pricing model. The valuation took into account various factors, including but not limited to (i) the estimated market value of the IP Subjects upon obtaining the relevant new drug production approval; (ii) the subsequent investment required for further development until obtaining the new drug production approval; (iii) the time needed for the commercialization of the new drug; and (iv) the volatility of the return on investment in the new drug.

Zhongmei Huadong received the NDA approval for the diabetes indication of liraglutide in March 2023 and received the NDA approval for the obesity indication of liraglutide in June 2023. As of the Latest Practicable Date, our rights to and interests in diabetes and obesity indications of liraglutide technology as well as the related documents and materials had been duly transferred to Zhongmei Huadong and we had received all transfer fees of RMB80.0 million and RMB25.0 million, respectively.

*C. Revenue-Sharing Royalty Arrangement*

In addition, pursuant to the Liraglutide Transfer Agreements, we are entitled to a 3.0% royalty based on the annual net sales of liraglutide by Zhongmei Huadong during the first six years of its commercial launch (the "**Revenue-Sharing Royalty Arrangement**"). The Revenue-Sharing Royalty Arrangement was determined after arm's length negotiations between us and Zhongmei Huadong, taking into account (i) common practice in the pharmaceutical industry in respect of revenue sharing based on sales of products developed under the transferred intellectual property; and (ii) according to CIC, the average proportion of the net sales to be enjoyed by an intellectual property transferor under similar arrangements.

*D. Subsequent collaboration regarding liraglutide*

To advance the parties' collaboration in commercialization of liraglutide, Zhongmei Huadong and our Company may enter into separate agreements in relation to technology development and manufacturing in line with the industry practice. For more details in relation to the technology development and manufacturing services, please refer to the paragraphs headed "— Partially Exempt Continuing Connected Transactions — 3. Technology Development Services Agreement" and "— Non-exempt Continuing Connected Transactions — 4. Manufacturing Services Framework Agreement" in this section.

*E. Zhongmei Huadong's right of overseas distribution of liraglutide's API*

Under the Liraglutide Transfer Agreements, we reserved the exclusive right to sell liraglutide's API to the overseas market. In April 2022, we entered into supplementary arrangements (the "**API Overseas Sales Arrangements**") with Zhongmei Huadong, pursuant to which we granted Zhongmei Huadong the right to distribute liraglutide's API in the overseas market. For more details, please refer to the paragraphs headed "— Fully Exempt Continuing Connected Transactions — 6. API Overseas Sales Arrangements" in this section.

***Principal Terms***

For details, please refer to the paragraphs headed "— C. Revenue-Sharing Royalty Arrangement" in this section.

***Reasons for the Revenue-Sharing Royalty Arrangement***

As the R&D of pharmaceutical products requires significant capital investment, it is a common industry practice for the primary drug developer to mitigate risks and costs associated with the drug development process by collaborating with other business partners.

Zhongmei Huadong is a wholly-owned subsidiary of Huadong Medicine focusing on the R&D, production and sales of pharmaceutical products, covering core areas in treatment of diabetes, immune transplantation, chronic kidney disease and digestive disorders. Given our funding requirements for the development of other product pipelines at that time and recognizing the capabilities of Zhongmei Huadong, we entered into the Liraglutide Transfer Agreements to collaborate with Zhongmei Huadong to expedite the commercialization of liraglutide. Through the Revenue-Sharing Royalty Arrangement, we share revenue from liraglutide product sales, leveraging this opportunity to improve our financial results and improve our cash flow, which is beneficial to our overall strategy and product pipeline development. CIC has confirmed that the Liraglutide Transfer Agreements and the Revenue-Sharing Royalty Arrangement are in line with the market practice.

Therefore, taking into consideration of the above and that the Revenue-Sharing Royalty Arrangement is arrived at after arm's length negotiation and is in line with the industry average for similar arrangements, the Company believes the Revenue-Sharing Royalty Arrangement is fair and reasonable to the parties thereto, on normal commercial terms and in the interests of the Company and its Shareholders as a whole.

***Historical Transaction Amounts***

Zhongmei Huadong had commenced the sales of liraglutide product by July 2023, and the settlement for the royalties in 2023 is expected to take place after Zhongmei Huadong's audited financial statement for 2023 is available. As a result, there was no historical amount received by our Company from Zhongmei Huadong under the Revenue-Sharing Royalty Arrangement.

***Annual Caps and Basis of Caps***

The payment to be received from Zhongmei Huadong under the Revenue-Sharing Royalty Arrangement will be determined by the following formula:

Annual cap for the Revenue-Sharing Royalty Arrangement = 3% × annual net sales of liraglutide (excluding the value-added tax)

Our proposed annual caps of the transaction under the Revenue-Sharing Royalty Arrangement for the years ending December 31, 2024, 2025 and 2026 are RMB[16.7] million, RMB[19.2] million and RMB[22.1] million, respectively.

The proposed annual caps were estimated with reference to, amongst others, (i) our capacity to manufacture injection products of liraglutide in one year, as Zhongmei Huadong exclusively contracts us for the production; (ii) the anticipated annual sales of the liraglutide product; and (iii) the effective government-guided price for the liraglutide product governed by the National Healthcare Security Administration.

*Listing Rule Implications*

As one or more of the applicable percentage ratios in respect of the transaction under the Revenue-Sharing Royalty Arrangement are expected to be more than 0.1% but all of them are less than 5% on an annual basis, such transactions will, upon the **[REDACTED]**, be subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

*Waiver from Strict Compliance with the Requirement of Term of Agreement*

Under Rule 14A.52 of the Listing Rules, a listed issuer is required to set a contractual term not exceeding three years for its continuing connected transaction agreement. However, the term of the Revenue-Sharing Royalty Arrangement is for six years since the launch of liraglutide's commercialization. It allows us to benefit in the longer term from the royalty generated from Zhongmei Huadong's net sales of liraglutide. Restricting the term of the Revenue-Sharing Royalty Arrangement for a period of three years would be contrary to the business intention of the parties and is not in the interests of our Company and the Shareholders as a whole. Therefore, we applied to the Stock Exchange and the Stock Exchange [has granted] a waiver under Rule 14A.52 of the Listing Rules from strict compliance with the contractual term requirement.

**3. Technology Development Services Agreement**

*Principal Terms*

In May 2019, our Company entered into a technology development services agreement with Zhongmei Huadong (the "**Technology Development Services Agreement**") with a term from 2017 to 2024, pursuant to which our Group would provide technology development services (excluding the clinical research) of liraglutide in relation to the diabetes indication to Zhongmei Huadong, and Zhongmei Huadong would make milestone payments to us accordingly.

The service scope under the Technology Development Service Agreement includes, among others, (i) research and development of prescription process and quality studies; (ii) scaling up of the manufacturing and optimizing the formulation; (iii) design of a new delivery device for liraglutide and the construction of the production line; and (iv) applying for and obtaining NDA approval for the diabetes indication of liraglutide. The Technology Development Services Agreement is anticipated to conclude in 2024 upon the fulfillment of each of the relevant milestones as mentioned below.

*Reasons for the Transaction*

To facilitate the commercialization of liraglutide, Zhongmei Huadong needs to scale up its manufacturing and optimize formulation. Considering that we have the necessary manufacturing capabilities and refinement expertise for liraglutide's production line, coupled with our extensive experience in liraglutide's technology development, Zhongmei Huadong chooses us as a competent partner. Therefore, apart from the technology transfer agreements, we entered into (i) the Technology Development Services Agreement, and (ii) the Manufacturing Services Framework Agreement, providing technology development services and manufacturing services in respect of liraglutide. For more details, please refer to the paragraphs headed "— Non-exempt Continuing Connected Transactions — 4. Manufacturing Services Framework Agreement" in this section.

We believe the technology development services would assist Zhongmei Huadong in facilitating the commercialization of liraglutide, which is in line with market practice under similar technology transfer arrangements. In addition, our experience and expertise gained through providing the technology development services would yield valuable insights instrumental to our future commercialization efforts for our other GLP-1 receptor agonist and products.

*Pricing Policy*

The service fees charged by our Group from Zhongmei Huadong were determined by our Group and Zhongmei Huadong through arm's length negotiations with reference to a number of factors, among others, (i) the complexity and novelty of the technology involved, reflecting the level of expertise, resources as well as the cost of labor required; (ii) market benchmarks for similar technology development services in the industry; (iii) the anticipated scale of production of liraglutide, including the R&D expenses associated with scaling up manufacturing process; and (iv) the relevant research expenses required for the regulatory compliance and approval as to the diabetes indication of liraglutide.

*Milestone Payments and Historical Transaction Amounts*

Pursuant to the Technology Development Services Agreement, the Company is entitled to receive an aggregate amount of RMB40.0 million milestone payment from Zhongmei Huadong according to the following schedule:

| | **Milestone** | **Payment** |
|---|---|---|
| (i) | completion of the process scale-up studies on production capabilities | RMB20.0 million |
| (ii) | completion of the development of the disposable injection pen form | RMB12.0 million |
| (iii) | completion of the application for and obtaining NDA approval | RMB8.0 million |

As of September 30, 2023, we have achieved milestone events (i) and (iii) with a total payment amount of RMB28.0 million.

*Annual Cap and Basis of Cap*

Our proposed annual cap of the transactions under the Technology Development Services Agreement for the year ending December 31, 2024 is RMB[12.0] million, taking into account the estimated timing of the milestone event (ii) above is expected to occur in 2024.

*Listing Rules Implications*

As one or more of the applicable percentage ratios in respect of the transaction under the Technology Development Services Agreement are expected to be more than 0.1% but all of them are less than 5% on an annual basis, such transactions will, upon the [**REDACTED**], be subject to the reporting, announcement and annual review requirements but exempt from the circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### 4. Manufacturing Services Framework Agreement

*Principal Terms*

On [●], our Company [entered] into a manufacturing services framework agreement with Zhongmei Huadong (the "**Manufacturing Services Framework Agreement**"). Pursuant to the Manufacturing Services Framework Agreement, we will provide manufacturing services for API and injection products of liraglutide to Zhongmei Huadong and/or its associates. The term of the Manufacturing Services Framework Agreement will [commence on the [**REDACTED**] until December 31, 2026] and may be renewed subject to the relevant requirements under the relevant laws, regulations, and the Listing Rules. Under the Manufacturing Services Framework Agreement, our Group and Zhongmei Huadong and/or its associates will enter into agreements to set out terms and conditions in respect of specific manufacturing services from time to time.

*Reasons for the Transaction*

Following Zhongmei Huadong's receipt of NDA approval for the diabetes indication of liraglutide in March 2023, we entered into a one-year manufacturing services contract with Zhongmei Huadong in April 2023 for the API and injection products of liraglutide. Considering our manufacturing capabilities and expertise in liraglutide, and the time required for Zhongmei Huadong to establish a full-process production line and reach its anticipated production capacity, we will continue to provide these manufacturing services in the near future.

Our longstanding cooperation with Zhongmei Huadong has allowed both our Group and Zhongmei Huadong to gain a comprehensive understanding of each other's business and operational requirements, fostering a solid foundation of mutual trust. Leveraging our production capacity, we are able to provide quality manufacturing services to satisfy the needs of Zhongmei Huadong in our ordinary and usual course of business.

*Pricing Policy*

The service fees charged by our Group from Zhongmei Huadong and/or its associates will be no less favorable than that offered by our Group to other independent third parties for comparable transactions and will be determined by our Group and Zhongmei Huadong and/or its associates through arm's length negotiations with reference to a number of factors, among others, (i) the nature and value of the relevant services rendered by our Group; (ii) the actual cost and expenses for the manufacturing services; and (iii) the market prevailing gross margin of comparable manufacturing services.

*Historical Transaction Amounts*

The amounts charged by our Group for the manufacturing services from Zhongmei Huadong were RMB0, RMB0 and approximately RMB8.6 million, for the years ended December 31, 2021, and 2022 and the nine months ended September 30, 2023, respectively.

*Annual Caps and Basis of Caps*

Our proposed annual caps of the transactions under the Manufacturing Services Framework Agreement for the years ending December 31, 2024, 2025 and 2026 are RMB[144.7] million, RMB[161.0] million and RMB[179.7] million, respectively.

The proposed annual caps were estimated with reference to, amongst others, (i) our manufacturing capacity of liraglutide's API and injection products as well as the expected manufacturing demands from Zhongmei Huadong and/or its associates. Zhongmei Huadong had its liraglutide injection marketing authorization application for diabetes indication approved by NMPA in March 2023 and received the NDA approval for the obesity indication in June 2023, and thus there will be an increased need of the manufacturing services; (ii) the production costs of liraglutide's API and injectable products; and (iii) the prevailing market gross margin for comparable manufacturing services.

*Listing Rules Implications*

As one or more of the applicable percentage ratios in respect of the transactions under the Manufacturing Services Framework Agreement are expected to exceed 5% on an annual basis, such transactions will, upon the [**REDACTED**], be subject to the reporting, annual review, announcement and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**5. Pharmaceutical Products Distribution Framework Agreement**

*Principal Terms*

On [●], our Company [entered] into a pharmaceutical products distribution framework agreement with Huadong Medicine (on behalf of Huadong Medicine Connected Persons) (the "**Pharmaceutical Products Distribution Framework Agreement**"), pursuant to which Huadong Medicine Connected Persons will help distribute our products to medical institutions and purchase from our Group pharmaceutical products for distribution to hospitals that are independent third parties.

The term of the Pharmaceutical Products Distribution Framework Agreement will [commence on the [**REDACTED**] until December 31, 2026] and may be renewed subject to the relevant requirements under the relevant laws, regulations, and the Listing Rules. Under the Pharmaceutical Products Distribution Framework Agreement, our Group and Huadong Medicine will enter into agreements to set out the terms and conditions in respect of the distribution of specific pharmaceutical products from time to time.

***Reasons for the Transaction***

Our principal business is the provision of medical devices, small molecule drugs, recombinant proteins and other marketed products. We sell our drug products primarily to third-party distributors, who are our direct customers and are responsible for on-selling and delivering our products to hospitals, other medical institutions and pharmacies. We have a seller-buyer relationship with our distributors. We retain no ownership over the products that we sell to them, and all significant risks and rewards associated with these products are transferred to them upon delivery to and acceptance by them. We believe this distribution model helps extend our coverage in a cost-effective manner while retaining proper control over our distribution network and marketing and promotion process. For more details of our distribution arrangement, please refer to the paragraphs headed "Business — Sales, Marketing and Distribution" in this document.

Since 2000, we have been distributing our marketed products through Huadong Medicine Connected Persons. With their wide and developed distribution network, they were selected as our distributors in accordance with our distributor management policy from time to time. Under similar or comparable terms, we prefer Huadong Medicine Connected Persons for its good market reputation and their ample experience and solid foundation in this field and its long-term business relationship between us.

***Pricing Policy***

The prices for the pharmaceutical products provided by our Group to Huadong Medicine will be no less favorable than those our Group offers to other distributors that are independent third parties for comparable transactions, and will be determined by our Group and Huadong Medicine Connected Persons through arm's length negotiations with reference to, among others, (i) the procurement prices announced by competent local authorities, namely, the provincial tendering offices; and (ii) the prices offered by our Group to independent third-party distributors for the relevant pharmaceutical products.

***Historical Transaction Amounts***

Our sales of pharmaceutical products to Huadong Medicine Connected Persons were approximately RMB58.2 million, RMB70.9 million and RMB54.2 million, for the years ended December 31, 2021, and 2022 and the nine months ended September 30, 2023, respectively.

*Annual Caps and Basis of Caps*

Our proposed annual caps for the transactions under the Pharmaceutical Products Distribution Framework Agreement for the years ending December 31, 2024, 2025 and 2026 are RMB[65.7] million, RMB[81.1] million and RMB[104.0] million, respectively.

The proposed annual caps were estimated with reference to, amongst others, (i) the historical transaction amounts; (ii) the anticipated growth in market demands for our products from medical institutions, driven by the enhanced promotion efforts of our in-house sales and marketing team; and (iii) the potential effect of inflation and increment in operational costs, and potential price fluctuation of the raw materials in relation to the pharmaceutical products.

*Listing Rules Implications*

As one or more of the applicable percentage ratios in respect of the transactions under the Pharmaceutical Products Distribution Framework Agreement are expected to exceed 5% on an annual basis, such transactions will, upon the [**REDACTED**], be subject to the reporting, annual review, announcement and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

### 6. API Overseas Sales Arrangements

Pursuant to the Liraglutide Transfer Agreements, we reserved the exclusive right to sell liraglutide's API to the overseas market. Furthermore, under the API Overseas Sales Arrangements, we granted Zhongmei Huadong a non-exclusive right to distribute liraglutide's API in the overseas market, except for 17 Middle Eastern and North African countries, where Zhongmei Huadong was granted an exclusive right. In return, Zhongmei Huadong should pay a sales royalty equal to 7% of the net sales generated from its overseas sales of liraglutide's API. This arrangement will extend for 15 years, commencing from the year Zhongmei Huadong achieves initial overseas sales of liraglutide's API. The API Overseas Sales Arrangements are of an indefinite term unless terminated by mutual consent.

As Zhongmei Huadong had not commenced selling liraglutide's API to the overseas market as of the Latest Practicable Date, there was no historical amount received by our Company from Zhongmei Huadong under the API Overseas Sales Arrangements. Our proposed annual caps of the transactions under the API Overseas Sales Arrangements for the years ending December 31, 2024, 2025 and 2026 are RMB[35,000], RMB[70,000] and RMB[140,000], respectively. The proposed annual caps were estimated with reference to, among others, Zhongmei Huadong's expected selling efforts in the overseas market with regard to liraglutide's API and its expected scale of sales in the foreseeable future.

*Listing Rules Implications*

As all the applicable percentage ratios in respect of the transactions under the API Overseas Sales Arrangements are expected to be less than 0.1% on an annual basis, such transactions will be fully exempt from the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

*Waiver from Strict Compliance with the Requirement of Term of Agreement*

Under Rule 14A.52 of the Listing Rules, a listed issuer is required to set a contractual term not exceeding three years. However, the API Overseas Sales Arrangements are for an indefinite term. For the following reasons, our Company applied to the Stock Exchange for a waiver under Rule 14A.52 of the Listing Rules from strict compliance with the contractual term requirement:

(i) the API Overseas Sales Arrangements allow our Group to benefit in the long term from the royalty generated from Zhongmei Huadong's net sales of liraglutide's API to the overseas market. Imposing a restriction on the terms of the API Overseas Sales Arrangements for a period of three years would deviate from the market prevailing practice and be contrary to the business intention of the parties; and

(ii) such an indefinite term of arrangement is in the interests of our Company and the Shareholders as a whole.

**7. Medical Products Procurement**

During the Track Record Period, our Group procured medical products, including traditional Chinese medicine products, from Hangzhou Zhangtongtai from time to time for employee benefits and to a lesser extent, marketing purpose (the "**Medical Products Procurement**"). The transaction amounts under the Medical Products Procurement were approximately RMB366,000, RMB709,000 and RMB496,000, for the years ended December 31, 2021, and 2022 and the nine months ended September 30, 2023, respectively. It is anticipated that the Medical Products Procurement will continue in the foreseeable future and the expected amounts thereunder for the years ending December 31, 2024, 2025 and 2026 would be RMB[600,000], RMB[600,000] and RMB[600,000], respectively.

The Medical Products Procurement is on normal commercial terms. The prices for medical products from Hangzhou Zhangtongtai will be charged at rates no less favorable than rates at which our Group pays independent third parties for comparable transactions and will be determined by the parties through arm's length negotiations.

*Listing Rules Implications*

As all the applicable percentage ratios in respect of the Medical Products Procurement are expected to be less than 0.1% on an annual basis, the Medical Products Procurement will be fully exempt from the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## INTERNAL CONTROL MEASURES FOR CONTINUING CONNECTED TRANSACTIONS

We have established the following internal control measures to closely monitor connected transactions and ensure that our existing and future connected transactions are on normal commercial terms that are no less favorable to our Group than terms available to or offered by independent third parties:

- We have adopted and implemented a management system for connected transactions. Under such system, the Audit Committee is responsible for overseeing compliance with relevant laws, regulations, our Group's internal policies, and the Listing Rules in respect of the connected transactions. In addition, the Audit Committee, the Board, and the internal departments of our Group (including but not limited to the internal audit department and procurement department) are jointly responsible for evaluating the terms under the framework agreements for continuing connected transactions;

- With respect to the fairness of the pricing policies and annual caps under the framework agreements with connected persons, our management team will regularly review them through the following procedures: (i) if a comparable market price is available, we will compare the proposed product price or service fee with the market price to ensure that the proposed product price or service fee will not be less favorable to us than the market price; and (ii) if no comparable market price is available, our procurement or sales department will conduct arm's length negotiation with the relevant connected persons to determine the terms in line with the relevant pricing policies based on a number of factors including prices offered by independent third parties, competition landscape, production costs and expenses, transaction volumes and etc.;

- After arm's length negotiation with the relevant connected persons and several rounds of internal assessment conducted on individual transactions based on the above factors by our Company's internal departments such as business department and treasury department, a final report will be made to our senior management who will approve individual transactions;

- Our internal audit department will regularly collect and monitor the transaction amount of continuing connected transactions to ensure timely assessment of whether the annual caps are exceeded or about to be exceeded; and

- Our independent non-executive Directors will also conduct an annual review on the partially exempt continuing connected transactions and non-exempt continuing connected transactions to ensure that such transactions have been entered into on normal commercial terms, are fair and reasonable, and are conducted according to the terms of the relevant framework agreement. The auditor of our Company will also conduct an annual review on the pricing and annual caps of the partially exempt continuing connected transactions and non-exempt continuing connected transactions.

## CONFIRMATION OF OUR DIRECTORS

Our Directors (including independent non-executive Directors) consider that (i) the partially exempt continuing connected transactions and the non-exempt continuing connected transactions have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms, are fair and reasonable and in the interests of our Group and Shareholders as a whole; (ii) the proposed annual caps in respect of the partially exempt continuing connected transactions and the non-exempt continuing connected transactions are fair and reasonable, and in the interests of our Group and Shareholders as a whole; (iii) the term of transaction longer than three years under the Revenue-Sharing Royalty Arrangement is in accordance with normal business practice and is fair and reasonable, and in the interests of our Group and Shareholders as a whole; and (iv) the indefinite term of the transactions under the API Overseas Sales Arrangements is in accordance with normal business practice and is fair and reasonable, and in the interests of our Group and Shareholders as a whole.

## CONFIRMATION OF THE SOLE SPONSOR

The Sole Sponsor has reviewed the relevant information and historical figures prepared and provided by us in relation to the partially exempt continuing connected transactions and the non-exempt continuing connected transactions as set out above, obtained various representations and confirmations from us, and made reasonable inquiries. Based on the aforementioned due diligence work, the Sole Sponsor is of the view that (i) the partially exempt continuing connected transactions and the non-exempt continuing connected transactions as set out above have been and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better, are fair and reasonable and in the interests of our Group and Shareholders as a

whole; (ii) the proposed annual caps in respect of the partially exempt continuing connected transactions and the non-exempt continuing connected transactions are fair and reasonable, and in the interests of our Group and Shareholders as a whole; (iii) the term of transaction longer than three years under the Revenue-Sharing Royalty Arrangement is in accordance with normal business practice and is fair and reasonable, and in the interests of our Group and Shareholders as a whole; and (iv) the indefinite term of the transactions under the API Overseas Sales Arrangements is in accordance with normal business practice and is fair and reasonable, and in the interests of our Group and Shareholders as a whole.

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

The transactions described under the paragraphs headed "Partially Exempt Continuing Connected Transactions" in this section will constitute our continuing connected transactions under the Listing Rules upon the [**REDACTED**], which will be subject to the reporting, annual review and announcement requirements but exempt from independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The transactions described under the paragraphs headed "Non-exempt Continuing Connected Transactions" in this section will constitute our continuing connected transactions under the Listing Rules upon the [**REDACTED**], which will be subject to the reporting, annual review, announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange [has granted], waivers from strict compliance with (i) the announcement requirement under Chapter 14A of the Listing Rules in respect of the continuing connected transactions described under the paragraphs headed "Partially Exempt Continuing Connected Transactions" in this section, and (ii) the announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions described under the paragraphs headed "Non-exempt Continuing Connected Transactions" in this section, subject to the conditions that (i) these continuing connected transactions will be carried out in compliance with the requirements of the Listing Rules and that the Company shall comply with the relevant requirements for continuing connected transactions in accordance with Chapter 14A of the Listing Rules; and (ii) the amounts of the continuing connected transactions for each financial year will not exceed the relevant amounts set forth in the respective annual caps as stated above.

Apart from (i) the requirements for the term of agreement under Rule 14A.52 (with respect to the transactions under the Revenue-Sharing Royalty Arrangement and the API Overseas Sales Arrangements), and (ii) the above waivers sought on the strict compliance of the announcement and/or independent Shareholders' approval requirements, we will comply with the relevant requirements under Chapter 14A of the Listing Rules.

If any terms of the transactions contemplated under the agreements mentioned above are altered or if our Group enters into any new agreements with any connected person in the future, we will fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless we apply for and obtain a separate waiver from the Stock Exchange.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate actions to ensure compliance with such new requirements within a reasonable time.

## OVERVIEW

The Board currently consists of nine Directors, including two executive Directors, four non-executive Directors and three independent non-executive Directors. The Directors serve for a term of three years and shall be subject to re-election upon retirement. The Board is responsible for and has the general power over the management and operation of our business, including determining our business strategies and investment plans, implementing resolutions passed at our general meetings, and exercising other powers, functions and duties as conferred by the Articles of Association. The Board also assumes the responsibilities for developing and reviewing the policies and practices of the Company on corporate governance, risk management, internal control and compliance with legal and regulatory requirements.

The Supervisory Committee currently consists of three Supervisors, including one employee representative Supervisor elected by our employees and two shareholder representative Supervisors elected at the Shareholders' general meetings. The Supervisory Committee is responsible for supervising the performance of duty of the Board and the senior management of the Company and overseeing the financial, internal control and risk conditions of the Company.

The senior management currently consists of six members who are responsible for our day-to-day management and operation.

## DIRECTORS

The following table sets forth the key information about the Directors as at the Latest Practicable Date.

| Name | Age | Position | Responsibilities | Date of the first appointment as a Director | Date of joining the Group | Relationship with other Directors, Supervisors and senior management |
|---|---|---|---|---|---|---|
| Mr. Fu Hang (傅航) | 60 | Executive Director, chairman of the Board and general manager | Responsible for the overall strategy planning of our Group and business operations and making key business and operational decisions of our Group | February 2000 | February 2000 | None |
| Mr. Zhou Wei (周偉) | 48 | Executive Director, deputy general manager and general manager of pharmacy services | Responsible for the strategy planning and overall operation management of our Group's marketing business | May 2019 | January 2014 | None |

| Name | Age | Position | Responsibilities | Date of the first appointment as a Director | Date of joining the Group | Relationship with other Directors, Supervisors and senior management |
|---|---|---|---|---|---|---|
| Ms. Ma Honglan (馬紅蘭) | 53 | Non-executive Director | Responsible for participating in major decisions on our Group's operations and development | October 2021 | October 2021 | None |
| Mr. Wu Shihang (吳詩航) | 33 | Non-executive Director | Responsible for participating in major decisions on our Group's operations and development | October 2021 | October 2021 | None |
| Mr. Albert Esteve Cruella | 64 | Non-executive Director | Responsible for participating in major decisions on our Group's operations and development | June 2007 | June 2007 | None |
| Mr. Fei Junjie (費俊傑) | 27 | Non-executive Director | Responsible for participating in major decisions on our Group's operations and development | May 2023 | May 2023 | None |
| Mr. Zhou Zhihui (周智慧) | 42 | Independent non-executive Director | Responsible for supervising and offering independent judgment to the Board | November 2023 | November 2023 | None |
| Ms. Ho Mei Yi (何美儀) | 57 | Independent non-executive Director | Responsible for supervising and offering independent judgment to the Board | November 2023 | November 2023 | None |
| Dr. Zhou Demin (周德敏) | 57 | Independent non-executive Director | Responsible for supervising and offering independent judgment to the Board | November 2023 | November 2023 | None |

**Executive Directors**

**Mr. Fu Hang (傅航)**, aged 60, was appointed as our Director in February 2000. He served as our deputy general manager from February 2000 to December 2013. He has served as our general manager since January 2014 and was appointed as our chairman of the Board in November 2023 with his appointment taking effect from December 2023. He was later re-designated as an executive Director in January 2024. He is primarily responsible for the overall strategy planning of our Group and business operations and making key business and operational decisions of our Group. He has also served as the executive director of Cosmotrust Biopharmaceutical, our wholly owned subsidiary, since June 2020 and is primarily responsible for its overall business operations.

Mr. Fu has more than 30 years of experience in pharmaceutical industry. Mr. Fu served in Hangzhou Huadong Pharmaceutical Factory (杭州華東製藥廠) from October 1988 to December 1992, with his last position as the head of the factory office. He served as the head of the general manager's office of Zhongmei Huadong from January 1993 to January 1996, where he also served as the head of the general manager's office and assistant to the general manager from January 1996 to February 2000. He served as the head of the integrated office of Hangzhou Huadong Medicine Group Co., Ltd. (杭州華東醫藥集團有限公司) from November 1997 to February 2000, where he also served as the director and deputy general manager from February 2003 to November 2019. Mr. Fu has served as the executive partner of Nanbeiju since July 2023.

Mr. Fu received a three-year college graduation certificate in industrial business management from Zhejiang Radio and Television University (浙江廣播電視大學) (currently known as Zhejiang Open University (浙江開放大學)) in December 1986, and a postgraduate graduation certificate in management science and engineering from Zhejiang University (浙江大學) in October 2003. Mr. Fu was recognized as a senior economist by Zhejiang Province Human Resources and Social Security Department (浙江省人力資源和社會保障廳) in December 2010. Mr. Fu was recognized as one of the Excellent Small and Medium Entrepreneurs of Hangzhou (杭州市優秀中小企業家) by Association for Small and Medium Enterprises of Hangzhou (杭州市中小企業協會) in December 2016 and was awarded the Model Worker Medal of Hangzhou (杭州市勞動模範獎章) jointly issued by Hangzhou Municipal Party Committee (中共杭州市委) and Hangzhou Municipal Government (杭州市人民政府) in 2022.

**Mr. Zhou Wei (周偉)**, aged 48, was appointed as our Director in May 2019. He was later re-designated as an executive Director in January 2024. He is primarily responsible for the strategy planning and overall operation management of our Group's marketing business. Mr. Zhou also served as the assistant to the general manager and general manager of marketing department of our Company from January 2014 to October 2017 and has served as the deputy general manager and general manager of pharmacy services of our Company since October 2017.

Mr. Zhou served in Zhejiang Kanglaite Pharmaceutical Co., Ltd. (浙江康萊特藥業有限公司) from August 1998 to December 2006, with his last position as the manager of sales department, and was responsible for pharmaceutical sales. He then consecutively served as the assistant to the general manager and then the deputy general manager in Zhejiang Kanglaite Medicines and Health Products Sales Co., Ltd. (浙江康萊特醫藥保健品銷售有限公司) from January 2007 to December 2013 and was primarily responsible for sales of pharmaceutical products.

Mr. Zhou obtained a bachelor's degree in economic information management from Hangzhou College of Commerce (杭州商學院) (currently known as Zhejiang Gongshang University (浙江工商大學)) in July 1998.

**Non-executive Directors**

**Ms. Ma Honglan (馬紅蘭)**, aged 53, was appointed as our Director in October 2021. She was later re-designated as a non-executive Director in January 2024. She is primarily responsible for participating in major decisions on our Group's operations and development.

Ms. Ma served consecutively as a cost accountant, the manager of accounting, an assistant to the financial manager and the financial manager of Zhongmei Huadong from July 1994 to July 2010. She then served as the financial controller of Huadong Medicine from July 2010 to November 2019, where she has served as an assistant to the chairperson of the board of directors since December 2019, assisting the chairperson of the board of directors in internal risk control and management. Ms. Ma currently holds positions as a director or supervisor in the following companies:

| Company name | Position | Date of appointment |
|---|---|---|
| Bailing Health Science (Hangzhou) Co., Ltd. (柏瓴健康科學(杭州)有限公司) | Chairwomen of the board of directors | May 2021 |
| Hangzhou Xinglian Health Technology Co., Ltd. (杭州杏聯健康科技有限公司) | Supervisor | April 2021 |
| Chengdu Beaver Internet Hospital Co., Ltd. (成都海狸互聯網醫院有限公司) | Supervisor | January 2021 |
| Meidi Bikang Technology (Shanghai) Co., Ltd. (美迪必康科技(上海)有限公司) | Executive director | September 2020 |
| Huadong Medicine Investment Holding (Hong Kong) Limited (華東醫藥投資控股(香港)有限公司) | Director | June 2018 |
| Huadong Medicine Aesthetics Investment (Hong Kong) Limited (華東醫藥醫美投資(香港)有限公司) | Director | June 2018 |
| Huadong Medicine (Xi'an) Bodyguard Pharmaceutical Co., Ltd. (華東醫藥(西安)博華製藥有限公司) | Supervisor | December 2016 |
| Hangzhou Huasheng Investment Management Co., Ltd. (杭州華晟投資管理有限公司) | Supervisor | November 2015 |
| Zhongmei Huadong | Supervisor | July 2014 |

Ms. Ma obtained a bachelor of economics degree from Zhejiang Institute of Finance and Economics (浙江財經學院) (currently known as Zhejiang University of Finance and Economics (浙江財經大學)) in July 1994. Ms. Ma was recognized as Chinese Certified Public Accountant by the CPA Examination Committee of Ministry of Finance of the PRC (中華人民共和國財政部註冊會計師考試委員會) in May 2004 and a senior accountant by Zhejiang Province Human Resources and Social Security Department in April 2005. She obtained the Certificate of Senior Leading Accounting Talents (高級會計領軍人才證書) by Zhejiang Provincial Department of Finance (浙江省財政廳) in November 2007 and was recognized as a Class D High-level Talent of Hangzhou (杭州市高層次人才(D類)) jointly by the Talent Work Leading Group Office of the Communist Party of China Hangzhou Municipal Committee (中共杭州市委人才工作領導小組辦公室) and Hangzhou Municipal Bureau of Human Resources and Social Security of Hangzhou (杭州市人力資源與社會保障局) in March 2019. She also obtained the independent director of listed companies qualification certificate (上市公司獨立董事資格證書) issued by the Shenzhen Stock Exchange in November 2020.

**Mr. Wu Shihang (吳詩航)**, aged 33, was appointed as a Director in October 2021 and is primarily responsible for participating in major decisions on our Group's operations and development. He was later re-designated as the non-executive Director in January 2024.

Mr. Wu has consecutively served as an investment specialist, a junior manager and now deputy manager of the investment management department of Insigma Technology Co., Ltd. (浙大網新科技股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600797)) since August 2015. Mr. Wu currently holds positions as a director or supervisor in the following companies:

| Company name | Position | Date of appointment |
|---|---|---|
| Hangzhou Yunyingyun Data Co., Ltd. (杭州雲盈雲數據有限公司) | Director | November 2022 |
| Zhejiang Numerical Safety Certificate Management Co., Ltd. (浙江省數字安全證書管理有限公司) | Director | April 2022 |
| Ningbo Puze Intelligent Equipment Co., Ltd. (寧波普澤智能裝備有限公司) | Director | November 2021 |
| Chengdu Wangxin Jiwei Cloud Data Technology Co., Ltd. (成都網新積微雲數據科技有限公司) | Supervisor | April 2021 |
| Zhejiang Watone Cloud Data Technology Co., Ltd. (浙江華通雲數據科技有限公司) | Supervisor | September 2019 |

Mr. Wu obtained a bachelor's degree in finance from Dalian University of Technology (大連理工大學) in June 2012 and a master of science degree in finance from Clark University in the U.S. in May 2014.

**Mr. Albert Esteve Cruella**, aged 64, was appointed as a Director in June 2007 and is primarily responsible for participating in major decisions on our Group's operations and development. He was later re-designated as a non-executive Director in January 2024.

Mr. Esteve served in Laboratorios Dr. Esteve, S.A. primarily responsible for marketing of over-the-counter products from October 1983 to April 1986 and then served in Alpin, S.A. primarily responsible for marketing of over-the-counter drug and prescription drug products from May 1986 to December 1989. Mr. Esteve then served as a deputy managing director of Laboratorios Pen, S.A. from January 1990 to December 2001. He then served as the chief executive officer of Laboratorios Dr. Esteve S.A. from January 2002 to December 2017, and the chief executive officer of Esteve Química, S.A. from April 2006 to December 2017. He has served as the chairman of the board of directors of CQFE since December 2017, and has also served as the chairman of the board of directors of Esteve Healthcare, S.L. since October 2023.

Mr. Esteve obtained a bachelor's degree in economics from the University of Barcelona in Spain in November 1983.

**Mr. Fei Junjie (費俊傑)** (formerly known as Fei Jiayuan (費佳圓)), aged 27, was appointed as a Director in May 2023 and is primarily responsible for participating in major decisions on our Group's operations and development. He was later re-designated as a non-executive Director in January 2024.

Mr. Fei served in the financial investment department of Hangzhou Investment from July 2021 to February 2023, primarily responsible for analysis of industry policies and developments and project supervision. He has then served in the financial service (industrial operation) department of the same company since March 2023 with same responsibilities. Mr. Fei currently holds positions as a director or supervisor in the following companies:

| Company name | Position | Date of appointment |
|---|---|---|
| Hangzhou Property Rights Exchange Co., Ltd. (杭州產權交易所有限責任公司) | Director | May 2023 |
| Hangzhou Cultural Property Exchange Co., Ltd. (杭州文化產權交易所有限公司) | Director | May 2023 |
| Zhejiang Equity Trading Center Co., Ltd. (浙江股權服務集團有限公司) | Supervisor | May 2023 |
| Zhejiang Zheshang Innovation Capital Management Co., Ltd. (浙江浙商創新資本管理有限公司) | Supervisor | May 2023 |

Mr. Fei obtained a bachelor of science degree in mathematics and applied mathematics from Zhejiang University of Technology (浙江工業大學) in June 2018 and a master of finance degree from Zhejiang University in June 2021.

**Independent Non-executive Directors**

**Mr. Zhou Zhihui (周智慧)**, aged 42, was appointed as an independent non-executive Director in November 2023 with his appointment taking effect from December 2023. He is responsible for supervising and offering independent judgement to the Board.

Mr. Zhou consecutively served as a project manager, a deputy department manager, an assistant to the general manager of Taizhou Zhongtian Accounting Firm Co., Ltd. (台州中天會計師事務所有限公司) (currently known as Zhejiang Zhongyong Zhongtian Accounting Firm Co., Ltd. (浙江中永中天會計師事務所有限公司)) from July 2004 to December 2015. He then served as the general manager of Taizhou Zhongtian Tax Agent Co., Ltd. (台州中天税務師事務所有限公司) (currently known as Taizhou Zhilian Zhongtian Accounting Firm Co., Ltd. (台州知聯中天税務師事務所有限公司)) and an assistant to the general manager of Zhejiang Zhongyong Zhongtian Accounting Firm Co., Ltd. from December 2015 to December 2018. He then served as the deputy general manager of Zhejiang Zhongyong Zhongtian Accounting Firm Co., Ltd. from January 2019 to December 2021. He has served as the chairman of the board of directors of Zhejiang Zhongyong Zhongtian Accounting Firm Co., Ltd. and the general manager of Taizhou Zhilian Zhongtian Accounting Firm Co., Ltd. since January 2022. Mr. Zhou has also served as an independent director of Quzhou Oriental Group of Zhejiang Co., Ltd. (浙江衢州東方集團股份有限公司) (a company listed on the National Equities Exchange and Quotations (全國中小企業股份轉讓系統) (stock code: 833374)) since August 2023.

Mr. Zhou obtained a bachelor's degree in accounting from Zhejiang University of Finance and Economics in June 2004. He was recognized as a senior accountant by Zhejiang Province Human Resources and Social Security Department in February 2020 and a Chinese Certified Public Accountant by Zhejiang Provincial Institute of Certified Public Accountants (浙江省註冊會計師協會) in December 2012. He also obtained the Chinese Tax Advisers Qualification Certificate (中國税務師資格證書) from Zhejiang Province Registered Tax Accountant Management Center (浙江省註冊税務師管理中心) in November 2011. Mr. Zhou has also served as a managing member of Zhejiang Provincial Institute of Certified Public Accountants since September 2022 and a managing vice president of New Social Class Association of Taizhou (台州市新的社會階層人士聯誼會) since June 2022.

**Ms. Ho Mei Yi (何美儀)** (formerly known as Ho Ling (何玲)), aged 57, was appointed as an independent non-executive Director in November 2023 with her appointment taking effect from December 2023. She is responsible for supervising and offering independent judgement to the Board.

Ms. Ho served as the administrative officer of legal section of Hang Seng Bank Limited (恆生銀行有限公司) (a company listed on the Stock Exchange (stock code: 0011)) from September 1997 to May 2001. Ms. Ho has served as the chairwoman of the board of the directors of Fortune Enterprise Holding Limited (海富企業控股有限公司) and is responsible for the major decisions and direction of the company since October 2001 and has served as a lawyer of Guangzhou Datong Law Firm (廣東大同律師事務所) since April 2004 focusing on Hong Kong-related cross-border investments.

Ms. Ho obtained a bachelor of arts degree in English from Sun Yat-sen University (中山大學) in July 1988. She obtained a diploma in business management with distinction jointly awarded by Hong Kong Polytechnic (香港理工學院) (currently known as The Hong Kong Polytechnic University (香港理工大學)) and the Hong Kong Management Association (香港管理專業協會) in September 1994. She also completed the common professional examination (CPE) in the Manchester Metropolitan University in July 1997. Ms. Ho obtained the Lawyer's Qualification Certificate (律師資格證書) issued by the Ministry of Justice of the PRC (中華人民共和國司法部) in October 1995. She also passed the Paper 6 and Paper 1 of the Hong Kong Securities Institute's Licensing Examination for Securities and Futures Intermediaries in November 2011 and January 2012, respectively. In addition, Ms. Ho is currently the permanent honorary director of Federation of Hong Kong Guangdong Community Organization (香港廣東社團總會).

**Dr. Zhou Demin (周德敏)**, aged 57, was appointed as an independent non-executive Director in November 2023 with his appointment taking effect from December 2023. He is responsible for supervising and offering independent judgement to the Board.

Dr. Zhou has served as professor of Peking University School of Pharmaceutical Sciences (北京大學藥學院) since September 2008, where he consecutively served as deputy dean from December 2009 to January 2016 and dean from January 2016 to July 2023. He is currently the head of a national key laboratory. Dr. Zhou currently serves as a director in the following companies:

| Company name | Position | Date of appointment |
|---|---|---|
| Chengdu Kanghong Pharmaceutical Group Co., Ltd. (成都康弘藥業集團股份有限公司) (a company listed on the Shenzhen Stock Exchange (stock code: 002773)) | Independent director | August 2023 |
| Lepu Biopharma Co., Ltd. (樂普生物科技股份有限公司) (a company listed on the Stock Exchange (stock code: 2157)) | Independent non-executive director | December 2020 |
| North China Pharmaceutical Co, Ltd. (華北製藥股份有限公司) (a company listed on the Shanghai Stock Exchange (stock code: 600812)) | Independent director | May 2019 |

Dr. Zhou obtained a bachelor of science degree in chemistry from the pharmaceutical college of Beijing Medical University (北京醫科大學) (currently known as Peking University Health Science Center (北京大學醫學部)) in July 1990 and a doctorate of science from the same university in July 1996. Dr. Zhou has been certified by Peking University (北京大學) as a professor since September 2008. Dr. Zhou was also recognized as "973 Chief Scientist" (973首席科學家) by Ministry of Science and Technology of the PRC (中華人民共和國科學技術部) in 2010, and "Changjiang Scholar Distinguished Professor" (長江學者特聘教授) by Ministry of Education of the PRC (中華人民共和國教育部) in 2013. He has also served as a vice chairman of the council of Beijing Pharmaceutical Society (北

京藥學會) since June 2017 and a vice chairman of the professional committee on pharmaceutical chemistry of Chinese Pharmaceutical Association (中國藥學會) since September 2020.

## SUPERVISORS

The following table sets forth the key information about the Supervisors.

| Name | Age | Position | Responsibilities | Date of appointment as a Supervisor | Date of joining the Group | Relationship with other Directors, Supervisors and senior management |
|---|---|---|---|---|---|---|
| Mr. Ye Jiancai (葉建才) | 54 | Chairman of the Supervisory Committee | Responsible for the overall operation of the Supervisory Committee and overseeing the performance of our Directors and senior management | November 2023 | January 2012 | None |
| Mr. Xu Feihu (徐飛虎) | 46 | Supervisor | Responsible for overseeing our operational and financial activities | November 2023 | August 2003 | None |
| Ms. Zhao Fei (趙飛) | 36 | Employee representative Supervisor | Responsible for overseeing our operations and human resources management | November 2023 | August 2015 | None |

**Mr. Ye Jiancai (葉建才)**, aged 54, was appointed as our chairman of the Supervisory Committee in November 2023 with his appointment taking effect from December 2023. He is responsible for the overall operation of the Supervisory Committee and overseeing the performance of our Directors and senior management. Mr. Ye has also served as our manager of the risk management and audit department since January 2012 in charge of the risk management, internal control and internal audit of our Company.

Mr. Ye served as an accountant of Dengjiabu Rice Seed Farm of Jiangxi Province (江西省鄧家埠水稻原種場) from August 1991 to April 1998. He then served at Huiren Group Co., Ltd. (匯仁集團有限公司) from March 1998 to June 2011 with his last position as the head of supervision and audit department.

Mr. Ye received a three-year college graduation certificate in financial accounting from Jiangxi Agricultural University (江西農業大學) in July 1991. He also obtained an Accountant Qualification issued by the Ministry of Finance of the PRC (中華人民共和國財政部) in October 1994. Mr. Ye passed the Certified Public Accountants Examination in April 1998 and obtained the Certificate of Certified Public Accountant issued by Jiangxi Provincial Institute of Certified Public Accountants (江西省注冊會計師協會) in December 2012.

**Mr. Xu Feihu (徐飛虎)**, aged 46, was appointed as our Supervisor in November 2023 with his appointment taking effect from December 2023. He is responsible for overseeing our operational and financial activities.

Mr. Xu has served in our Company in charge of project evaluation and management of intellectual property since August 2003. He served as a researcher and then a manager of our Company from August 2003 to January 2010. He then served as a deputy chief engineer and then chief engineer of our Company from February 2010 to December 2015. After that, Mr. Xu served as the manager of the information and intelligence department and then the manager of the development department of our Company from January 2016 to February 2023. Mr. Xu has served as our deputy director of intellectual property and manager of our development department since March 2023.

Mr. Xu obtained a bachelor's degree in bioscience and technology and a master's degree in biophysics from Zhejiang University in June 2000 and June 2003, respectively. Mr. Xu was recognized as a senior engineer in development of new drugs by Zhejiang Province Human Resources and Social Security Department in December 2011 and a National Patent Information Practition Talent (全國專利信息實務人才) by the China National Intellectual Property Administration (國家知識產權局) in April 2016. He was also awarded the China Patent Excellence Award (中國專利優秀獎) both in November 2011 and November 2015 by the China National Intellectual Property Administration.

**Ms. Zhao Fei (趙飛)**, aged 36, was appointed as our employee representative Supervisor in November 2023 with her appointment taking effect from December 2023. She is responsible for overseeing our operations and human resources management. Ms. Zhao has also served as the head of policy compliance of our Company since August 2015.

Prior to joining our Company, Ms. Zhao served as a legal assistant of Zhejiang Anting Law Firm (浙江岸亭律師事務所) from April 2015 to August 2015.

Ms. Zhao obtained a bachelor's degree in law from Zhejiang Wanli University (浙江萬里學院) in June 2010. Ms. Zhao obtained the Legal Profession Qualification Certificate (法律職業資格) issued by the Ministry of Justice of the PRC in March 2015.

## SENIOR MANAGEMENT

The following table sets forth the key information about the senior management of the Company.

| Name | Age | Position | Responsibilities | Date of appointment as senior management | Date of joining the Group | Relationship with other Directors, Supervisors and senior management |
|---|---|---|---|---|---|---|
| Mr. Fu Hang (傅航) | 60 | Executive Director, chairman of the Board and general manager | Responsible for the overall strategy of our Group and business operations and making key business and operational decisions of our Group | February 2000 | February 2000 | None |
| Mr. Zhou Wei (周偉) | 48 | Executive Director, deputy general manager and general manager of pharmacy services | Responsible for the overall management of our Group's marketing business | October 2017 | January 2014 | None |
| Mr. Sun Handong (孫漢棟) | 52 | Deputy general manager and chief manager of the research and development center | Responsible for the research and development | October 2017 | January 1994 | None |
| Mr. Li Hui (李輝) | 51 | Deputy general manager and the chief manager of the manufacturing center | Responsible for production, technical improvements, supply, engineering and environment, health and safety ("**EHS**") management | October 2017 | April 1994 | None |
| Ms. Huang Xiu (黃秀) | 47 | Secretary to the Board and a joint company secretary | Responsible for matters related to our Board of Directors | November 2023 | July 2007 | None |

| Name | Age | Position | Responsibilities | Date of appointment as senior management | Date of joining the Group | Relationship with other Directors, Supervisors and senior management |
|---|---|---|---|---|---|---|
| Ms. Yang Yanmei (楊研美) | 35 | Financial controller | Responsible for the overall financial management and financial matters, building the Company's financial system, internal control system, capital control system, financial and tax analysis and decision-making process, as well as optimizing compliance and risk control mechanisms | November 2023 | May 2021 | None |

For the biographical details of Mr. Fu Hang and Mr. Zhou Wei, please refer to the paragraphs headed "— Directors" in this section.

**Mr. Sun Handong (孫漢棟)**, aged 52, has served as a deputy general manager of our Company and the chief manager of our research and development center since October 2017. Mr. Sun is responsible for the research and development of our Company.

Mr. Sun has over 30 years of experience in drug research and development. He served as a clerk in bioengineering research department of Zhongmei Huadong from July 1993 to December 1993, where he was primarily engaged in the development of new products. He has then consecutively served in our Company since January 1994 as a technician, an assistant to the general engineer and the manager of the No. 1 manufacturing department, the manager of the strategy department, the manager of the external collaboration department, the manager of the development department, deputy general engineer, general engineer, the chief manager of the research and development center and now the deputy general manager of our Company and the chief manager of the research and development center.

Mr. Sun obtained a bachelor of engineering degree in biochemical engineering from East China University of Science and Technology (華東理工大學) in July 1993 and a master's degree in business administration from Zhejiang University in March 2005. Mr. Sun was awarded the First Prize of Hangzhou Scientific and Technological Progress (杭州市科學技術進步獎一等獎) in November 1998, the Second Prize of Zhejiang Province Scientific and Technological Progress (浙江省科技進步獎二等獎) in December 1998 and the

First Pharmaceutical Science and Technology Award of Zhejiang Pharmaceutical Society (首届浙江省藥學會醫藥科技獎) in May 2011. He was certified as a senior engineer in biopharmaceuticals by Zhejiang Province Human Resources and Social Security Department in November 2004 and was recognized as one of the Hangzhou "131" Talents (杭州市131人才) by Hangzhou New Century Talent Project Coordination Group Office (杭州市新世紀人才工程協調小組辦公室) in August 2006 and Worker Model of Hangzhou (杭州市劳動模範) by Hangzhou Municipal Government in April 2012. Mr. Sun was also recognized as a Class D High-level Talent of Hangzhou (杭州市高層次人才(D類)) jointly by the Talent Work Leading Group Office of the Communist Party of China Hangzhou Municipal Committee (中共杭州市委人才工作領導小組辦公室) and Hangzhou Municipal Bureau of Human Resources and Social Security of Hangzhou (杭州市人力資源與社會保障局) in July 2023.

**Mr. Li Hui (李輝)**, aged 51, has served as a deputy general manager of our Company since October 2017 and the chief manager of our manufacturing center since March 2022. Mr. Li is responsible for the production, technical improvements, supply, engineering and EHS management of our Company.

Mr. Li joined our Company in April 1994. He consecutively served as a technician responsible for fermentation process development and production, the manager of the manufacturing department in charge of production management, an assistant to the general manager and now a deputy general manager of our Company and the chief manager of our manufacturing center.

Mr. Li obtained a bachelor of science degree in biology science and technology from Zhejiang University in July 1993. He was recognized as a senior engineer by Zhejiang Province Human Resources and Social Security Department in December 2003 and one of the Hangzhou "131" Talents by Hangzhou New Century Talent Project Coordination Group Office in August 2006. Mr. Li was also awarded the May 1st Labor Medal of Hangzhou (杭州市五一劳動獎章) by Federation of Trade Union of Hangzhou (杭州市總工會) in April 2017.

**Ms. Huang Xiu (黃秀)**, aged 47, was appointed as the secretary to our Board in November 2023 with her appointment taking effect from December 2023. Ms. Huang is responsible for matters related to our Board of Directors. Ms. Huang was also appointed as one of our joint company secretaries in January 2024, with her appointment taking effect on the [**REDACTED**].

Ms. Huang joined our Company in July 2007. She consecutively served as a deputy director of the general manager, deputy manager of the human resources department, manager of the general manager office, assistant to the general manager, our Supervisor, manager of the human resources department and now our secretary to the Board.

Ms. Huang obtained a bachelor of agronomy degree in sericultural science from Zhejiang University in June 1999 and a master's degree in law from Northwest University of Political Science and Law (西北政法大學) in July 2007. Ms. Huang also obtained the Legal Profession Qualification Certificate (法律職業資格) issued by the Ministry of Justice of the PRC in February 2009.

**Ms. Yang Yanmei (楊研美)**, aged 35, was appointed as our financial controller in November 2023 with her appointment taking effect from December 2023. Ms. Yang is responsible for the overall financial management and financial matters, building the Company's financial system, internal control system, capital control system, financial and tax analysis and decision-making process, as well as optimizing compliance and risk control mechanisms. Prior to that, Ms. Yang served as the manager of our financial department from May 2021 to November 2023.

Prior to joining our Company, Ms. Yang worked at Zhejiang Jinhao Transportation Construction Co., Ltd. (浙江錦豪交通工程有限公司) from March 2010 to October 2014. She then served as a senior manager of the funds department of Zhejiang Welbon Pulp and Paper Group Co., Ltd. (浙江萬邦漿紙集團有限公司) from October 2014 to June 2017. She also worked at Hangzhou Yuanda Bio-pharmaceutical Co., Ltd. (杭州遠大生物製藥有限公司) from July 2017 to February 2021 with her last position as a manager of the financial department.

Ms. Yang graduated from Changsha University of Science and Technology (長沙理工大學) majoring in accounting computerization in July 2011 and then obtained a master's degree in accounting from the same university in June 2014. She also obtained the Intermediate Accounting Professional Qualification (中級會計專業技術資格) issued by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) in September 2019 and has been a certified management accountant with the Institute of Certified Management Accountants in the United States since June 2021.

## GENERAL

As of the Latest Practicable Date, to the best of the knowledge, information and belief of the Directors after having made all reasonable enquiries,

(i) save as disclosed above, none of the Directors, Supervisors or members of the senior management has held any directorship in any public company the securities of which are listed on any securities market in Hong Kong or overseas during the three years immediately preceding the date of this document;

(ii) none of the Directors, Supervisors or members of the senior management of the Company was related to any other Directors, Supervisors and members of the senior management;

(iii) save as disclosed in the section headed "Statutory and General Information" set out in Appendix VI to this document, none of the Directors, Supervisors or general manager of the Company held any interest in the Shares which would be required to be disclosed pursuant to Part XV of the Securities and Futures Ordinance; and

(iv) there was no additional matter with respect to the appointment of the Directors or Supervisors that needs to be brought to the attention of the Shareholders, and there was no additional information relating to the Directors or Supervisors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

## CONFIRMATION FROM OUR DIRECTORS

### Rule 8.10 of the Listing Rules

As of the Latest Practicable Date, none of our Directors and their respective close associates had any interest in any business which competes or is likely to compete, either directly or indirectly with our Group's business which would require disclosure under Rule 8.10 of the Listing Rules.

### Rule 3.09D of the Listing Rules

Each of our Directors confirmed that he or she (i) had obtained the legal advice referred to under Rule 3.09D of the Listing Rules in January 2024, and (ii) understood his or her obligations as a director of a [**REDACTED**] under the Listing Rules.

### Rule 3.13 of the Listing Rules

Each of our independent non-executive Directors had confirmed (i) his or her independence as regards each of the factors referred to in Rules 3.13(1) to (8) of the Listing Rules; (ii) that he or she had no past or present financial or other interest in the business of the Company or its subsidiary or any connection with any core connected person of the Company under the Listing Rules as of the Latest Practicable Date; and (iii) that there were no other factors that may affect his or her independence at the time of his or her appointments. Each of our independent non-executive Directors will inform us and the Stock Exchange as soon as practicable if there is any subsequent change of circumstances which may affect his or her independence.

## JOINT COMPANY SECRETARIES

The Company has appointed Ms. Huang Xiu and Ms. Tsang Man Kuen (曾文娟) as our joint company secretaries. For the biographical details of Ms. Huang, please refer to the paragraphs headed "— Senior Management" in this section.

**Ms. Tsang Man Kuen (曾文娟)** was appointed as one of our joint company secretaries in January 2024, with her appointment taking effect on the [**REDACTED**].

Ms. Tsang serves as an Assistant Manager of Governance Services of Computershare Hong Kong Investor Services Limited. She has over seven years of experience in corporate governance arena.

Ms. Tsang obtained a master's degree of science in professional accounting and corporate governance from the City University of Hong Kong in July 2019 and gained her associate membership of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute in the United Kingdom in March 2020.

## BOARD COMMITTEES

We have established three Board Committees in accordance with the relevant PRC laws and regulations, the Articles of Association and the Corporate Governance Code, namely the Audit Committee, the Nomination Committee and the Remuneration and Appraisal Committee.

### Audit Committee

We have established an Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph D.3 of the Corporate Governance Code. The Audit Committee consists of three Directors, namely Mr. Zhou Zhihui (周智慧), Ms. Ho Mei Yi (何美儀) and Dr. Zhou Demin (周德敏), with Mr. Zhou Zhihui (周智慧) currently serving as the chairman. Mr. Zhou Zhihui (周智慧) has the appropriate professional experiences as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee include, but are not limited to, the following:

(i) proposing the appointment or change of external auditors to our Board, monitoring the independence of external auditors and evaluating their performance;

(ii) examining the financial information of the Company and reviewing financial reports and statements of the Company;

(iii) examining the financial reporting system, the risk management and internal control system of the Company, overseeing their efficiency and implementation and making recommendations to our Board; and

(iv) dealing with other matters that are authorized by the Board.

### Nomination Committee

We have established a Nomination Committee with written terms of reference in compliance with Rule 3.27A of the Listing Rules and paragraph B.3 of the Corporate Governance Code. The Nomination Committee consists of three Directors, namely Mr. Fu Hang (傅航), Dr. Zhou Demin (周德敏) and Ms. Ho Mei Yi (何美儀), with Ms. Ho Mei Yi (何美儀) currently serving as the chairwoman. The primary duties of the Nomination Committee include, but are not limited to, the following:

(i) conducting extensive search and providing our Board with suitable candidates for our Directors, general managers and other members of the senior management;

(ii) reviewing the structure, size and composition of our Board (including but not limited to skills, knowledge and experience) at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(iii) researching and developing standards and procedures for the election of our Board members, general managers and members of the senior management, and making recommendations to our Board;

(iv) assessing the independence of the independent non-executive Directors; and

(v) dealing with other matters that are authorized by the Board.

**Remuneration and Appraisal Committee**

We have established a Remuneration and Appraisal Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph E.1 of the Corporate Governance Code. The Remuneration and Appraisal Committee consists of three Directors, namely Dr. Zhou Demin (周德敏), Mr. Zhou Wei (周偉), and Mr. Zhou Zhihui (周智慧), with Dr. Zhou Demin (周德敏) currently serving as the chairman. The primary duties of the Remuneration and Appraisal Committee include, but are not limited to, the following:

(i) advising our Board on the overall remuneration plan and structure of our Directors and senior management and the establishment of transparent and formal procedures for determining the remuneration policy of the Company;

(ii) monitoring the implementation of the remuneration system of the Company;

(iii) making recommendations on the remuneration packages of our Directors and senior management; and

(iv) dealing with other matters that are authorized by the Board.

## CORPORATE GOVERNANCE CODE

The Company is committed to achieving a high standard of corporate governance with a view to safeguarding the interests of our Shareholders. To accomplish this, the Company intends to comply with the Corporate Governance Code set out in Appendix C1 to the Listing Rules and the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix C3 to the Listing Rules after the [**REDACTED**].

Pursuant to code provision C.2.1 of Part 2 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairperson and the general manager should be segregated and should not be performed by the same individual. We do not have a separate chairperson and general manager and Mr. Fu Hang currently performs these two roles. The Board believes that vesting the roles of both the chairperson and general manager in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board considers that the balance of power and authority for the present arrangement will not be impaired and this structure will enable

the Company to make and implement decisions promptly and effectively. The Board will continue to review and consider splitting the roles of the chairperson of the Board and the general manager of the Company if and when it is appropriate taking into account the circumstances of the Group as a whole.

Save as disclosed above, the Company intends to comply with all code provisions under the Corporate Governance Code after the [**REDACTED**].

## BOARD DIVERSITY POLICY

We [have adopted] the board diversity policy which sets out the objective and approach for achieving and maintaining the diversity of the Board in order to enhance its effectiveness. In accordance with the board diversity policy, the Company seeks to achieve board diversity by taking into account a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and/or length of service. The ultimate selection of Board candidates will be based on merit and potential contribution to our Board having due regard to the benefits of diversity on the Board and also the specific needs of the Company without focusing on a single diversity aspect. Our Directors have a balanced mix of knowledge and skills, including overall management and strategic development as well as knowledge and experience in areas such as medicine and pharmaceutical research. They obtained degrees in various areas including medicine, mathematics, economics and accounting. Furthermore, our Board has a diverse age and gender representation. Our Board currently comprises two female Directors and seven male Directors, ranging from 27 years old to 60 years old.

With regards to gender diversity on the Board, we recognize the particular importance of gender diversity. We have taken and will continue to take steps to promote and enhance gender diversity at all levels of the Company, including but without limitation at our Board and senior management levels. We will maintain a focus on gender diversity when recruiting staff at the mid to senior level so as to develop a pipeline of potential female successors to our Board. The Group will also identify and select several female individuals with a diverse range of skills, experience and knowledge in different fields from time to time, and maintain a list of such female individuals who possess qualities to become our Board members, which will be reviewed by our nomination committee periodically to maintain gender diversity of our Board. Taking into account our existing business model and specific needs as well as the different background of our Directors, the composition of our Board satisfies our board diversity policy.

Upon the [**REDACTED**], the Nomination Committee will from time to time discuss and agree on expected goals to ensure board diversity, and review and, where necessary, update the board diversity policy to ensure that the policy remains effective. The Company will disclose the biographical details of each Director and report on the implementation of the board diversity policy (including whether we have achieved board diversity) in its annual corporate governance report.

## DIRECTORS', SUPERVISORS' AND GENERAL MANAGER'S REMUNERATION AND REMUNERATION OF THE FIVE HIGHEST-PAID INDIVIDUALS

The Directors, Supervisors and senior management members who receive remuneration from the Company are paid in the forms of salaries, bonuses, allowances and benefits in kind, equity-settled share award expense and pension scheme contributions. Our independent non-executive Directors receive compensation based on their responsibilities. The remuneration of the Directors, Supervisors and senior management members is determined with reference to the remuneration paid by comparable companies and the achievement of major operating indicators of the Company.

The aggregate amount of remuneration (including salaries, bonuses, allowances and benefits in kind, equity-settled share award expense and pension scheme contributions) paid to the Directors and Supervisors for the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023 amounted to RMB3.2 million, RMB3.9 million and RMB12.6 million, respectively.

The five highest paid individuals of our Group in the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023 included two, two and three Directors, respectively. The aggregate amount of remuneration (including salaries, bonuses, allowances and benefits in kind, equity-settled share award expense and pension scheme contributions) incurred by the five highest-paid individuals of the Group (excluding Directors) for the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023 amounted to RMB3.8 million, RMB5.4 million and RMB2.1 million, respectively.

Under the current compensation arrangement, we estimate the total compensation before taxation, including estimated share-based compensation, to be accrued to our Directors and our Supervisors for the year ended December 31, 2023 to be approximately RMB15.3 million. The actual remuneration of Directors and Supervisors in 2023 may be different from the expected remuneration.

We confirmed that during the Track Record Period, no remuneration was paid by the Company to, or receivable by, our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining the Company or as compensation for loss of office in connection with the management positions of the Company or any subsidiary of the Company.

During the Track Record Period, none of our Directors or Supervisors waived any remuneration. Save as disclosed above, no other payments have been paid, or are payable, by the Company or our subsidiary to our Directors, Supervisors or the five highest-paid individuals during the Track Record Period.

## COMPLIANCE ADVISER

The Company has appointed Maxa Capital Limited as our Compliance Adviser in compliance with Rules 3A.19 of the Listing Rules. The Compliance Adviser will provide us with guidance and advice as to compliance with the Listing Rules and other applicable laws, rules, codes and guidelines. Pursuant to Rule 3A.23 of the Listing Rules, the Compliance Adviser will advise the Company in certain circumstances including:

(i) before the publication of any regulatory announcement, circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;

(iii) where we propose to use the [**REDACTED**] from the [**REDACTED**] in a manner different from that detailed in this document or where our business activities, developments or results deviate from any forecast, estimate or other information in this document; and

(iv) where the Stock Exchange makes an inquiry to the Company in accordance with Rule 13.10 of the Listing Rules.

Pursuant to Rule 3A.24 of the Listing Rules, the Compliance Adviser will, on a timely basis, inform the Company of any amendment or supplement to the Listing Rules that are announced by the Stock Exchange. The Compliance Adviser will also inform the Company of any new or amended law, regulation or code in Hong Kong applicable to us, and advise us on the continuing requirements under the Listing Rules and applicable laws and regulations.

The term of the appointment will commence on the [**REDACTED**] and is expected to end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [**REDACTED**].

As far as our Directors are aware, immediately following the completion of the **[REDACTED]** (assuming that the **[REDACTED]** is not exercised), the following persons will have an interest and/or short position in the Shares or underlying Shares of our Company which will be required to be disclosed to our Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of our share capital carrying rights to vote in all circumstances at general meetings of our Company:

| | | | As of the Latest Practicable Date | | Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised) | | |
|---|---|---|---|---|---|---|---|
| Name of Shareholder | Nature of interest | Description of Shares | Number of Shares | Approximate percentage of interest in the Company (%) | Number of Shares | Approximate percentage of interest in the Unlisted Shares/ H Shares (as appropriate)[1] (%) | Approximate percentage of interest in the Company[1] (%) |
| Zhongmei Huadong | Beneficial owner | Unlisted Shares | 42,120,453 | 21.06 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Huadong Medicine | Interest in a controlled corporation[2] | Unlisted Shares | 42,120,453 | 21.06 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| China Grand Enterprises, Inc. (中國遠大集團有限責任公司) | Interest in a controlled corporation[2] | Unlisted Shares | 42,120,453 | 21.06 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Beijing Yuanda Huachuang Investment Co., Ltd. (北京遠大華創投資有限公司) | Interest in a controlled corporation[2] | Unlisted Shares | 42,120,453 | 21.06 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Hu Kaijun (胡凱軍) | Interest in a controlled corporation[2] | Unlisted Shares | 42,120,453 | 21.06 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Hangzhou Huasheng | Beneficial owner | Unlisted Shares | 32,498,151 | 16.25 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |

| | | | As of the Latest Practicable Date | | Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised) | | |
|---|---|---|---|---|---|---|---|
| Name of Shareholder | Nature of interest | Description of Shares | Number of Shares | Approximate percentage of interest in the Company (%) | Number of Shares | Approximate percentage of interest in the Unlisted Shares/ H Shares (as appropriate)[1] (%) | Approximate percentage of interest in the Company[1] (%) |
| Hangzhou Ruizhi Sifeng Technology Co., Ltd. (杭州銳智思豐科技有限公司) | Interest in a controlled corporation[3] | Unlisted Shares | 32,498,151 | 16.25 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Hangzhou Wanyuhe Pharmaceutical Technology Co., Ltd. (杭州萬裕和醫藥科技有限公司) | Interest in a controlled corporation[3] | Unlisted Shares | 32,498,151 | 16.25 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Wang Zhiying (王志英) | Interest in a controlled corporation[3] Interests of spouse[4] | Unlisted Shares | 34,831,335 | 17.42 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Li Bangliang (李邦良) | Beneficial owner[4] Interests of spouse[3] | Unlisted Shares | 34,831,335 | 17.42 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| CQFE | Beneficial owner | Unlisted Shares | 30,000,000 | 15.00 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Zhejiang Wangxin | Beneficial owner | Unlisted Shares | 24,513,775 | 12.26 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Insigma Technology Co., Ltd. (浙大網新科技股份有限公司) | Interest in a controlled corporation[5] | Unlisted Shares | 24,513,775 | 12.26 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Highland Pharma | Beneficial owner | Unlisted Shares | 20,000,000 | 10.00 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |

| | | | As of the Latest Practicable Date | | Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised) | | |
|---|---|---|---|---|---|---|---|
| Name of Shareholder | Nature of interest | Description of Shares | Number of Shares | Approximate percentage of interest in the Company (%) | Number of Shares | Approximate percentage of interest in the Unlisted Shares/ H Shares (as appropriate)[1] (%) | Approximate percentage of interest in the Company[1] (%) |
| Nice Bonus Limited (增好有限公司) | Interest in a controlled corporation[6] | Unlisted Shares | 20,000,000 | 10.00 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Yang Loon Chun (楊麟振) | Interest in a controlled corporation[6] | Unlisted Shares | 20,000,000 | 10.00 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |
| Hangzhou Investment | Beneficial owner | Unlisted Shares | 17,429,338 | 8.71 | [REDACTED] | [REDACTED] | [REDACTED] |
| | | H Shares | Nil | – | [REDACTED] | [REDACTED] | [REDACTED] |

*Notes:*

(1) The calculation is based on the total number of **[REDACTED]** Unlisted Shares and **[REDACTED]** H Shares in issue upon **[REDACTED]** comprising (i) an aggregate of **[REDACTED]** H Shares to be converted from the Unlisted Shares and (ii) **[REDACTED]** H Shares to be issued pursuant to the **[REDACTED]** (without taking into account the H Shares which may be issued upon the exercise of the **[REDACTED]**).

(2) As of the Latest Practicable Date, Zhongmei Huadong was wholly owned by Huadong Medicine. Huadong Medicine was owned as to 41.66% by China Grand Enterprises, Inc. (中國遠大集團有限責任公司). China Grand Enterprises, Inc. was in turn owned as to 92.97% by Beijing Yuanda Huachuang Investment Co., Ltd. (北京遠大華創投資有限公司), a wholly owned company of Mr. Hu Kaijun (胡凱軍). As such, each of Huadong Medicine, China Grand Enterprises, Inc., Beijing Yuanda Huachuang Investment Co., Ltd. and Hu Kaijun was deemed to be interested in the 42,120,453 Shares directly held by Zhongmei Huadong under the SFO.

(3) As of the Latest Practicable Date, Hangzhou Huasheng was owned as to 39.57% by Hangzhou Ruizhi Sifeng Technology Co., Ltd. (杭州銳智思豐科技有限公司), which was wholly owned by Hangzhou Wanyuhe Pharmaceutical Technology Co., Ltd. (杭州萬裕和醫藥科技有限公司). Hangzhou Wanyuhe Pharmaceutical Technology Co., Ltd. was owned as to 99.00% by Ms. Wang Zhiying (王志英), the spouse of Mr. Li Bangliang (李邦良). As such, each of Hangzhou Ruizhi Sifeng Technology Co., Ltd., Hangzhou Wanyuhe Pharmaceutical Technology Co., Ltd., Ms. Wang Zhiying and Mr. Li Bangliang was deemed to be interested in the 32,498,151 Shares directly held by Hangzhou Huasheng under the SFO.

(4) Ms. Wang Zhiying is the spouse of Mr. Li Bangliang. Under the SFO, Ms. Wang Zhiying is deemed to be interested in the 2,333,184 Shares directly held by Mr. Li Bangliang as of the Latest Practicable Date.

(5) As of the Latest Practicable Date, Zhejiang Wangxin was wholly owned by Insigma Technology Co., Ltd. (浙大網新科技股份有限公司). As such, Insigma Technology Co., Ltd. was deemed to be interested in the 24,513,775 Shares directly held by Zhejiang Wangxin under the SFO.

(6) As of the Latest Practicable Date, Highland Pharma was wholly owned by Nice Bonus Limited (增好有限公司). Nice Bonus Limited was owned as to 99.00% by Yang Loon Chun (楊麟振). As such, each of Nice Bonus Limited and Yang Loon Chun was deemed to be interested in the 20,000,000 Shares directly held by Highland Pharma under the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the [**REDACTED**] (assuming that the [**REDACTED**] is not exercised), have any interest and/or short position in the Shares or underlying Shares of our Company which will be required to be disclosed to our Company and the Stock Exchange pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of our Company or any other member of our Group.

## BEFORE THE COMPLETION OF THE [REDACTED]

As of the Latest Practicable Date, the issued share capital of our Company was RMB200,000,000 comprising 200,000,000 Shares with a nominal value of RMB1.00 each, categorized as follows:

| Description of Shares | Number of Shares | Approximate percentage of the total share capital of our Company *(%)* |
|---|---|---|
| Domestic Shares in issue | 150,000,000 | 75.00 |
| Unlisted Foreign Shares in issue | 50,000,000 | 25.00 |
| **Total** | **200,000,000** | **100.00** |

## UPON THE COMPLETION OF THE [REDACTED]

Immediately following the completion of the [**REDACTED**] and conversion of Unlisted Shares into H Shares, assuming that the [**REDACTED**] is not exercised, the share capital of our Company will be as follows:

| Description of Shares | Number of Shares | Approximate percentage of the total share capital of our Company *(%)* |
|---|---|---|
| Domestic Shares in issue | [**REDACTED**] | [**REDACTED**] |
| Unlisted Foreign Shares in issue | [**REDACTED**] | [**REDACTED**] |
| H Shares to be converted from Domestic Shares | [**REDACTED**] | [**REDACTED**] |
| H Shares to be converted from Unlisted Foreign Shares | [**REDACTED**] | [**REDACTED**] |
| H Shares to be issued under the [**REDACTED**] | [**REDACTED**] | [**REDACTED**] |
| **Total** | [**REDACTED**] | **100.00** |

Immediately following the completion of the [**REDACTED**] and conversion of Unlisted Shares into H Shares, assuming that the [**REDACTED**] is fully exercised, the share capital of our Company will be as follows:

| **Description of Shares** | **Number of Shares** | **Approximate percentage of the total share capital of our Company** *(%)* |
|---|---|---|
| Domestic Shares in issue | **[REDACTED]** | **[REDACTED]** |
| Unlisted Foreign Shares in issue | **[REDACTED]** | **[REDACTED]** |
| H Shares to be converted from Domestic Shares | **[REDACTED]** | **[REDACTED]** |
| H Shares to be converted from Unlisted Foreign Shares | **[REDACTED]** | **[REDACTED]** |
| H Shares to be issued under the [**REDACTED**] | **[REDACTED]** | **[REDACTED]** |
| **Total** | **[REDACTED]** | **100.00** |

## RANKING

Upon the completion of the [**REDACTED**] and conversion of Unlisted Shares into H Shares, our Shares will comprise Domestic Shares, Unlisted Foreign Shares and H Shares, all of which are ordinary shares in the share capital of our Company and are considered as one class of Shares.

Apart from certain qualified domestic institutional investors in the PRC, qualified PRC investors under the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approval by competent authorities, H Shares generally cannot be subscribed for by and traded among legal or natural persons of the PRC. Domestic Shares and Unlisted Foreign Shares, on the other hand, can only be subscribed for by and traded among legal and natural persons of the PRC, certain qualified overseas institutional investors or qualified overseas strategic investors.

Save as disclosed above, Unlisted Shares and H Shares are regarded as one class of Shares under our Articles of Association and will rank *pari passu* with each other in all other respects and, in particular, will rank equally for dividends or distributions declared, paid or made after the date of this document. Dividends in respect of our Shares may be paid by us in Hong Kong dollars or Renminbi or in the form of Shares.

## CONVERSION OF UNLISTED SHARES INTO H SHARES

Our Unlisted Shares comprise Domestic Shares and Unlisted Foreign Shares which are currently not listed or traded on any stock exchange. According to the stipulations by the securities regulatory authority of the State Council and our Articles of Association, the holders of these Unlisted Shares may, at their own option, authorize our Company to apply to the CSRC for conversion of their respective Unlisted Shares to H Shares upon the [**REDACTED**]. After the conversion of Unlisted Shares, such converted Shares may be [**REDACTED**] and [**REDACTED**] on an overseas stock exchange, provided that prior to the conversion and [**REDACTED**] of such converted shares any requisite internal approval processes shall have been duly completed and the completion of filing with the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. Additionally, such conversion, [**REDACTED**] and [**REDACTED**] shall in all respects comply with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange.

Approval of the Stock Exchange is required for the [**REDACTED**] of such converted Shares on the Stock Exchange. Based on the procedures for the conversion of our Unlisted Shares into H Shares as set forth below, we will apply for the [**REDACTED**] of all or any portion of the Unlisted Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of Shares for entry on the [**REDACTED**]. As the [**REDACTED**] of additional Shares after the [**REDACTED**] on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for [**REDACTED**] at the time of our [**REDACTED**] in Hong Kong. No Shareholder voting is required for the conversion of such Shares or the [**REDACTED**] and [**REDACTED**] of such converted Shares on an overseas stock exchange. Any application for [**REDACTED**] of the converted Shares on the Stock Exchange after our initial [**REDACTED**] is subject to prior notification by way of announcement to inform our Shareholders and the public of any proposed conversion.

After the completion of filing and all the requisite approvals have been obtained, the following procedures will need to be completed in order to effect the conversion: the relevant Unlisted Shares will be withdrawn from the Share register and we will re-register such Shares on our [**REDACTED**] maintained in Hong Kong and instruct the [**REDACTED**] to issue H Share certificates. Registration on our [**REDACTED**] will be conditional on (a) the [**REDACTED**] lodging with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the [**REDACTED**] and the due dispatch of H Share certificates and (b) the admission of the H Shares to be [**REDACTED**] on the Stock Exchange in compliance with the Listing Rules, the General Rules of HKSCC and the HKSCC Operational Procedures in force from time to time. Until the converted Shares are re-registered on our [**REDACTED**], such Shares would not be [**REDACTED**] as H Shares.

Upon the completion of the [**REDACTED**] and pursuant to the filing notice from the CSRC dated [●], [**REDACTED**] Unlisted Shares will be converted into H Shares on a one-for-one basis and be [**REDACTED**] on the Stock Exchange as below:

| **Shareholder** | **Number of Shares to be converted into H Shares upon the completion of the [REDACTED]** |
|---|---|
| Zhongmei Huadong | [**REDACTED**] |
| Hangzhou Huasheng | [**REDACTED**] |
| CQFE | [**REDACTED**] |
| Zhejiang Wangxin | [**REDACTED**] |
| Highland Pharma | [**REDACTED**] |
| Wanliyang | [**REDACTED**] |
| Chengheda | [**REDACTED**] |
| Mr. Wu Qiyuan | [**REDACTED**] |
| Nanbeiju | [**REDACTED**] |
| Qingfanghao | [**REDACTED**] |
| **Total** | [**REDACTED**] |

If any of our Unlisted Shares are to be converted, [**REDACTED**] and [**REDACTED**] as H Shares on the Stock Exchange, such conversion, [**REDACTED**] and [**REDACTED**] will require the completion of filing with the relevant PRC regulatory authorities, including the CSRC, and the approval of the Stock Exchange.

## TRANSFER OF SHARES ISSUED PRIOR TO THE [REDACTED]

Pursuant to the PRC Company Law, our Shares issued prior to the [**REDACTED**] shall not be transferred within 12 months from the [**REDACTED**].

## CIRCUMSTANCES UNDER WHICH GENERAL MEETING IS REQUIRED

For details of circumstances under which our Shareholders' general meetings are required, please refer to the section headed "Summary of Articles of Association" set out in Appendix V to this document.

## GENERAL MANDATE TO ISSUE SHARES

Subject to the completion of the [**REDACTED**], our Board has been granted a general mandate to separately or concurrently allot, issue and deal with additional Shares and to decide on the terms and conditions of allotting, issuing and dealing with the aforementioned Shares, provided that, the number of Shares issued and allotted shall not exceed 20% of the total Shares in issue as of the [**REDACTED**].

This general mandate to allot, issue and deal with Shares will expire at the earliest of:

(i) the conclusion of the first annual general meeting after the [**REDACTED**]; or

(ii) the date on which it is varied or revoked by a resolution of our Shareholders in a general meeting.

Furthermore, our Board has been authorized to handle all the approvals required from the CSRC and other relevant regulatory authorities and other necessary actions for the additional issue of such Shares and to increase the registered share capital in accordance with relevant regulations and rules.

Please refer to the section headed "Statutory and General Information — A. Further Information about Our Group — 4. Resolutions of our Shareholders" set out in Appendix VI to this document for further details of this general mandate to allot, issue and deal with Shares.

*You should read the following discussion and analysis in conjunction with the consolidated financial statements as of and for each of the years ended December 31, 2021, 2022 and for the nine months ended September 30, 2023, and the notes thereto included in the Accountants' Report set out in Appendix I to this document which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") and the selected historical financial information and operating data included elsewhere in this document. Our historical results do not necessarily indicate results expected for any future periods. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results may differ from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth in "Forward-looking Statements" and "Risk Factors." In evaluating our business, you should carefully consider the information provided in this document including but not limited to the sections headed "Risk Factors" and "Business" in this document.*

## OVERVIEW

Founded in 1993, we are a pioneer in applying genetic engineering to the pharmaceutical industry in China, with over 30 years of proven track record in the R&D, manufacturing and commercialization of biopharmaceutical products and medical devices. We focus on four large and fast-growing therapeutic areas: orthopedics, metabolic diseases, oncology, and hematology. Collectively, these four therapeutic areas accounted for 52.0% of the total pharmaceutical sales in China in 2022, and outpaced the broader Chinese pharmaceutical industry from 2018 to 2022, a trend which is expected to continue in the near future, according to CIC.

Centred around these therapeutic areas, we have built a diversified product portfolio comprising eight marketed products, including China's first rhBMP-2 bone repair material, Guyoudao, and over ten product candidates, including China's potentially first semaglutide biosimilar, JY29-2, as of the Latest Practicable Date. Our strategy starts by identifying therapeutic targets with significant market potential in our focused areas. Once the targets are identified, we pursue the development of China's innovative and first follow-on products, leveraging our established R&D platforms, manufacturing capabilities, and sales and distribution network in China.

Our marketed product portfolio includes one innovative drug-device combination, two biological products, and five chemical drugs in orthopedics, oncology and hematology. Several of our products hold a leading position in their respective product category in terms of market share, according to CIC. Revenue generated from all of our marketed products accounted for 87.6%, 93.8% and 92.5% of our total revenue for the years ended December 31, 2021, 2022, and the nine months ended September 30, 2023, respectively.

Our diversified candidate pipeline spans across metabolic disease, orthopedics, and oncology. In the metabolic disease domain, our candidates include JY29-2, injectable semaglutide biosimilar for the treatment of T2DM under the brand name of Jiyoutai, for the treatment of obesity and overweight under the brand name of Jikeqin, and oral tablet of semaglutide; JY54, an amylin analog injection and expected Category I innovative drug we are developing for the treatment of metabolic diseases including obesity and overweight; and JY05, a dulaglutide biosimilar for the treatment of T2DM. In orthopedics, we are developing JY23, a next-generation bone repair material with rhBMP-2. We are also developing JY41, a romosozumab injection, for osteoporosis caused by various factors. On the oncology front, JY06 (Jixinfen), a PEG-G-CSF product, is intended as a treatment for chemotherapy-induced neutropenia; JY49, an avatrombopag maleate tablet, is designed for treating thrombocytopenia; JY47 is a SIRPα monoclonal antibody injection and Category I innovative drug targeting solid tumors; and both JY43 and JY43-2 are daratumumab biosimilars and developed to address multiple myeloma. Each of these candidates underlines our commitment to innovation and addressing diverse medical challenges.

In addition, we produce, sell and export various APIs leveraging our over 30 years of experience in drug manufacturing and well-established manufacturing facilities. During the Track Record Period, our products, primarily including APIs we produced, were sold to over 20 countries in Asia, Europe, Africa and South America. We are also developing a recombinant human hyaluronidase to be used as a biopharmaceutical excipient, which enables the administration of drugs through subcutaneous injections. Our sales from APIs have diversified our revenue streams, enabling us to navigate market and regulatory changes and maintaining a steady financial growth trajectory.

Our diversified portfolio of marketed products and APIs has enabled us to achieve steady financial results during the Track Record Period. Our revenue was RMB1,307.3 million, RMB1,125.4 million and RMB1,022.7 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. Our net profit was RMB119.4 million, RMB59.9 million and RMB111.2 million in 2021, 2022 and the nine months ended September 30, 2023, respectively. For 2021, 2022 and the nine months ended September 30, 2023, our gross profit margin was 72.7%, 75.9% and 78.4%, respectively, and our net profit margin was 9.1%, 5.3% and 10.9%, respectively.

## BASIS OF PREPARATION

Our Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from January 1, 2023, together with the relevant transitional provisions, have been early adopted by us in the preparation of the Historical Financial Information throughout the Relevant Periods and the Interim Financial Information throughout the nine months ended September 30, 2022 and 2023. The Historical Financial Information and the Interim Financial Information has been prepared under the historical cost convention except for financial assets at fair value through other comprehensive income which have been measured at fair value.

The preparation of the historical financial information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying our accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the historical financial information are disclosed in Note 3 to the Accountants' Report included in Appendix I to this document.

## MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and are expected to continue to be, affected by the following significant factors.

**The growth of the PRC pharmaceutical market, and in particular, the therapeutic areas we focus on**

We believe that the overall growth of the PRC pharmaceutical market, and in particular, the therapeutic areas we focus on, has significantly, and will continue to significantly impact, our revenue growth. Our diversified product portfolio spans across orthopedics, metabolic diseases, oncology, and hematology, many of which are among the largest or fastest growing therapeutic areas in China according to CIC. Together, these therapeutic areas accounted for 52.0% of the total PRC pharmaceutical market in terms of sales revenue of pharmaceuticals in 2022, and grew faster than the overall PRC pharmaceutical market, which grew at a CAGR of 4.5% from 2018 to 2022.

The continued economic growth, increasing healthcare expenditure, expanding medical insurance coverage and aging population have driven, and are expected to continue to drive, the rapid growth of the PRC pharmaceutical market. According to CIC, the overall PRC pharmaceutical market is expected to continue to grow at a CAGR of 6.3% from RMB1,680.0 billion in 2022 to RMB3,097.7 billion in 2032. Please refer to the section headed "Industry Overview" for more details. We believe we are well positioned to capitalize on the continued growth of the overall PRC pharmaceutical market and some of its largest or fastest growing therapeutic areas which we strategically focus on.

**Our ability to develop, commercialize and increase market share of our products**

Our ability to develop new products, replenish our product pipeline with additional product candidates, and increase market share of our commercialized products has had, and will continue to have, a significant impact on our results of operations and business prospects.

We have a proven track record in developing and commercializing first-to-market biologics and generic chemical drugs that have gained widespread market acceptance in China. As of the Latest Practicable Date, we had built a diversified product pipeline comprising over ten product candidates, including China's potentially first semaglutide biosimilar and two drug candidates which are or are expected to be Category I innovative drugs pursuant to the drug categorizations promulgated by NMPA. With a product portfolio encompassing orthopedics, oncology, and hematology, we are well-positioned to endure market dynamics and regulatory changes. This strategic diversity ensures our ability to sustain a robust financial growth trajectory. However, as the gross profit margin of each product varies, the mix of products in our portfolio may materially affect our financial performance and results of operations. We continuously evaluate the product portfolio to allocate our resources towards products with promising market outlook and high profitability.

Additionally, we are dedicated to developing a portfolio of more advantageous product candidates to adeptly respond to possible changes in the future. In the next three years, we expect to commercialize three product candidates to the market and file IND application for five product candidates in China. We believe Category I innovative drugs and first-to-market generic biological or chemical drugs generally command higher margins and provide the advantage of rapid market penetration.

Our results of operations and business prospects also depend on our ability to successfully increase market share of our commercialized products. The sales volume of our commercialized products will be affected by the level of our market penetration. We plan to continue to strengthen our highly specialized sales and distribution network and expand and empower our skilled in-house sales force, which we believe can contribute to the sales growth of our commercialized products.

Our ability to successfully develop, commercialize and increase market share of our products is subject to several risks and uncertainties, many of which are beyond our control. Please refer to the paragraphs headed "Risk Factors — Risk Relating to Our Business and Industry — Development of new products, in particular innovative drugs, is time-consuming and costly and the outcome is uncertain. If we fail to develop and commercialize new products, our business prospects could be adversely affected" and "Risk Factors — Risk Relating to Our Business and Industry — We operate in a highly competitive environment, and we may not be able to compete effectively against current and future competitors selling competing drugs, which could subject us to the pressure of price reduction and adversely affect our operations, revenue and profitability" for further details.

**The inclusion of our products in the national, provincial or other government-sponsored medical insurance programs in China**

Under the medical insurance programs in China, patients are entitled to reimbursement of all or a portion of the cost of pharmaceutical products listed in the NRDL, the provincial medical insurance catalogs or critical illness medical insurance catalogs at provincial-or local-levels. Consequently, the inclusion or exclusion of a product in or from any of these medical insurance programs will significantly affect the demand for such product in China. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — If the products we sell are excluded or removed from national, provincial or other government sponsored medical insurance programs, or are included in any national or provincial negative catalogs, our sales, profitability and business prospects could be adversely affected."

As of the Latest Practicable Date, all of our marketed drug products were included in the NRDL. Our revenue from sales of our marketed products accounted for 87.6%, 93.8% and 92.5% of our total revenue, respectively, for the years ended December 31, 2021, 2022 and the nine months ended September 30, 2023.

Since there is no national-level reimbursement list for medical devices, the reimbursement policies for medical devices vary across different regions. As of the Latest Practicable Date, Guyoudao, our drug-device combination product, were included in the medical device reimbursement list of ten provinces and municipalities, including Shanghai, Jilin, Anhui, Guangdong, Jiangxi, Hebei, Hainan, Hubei, Gansu and Chongqing.

While the inclusion of a pharmaceutical product in these national, provincial or other government-sponsored medical insurance programs can significantly increase its demand and potentially sales volume, products so included were subject to relevant pricing regulation and face pricing pressure in the centralized tender process. In addition, innovative pharmaceuticals included in the national medical insurance negotiation list generally need to undergo pricing negotiation process with the PRC government. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — We may experience difficulties in our sales efforts as a result of pricing regulations or other policies such as volume-based procurement and 'Two-Invoice System' that are intended to reduce healthcare costs, which could subject us to pricing and volume pressures and adversely affect our operations, revenue and profitability."

On balance, we believe the overall benefits of inclusion of our products in the national, provincial or other government-sponsored medical insurance programs in China significantly outweighed the associated costs during the Track Record Period, and we believe the benefits of such inclusion will continue to contribute to our business growth in the foreseeable future.

**Our ability to compete in the centralized tender process for pharmaceutical procurement by public medical institutions in China**

Public medical institutions in China are required to implement a centralized tender process for the procurement of pharmaceuticals listed in the medical insurance catalogs or consumed in large volumes and commonly prescribed for clinical uses. We submit bids in a centralized tender process to supply our products to these institutions at specified prices. These bids are generally considered based on, among other things, price competitiveness, product quality, clinical effectiveness, as well as qualifications and reputation of the manufacturer. If we are successful in winning bids in a centralized tender process, the relevant products will be sold to the public medical institutions at the bid prices, which is the primary determinant of prices at which we sell our products to our distributors. The centralized tender process has created pricing pressure among substitute products or products that are perceived to be substitute products, including our products. Our bidding strategy generally focuses on differentiating our products from those of our competitors instead of competing solely based on pricing. Therefore, our sales volumes and profitability depend on our ability to successfully differentiate our products from competing products and price our bids in a manner that enables us to succeed in the centralized tender processes at profitable levels. We believe each of our major products had competitive advantages in the centralized tender processes during the Track Record Period as a result of them being innovative or first-to-market generic pharmaceuticals, their national-level recognitions, or their passing of the quality and efficacy consistency evaluation. Please refer to the paragraphs headed "Business — Pricing — Centralized Tender Process."

If we are unable to differentiate our products or are otherwise not successful in winning bids in the centralized tender processes at profitable levels, we will lose the revenue associated with the sale of the affected products to the relevant public medical institutions. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — If we are unable to succeed in tender processes to sell our products to public hospitals and other medical institutions, we may lose market share and our operations, revenue and profitability could be adversely affected."

**The implementation and expansion of the volume-based procurement for sales of drugs and medical devices to PRC public medical institutions**

On November 15, 2018, the Joint Procurement Office led by the National Healthcare Security Administration published the Papers on Centralized Drug Procurement in "4+7 Cities" (the "**Papers**"), which launched the volume-based procurement of public hospitals. The Papers listed 31 drugs for this pilot scheme together with an intended quantity commitment for each drug. The manufacturers and importers of the drugs are invited to bid to supply the drugs to public medical institutions in the "4+7 Cities." The move is aimed at reducing drug prices and may potentially impact how drugs are priced and procured in China. On January 1, 2019, the General Office of the State Council also published the Notice of Issuing Pilot Program of the Centralized Procurement and Use of Drugs Organized by the State (國務院辦公廳關於印發國家組織藥品集中採購和使用試點方案的通知), which provides additional detailed measures in the implementation of the volume-based procurement in the "4+7 Cities." Please refer to the paragraphs headed "Regulatory Overview — Laws and Regulations in Relation to New Drugs — The Drug Centralized Procurement in '4+7 Cities' and Nationwide" for more details.

We participate in the regimes to market our products to public hospitals. Our bidding strategy generally focuses on differentiating our products from those of our competitors instead of competing solely based on pricing. Therefore, our sales volumes and profitability depend on our ability to successfully differentiate our products from competing products and price our bids in a manner that enables us to succeed in the volume-based procurement at profitable levels. Three of our marketed drug products, namely Jiouting, Yinuojia, Jifuwei, participated in national centralized volume-based procurement schemes. While the volume-based procurement policy allows us to sell our drug products in larger volumes, it also exerts downward pressure on the prices at which we sell our products to our distributors, thus impacting our gross profits and gross profit margins. Such policy embodies a PRC regulatory aim to significantly reduce the drug prices and reduce the burden of pharmaceutical costs on patients. We will continue to monitor the potential impact caused by these regulations.

The National Healthcare Security Administration (國家醫保局) implemented the centralized volume-based procurement scheme for high-value medical consumables since 2020, which focuses on medical devices and consumables with mature, high-volume clinical usage and sufficient market competition. In 2023, the Joint Office for the Procurement of High-Value Medical Consumables (國家組織高值醫用耗材聯合採購辦公室) published the 4th VBP List for High-Value Consumables ("**4th VBP List**"), which covers, among other things, certain orthopedic medical devices. According to CIC, medical devices included in the 4th VBP List experience considerable price reductions. BMP bone

repair materials, characterized by their unique combination of biological with medical device and innovativeness, are not included in this list. BMP bone repair materials are merely subject to certain price restrictions to be imposed by relevant regulatory authorities. Such price restrictions, when compared to the pricing policies applicable to the medical devices included in the 4th VBP List, are expected to exert less downward pressure on the price of the products. As of the Latest Practicable Date, the implementation details of such price restriction policies are to be published by the relevant regulatory authorities. Please refer to the paragraphs headed "Risk Factors — Risks Relating to Our Business and Industry — We may experience difficulties in our sales efforts as a result of pricing regulations or other policies such as volume-based procurement and 'Two-Invoice System' that are intended to reduce healthcare costs, which could subject us to pricing and volume pressures and adversely affect our operations, revenue and profitability."

**Our ability to effectively control our costs and expenses**

Our profitability has benefited from our effective control of cost of sales. Our cost of sales consists primarily of costs of materials, labor costs, utilities and maintenance fees. We have devoted significant efforts to continuously our production efficiency, including through upgrading our production facilities to achieve increased automation in our production processes. As a result of our cost control efforts, our cost of sales as a percentage of revenue has decreased from 27.3% in 2021 to 24.1% in 2022, and further decreased to 21.6% in the nine months ended September 30, 2023.

Our operating expenses include selling and marketing expenses, research and development costs, as well as administrative and other operating expenses. Selling and marketing expenses are the largest component of our operating expenses, accounting for 49.7%, 54.1% and 52.5% of our revenue in 2021, 2022 and the nine months ended September 30, 2023, respectively. We use a combination of our in-house sales and marketing team and a network of independent distributors to sell our products in China. We expect to continue to devote resources to commercialize and market our approved products and any existing or future product candidates that may be approved. As a result, our sales and distribution expenses are expected to continue to be a major component of our operating expenses. In the future, we intend to continue to control our selling and marketing expenses and enhance our sales productivity through additional tailored training of sales personnel and more targeted marketing activities.

## MATERIAL ACCOUNTING POLICIES

Our significant accounting policies, which are important for understanding our financial condition and results of operations, are set forth in Note 2.3 to the Accountants' Report in Appendix I to this document. Some of our accounting policies involve subjective assumptions, estimates and judgements that are set forth in Note 3 to the Accountants' Report in Appendix I to this document. In each case, the determination of these items requires management judgment based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of significant accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions.

**Revenue recognition**

*Revenue from contracts with customers*

Revenue from contracts with customers is recognized when control of goods or services is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between us and the customer at contract inception. When the contract contains a financing component which provides us with a significant financial benefit for more than one year, revenue recognized under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

We have satisfied a performance obligation and recognize revenue over time, if one of the following criteria is met:

(i) The customer simultaneously receives and consumes the benefits provided by our performance as we perform;

(ii) Our performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(iii) Our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If none of the above conditions is met, we recognize revenue at the point in time when the customer obtains control of the distinct good or service.

If control of the service transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at the point in time when the customer obtains control of the service.

For contracts that contain more than one performance obligation, we allocate the transaction price to each performance obligation on a relative stand-alone selling price basis. The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which we would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, we estimate it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which we expect to be entitled in exchange for transferring the promised goods or services to the customer.

The selection of the method to measure progress towards completion requires judgement and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, we generally measure its progress using the cost-to-cost method (input method). We use the known cost measure of progress when it best depicts the transfer of value to the customer which occurs as we incur costs on its contract, generally related to fixed fee service contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred.

As a practical expedient, if we have a right to consideration in an amount that corresponds directly with the value of our performance completed to date, we recognize revenue in the amount to which we have the right to invoice.

*(a) Sales of goods*

Revenue from the sales of goods is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sales of goods provide customers with rights of return and volume rebates giving rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which we will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognized. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognized.

*(b) Provision of research and development and other services*

(i) Research and development services

We recognize revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a service (or a bundle of services) that is distinct or a series of distinct services that are substantially the same.

Control is transferred over time and revenue is recognized over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by our performance as we perform;
- our performance creates and enhances an asset that the customer controls as we perform; or
- Our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognized at a point in time when the customer obtains control of the service.

(ii) Technology transfer

Revenue from technology transfer is recognized at the point in time when we transfer the control for underlying services and have right to payment from the customers for the services performed, upon the delivery or acceptance of the underlying services.

(iii) Outsourcing manufacturing services

Revenue from outsourcing manufacturing services is recognized at the point in time when we transfer the control for underlying services and have right to payment from the customers for the services performed, upon the delivery or acceptance of the underlying services.

***Other income***

Rental income is recognized on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are incurred.

Interest income is recognized on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, we recognize such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

| Categories | Estimated useful lives |
|---|---|
| Buildings | 5 to 20 years |
| Machinery | 10 years |
| Electronic and office equipment | 3 to 5 years |
| Motor vehicles | 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in profit or loss in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

| Categories | Estimated useful lives |
|---|---|
| Software | 2 years |
| Patents and licences | 10 years |
| Trademark | 10 years |

***Research and development costs***

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

***Fair value measurement***

We measure certain financial assets at fair value at the end of each of the reporting periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by us. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, we determine whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

***Share-based payments***

We operate a share award plan. Employees (including directors) of us receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("**equity-settled transactions**").The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the discounted cash flow method, further details of which are given in Note 27 to the Accountants' Report in Appendix I to this document.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and our best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of our best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either us or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

## SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of our Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying our accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

***Revenue from contracts with customers***

We applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

*(a) Determining the timing of satisfaction of the provision of research and development services*

We concluded that revenue from the provision of research and development services is to be recognized over time because customers simultaneously receive and consume the benefits provided by us.

We determined that the input method is the best method in measuring the progress of the progress of research and development services because there is a direct relationship between our effort (i.e., labor costs and cost of inventories, consumables incurred) and the transfer of services to the customer. We recognize revenue on the basis of the incurred costs expended relative to the total expected costs to complete the services.

*(b) Determining the method to estimate variable consideration and assessing the constraint for the sales of goods*

Certain contracts for the sales of goods include a right of return and volume rebates that give rise to variable consideration. In estimating the variable consideration, we are required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

We determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sales of goods with rights of return, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sales of goods with volume rebates, we determined that using the most likely amount method. The selected method that better predicts the amount of variable consideration related to volume rebates is primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold.

Before including any amount of variable consideration in the transaction price, we consider whether the amount of variable consideration is constrained. We determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

***Variable consideration for returns and volume rebates***

We estimate variable consideration to be included in the transaction price for the sales of goods with rights of return and volume rebates.

We have developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by us.

Our expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

We have applied a statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by us.

We update its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and our past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future.

***Provision for expected credit losses on trade receivables***

We use a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on our historical observed default rates. We calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the medical industry sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. our historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on our trade receivables is disclosed in Note 17 to the Accountants' Report in Appendix I to this document.

*Onerous contract provisions*

For onerous contracts, the present obligation under the contract must be recognized in the current period and measured as provisions, based on the estimated unrealised centralised procurement contracts.

*Impairment of non-financial assets (other than goodwill)*

We assess whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Fair value measurement of share-based payments*

We have set up a share award scheme and granted restricted ordinary shares to our employees. The fair values of the restricted shares are determined by the discounted cash flow method at the grant dates. Significant estimates on assumptions, including the underlying equity value and discount rate, are made by management. Further details are included in Note 27 to the Accountants' Report in Appendix I to this document.

*Development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in Note 2.3 to the Accountants' Report in Appendix I to this document. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

*Leases — Estimating the incremental borrowing rate*

We cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that we would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what we "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. We estimate the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

The following table sets forth a summary of our consolidated statements of profit or loss, with line items in absolute amounts and as percentages of our revenue for the periods indicated.

| | Year Ended December 31, | | | | Nine Months Ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue | Amount | % of revenue |
| | | | | | *(unaudited)* | | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Revenue | 1,307,251 | 100.0% | 1,125,405 | 100.0% | 852,082 | 100.0% | 1,022,655 | 100.0% |
| Cost of sales | (356,844) | (27.3%) | (271,143) | (24.1%) | (195,656) | (23.0%) | (221,179) | (21.6%) |
| **Gross profit** | **950,407** | **72.7%** | **854,262** | **75.9%** | **656,426** | **77.0%** | **801,476** | **78.4%** |
| Other income and gains | 7,093 | 0.5% | 14,549 | 1.3% | 13,241 | 1.6% | 5,537 | 0.5% |
| Selling and marketing expenses | (649,553) | (49.7%) | (609,074) | (54.1%) | (439,576) | (51.6%) | (537,318) | (52.5%) |
| Administrative expenses | (36,524) | (2.8%) | (39,946) | (3.5%) | (28,217) | (3.3%) | (38,772) | (3.8%) |
| Research and development costs | (132,631) | (10.1%) | (158,312) | (14.1%) | (105,493) | (12.4%) | (100,447) | (9.8%) |
| Other expenses | (1,537) | (0.1%) | (1,018) | (0.1%) | (562) | (0.1%) | (2,621) | (0.3%) |
| Finance costs | (9,720) | (0.7%) | (9,042) | (0.8%) | (6,733) | (0.8%) | (7,154) | (0.7%) |
| **Profit before tax** | **127,535** | **9.8%** | **51,419** | **4.6%** | **89,086** | **10.5%** | **120,701** | **11.8%** |
| Income tax (expense)/credit | (8,122) | (0.6%) | 8,448 | 0.8% | (2,997) | (0.4%) | (9,504) | (0.9%) |
| **Profit for the year/period** | **119,413** | **9.1%** | **59,867** | **5.3%** | **86,089** | **10.1%** | **111,197** | **10.9%** |

## DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

### Revenue

For the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2022 and 2023, our revenue amounted to RMB1,307.3 million, RMB1,125.4 million, RMB852.1 million and RMB1,022.7 million, respectively. During the Track Record Period, we generated substantially all of our revenue from sales of products that we manufactured in-house. To a much lesser extent, we also generated revenue from provision of R&D and other services.

### *Revenue by Nature*

The following table sets forth a breakdown of our revenue by nature in both absolute amounts and as percentages of our revenue for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue |
| | | | | | *(unaudited)* | | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Sales of goods | 1,268,427 | 97.0% | 1,105,105 | 98.2% | 844,581 | 99.1% | 975,442 | 95.4% |
| Provision of R&D and other services[(1)] | 38,824 | 3.0% | 20,300 | 1.8% | 7,501 | 0.9% | 47,213 | 4.6% |
| **Total** | **1,307,251** | **100.0%** | **1,125,405** | **100.0%** | **852,082** | **100.0%** | **1,022,655** | **100.0%** |

*Note:*

(1) It mainly represents revenue from (a) our transfer of and the provision of commissioned manufacturing services of a liraglutide product to Zhongmei Huadong, and (b) the pre-clinical R&D services provided to Zhongmei Huadong in relation to three biologics. For more information about our collaboration agreements with Zhongmei Huadong, please refer to the paragraphs headed "Business — Collaboration Arrangements."

### *Revenue by Therapeutic Areas*

The following table sets forth a breakdown of our revenue by sales of products by therapeutic areas in both absolute amounts and as percentages of our revenue for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue |
| | | | | | *(unaudited)* | | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Orthopedics | 355,146 | 27.2% | 444,340 | 39.5% | 335,733 | 39.4% | 558,028 | 54.6% |
| Oncology | 488,905 | 37.4% | 328,079 | 29.2% | 250,412 | 29.4% | 195,111 | 19.1% |
| Hematology | 301,712 | 23.1% | 283,100 | 25.2% | 222,753 | 26.1% | 193,137 | 18.9% |
| Other[(1)] | 122,664 | 9.4% | 49,586 | 4.4% | 35,683 | 4.2% | 29,166 | 2.9% |
| **Total** | **1,268,427** | **97.0%** | **1,105,105** | **98.2%** | **844,581** | **99.1%** | **975,442** | **95.4%** |

*Note:*

(1) It mainly consists of APIs.

### *Revenue by Marketed Products*

The following table sets forth the sales of our marketed products during the Track Record Period in absolute amounts and as percentages of our total revenue for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue |
| | | | | | | *(unaudited)* | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Guyoudao | 355,146 | 27.2% | 444,340 | 39.5% | 335,733 | 39.4% | 558,028 | 54.6% |
| Yinuojia | 243,329 | 18.6% | 235,375 | 20.9% | 186,528 | 21.9% | 168,040 | 16.4% |
| Jilifen | 145,838 | 11.2% | 165,964 | 14.7% | 122,620 | 14.4% | 112,138 | 11.0% |
| Jijufen | 97,181 | 7.4% | 94,298 | 8.4% | 71,103 | 8.3% | 63,785 | 6.2% |
| Jipailin | 58,383 | 4.5% | 47,725 | 4.2% | 36,225 | 4.3% | 25,097 | 2.5% |
| Jiouting | 245,886 | 18.8% | 67,817 | 6.0% | 56,689 | 6.7% | 14,077 | 1.4% |
| Jifuwei | – | – | – | – | – | – | 5,111 | 0.5% |
| **Total** | **1,145,763** | **87.6%** | **1,055,519** | **93.8%** | **808,898** | **94.9%** | **946,276** | **92.5%** |

### *Revenue by Geographical Markets*

During the Track Record Period, our sales primarily occurred domestically through distributors and direct sales. Our overseas sales primarily consisted of APIs we directly sold to overseas pharmaceutical companies, and we also sold a small quantity of drug products to overseas medical institutions through distributors. The following table sets forth a breakdown of our revenue by geographical markets in both absolute amounts and as percentages of our revenue for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue | Amount | % of total revenue |
| | | | | | | *(unaudited)* | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Mainland China | 1,170,683 | 89.6% | 1,073,609 | 95.4% | 814,626 | 95.6% | 992,336 | 97.0% |
| Other countries/regions | 136,568 | 10.4% | 51,796 | 4.6% | 37,456 | 4.4% | 30,319 | 3.0% |
| **Total** | **1,307,251** | **100.0%** | **1,125,405** | **100.0%** | **852,082** | **100.0%** | **1,022,655** | **100.0%** |

### Cost of Sales

Our cost of sales consists of costs of materials, labor costs, utilities and maintenance fees, and depreciation. In 2021 and 2022, our cost of sales was RMB356.8 million and RMB271.1 million, accounting for 27.3% and 24.1% of our total revenue, respectively. Our cost of sales was RMB195.7 million and RMB221.2 million in the nine months ended September 30, 2022 and 2023, accounting for 23.0% and 21.6% of our total revenue in the same periods, respectively.

The following table sets forth a breakdown of our cost of sales by nature in absolute amounts and as percentages of our revenue for the periods indicated.

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | | | | | *(unaudited)* | | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Costs of materials | 242,405 | 67.9% | 170,008 | 62.7% | 127,526 | 65.2% | 120,286 | 54.4% |
| Labor costs | 58,676 | 16.4% | 52,704 | 19.4% | 36,792 | 18.8% | 49,975 | 22.6% |
| Utilities and maintenance fees | 44,604 | 12.5% | 38,481 | 14.2% | 24,498 | 12.5% | 41,773 | 18.9% |
| Depreciation | 11,159 | 3.1% | 9,950 | 3.7% | 6,840 | 3.5% | 9,145 | 4.1% |
| **Total** | **356,844** | **100.0%** | **271,143** | **100.0%** | **195,656** | **100.0%** | **221,179** | **100.0%** |

Our costs of materials include raw material costs, excipient costs and packaging costs, while raw material costs primarily consist of costs of materials for pharmaceutical intermediates used to produce the APIs that we manufacture in-house, as well as APIs that we procure from third-party suppliers. Our labor costs primarily include salaries, benefits and share-based payments for employees involved in the production of our products. Depreciation mainly relates to plants and equipment used for the production of our products. Utilities and maintenance fees primarily consist of costs of electricity and water, and other manufacturing overhead used for the production of our products.

We purchase raw materials on an as-needed basis at market prices. Generally, each of our main products require distinct raw materials. During the Track Record Period, our cost of sales accounted for 27.3%, 24.1% and 21.6% of our revenue, and our costs of materials accounted for 67.9%, 62.7% and 54.4% of our cost of sales, respectively. Fluctuations in the market prices of materials during the Track Record Period did not have a significant impact on our business or results of operations. The table below sets forth a sensitivity analysis illustrating the impact of hypothetical fluctuations in cost of sales on our net profit for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000 (unaudited)* | *%* | *RMB'000 (unaudited)* | *%* |
| Cost of sales | 356,844 | | 271,143 | | 195,656 | | 221,179 | |
| Gross profit | 950,407 | | 854,262 | | 656,426 | | 801,476 | |
| Profit for the year/period | 119,413 | | 59,867 | | 86,089 | | 111,197 | |
| **Costs of materials (5% increase)** | | | | | | | | |
| Cost of sales | 12,120 | 3.4% | 8,500 | 3.1% | 6,376 | 3.3% | 6,014 | 2.7% |
| Gross profit | (12,120) | (1.3%) | (8,500) | (1.0%) | (6,376) | (1.0%) | (6,014) | (0.8%) |
| Profit for the year/period | (10,302) | (8.6%) | (7,225) | (12.1%) | (5,420) | (6.3%) | (5,112) | (4.6%) |
| **Labor costs (5% increase)** | | | | | | | | |
| Cost of sales | 2,934 | 0.8% | 2,635 | 1.0% | 1,840 | 0.9% | 2,499 | 1.1% |
| Gross profit | (2,934) | (0.3%) | (2,635) | (0.3%) | (1,840) | (0.3%) | (2,499) | (0.3%) |
| Profit for the year/period | (2,494) | (2.1%) | (2,240) | (3.7%) | (1,564) | (1.8%) | (2,124) | (1.9%) |
| **Utilities and maintenance fees (5% increase)** | | | | | | | | |
| Cost of sales | 2,230 | 0.6% | 1,924 | 0.7% | 1,225 | 0.6% | 2,089 | 0.9% |
| Gross profit | (2,230) | (0.2%) | (1,924) | (0.2%) | (1,225) | (0.2%) | (2,089) | (0.3%) |
| Profit for the year/period | (1,896) | (1.6%) | (1,635) | (2.7%) | (1,041) | (1.2%) | (1,775) | (1.6%) |
| **Depreciation (5% increase)** | | | | | | | | |
| Cost of sales | 558 | 0.2% | 497 | 0.2% | 342 | 0.2% | 457 | 0.2% |
| Gross profit | (558) | – | (497) | – | (342) | – | (457) | – |
| Profit for the year/period | (474) | (0.4%) | (423) | (0.7%) | (291) | (0.3%) | (389) | (0.3%) |

### Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less our cost of sales. Gross profit margin represents our gross profit as a percentage of our revenue. In 2021 and 2022, our gross profit was RMB950.4 million and RMB854.3 million, representing a gross profit margin of 72.7% and 75.9%, respectively. Our gross profit was RMB656.4 million and RMB801.5 million in the nine months ended September 30, 2022 and 2023, representing a gross profit margin of 77.0% and 78.4%, respectively.

### Other Income and Gains

Our other income and gains consist primarily of government grants, bank interest income, rental income from operating lease, net foreign exchange gains and others. The following table sets forth a breakdown of our other income and gains for the periods indicated:

| | Year ended December 31, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | Amount | Amount | Amount | Amount |
| | | | *(unaudited)* | |
| | *(RMB in thousands)* | | | |
| **Other Income** | | | | |
| Government grants[(1)] | 4,349 | 14,110 | 12,802 | 5,151 |
| Bank interest income | 319 | 184 | 136 | 173 |
| Rental income from an operating lease | 1,960 | – | – | – |
| Others | 465 | 53 | 36 | 14 |
| | 7,093 | 14,347 | 12,974 | 5,338 |
| **Gains** | | | | |
| Foreign exchange gains, net | – | 202 | 267 | 199 |
| **Total** | **7,093** | **14,549** | **13,241** | **5,537** |

*Note:*

(1) Government grants were awarded by PRC local government authorities to support our research and development activities. During the Track Record Period, there were no unfulfilled conditions related to these government grants.

**Selling and Marketing Expenses**

Our selling and marketing expenses consist primarily of marketing and promotion expenses, travelling expenses, labor costs and others.

The following table sets forth a breakdown of our selling and marketing expenses, by absolute amounts and as percentages of our total selling and marketing expenses, for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | | | | | *(unaudited)* | | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Marketing and promotion expenses | 494,232 | 76.1% | 432,247 | 71.0% | 317,031 | 72.1% | 369,536 | 68.8% |
| Travelling expenses | 21,964 | 3.4% | 26,382 | 4.3% | 15,895 | 3.6% | 41,436 | 7.7% |
| Labor costs | 123,137 | 18.9% | 138,404 | 22.7% | 100,143 | 22.8% | 113,885 | 21.2% |
| Others[(1)] | 10,220 | 1.6% | 12,041 | 2.0% | 6,507 | 1.5% | 12,461 | 2.3% |
| **Total** | **649,553** | **100.0%** | **609,074** | **100.0%** | **439,576** | **100.0%** | **537,318** | **100.0%** |

*Note:*

(1) "Others" primarily comprises expenses related to offices, leases and maintenance, depreciation and amortization, and other miscellaneous expenses.

Marketing and promotion expenses primarily comprise (i) expenses associated with organizing and participating in various academic conferences, seminars and symposia, which mainly consist of registration fees, space and equipment rent, costs related to preparing company brochures, product catalogs and other marketing materials, as well as related meeting disbursements; and (ii) service fees paid to third-party promoters for various marketing and promotional services, including market research, business development and participation in academic conferences. Travelling expenses primarily consist of travel and accommodation expenses of our in-house sales and marketing personnel for the promotion of our products. Labor costs mainly consist of salaries, bonuses, pension, share-based payments and other social security and welfare of our sales and marketing personnel.

**Administrative Expenses**

Our administrative expenses consist primarily of labor costs, general operating expenses, depreciation and amortization, and professional consulting fees and others.

The table below sets forth a breakdown of our administrative expenses in absolute amounts and as percentages of our total administrative expenses for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % | Amount | % | Amount | % | Amount | % |
| | | | | | *(unaudited)* | | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Labor costs | 19,765 | 54.1% | 24,642 | 61.7% | 17,344 | 61.5% | 26,450 | 68.2% |
| General operating expenses | 10,663 | 29.2% | 11,128 | 27.9% | 7,499 | 26.6% | 4,848 | 12.5% |
| Depreciation and amortization | 1,279 | 3.5% | 2,416 | 6.0% | 1,824 | 6.5% | 1,473 | 3.8% |
| Professional consulting fees[(1)] | 3,534 | 9.7% | 1,043 | 2.6% | 1,043 | 3.7% | 5,428 | 14.0% |
| Others[(2)] | 1,283 | 3.5% | 717 | 1.8% | 507 | 1.8% | 573 | 1.5% |
| **Total** | **36,524** | **100.0%** | **39,946** | **100.0%** | **28,217** | **100.0%** | **38,772** | **100.0%** |

*Note:*

(1) The **[REDACTED]** expenses included in the professional consulting fees amounted to **[REDACTED]**, **[REDACTED]** and **[REDACTED]** in 2021, 2022 and the nine months ended September 30, 2023, respectively.

(2) "Others" primarily comprises transaction fees and other miscellaneous expenses.

Labor costs mainly consist of salaries, bonuses, pension, share-based payments and other social security and welfare of our Directors, senior management and administrative personnel and staff recruitment expenses. General operating expenses mainly consist of travelling expenses, office expenses, litigation fees, repairment costs, insurance fees and environmental protection fees. Depreciation and amortization are mainly related to property and equipment for office and other administrative functions. Professional consulting fees mainly comprise service fees to auditors, legal counsel and other professional service providers in relation to our daily operation, and **[REDACTED]** expenses.

**Research and Development Costs**

Our research and development costs consist primarily of labor costs, costs of materials, depreciation and utilities, testing and experiment costs, outsourcing and professional consulting fees and others.

The table below sets forth a breakdown of our research and development costs in absolute amounts and as percentages of our total research and development costs for the periods indicated:

| | Year ended December 31, | | | | Nine months ended September 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | 2022 | | 2022 | | 2023 | |
| | Amount | % of total research and development costs | Amount | % of total research and development costs | Amount | % of total research and development costs | Amount | % of total research and development costs |
| | | | | | *(unaudited)* | | | |
| | *(RMB in thousands, except for percentages)* | | | | | | | |
| Labor costs | 37,338 | 28.2% | 52,286 | 33.0% | 34,797 | 33.0% | 36,805 | 36.6% |
| Costs of materials | 30,533 | 23.0% | 31,562 | 19.9% | 20,521 | 19.5% | 15,030 | 15.0% |
| Depreciation and utilities | 15,037 | 11.3% | 26,728 | 16.9% | 18,054 | 17.1% | 20,001 | 19.9% |
| Testing and experiment costs | 28,164 | 21.2% | 30,462 | 19.2% | 21,747 | 20.6% | 18,489 | 18.4% |
| Outsourcing and professional consulting fees | 12,514 | 9.4% | 5,524 | 3.5% | 4,358 | 4.1% | 2,361 | 2.4% |
| Others[(1)] | 9,045 | 6.8% | 11,750 | 7.4% | 6,016 | 5.7% | 7,761 | 7.7% |
| **Total** | **132,631** | **100.0%** | **158,312** | **100.0%** | **105,493** | **100.0%** | **100,447** | **100.0%** |

*Note:*

(1) "Others" primarily comprises repair fees, office expenses, travel and conference expenses and other miscellaneous expenses.

Labor costs mainly consist of salaries, bonuses, pension, share-based payments and other social security and welfare of our research and development personnel. Costs of materials primarily consist of the consumption of materials, as well as the utilization of consumables. Depreciation and utilities mainly consist of depreciation of property, plant and equipment, as well as utilities in association with, our research and development. Testing and experimental costs primarily consist of clinical trial expenses and labor and testing fees. Outsourcing and professional consulting fees primarily consist of service fees to hospitals and CROs for conducting clinical trials.

### Other Expenses

Our other expenses consist primarily of foreign exchange loss, impairment loss on credit and others. In 2021 and 2022, our other expenses were RMB1.5 million and RMB1.0 million, accounting for 0.1% and 0.1% of our total revenue, respectively. In the nine months ended September 30, 2022 and 2023, our other expenses were RMB0.6 million and RMB2.6 million, accounting for 0.1% and 0.3% of our total revenue, respectively. The following table sets forth a breakdown of our other expenses for the periods indicated:

| | Year ended December 31, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | Amount | Amount | Amount | Amount |
| | | | *(unaudited)* | |
| | *(RMB in thousands)* | | | |
| Foreign exchange loss | 116 | – | – | – |
| Impairment loss on credit | (80) | 463 | 381 | 1,476 |
| Others[(1)] | 1,501 | 555 | 181 | 1,145 |
| **Total** | **1,537** | **1,018** | **562** | **2,621** |

*Note:*

(1) "Others" primarily comprises losses from fixed asset write-offs and charity donations.

### Finance Costs

Our finance costs consist of interests on bank borrowings and lease liabilities. In 2021 and 2022, our finance costs were RMB9.7 million and RMB9.0 million, accounting for 0.7% and 0.8% of our total revenue, respectively. In the nine months ended September 30, 2022 and 2023, our finance costs were RMB6.7 million and RMB7.2 million, accounting for 0.8% and 0.7% of our total revenue, respectively.

| | Year ended December 31, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | Amount | Amount | Amount | Amount |
| | | | *(unaudited)* | |
| | *(RMB in thousands)* | | | |
| Interest on bank borrowings | 9,695 | 9,020 | 6,715 | 7,122 |
| Interest on lease liabilities | 25 | 22 | 18 | 32 |
| **Total** | **9,720** | **9,042** | **6,733** | **7,154** |

**Income Tax Expense/Credit**

The income tax expense/credit consists of current tax and deferred tax. The following table sets forth a breakdown of our income tax expense/credit for the periods indicated:

| | Year ended December 31, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | Amount | Amount | Amount | Amount |
| | | | *(unaudited)* | |
| | *(RMB in thousands)* | | | |
| Current tax — Mainland China | | | | |
| Charge for the year/period | 658 | – | – | – |
| Deferred tax | 7,464 | (8,448) | 2,997 | 9,504 |
| **Total income tax expense/(credit)** | **8,122** | **(8,448)** | **2,997** | **9,504** |

We incurred income tax expense of RMB8.1 million, RMB3.0 million, and RMB9.5 million in 2021 and in the nine months ended September 30, 2022 and 2023, respectively. Our effective income tax rate, calculated as income tax expenses divided by profit before tax, was 6.4%, 3.4% and 7.9% for the corresponding period. We recorded income tax credit of RMB8.4 million in 2022.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiary is 25%. The Company was accredited as a "High and New Technology Enterprise" ("**HNTE**") during the Track Record Period and was therefore entitled to a preferential EIT rate of 15%. The qualification as a HNTE will be subjected to review by the relevant tax authority in the PRC for every three years. Please refer to Note 10 to the Accountants' Report in Appendix I to this document.

During the Track Record Period and up to the Latest Practicable Date, we paid all relevant taxes that were due and applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

## PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

### Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

*Revenue*

Our revenue increased by 20.0% from RMB852.1 million in the nine months ended September 30, 2022 to RMB1,022.7 million in the nine months ended September 30, 2023, due to an increase of RMB130.9 million in revenue from sales of goods and increase of RMB39.7 million in revenue from provision of R&D and other services.

Revenue from sales of goods increased by 15.5% from RMB844.6 million in the nine months ended September 30, 2022 to RMB975.4 million in the nine months ended September 30, 2023, primarily due to the rapid increase in sales revenue from Guyoudao. Our revenue generated from sales of Guyoudao increased by 66.2% from RMB335.7 million in the nine months ended September 30, 2022 to RMB558.0 million in the nine months ended September 30, 2023, mainly due to the continuous growth of its sales volume.

Revenue from provision of R&D and other services increased by 529.4% from RMB7.5 million in the nine months ended September 30, 2022 to RMB47.2 million in the nine months ended September 30, 2023, primarily because several major payment milestones related to our transfer arrangements with Zhongmei Huadong were scheduled in the nine months ended September 30, 2023. For more information about our collaboration agreements with Zhongmei Huadong, please refer to the paragraphs headed "Business — Collaboration Arrangements."

*Cost of sales*

Our cost of sales increased by 13.0% from RMB195.7 million in the nine months ended September 30, 2022 to RMB221.2 million in the nine months ended September 30, 2023, primarily due to an increase in utilities and maintenance fees of RMB17.3 million and labor costs of RMB13.2 million, which were mainly attributable to an increase in our production and sales volume of Guyoudao. Such increases were partially offset by a decrease in our costs of materials, primarily due to the increased proportion of Guyoudao as a percentage of our total sales volume, which requires a relatively low amount of raw materials to manufacture.

*Gross profit and gross profit margin*

As a result of the foregoing, our gross profit increased by 22.1% from RMB656.4 million in the nine months ended September 30, 2022 to RMB801.5 million in the nine months ended September 30, 2023, and our gross profit margin increased from 77.0% in the nine months ended September 30, 2022 to 78.4% in the nine months ended September 30, 2023, primarily because the increased proportion of sales revenue from Guyoudao, which has a comparatively high gross profit margin.

*Other income and gains*

Our other income and gains decreased by 58.2% from RMB13.2 million in the nine months ended September 30, 2022 to RMB5.5 million in the nine months ended September 30, 2023, primarily due to a decrease in government grants from RMB12.8 million in the nine months ended September 30, 2022 to RMB5.2 million in the nine months ended September 30, 2023, primarily resulting from routine adjustments to government grant policies.

*Selling and marketing expenses*

Our selling and marketing expenses increased by 22.2% from RMB439.6 million in the nine months ended September 30, 2022 to RMB537.3 million in the nine months ended September 30, 2023, primarily due to (i) an increase in marketing and promotion expenses from RMB317.0 million in the nine months ended September 30, 2022 to RMB369.5 million in the corresponding period in 2023, resulting from our increased marketing activities in line with our revenue growth; (ii) an increase in travelling expenses from RMB15.9 million in the nine months ended September 30, 2022 to RMB41.4 million in the corresponding period in 2023, attributable to increased marketing activities; and (iii) an increase in labor costs from RMB100.1 million in the nine months ended September 30, 2022 to RMB113.9 million in the corresponding period in 2023, resulting from an increase in the headcount of our selling and marketing team and employee compensation.

*Administrative expenses*

Our administrative expenses increased by 37.4% from RMB28.2 million in the nine months ended September 30, 2022 to RMB38.8 million in the nine months ended September 30, 2023, primarily due to (i) an increase of labor costs from RMB17.3 million in the nine months ended September 30, 2022 to RMB26.5 million in the nine months ended September 30, 2023, attributable to an increase in share-based payments; and (ii) an increase of professional consulting fees from RMB1.0 million in the nine months ended September 30, 2022 to RMB5.4 million in the nine months ended September 30, 2023, primarily due to the incurrence of [**REDACTED**] expenses.

*Research and development costs*

Our research and development costs decreased by 4.8% from RMB105.5 million in the nine months ended September 30, 2022 to RMB100.4 million in the nine months ended September 30, 2023, primarily due to a decrease in costs of materials from RMB20.5 million in the nine months ended September 30, 2022 to RMB15.0 million in the nine months ended September 30, 2023, which was attributable to the progress of our research and development projects, where less materials are consumed after the initial phase is completed.

*Other expenses*

Our other expenses increased by 366.4% from RMB0.6 million in the nine months ended September 30, 2022 to RMB2.6 million in the nine months ended September 30, 2023, primarily due to (i) an increase of impairment loss on credit from RMB0.4 million in the nine months ended September 30, 2022 to RMB1.5 million in the corresponding period in 2023, which was incidental to the growth of our trade and bills receivable as our revenue increased, and (ii) an increase of other expenses from RMB0.2 million in the nine months ended September 30, 2022 to RMB1.1 million in the nine months ended September 30, 2023, primarily attributed to an increase in our charitable donations.

*Finance costs*

Our finance costs increased by 6.3% from RMB6.7 million in the nine months ended September 30, 2022 to RMB7.2 million in the nine months ended September 30, 2023, primarily due to an increase of interest on bank borrowings from RMB6.7 million in the nine months ended September 30, 2022 to RMB7.1 million in the nine months ended September 30, 2023, which was attributable to an increase in our bank loans.

*Income tax expense*

Our income tax expense increased by 217.1% from RMB2.9 million in the nine months ended September 30, 2022 to RMB9.5 million in the nine months ended September 30, 2023, primarily because the additional deductible allowance for research and development costs remained stable, although there was an increase in profit before tax.

*Profit for the period*

As a result of the foregoing, our profit increased by 29.2% from RMB86.1 million in the nine months ended September 30, 2022 to RMB111.2 million in the nine months ended September 30, 2023.

**Year Ended December 31, 2022 Compared to Year Ended December 31, 2021**

*Revenue*

Our revenue decreased by 13.9% from RMB1,307.3 million in 2021 to RMB1,125.4 million in 2022 due to a decrease of RMB163.3 million in revenue from sales of goods and a decrease of RMB18.5 million in revenue from provision of R&D and other services.

Revenue from sales of goods decreased by 12.9% from RMB1,268.4 million in 2021 to RMB1,105.1 million in 2022, primarily due to a decrease of revenue from sales of Jiouting and API of enoxaparin. Our revenue generated from Jiouting decreased by 72.4% from RMB245.9 million in 2021 to RMB67.8 million in 2022, which was due to a reduction in Jiouting's sales volume and sales price after its inclusion in the volume-based procurement program. Our revenue generated from sales of enoxaparin API decreased by 61.3% from RMB121.8 million in 2021 to RMB47.1 million in 2022, which was mainly due to a geopolitical conflict which affected our sales to an overseas client. The decrease of

revenue from sales of Jiouting and enoxaparin API was partially offset by a 25.1% increase in revenue from the sales of Guyoudao, rising from RMB355.1 million to RMB444.3 million. Such increase was mainly due to the continuous growth of Guyoudao's sales volume.

Revenue from provision of R&D and other services decreased by 47.7% from RMB38.8 million in 2021 to RMB20.3 million in 2022, primarily due to the timing of payment milestones in connection with our collaboration with Zhongmei Huadong for the R&D of Liluping and two other biologics. For more information about our collaboration agreements with Zhongmei Huadong, please refer to the paragraphs headed "Business — Collaboration Arrangements."

***Cost of sales***

Our cost of sales decreased by 24.0% from RMB356.8 million in 2021 to RMB271.1 million in 2022 primarily due to a decrease in costs of materials of RMB72.4 million, which was mainly attributable to a decrease in our sales volume of Jiouting and enoxaparin API. Such decrease primarily results from Jiouting's inclusion in the volume-based procurement program in 2022, and the adverse impact of a geopolitical conflict on our overseas sales of enoxaparin APIs.

***Gross profit and gross profit margin***

As a result of the foregoing, our gross profit decreased by 10.1% from RMB950.4 million in 2021 to RMB854.3 million in 2022. Our gross profit margin increased from 72.7% in 2021 to 75.9% in 2022, primarily due to (i) the increased proportion of sales revenue from Guyoudao, which has a comparatively high gross profit margin, and our cost reduction achieved through optimizing the manufacturing process of Guyoudao, which further increased its gross profit margin, and (ii) a decrease in the percentage of our revenue generated from sales of APIs to overseas markets, which have a relatively low gross profit margin.

***Other income and gains***

Our other income and gains increased by 105.1% from RMB7.1 million in 2021 to RMB14.5 million in 2022, primarily due to an increase in government grants from RMB4.3 million in 2021 to RMB14.1 million in 2022, primarily resulting from routine adjustments to government grant policies.

***Selling and marketing expenses***

Our selling and marketing expenses decreased by 6.2% from RMB649.6 million in 2021 to RMB609.1 million in 2022, primarily due to a decrease in marketing and promotion expenses from RMB494.2 million in 2021 to RMB432.2 million in 2022, resulting from a decrease in our marketing and promotion activities, which is in line with our decrease in revenue.

*Administrative expenses*

Our administrative expenses increased by 9.4% from RMB36.5 million in 2021 to RMB39.9 million in 2022, primarily due to (i) an increase in labor costs from RMB19.8 million to RMB24.6 million, which was attributable to increased compensation level, and (ii) an increase in depreciation and amortization from RMB1.3 million in 2021 to RMB2.4 million in 2022, which was attributable to depreciation and amortization of property, plant and equipment and intangible assets in relation to our administrative uses.

*Research and development costs*

Our research and development costs increased by 19.4% from RMB132.6 million in 2021 to RMB158.3 million in 2022, primarily due to (i) an increase in labor cost from RMB37.3 million to RMB52.3 million, resulting from increased compensation level and an increase in research and development personnel; (ii) an increase in depreciation and utilities from RMB15.0 million to RMB26.7 million, primarily resulting from the depreciation and amortization of R&D related facilities and equipment; and (iii) an increase of RMB3.3 million in costs of materials and testing and experimental costs, primarily resulting from advancement of our R&D projects.

*Other expenses*

Our other expenses decreased by 33.8% from RMB1.5 million in 2021 to RMB1.0 million in 2022, primarily due to (i) a decrease in bereavement pay of RMB0.4 million, and (ii) a decrease in others, primarily consisting of losses from fixed asset write-offs.

*Finance costs*

Our finance costs decreased by 7.0% from RMB9.7 million in 2021 to RMB9.0 million in 2022, primarily due to a decrease in interest on bank borrowings from RMB9.7 million in 2021 to RMB9.0 million in 2022. Such decrease is attributable to our annual negotiation with the banks which resulted in the lowering of our interest rates.

*Income tax expense/credit*

We recorded income tax expense of RMB8.1 million in 2021 and income tax credit of RMB8.4 million in 2022 due to a decrease in profit before tax and an increase in the additional deductible allowance for research and development costs.

*Profit for the year*

As a result of the foregoing, our net profit decreased by 49.9% from RMB119.4 million in 2021 to RMB59.9 million in 2022.

## DISCUSSION OF SELECTED ITEMS FROM THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth selected information from our consolidated statements of financial position as of the dates indicated, which has been extracted from the Accountants' Report included in Appendix I to this document.

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 396,953 | 385,333 | 371,626 |
| Right-of-use assets | 972 | 467 | 2,415 |
| Intangible assets | 30,789 | 65,789 | 74,687 |
| Prepayments, other receivables and other assets | 6,580 | 3,236 | 4,456 |
| **Total non-current assets** | **435,294** | **454,825** | **453,184** |
| **Current assets** | | | |
| Inventories | 201,529 | 171,898 | 165,536 |
| Trade and bills receivables | 410,305 | 474,502 | 595,845 |
| Prepayments, other receivables and other assets | 24,214 | 15,702 | 15,867 |
| Due from related parties | 16,652 | 24,735 | 52,742 |
| Restricted bank deposits | 377 | 378 | 20 |
| Cash and cash equivalents | 94,829 | 71,540 | 49,383 |
| **Total current assets** | **747,906** | **758,755** | **879,393** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade payables | 66,449 | 51,646 | 48,518 |
| Lease liabilities | 311 | 326 | 849 |
| Other payables and accruals | 154,594 | 145,350 | 145,523 |
| Due to related parties | 396 | 898 | 820 |
| Interest-bearing bank borrowings | 157,558 | 141,532 | 157,941 |
| Contract liabilities | 21,213 | 16,180 | 3,575 |
| **Total current liabilities** | **400,521** | **355,932** | **357,226** |

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| **Net current assets** | **347,385** | **402,823** | **522,167** |
| **Total assets less current liabilities** | **782,679** | **857,648** | **975,351** |
| **Non-current liabilities** | | | |
| Lease liabilities | 326 | – | 1,379 |
| Interest-bearing bank borrowings | 45,808 | 78,726 | 64,461 |
| Other payables and accruals | 5,121 | 7,899 | 7,461 |
| Deferred tax liabilities | 13,287 | 4,839 | 14,343 |
| **Total non-current liabilities** | **64,542** | **91,464** | **87,644** |
| **Net assets** | **718,137** | **766,184** | **887,707** |
| **Equity** | | | |
| Paid-in capital | 53,446 | 53,446 | 53,446 |
| Reserves | 664,691 | 712,738 | 834,261 |
| **Total equity** | **718,137** | **766,184** | **887,707** |

**Assets**

***Intangible assets***

Our intangible assets mainly represented software, patents and license, trademark, and deferred development costs.

Our intangible assets increased from RMB30.8 million as of December 31, 2021 to RMB65.8 million as of December 31, 2022, and further increased to RMB74.7 million as of September 30, 2023, primarily due to the advancement of our research and development projects, which led to an increase in our deferred development costs.

***Prepayments, other receivables and other assets***

Our prepayments, other receivables and other assets consist primarily of (i) prepayments, (ii) tax recoverable, (iii) right-of-return assets, (iv) other receivables, (v) advance payments for property, plant and equipment, and (vi) deferred **[REDACTED]** expenses.

The following table sets forth the details of our prepayments, other receivables and other assets as of the dates indicated.

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| Current | | | |
| Prepayments | 8,291 | 9,550 | 6,071 |
| Tax recoverable | 11,606 | 1,103 | – |
| Right-of-return assets | 1,086 | 810 | 639 |
| Other receivables | 3,771 | 4,779 | 5,436 |
| Deferred [**REDACTED**] expenses | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] |
| Impairment | (540) | (540) | (695) |
| Subtotal | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] |
| Non-current | | | |
| Advance payments for property, plant and equipment | 6,580 | 3,236 | 4,456 |
| **Total** | [**REDACTED**] | [**REDACTED**] | [**REDACTED**] |

Our prepayments, other receivables and other assets decreased by [**REDACTED**]% from RMB[**REDACTED**] million as of December 31, 2021 to RMB[**REDACTED**] million as of December 31, 2022, primarily due to (i) a decrease in tax recoverable from RMB11.6 million to RMB1.1 million as a result of a reduction in advance payment of corporate income tax, and (ii) a decrease in advanced payments for property, plant and equipment from RMB6.6 million to RMB3.2 million, as part of these advance payments was later recorded as property, plant, and equipment.

Our prepayments, other receivables and other assets increased by [**REDACTED**]% from RMB[**REDACTED**] million as of December 31, 2022 to RMB[**REDACTED**] million as of September 30, 2023, primarily due to an increase in deferred [**REDACTED**] expenses.

***Inventories***

Our inventories consist of raw materials and consumables, work in progress, finished goods and contract costs. We hold production balance meetings on a monthly basis to ensure prompt communication regarding raw material inventory levels among our internal teams. With the exception of materials characterized by high prices and specific storage conditions, the warehouses typically maintain a certain amount of safety stock of raw materials. Furthermore, all warehouses perform routine monthly inventory stocktake to prevent the accumulation and excessive stockpiling of raw materials. During

the Track Record Period, the Company has not encountered any instances of either insufficient or excessive inventory. In addition to these measures, the Finance Department conducts periodic spot checks of warehouse inventory. The following table sets forth a breakdown of our inventories as of the dates indicated:

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| Raw materials and consumables | 54,401 | 39,245 | 58,678 |
| Work in progress | 81,181 | 69,390 | 71,702 |
| Finished goods | 32,703 | 36,146 | 26,942 |
| Contract costs[(1)] | 34,874 | 29,668 | 9,775 |
| Provision for impairment of inventories | (1,630) | (2,551) | (1,561) |
| **Total** | **201,529** | **171,898** | **165,536** |

*Note:*

(1) "Contract costs" primarily comprises our cost of providing R&D services pursuant to our contracts with Zhongmei Huadong, which are capitalized as inventories. For more information about our collaboration agreements with Zhongmei Huadong, please refer to the paragraphs headed "Business — Collaboration Arrangements."

Our inventories decreased by 14.7% from RMB201.5 million as of December 31, 2021 to RMB171.9 million as of December 31, 2022, primarily due to (i) a decrease in raw materials and consumables from RMB54.4 million to RMB39.2 million; and (ii) a decrease in work in progress from RMB81.2 million to RMB69.4 million. Such decreases were primarily due to our decline in sales of Jiouting and API of enoxaparin in 2022.

Our inventories decreased by 3.7% from RMB171.9 million as of December 31, 2022 to RMB165.5 million as of September 30, 2023, primarily due to a decrease in contract costs from RMB29.7 million to RMB9.8 million, as such contract costs were recorded as our cost of sales. The decease is partially offset by an increase in raw materials and consumables from RMB39.2 million to RMB58.7 million, as we bolstered our inventory levels in response to the growth in the sales of our products.

The following table sets forth the number of turnover days for our inventories for the periods indicated:

| | For the year ended December 31, | | For the nine months ended September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| Inventory turnover days[(1)] | 232 | 251 | 206 |

*Note:*

(1) Inventory turnover days for a given period is the average of the opening and ending balances of inventories divided by cost of sales for that period and multiplied by 365 days for a full-year period or 270 days for a nine-month period.

Our inventory turnover days increased from 232 days in 2021 to 251 days in 2022, and then decreased to 206 days for the nine months ended September 30, 2023. This trend aligned with changes in our revenue, which decreased from 2021 to 2022 and increased from the nine months ended September 30, 2022 to the corresponding period in 2023. For inventory management, please refer to the paragraphs headed "Business — Production and Quality Control — Inventory Management."

As of November 30, 2023, approximately RMB33.8 million or approximately 20.4% of our inventories as of September 30, 2023, were subsequently consumed.

***Trade and bills receivables***

Our trade and bills receivables primarily consist of trade receivables, bills receivables, financial assets at fair value through other comprehensive income and impairment. The following table sets forth a breakdown of our trade and bills receivables as of the dates indicated:

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| Trade receivables | 342,522 | 412,182 | 530,659 |
| Bills receivable | 35,719 | 19,272 | 24,518 |
| Financial assets at fair value through other comprehensive income[(1)] | 32,973 | 44,441 | 43,303 |
| Impairment | (909) | (1,393) | (2,635) |
| | **410,305** | **474,502** | **595,845** |

*Notes:*

(1) Representing promissory notes from certain prestigious banks which are categorized as financial assets measured at fair value through other comprehensive income, as we hold such notes with a dual focus — collecting expected cash flows and exploring opportunities for selling.

Our trade and bills receivables increased by 15.6% from RMB410.3 million as of December 31, 2021 to RMB474.5 million as of December 31, 2022. The increase was attributable to: (i) an increase of trade receivables from RMB342.5 million to RMB412.2 million and (ii) an increase of financial assets at fair value through other comprehensive income from RMB33.0 million to RMB44.4 million. Both increases are primarily due to an increase in our revenue from the sales of Guyoudao, a medical device product, as a percentage of our revenue, which generally have longer credit periods compared to that of our drug products. According to CIC, it is an industry norm that medical device products have longer credit period than drug products.

Our trade and bills receivables increased from RMB474.5 million as of December 31, 2022 to RMB595.8 million as of September 30, 2023, primarily because (i) our trade receivables increased from RMB412.2 million to RMB530.7 million attributable to our overall growth in sales and an increase in the proportion of Guyoudao's sales revenue in our total revenue, and (ii) a substantial amount of our trade and bills receivables is usually settled in the fourth quarter of a year.

As of November 30, 2023, approximately RMB172.7 million or approximately 32.5% of our trade receivables as of September 30, 2023, were subsequently settled.

The table below sets forth an aging analysis of our trade and bills receivables and financial assets at fair value through other comprehensive income of our Group as of dates indicated, based on the invoice date and net of loss allowance:

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| Within 1 year | 408,161 | 471,528 | 591,066 |
| 1 to 2 years | 1,888 | 2,621 | 4,403 |
| 2 to 3 years | 256 | 353 | 376 |
| | **410,305** | **474,502** | **595,845** |

Our trading terms with customers are mainly on credit as well as payment in advance. We generally grant credit terms of 30 to 90 days, with longer terms granted to customers of our drug-device combination product. Each customer has a maximum credit limit. We seek to maintain strict control over our outstanding receivables and have a credit control department to minimize credit risk. Overdue balances are reviewed regularly by us. In view of the aforementioned and the fact that our trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. We do not hold any collateral or other credit enhancements over our trade receivable balances. Trade receivables are non-interest-bearing. For details of the impairment amount of our trade receivables as of December 31, 2021, 2022 and September 30, 2023, please refer to Note 17 to the Accountants' Report in Appendix I to this document.

The following table sets forth the number of turnover days of our trade receivables for the periods indicated:

| | For the year ended December 31, | | For the nine months ended September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| Trade receivables turnover days[(1)] | 90 | 122 | 124 |

*Note:*

(1) Trade receivables turnover days for a given year is the average of the opening and ending balances of trade receivables, divided by revenue for that period and multiplied by 365 days for a full-year period or 270 days for a nine-month period.

Our trade receivables turnover days increased from 90 days in 2021 to 122 days in 2022 because of an increase in our trade receivables from sales of Guyoudao, a medical device product, which generally have a longer credit period than our drug products. Our trade receivables turnover days further increased to 124 days in the nine months ended September 30, 2023, primarily because the contribution of Guyoudao to the overall sales increased. According to CIC, our trade receivables turnover days for the years ended December 31, 2021 and 2022, and nine months ended September 30, 2023 are in line with those of our market peers.

***Due from related parties***

Our amounts due from related parties increased by 48.5% from RMB16.7 million as of December 31, 2021 to RMB24.7 million as of December 31, 2022, and further increased to RMB52.7 million as of September 30, 2023. Our amounts due from related parties during the Track Record Period were all trade in nature. For more details, please refer to the paragraphs headed "Connected Transaction — Summary of Our Continuing Connected Transactions" in this document.

During the Track Record Period, the related parties purchase drug and medical device products from us, and the credit terms we have granted are in line with our common practice. The related parties also procured R&D and other services from us.

## Liabilities

### *Trade payables*

Our trade payables consist primarily of funds payable for purchasing goods or receiving services as part of operating activities. The below table sets forth an ageing analysis of the trade payables as of the dates indicated, based on the invoice date:

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| Within 1 year | 65,527 | 51,401 | 48,203 |
| Over 1 year | 922 | 245 | 315 |
| **Total** | **66,449** | **51,646** | **48,518** |

Our trade payables decreased by 22.3% from RMB66.4 million as of December 31, 2021 to RMB51.6 million as of December 31, 2022, which was primarily due to a decrease in our purchase of raw material for enoxaparin API and Jiouting. Our trade payables decreased by 6.1% to RMB48.5 million as of September 30, 2023, which was primarily due to a decrease in our purchase of raw material for Yinuojia.

As of November 30, 2023, approximately RMB46.4 million, or 95.7% of our trade payables as of September 30, 2023, had been settled.

The following table sets forth our trade payables turnover days for the periods indicated.

| | For the year ended December 31, | | For the nine months ended September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| Trade payables turnover days [(1)] | 85 | 79 | 61 |

*Note:*

(1) Trade payables turnover days for a given year is the average of the opening and ending balances of trade payables, divided by cost of sales for that period and multiplied by 365 days for a full-year period or 270 days for a nine-month period.

Our trade payables turnover days decreased from 85 days in 2021 to 79 days in 2022 due to a reduction in trade payables resulting from a decline in revenue and a subsequent decrease in the volume of purchases, and then further decreased to 61 days in the nine months ended September 30, 2023, primarily due to a reduction in trade payables.

*Other payables and accruals*

Our other payables and accruals primarily consist of deferred income, onerous contract provisions, other payables, refund liabilities, payroll payable and other tax payables. The below table sets forth the breakdown of other payables and accruals as of the dates indicated.

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| **Non-current:** | | | |
| Deferred income | 2,500 | 7,555 | 7,461 |
| Onerous contract provisions | 2,621 | 344 | – |
| Subtotal | 5,121 | 7,899 | 7,461 |
| **Current:** | | | |
| Other payables | 99,440 | 84,710 | 93,351 |
| Refund liabilities | 4,367 | 3,687 | 3,229 |
| Payroll payable | 47,914 | 49,022 | 44,687 |
| Deferred income | – | 713 | 777 |
| Onerous contract provisions | 754 | 917 | 192 |
| Other tax payables | 2,119 | 6,301 | 1,879 |
| Accrued [**REDACTED**] expenses | – | – | [**REDACTED**] |
| Subtotal | 154,594 | 145,350 | [**REDACTED**] |
| **Total** | **159,715** | **153,249** | [**REDACTED**] |

Our other payables and accruals decreased by 4.0% from RMB159.7 million as of December 31, 2021 to RMB153.2 million as of December 31, 2022 primarily because of a decrease of other payables from RMB99.4 million to RMB84.7 million. Such decrease is mainly due to the reduction in our sales volume, which prompted a reduction in marketing efforts, consequently leading to a decrease in other payables related to our marketing activities. Such decrease was partially offset by an increase of deferred income from RMB2.5 million as of December 31, 2021 to RMB8.3 million as of December 31, 2022. Our other payables and accruals stayed relatively stable at RMB153.2 million as of December 31, 2022 and RMB[**REDACTED**] million as of September 30, 2023.

## LIQUIDITY AND CAPITAL RESOURCES

### Sources of Liquidity and Working Capital

Our primary use of cash is to fund our working capital requirements and other recurring expenses. During the Track Record Period, we have financed our operations primarily through cash generated from our operating activities and bank borrowings. In the foreseeable future, we believe that our liquidity requirements will be satisfied with a combination of cash flow generated from our operating activities, the net [**REDACTED**] received from the [**REDACTED**], and other funds raised from the capital markets from time to time. We will closely monitor the level of our working capital, and diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations. Our cash and cash equivalents were RMB94.8 million, RMB71.5 million and RMB49.4 million as of December 31, 2021, 2022 and as of September 30, 2023, respectively.

### Cash Flows

The following table sets forth a summary of our consolidated statements of cash flows for periods indicated.

| | Year ended December 31, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2021** | **2022** | **2022** | **2023** |
| | | | *(unaudited)* | |
| | *(RMB in thousands)* | | | |
| Net cash flows from/(used in) operating activities | 67,529 | 22,559 | (5,631) | 9,144 |
| Net cash flows used in investing activities | (62,863) | (58,942) | (43,429) | (23,385) |
| Net cash flows from/(used in) financing activities | 41,228 | 12,892 | 10,365 | (8,115) |
| **Cash and cash equivalents at the end of the year/period** | **94,829** | **71,540** | **56,401** | **49,383** |

*Operating activities*

During the Track Record Period, we derived our cash inflow from operating activities primarily through the sales of goods and provision of R&D and other services, while cash outflow from operating activities primarily comprised payments for purchases of raw materials, labor costs, income tax, research and development costs, selling and

marketing expenses, administrative and other operating expenses. Our cash generated from operating activities reflects our profit before tax, adjusted for non-cash and non-operating items, such as depreciation and amortization, finance costs and write-down of inventories to net realizable value, and the changes in working capital, such as increases or decreases in inventories, trade and bills receivables, prepayments, other receivables and other assets, trade payables, and other payables and accruals.

For the nine months ended September 30, 2023, our net cash flows from operating activities amounted to RMB9.1 million. This cash inflow was primarily attributable to (i) profit before tax of RMB120.7 million, as adjusted to reflect non-cash and non-operating items, which principally included depreciation of property, plant and equipment of RMB26.2 million, finance costs of RMB7.2 million, equity-settled share award expense of RMB10.3 million and impairment losses on financial assets, net of RMB1.5 million; and (ii) a decrease in inventories of RMB6.3 million, which resulted from an accelerated inventory turnover due to an increase in sales. This cash inflow was partially offset by (i) an increase in trade and bills receivables of RMB123.9 million, which resulted from growth of sales; and (ii) an increase in amounts due from related parties of RMB28.1 million, which resulted from the timing of payment milestones.

Our net cash flows from operating activities in 2022 was RMB22.6 million. This cash inflow was primarily attributable to (i) profit before tax of RMB51.4 million, as adjusted to reflect non-cash and non-operating items, which principally included depreciation of property, plant and equipment of RMB34.6 million and finance costs of RMB9.0 million and (ii) a decrease in inventories of RMB27.8 million,in response to a decrease in sales volume. This cash inflow was partially offset by (i) an increase in trade and bills receivables of RMB82.0 million mainly attributable to an increase in the revenue from our medical device product in 2022 as a percentage of our total revenue and the product's relatively long credit period; and (ii) a decrease in trade payables of RMB14.8 million, which resulted from a decrease in procurement quantity.

Our net cash flows from operating activities in 2021 was RMB67.5 million. This cash inflow was primarily attributable to (i) profit before tax of RMB127.5 million, as adjusted to reflect non-cash and non-operating items, which principally included depreciation of property, plant and equipment of RMB23.2 million, and finance costs of RMB9.7 million; (ii) a decrease in inventories of RMB49.2 million, which resulted from an accelerated inventory turnover due to an increase in sales; and (iii) an increase in other payables and accruals of RMB38.9 million, which resulted from an increase in our employees' compensation. This cash inflow was partially offset by (i) an increase in trade and bills receivables of RMB131.2 million mainly attributable to an increase in our revenue from our medical device product in 2021 as a percentage of our total revenue and the product's relatively long credit period; and (ii) a decrease in trade payables of RMB32.7 million, which resulted from a decrease in procurement quantity.

*Investing activities*

During the Track Record Period, our cash used in investing activities mainly reflected our cash used in purchases of items of property, plant and equipment and intangible assets, while our cash generated from investing activities primarily comprised proceeds from disposal of property, plant and equipment.

For the nine months ended September 30, 2023, our net cash flows used in investing activities amounted to RMB23.4 million. This cash outflow was primarily attributable to (i) purchases of property, plant and equipment of RMB14.3 million, which resulted from our purchases of machinery and equipment in Hangzhou; and (ii) purchases of intangible assets, which resulted from the capitalization of certain research and development expenses.

Our net cash flows used in investing activities in 2022 was RMB58.9 million. This cash outflow was primarily attributable to (i) purchase of property, plant and equipment of RMB23.3 million, which resulted from the construction of our manufacturing facilities in Hangzhou; and (ii) purchase of intangible assets of RMB35.7 million, which resulted from the capitalization of certain research and development expenses.

Our net cash flows used in investing activities in 2021 was RMB62.9 million. This cash outflow was primarily attributable to (i) purchase of property, plant and equipment of RMB53.9 million, which resulted from the construction of our manufacturing facilities in Hangzhou; and (ii) purchase of intangible assets of RMB9.0 million, which resulted from the capitalization of certain research and development expenses.

*Financing activities*

During the Track Record Period, our cash flows from financing activities mainly comprised new bank borrowings, repayment of bank borrowings, principal portion of lease payments, interest paid and dividend paid.

For the nine months ended September 30, 2023, our net cash flows used in financing activities amounted to RMB8.1 million. This cash outflow was primarily attributable to (i) repayment of bank borrowings of RMB118.0 million; and (ii) interest paid of RMB7.2 million. This cash outflow was partially offset by new bank borrowings of RMB121.4 million.

Our net cash flows used in financing activities in 2022 was RMB12.9 million. This cash outflow was primarily attributable to (i) repayment of bank borrowings of RMB170.0 million; (ii) dividend paid of RMB12.0 million; and (iii) interest paid of RMB9.0 million, which resulted from the interest of our bank loan. This cash outflow was partially offset by new bank borrowings of RMB204.2 million.

Our net cash flows used in financing activities in 2021 was RMB41.2 million. This cash outflow was primarily attributable to (i) repayment of bank borrowings of RMB158.3 million; and (ii) interest paid of RMB9.7 million, which resulted from the interest of our bank loan. This cash outflow was partially offset by new bank borrowings RMB209.6 million.

**Working Capital**

We intend to finance our future working capital requirements with cash generated from our operations, the **[REDACTED]** from the **[REDACTED]** and other funds raised from the capital markets from time to time. Our future working capital requirements will depend on a number of factors, including, but not limited to, our operating income, our business expansion plan and hiring qualified employees for our business operations. Based on our available cash balance, the anticipated cash flow from operations, available banking facilities and the anticipated net **[REDACTED]** from the **[REDACTED]**, our Directors are of the opinion that we will have sufficient funds to meet our working capital requirements and financial requirements for capital expenditure for at least the next 12 months from the date of this document.

**Net Current Assets**

The table below sets forth our current assets and liabilities as of the dates indicated.

| | As of December 31, | | As of September 30, | As of November 30, |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 |
| | | | *(unaudited)* | |
| | *(RMB in thousands)* | | | |
| **Current assets:** | | | | |
| Inventories | 201,529 | 171,898 | 165,536 | 179,864 |
| Trade and bills receivables | 410,305 | 474,502 | 595,845 | 534,893 |
| Prepayments, other receivables and other assets | 24,214 | 15,702 | 15,867 | 27,535 |
| Due from related parties | 16,652 | 24,735 | 52,742 | 19,544 |
| Restricted bank deposits | 377 | 378 | 20 | 20 |
| Cash and cash equivalents | 94,829 | 71,540 | 49,383 | 138,984 |
| **Total current assets** | **747,906** | **758,755** | **879,393** | **900,840** |

| | As of December 31, | | As of September 30, | As of November 30, |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 |
| | | | *(unaudited)* | |
| | | *(RMB in thousands)* | | |
| **Current liabilities:** | | | | |
| Trade payables | 66,449 | 51,646 | 48,518 | 39,333 |
| Lease liabilities | 311 | 326 | 849 | 773 |
| Other payables and accruals | 154,594 | 145,350 | 145,523 | 173,450 |
| Due to related parties | 396 | 898 | 820 | 1,358 |
| Interest-bearing bank borrowings | 157,558 | 141,532 | 157,941 | 147,935 |
| Contract liabilities | 21,213 | 16,180 | 3,575 | 7,293 |
| Total current liabilities | 400,521 | 355,932 | 357,226 | 370,142 |
| **Net current assets** | **347,385** | **402,823** | **522,167** | **530,698** |

We had net current assets of RMB530.7 million as of November 30, 2023, as compared to net current assets of RMB522.2 million as of September 30, 2023. The increase was primarily due to (i) an increase in cash and cash equivalents of RMB89.6 million; (ii) an increase in prepayments, other receivables and other assets of RMB11.7 million; and (iii) a decrease in interest-bearing bank borrowings of RMB10.0 million. The increase was partially offset by (i) a decrease in trade and bills receivables of RMB61.0 million; (ii) an increase of other payables and accruals of RMB27.9 million; and (iii) a decrease in due from related parties of RMB33.2 million.

We had net current assets of RMB522.2 million as of September 30, 2023, as compared to net current assets of RMB402.8 million as of December 31, 2022. The increase was primarily due to (i) an increase in trade and bills receivables of RMB121.3 million; (ii) an increase in amounts due from related parties of RMB28.0 million; and (iii) a decrease in contract liabilities of RMB12.6 million. This increase was partially offset by (i) a decrease in cash and cash equivalents of RMB22.2 million; and (ii) an increase in interest-bearing bank borrowings of RMB16.4 million.

We had net current assets of RMB402.8 million as of December 31, 2022, as compared to net current assets of RMB347.4 million as of December 31, 2021. This increase was primarily due to (i) an increase in trade and bills receivables of RMB64.2 million; (ii) an increase in amounts due from related parties of RMB8.1 million; (iii) a decrease in interest-bearing bank borrowings of RMB16.0 million; (iv) a decrease in trade payables of RMB14.8 million; and (v) a decrease in other payables and accruals of RMB9.2 million. This increase was partially offset by (i) a decrease in inventories of RMB29.6 million; (ii) a decrease in cash and cash equivalents of RMB23.3 million; and (iii) a decrease in prepayments, other receivables and other assets of RMB8.5 million.

## INDEBTEDNESS

The following table sets forth the details of our indebtedness as of the dates indicated.

| | As of December 31, | | As of September 30, | As of November 30, |
|---|---|---|---|---|
| | 2021 | 2022 | 2023 | 2023 |
| | | | *(unaudited)* | |
| | | *(RMB in thousands)* | | |
| Lease liabilities (current portion) | 311 | 326 | 849 | 773 |
| Interest-bearing bank borrowings (current portion) | 157,558 | 141,532 | 157,941 | 147,935 |
| Lease liabilities (non-current portion) | 326 | – | 1,379 | 1,389 |
| Interest-bearing bank borrowings (non-current portion) | 45,808 | 78,726 | 64,461 | 73,502 |
| **Total** | **204,003** | **220,584** | **224,630** | **223,599** |

### Lease Liabilities

Our lease liabilities primarily consist of the commitments under the lease agreements for our office premises with terms more than one year.

As of December 31, 2021, 2022, September 30, 2023 and November 30, 2023, our current and non-current lease liabilities were RMB0.6 million, RMB0.3 million, RMB2.2 million, and RMB2.2 million, respectively.

### Interest-bearing bank borrowings

As of December 31, 2021, 2022, September 30, 2023 and November 30, 2023, our current and non-current interest-bearing bank borrowings were RMB203.4 million, RMB220.3 million, RMB222.4 million and RMB221.4 million.

The following table sets forth the maturity profile of our secured and unsecured interest-bearing bank borrowings, as of the dates indicated:

| | As of December 31, 2021 | | |
|---|---|---|---|
| | *Effective interest rate(%)* | *Maturity* | *RMB'000* |
| Current | | | |
| Bank loans — unsecured | 4.35–5.30 | 2022 | 59,077 |
| Bank loans — secured | 3.35–4.90 | 2022 | 98,481 |
| | | | 157,558 |
| Non-current | | | |
| Bank loans — secured | 4.90 | 2023-2030 | 45,808 |
| Analysed into: | | | |
| Within one year | | | 157,558 |
| In the second to fifth year, inclusive | | | 22,793 |
| Beyond five years | | | 23,015 |
| **Total** | | | **203,366** |

| | As of December 31, 2022 | | |
|---|---|---|---|
| | *Effective interest rate(%)* | *Maturity* | *RMB'000* |
| Current | | | |
| Bank loans — unsecured | 3.90–4.70 | 2023 | 23,548 |
| Bank loans — secured | 3.75–4.90 | 2023 | 117,984 |
| | | | 141,532 |
| Non-current | | | |
| Bank loans — unsecured | 4.00–4.10 | 2024 | 38,450 |
| Bank loans — secured | 4.90 | 2024-2030 | 40,276 |
| | | | 78,726 |
| Analysed into: | | | |
| Within one year | | | 141,532 |
| In the second to fifth year, inclusive | | | 61,465 |
| Beyond five years | | | 17,261 |
| **Total** | | | **220,258** |

| | **As of September 30, 2023** (unaudited) | | |
|---|---|---|---|
| | *Effective interest rate(%)* | *Maturity* | *RMB'000* |
| Current | | | |
| Bank loans — unsecured | 3.90–4.70 | 2024 | 37,675 |
| Bank loans — secured | 3.85–4.90 | 2024 | 120,266 |
| | | | 157,941 |
| Non-current | | | |
| Bank loans — unsecured | 4.00–4.10 | 2025 | 28,600 |
| Bank loans — secured | 4.10–4.90 | 2025-2030 | 35,861 |
| | | | 64,461 |
| Analysed into: | | | |
| Within one year | | | 157,941 |
| In the second to fifth year, inclusive | | | 51,515 |
| Beyond five years | | | 12,946 |
| **Total** | | | **222,402** |

Certain of our bank loan agreements require that we maintain or satisfy financial covenants. As of the Latest Practicable Date, there was no material restrictive covenant in our indebtedness which could significantly limit our ability to undertake additional debt or equity financing, nor was there any breach of covenant during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, except for bank borrowings, we did not have plans for other material external debt financing. As of November 30, 2023, we had unutilized credit facilities of RMB30.0 million. We do not anticipate any changes to the availability of bank financing to finance our operations in the future, although we cannot assure you that we will be able to access bank financing on favorable terms or at all.

### Indebtedness Statement

Except as disclosed in this document, as of November 30, 2023, being the latest practicable date for determining our indebtedness, we did not have any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance or other similar indebtedness, hire purchase commitments, guarantees or other material contingent liabilities. Our Directors have confirmed that there had been no material change in our indebtedness since November 30, 2023 and up to the Latest Practicable Date.

## CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any significant contingent liabilities.

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into, nor we expect to enter into, any off-balance sheet arrangements. We also have not entered into any financial guarantees or other relevant commitments. In addition, we have not entered into any derivative contracts that are indexed to our equity interests and classified as owners' equity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging with us.

## RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. During the Track Record Period, all of our balances with related parties were trade in nature. For more details about our related party transactions, please refer to Note 31 to the Accountants' Report in Appendix I to this document and "Connected Transactions."

Our Directors believe that each of the related party transactions set out in Note 31 to the Accountants' Report in Appendix I to this document was conducted on an arm's length basis and would not distort our track record results or make our historical results not reflective of our future performance.

## CAPITAL EXPENDITURES

Our capital expenditures during the Track Record Period were primarily related to purchases of items of property, plant and equipment, and purchases of intangible assets. In 2021, 2022 and in the nine months ended September 30, 2023, our capital expenditures were RMB62.9 million, RMB59.0 million and RMB23.4 million, respectively.

The following table sets forth the breakdown of our capital expenditures for the periods indicated.

| | Year ended December 31, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | | | *(unaudited)* | |
| | *(RMB in thousands)* | | | |
| Purchases of items of property, plant and equipment | 53,944 | 23,298 | 23,118 | 14,264 |
| Purchases of intangible assets | 8,967 | 35,655 | 20,316 | 9,123 |
| **Total** | **62,911** | **58,953** | **43,434** | **23,387** |

During the Track Record Period, we financed our capital expenditures primarily with cash generated from operations. We expect to incur approximately RMB57.8 million in the year ending December 31, 2024, primarily consisting of expenditures on purchasing new assets, investing in technological upgrades, and funding Phase III clinical trials. We intend to fund our planned capital expenditures through a combination of the net [**REDACTED**] from the [**REDACTED**] as well as cash generated from operating activities. We expect to fund such capital expenditures through cash generated from operations and the net [**REDACTED**] from the [**REDACTED**]. For more details, please refer to the paragraphs headed "Future Plans and [**REDACTED**] — [**REDACTED**]."

## CAPITAL COMMITMENTS

The following table sets out our capital commitments as of the dates indicated:

| | As of December 31, | | As of September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| | *(RMB in thousands)* | | |
| Property, plant and equipment | 13,134 | 4,114 | 3,587 |

## DIVIDEND

We declared a cash dividend of RMB12.0 million in 2022, which have been fully settled. Other than that, no dividend has been proposed, paid or declared by us during the Track Record Period. We do not currently have a formal dividend policy or a fixed dividend payout ratio.

No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution. Regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated distributable after-tax profits as determined in accordance with its articles of association and the accounting standards and regulations in China.

## DISTRIBUTABLE RESERVES

As of September 30, 2023, we had distributable reserves of RMB784.9 million.

## KEY FINANCIAL RATIOS

The following table sets forth certain of our key financial ratios as of the dates and for the periods indicated.

| | Year ended December 31, | | Nine months ended September 30, |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | | | *(unaudited)* |
| **Profitability ratios** | | | |
| Net profit margin[(1)] | 9.1% | 5.3% | 10.9% |
| Gross profit margin[(2)] | 72.7% | 75.9% | 78.4% |
| Return on equity[(3)] | 18.1% | 8.1% | 13.4% |
| Return on total assets[(4)] | 10.6% | 5.0% | 8.7% |
| **Liquidity ratios** | | | |
| Current ratio[(5)] | 1.9 | 2.1 | 2.5 |
| **Leverage ratio** | | | |
| Gearing ratio[(6)] | 39.3% | 36.9% | 33.4% |

*Notes:*

(1) Net profit margin is calculated based on profit for the period divided by revenue and multiplied by 100.0%.

(2) Gross profit margin is calculated based on gross profit divided by revenue and multiplied by 100.0%.

(3) Return on equity is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total equity and multiplied by 100.0%.

(4) Return on total assets is calculated based on profit for the period divided by the arithmetic mean of the opening and closing balances of total assets and multiplied by 100.0%.

(5) Current ratio is calculated based on total current assets divided by total current liabilities.

(6) Gearing ratio is calculated using total liabilities divided by total assets and multiplied by 100.0%.

**Analysis of Key Financial Ratios**

***Net Profit Margin***

Our net profit margin decreased from 9.1% as of December 31, 2021 to 5.3% as of December 31, 2022, primarily due to the decrease of revenue and increase of research and development costs.

Our net profit margin increased from 5.3% as of December 31, 2022 to 10.9% as of September 30, 2023, primarily due the increased proportion of sales revenue from Guyoudao, which has a comparatively high gross profit margin.

***Gross Profit Margin***

Please refer to the paragraphs headed "— Period to Period Comparison of Results of Operations" in this section for further details.

***Return on Equity***

Our return on equity decreased from 18.1% as of December 31, 2021 to 8.1% as of December 31, 2022, primarily due to a decrease in the profit for the year.

Our return on equity increased from 8.1% as of December 31, 2022 to 13.4% as of September 30, 2023, primarily due to an increase in the profit for the period.

***Return on Total Assets***

Our return on total assets decreased from 10.6% as of December 31, 2021 to 5.0% as of December 31, 2022, primarily due to the decrease in the profit for the year.

Our return on total assets increased from 5.0% as of December 31, 2022 to 8.7% as of September 30, 2023, primarily due to an increase in the profit for the period.

***Current Ratio***

Our current ratio increased from 1.9 as of December 31, 2021 to 2.1 as of December 31, 2022, primarily due to the increase of current assets and decrease of current liabilities.

Our current ratio increased from 2.1 as of December 31, 2022 to 2.5 as of September 30, 2023, primarily due to the increase of current assets.

***Gearing Ratio***

Our gearing ratio decreased from 39.3% as of December 31, 2021 to 36.9% as of December 31, 2022, primarily due to the decrease of total liabilities and increase of total assets.

Our gearing ratio decreased from 36.9% as of December 31, 2022 to 33.4% as of September 30, 2023, primarily due to the decrease of total liabilities and increase of total assets.

## DISCLOSURE ABOUT FINANCIAL RISKS

Our activities are exposed to a variety of financial risks, including market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. Our overall risk management strategy seeks to minimize the potential adverse effects on our financial performance. Our senior management is responsible for the risk management.

### Market Risk

#### *Foreign currency risk*

Our businesses are principally located in mainland China and substantially all transactions are conducted in RMB, except for the sales of goods to overseas market. The fluctuation of the exchange rates of RMB against foreign currencies could affect our results of operations. However, in the opinion of the directors, the foreign currency risk exposure is not significant and under management's control.

#### *Interest rate risk*

Our exposure to the risk of changes in market interest rates relates primarily to our long-term debt obligations with a floating interest rate. Please refer to Note 34 to the Accountants' Report included in Appendix I to this document for further details of the interest rate risk we face.

### Credit Risk

We are exposed to credit risk in relation to the cash and cash equivalents, amounts due from related parties, trade and bills receivables and financial assets included in prepayments, other receivables and other assets. The carrying amounts of each class of the above financial assets represent our maximum exposure to credit risk in relation to financial assets. We trade mainly with recognized and creditworthy third parties. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

Please refer to Notes 17 and 34 to the Accountants' Report included in Appendix I to this document for further details of the credit risk we face.

**Liquidity Risk**

In the management of the liquidity risk, we monitor and maintain a level of cash and cash equivalents deemed adequate by our management to finance the operations and mitigate the effects of fluctuations in cash flows. Please refer to Note 34 to the Accountants' Report included in Appendix I to this document for further details of the liquidity risk we face.

## [REDACTED] EXPENSES

Our [**REDACTED**] expenses mainly include [**REDACTED**], professional fees paid to legal advisers and the Reporting Accountants for their services rendered in relation to the [**REDACTED**] and the [**REDACTED**]. The estimated total [**REDACTED**] expenses (based on the mid-point of our indicative [**REDACTED**] range for the [**REDACTED**] and assuming that the [**REDACTED**] is not exercised) for the [**REDACTED**] are approximately RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million), representing [**REDACTED**]% of the gross [**REDACTED**]. During the Track Record Period, we incurred [**REDACTED**] expenses of RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million), which has been charged to our consolidated statements of profit and loss. We expect to incur additional [**REDACTED**] expenses of approximately RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million), of which RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million) is expected to be charged to our consolidated statements of profit and loss and RMB[**REDACTED**] million (equivalent to HK$[**REDACTED**] million) will be capitalized expenses.

[**REDACTED**]

[REDACTED]

## NO MATERIAL ADVERSE CHANGE

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since September 30, 2023, being the latest date of our consolidated financial statements as set out in Appendix I to this document, and there is no event since September 30, 2023 that would materially affect the information as set out in the Accountants' Report included in Appendix I to this document.

## DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

## FUTURE PLANS

For details of our future plans, please refer to the paragraphs headed "Business — Our Strategies".

## USE OF [REDACTED]

We estimate the net [**REDACTED**] of the [**REDACTED**] which we will receive, assuming an [**REDACTED**] of HK$[**REDACTED**] per [**REDACTED**] (being the mid-point of the [**REDACTED**] range stated in this document), will be approximately HK$[**REDACTED**] million, after deduction of [**REDACTED**] fees and [**REDACTED**] and estimated expenses payable by us in connection with the [**REDACTED**] and assuming the [**REDACTED**] is not exercised.

We currently intend to use the net [**REDACTED**] from the [**REDACTED**] for the following purposes, subject to changes in light of our evolving business needs and changing market conditions:

- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) will be allocated to the continued research and development of our selected product candidates in our strategically focused therapeutic areas as follows:

  - Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the net [**REDACTED**] will be used in the continued research and development of our selected metabolic disease product candidates that are currently at preclinical stage, pending the initiation of clinical trials, or pending NDA, as illustrated in the table below:

| **Product Candidate** | **Status** | **Estimated amount of net [REDACTED] allocated (approximately HK$ in millions)** |
|---|---|---|
| JY29-2 (Jiyoutai 吉优泰®) | NDA approval to be obtained | Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) |
| JY29-2 (Jikeqin 吉可亲®) | IND approval obtained | Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) |
| JY29-2 (oral) | Early R&D | Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) |
| JY54 | IND approval to be obtained | Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) |

- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the net [**REDACTED**] will be used in the continued research and development of our selected orthopedic product candidates that are currently at preclinical stage, as illustrated in the table below:

| Product Candidate | Status | Estimated amount of net [REDACTED] allocated (approximately HK$ in millions) |
|---|---|---|
| JY23 | IND approval to be obtained | Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) |
| JY41 | IND approval to be obtained | Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) |

- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the net [**REDACTED**] will be used in the continued research and development of our selected oncology product candidates that are currently at preclinical stage or pending the initiation of clinical trials, as illustrated in the table below:

| Product Candidate | Status | Estimated amount of net [REDACTED] allocated (approximately HK$ in millions) |
|---|---|---|
| JY47 | IND approval obtained | Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) |
| JY43-2 | IND approval to be obtained | Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) |

- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the net [**REDACTED**] will be used in the marketing and commercialization of our existing and near-commercialized products, as listed below:

  - Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) for the expansion of our sales and marketing team to (i) increase the marketing efforts of Guyoudao in regions where its market penetration is relatively low, and (ii) conduct promotion and market development for the commercialization, promotion and marketing of our near-commercialized products, consisting of JY29-2 (Jiyoutai) and JY06 (Jixinfen).

  - Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) will be used to intensify market publicity and development of our marketed products, which involves reinforcing our marketing and promotion efforts and broadening our distribution and direct sales network.

- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the net [**REDACTED**] will be used to pursue strategic collaboration to enrich our product portfolio in our targeted therapeutic areas. In particular, we plan to license in products or product candidates which have significant commercial value and the potential to address unmet clinical needs.

- Approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the net [**REDACTED**] will be used on our manufacturing system to construct new production lines, and to upgrade and further automate our existing production facilities to prepare for the potential increase in demand for our products and the launch of new products, taking into account (i) the size of the addressable markets for our main products and key pipelines expected to be launched, and the expected demand of our products and (ii) our existing designed production capacities and utilization rates.

- The remaining amount of approximately [**REDACTED**]% (or HK$[**REDACTED**] million) of the net [**REDACTED**] will be used to provide funding for our working capital and other general corporate purposes.

To the extent that the net [**REDACTED**] are not immediately applied to the above purposes and the extent permitted by applicable law and regulations, we may hold such funds in short-term deposits with licensed banks or authorized financial institutions (as defined under the SFO or applicable laws and regulations in Hong Kong or the PRC) for so long as it is deemed to be in the best interests of the Company. In such event, we will comply with the appropriate disclosure requirements under the Listing Rules.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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[REDACTED]

[REDACTED]

*The following is the text of a report, prepared for inclusion in this document, received from the independent reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.*

***[To insert the firm's letterhead]***

## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HANGZHOU JIUYUAN GENE ENGINEERING CO., LTD. AND HUATAI FINANCIAL HOLDINGS (HONG KONG) LIMITED

### Introduction

We report on the historical financial information of Hangzhou Jiuyuan Gene Engineering Co., Ltd. (the "**Company**") and its subsidiary (together, the "**Group**") set out on pages I-4 to I-79, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2021 and 2022 (the "**Relevant Periods**"), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2021 and 2022 and material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages I-4 to I-79 forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [Date] (the "**Document**") in connection with the [**REDACTED**] of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

### Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material

misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the financial position of the Group and the Company as at 31 December 2021 and 2022 and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

**Review of interim financial information**

We have reviewed the interim financial information of the Group which comprises the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 30 September 2023, the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the nine months ended 30 September 2022 and 30 September 2023 and other explanatory information (the "**Interim Financial Information**").

The directors of the Company are responsible for the preparation of the Interim Financial Information in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Interim Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2.1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

**Adjustments**

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

**Dividend**

We refer to note 11 to the Historical Financial Information which contains information about the dividend paid by the Company in respect of the Relevant Periods.

[●]
*Certified Public Accountants*
Hong Kong
[Date]

## I HISTORICAL FINANCIAL INFORMATION

### Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Renminbi ("**RMB**") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | | 2021 | 2022 | 2022 | 2023 |
| | | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000 (unaudited)* |
| REVENUE | 5 | 1,307,251 | 1,125,405 | 852,082 | 1,022,655 |
| Cost of sales | | (356,844) | (271,143) | (195,656) | (221,179) |
| Gross profit | | 950,407 | 854,262 | 656,426 | 801,476 |
| Other income and gains | 5 | 7,093 | 14,549 | 13,241 | 5,537 |
| Selling and marketing expenses | | (649,553) | (609,074) | (439,576) | (537,318) |
| Administrative expenses | | (36,524) | (39,946) | (28,217) | (38,772) |
| Research and development costs | | (132,631) | (158,312) | (105,493) | (100,447) |
| Other expenses | | (1,537) | (1,018) | (562) | (2,621) |
| Finance costs | 7 | (9,720) | (9,042) | (6,733) | (7,154) |
| PROFIT BEFORE TAX | 6 | 127,535 | 51,419 | 89,086 | 120,701 |
| Income tax (expense)/credit | 10 | (8,122) | 8,448 | (2,997) | (9,504) |
| PROFIT FOR THE YEAR/PERIOD | | 119,413 | 59,867 | 86,089 | 111,197 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD | | 119,413 | 59,867 | 86,089 | 111,197 |
| Profit attributable to: | | | | | |
| Owners of the parent | | 119,413 | 59,867 | 86,089 | 111,197 |
| Total comprehensive income attributable to: | | | | | |
| Owners of the parent | | 119,413 | 59,867 | 86,089 | 111,197 |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT | | | | | |
| Basic and diluted | 12 | N/A | N/A | N/A | N/A |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Notes | 31 December 2021 RMB'000 | 2022 RMB'000 | 30 September 2023 RMB'000 (unaudited) |
|---|---|---|---|---|
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 13 | 396,953 | 385,333 | 371,626 |
| Right-of-use assets | 14(a) | 972 | 467 | 2,415 |
| Intangible assets | 15 | 30,789 | 65,789 | 74,687 |
| Prepayments, other receivables and other assets | 18 | 6,580 | 3,236 | 4,456 |
| Total non-current assets | | 435,294 | 454,825 | 453,184 |
| CURRENT ASSETS | | | | |
| Inventories | 16 | 201,529 | 171,898 | 165,536 |
| Trade and bills receivables | 17 | 410,305 | 474,502 | 595,845 |
| Prepayments, other receivables and other assets | 18 | 24,214 | 15,702 | 15,867 |
| Due from related parties | 31(c) | 16,652 | 24,735 | 52,742 |
| Restricted bank deposits | 19 | 377 | 378 | 20 |
| Cash and cash equivalents | 19 | 94,829 | 71,540 | 49,383 |
| Total current assets | | 747,906 | 758,755 | 879,393 |
| CURRENT LIABILITIES | | | | |
| Trade payables | 20 | 66,449 | 51,646 | 48,518 |
| Lease liabilities | 14(b) | 311 | 326 | 849 |
| Other payables and accruals | 21 | 154,594 | 145,350 | 145,523 |
| Due to related parties | 31(c) | 396 | 898 | 820 |
| Interest-bearing bank borrowings | 22 | 157,558 | 141,532 | 157,941 |
| Contract liabilities | 23 | 21,213 | 16,180 | 3,575 |
| Total current liabilities | | 400,521 | 355,932 | 357,226 |
| NET CURRENT ASSETS | | 347,385 | 402,823 | 522,167 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 782,679 | 857,648 | 975,351 |

| | Notes | 31 December 2021 RMB'000 | 2022 RMB'000 | 30 September 2023 RMB'000 (unaudited) |
|---|---|---|---|---|
| NON-CURRENT LIABILITIES | | | | |
| Lease liabilities | *14(b)* | 326 | – | 1,379 |
| Interest-bearing bank borrowings | *22* | 45,808 | 78,726 | 64,461 |
| Other payables and accruals | *21* | 5,121 | 7,899 | 7,461 |
| Deferred tax liabilities | *24* | 13,287 | 4,839 | 14,343 |
| Total non-current liabilities | | 64,542 | 91,464 | 87,644 |
| Net assets | | 718,137 | 766,184 | 887,707 |
| EQUITY | | | | |
| Equity attributable to owners of the parent | | | | |
| Paid-in capital | *25* | 53,446 | 53,446 | 53,446 |
| Reserves | *26* | 664,691 | 712,738 | 834,261 |
| Total equity | | 718,137 | 766,184 | 887,707 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

*Year ended 31 December 2021*

| | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | **Paid-in capital** *RMB'000 (note 25)* | **Capital reserve*** *RMB'000 (note 26)* | **Share award reserve*** *RMB'000 (note 26)* | **Surplus reserve*** *RMB'000 (note 26)* | **Retained profits*** *RMB'000* | **Total equity** *RMB'000* |
| At 1 January 2021 | 53,446 | 36,842 | 1,841 | 103,781 | 402,667 | 598,577 |
| Profit and total comprehensive income for the year | – | – | – | – | 119,413 | 119,413 |
| Transfer to surplus reserve | – | – | – | 17,913 | (17,913) | – |
| Equity-settled share award arrangements *(note 27)* | – | – | 147 | – | – | 147 |
| At 31 December 2021 | 53,446 | 36,842 | 1,988 | 121,694 | 504,167 | 718,137 |

*Year ended 31 December 2022*

| | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | **Paid-in capital** *RMB'000 (note 25)* | **Capital reserve*** *RMB'000 (note 26)* | **Share award reserve*** *RMB'000 (note 26)* | **Surplus reserve*** *RMB'000 (note 26)* | **Retained profits*** *RMB'000* | **Total equity** *RMB'000* |
| At 1 January 2022 | 53,446 | 36,842 | 1,988 | 121,694 | 504,167 | 718,137 |
| Profit and total comprehensive income for the year | – | – | – | – | 59,867 | 59,867 |
| Transfer to surplus reserve | – | – | – | 8,980 | (8,980) | – |
| Dividend declared *(note 11)* | – | – | – | – | (12,000) | (12,000) |
| Equity-settled share award arrangements *(note 27)* | – | – | 180 | – | – | 180 |
| At 31 December 2022 | 53,446 | 36,842 | 2,168 | 130,674 | 543,054 | 766,184 |

*Nine months ended 30 September 2022 (unaudited)*

| | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | **Paid-in capital** *RMB'000* | **Capital reserve** *RMB'000* | **Share award reserve** *RMB'000* | **Surplus reserve** *RMB'000* | **Retained profits** *RMB'000* | **Total equity** *RMB'000* |
| At 1 January 2022 | 53,446 | 36,842 | 1,988 | 121,694 | 504,167 | 718,137 |
| Profit and total comprehensive income for the period (unaudited) | – | – | – | – | 86,089 | 86,089 |
| Dividend declared (unaudited) *(note 11)* | – | – | – | – | (12,000) | (12,000) |
| Equity-settled share award arrangements (unaudited) *(note 27)* | – | – | 135 | – | – | 135 |
| At 30 September 2022 (unaudited) | 53,446 | 36,842 | 2,123 | 121,694 | 578,256 | 792,361 |

*Nine months ended 30 September 2023 (unaudited)*

| | Attributable to owners of the parent | | | | | |
|---|---|---|---|---|---|---|
| | **Paid-in capital** *RMB'000 (note 25)* | **Capital reserve*** *RMB'000 (note 26)* | **Share award reserve*** *RMB'000 (note 26)* | **Surplus reserve*** *RMB'000 (note 26)* | **Retained profits*** *RMB'000* | **Total equity** *RMB'000* |
| At 1 January 2023 | 53,446 | 36,842 | 2,168 | 130,674 | 543,054 | 766,184 |
| Profit and total comprehensive income for the period (unaudited) | – | – | – | – | 111,197 | 111,197 |
| Equity-settled share award arrangements (unaudited) *(note 27)* | – | – | 10,326 | – | – | 10,326 |
| At 30 September 2023 (unaudited) | 53,446 | 36,842 | 12,494 | 130,674 | 654,251 | 887,707 |

* These reserve accounts comprise the consolidated reserves of RMB664,691,000, RMB712,738,000 and RMB834,261,000 (unaudited) in the consolidated statements of financial position as at 31 December 2021 and 2022 and 30 September 2023, respectively.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Notes | Year ended 31 December 2021 RMB'000 | 2022 RMB'000 | Nine months ended 30 September 2022 RMB'000 (unaudited) | 2023 RMB'000 (unaudited) |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit before tax | | 127,535 | 51,419 | 89,086 | 120,701 |
| Adjustments for: | | | | | |
| Finance costs | 7 | 9,720 | 9,042 | 6,733 | 7,154 |
| Interest income | 5 | (319) | (184) | (136) | (173) |
| Loss on disposal of items of property, plant and equipment | 6 | 326 | 37 | 43 | 381 |
| Equity-settled share award expense | 27 | 147 | 180 | 135 | 10,326 |
| Depreciation of property, plant and equipment | 13 | 23,229 | 34,610 | 25,908 | 26,199 |
| Depreciation of right-of-use assets | 14(a) | 464 | 505 | 388 | 559 |
| Amortisation of intangible assets | 15 | 551 | 655 | 607 | 225 |
| Impairment losses on financial assets, net | 6 | (80) | 463 | 381 | 1,476 |
| Write-down of inventories to net realisable value | 6 | 1,025 | 1,844 | 1,914 | 55 |
| Foreign exchange differences, net | 6 | 116 | (202) | (267) | (199) |
| | | 162,714 | 98,369 | 124,792 | 166,704 |
| Decrease in inventories | | 49,156 | 27,787 | 11,264 | 6,307 |
| Increase in trade and bills receivables | | (131,244) | (82,034) | (47,159) | (123,850) |
| Decrease/(increase) in prepayments, other receivables and other assets | | 2,531 | (1,991) | (25,574) | 2,331 |
| Increase in amounts due from related parties | | (11,550) | (8,062) | (12,174) | (28,075) |
| (Increase)/decrease in restricted bank deposits | | (1) | (1) | – | 358 |
| Decrease in trade payables | | (32,693) | (14,803) | (39,501) | (3,128) |
| Increase/(decrease) in other payables and accruals | | 38,880 | (2,862) | (15,053) | (96) |
| (Decrease)/increase in amounts due to related parties | | (30) | 502 | 502 | (78) |
| Increase/(decrease) in contract liabilities | | 1,188 | (5,033) | (13,367) | (12,605) |

| | Notes | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | | 2021 | 2022 | 2022 | 2023 |
| | | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000 (unaudited)* |
| Cash from/(used in) operations | | 78,951 | 11,872 | (16,270) | 7,868 |
| Interest received | | 319 | 184 | 136 | 173 |
| Income tax (paid)/received | | (11,741) | 10,503 | 10,503 | 1,103 |
| Net cash flows from/(used in) operating activities | | 67,529 | 22,559 | (5,631) | 9,144 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchases of items of property, plant and equipment | | (53,944) | (23,298) | (23,118) | (14,264) |
| Purchases of intangible assets | | (8,967) | (35,655) | (20,316) | (9,123) |
| Proceeds from disposal of items of property, plant and equipment | | 48 | 11 | 5 | 2 |
| Net cash flows used in investing activities | | (62,863) | (58,942) | (43,429) | (23,385) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| New bank borrowings | | 209,623 | 204,173 | 133,360 | 121,430 |
| Repayment of bank borrowings | | (158,326) | (169,964) | (115,725) | (117,995) |
| Principal portion of lease payments | | (324) | (333) | (250) | (637) |
| Interest paid | | (9,745) | (8,984) | (6,720) | (7,150) |
| Payment of **[REDACTED]** expenses | | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| Dividend paid | *11* | – | (12,000) | (300) | – |
| Net cash flows from/(used in) financing activities | | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

| | Notes | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | | 2021 | 2022 | 2022 | 2023 |
| | | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000 (unaudited)* |
| NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS | | 45,894 | (23,491) | (38,695) | (22,356) |
| Cash and cash equivalents at beginning of year/period | | 49,051 | 94,829 | 94,829 | 71,540 |
| Effect of foreign exchange rate changes, net | | (116) | 202 | 267 | 199 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD | | 94,829 | 71,540 | 56,401 | 49,383 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | | | |
| Cash and cash equivalents as stated in the consolidated statements of financial position | *19* | 94,829 | 71,540 | 56,401 | 49,383 |
| Cash and cash equivalents as stated in the consolidated statements of cash flows | | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

## STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 31 December 2021 RMB'000 | 31 December 2022 RMB'000 | 30 September 2023 RMB'000 (unaudited) |
|---|---|---|---|---|
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | | 396,953 | 385,333 | 371,626 |
| Right-of-use assets | | 972 | 467 | 2,415 |
| Intangible assets | | 30,789 | 65,789 | 74,687 |
| Prepayments, other receivables and other assets | | 6,580 | 3,236 | 4,456 |
| Total non-current assets | | 435,294 | 454,825 | 453,184 |
| CURRENT ASSETS | | | | |
| Inventories | | 201,529 | 171,898 | 165,536 |
| Trade and bills receivables | *17* | 410,305 | 474,502 | 595,845 |
| Prepayments, other receivables and other assets | | 24,211 | 15,702 | 15,867 |
| Due from related parties | | 16,652 | 24,735 | 52,742 |
| Restricted bank deposits | *19* | 377 | 378 | 20 |
| Cash and cash equivalents | *19* | 94,827 | 71,538 | 49,381 |
| Total current assets | | 747,901 | 758,753 | 879,391 |
| CURRENT LIABILITIES | | | | |
| Trade payables | | 66,449 | 51,646 | 48,518 |
| Lease liabilities | | 311 | 326 | 849 |
| Other payables and accruals | | 154,595 | 145,351 | 145,523 |
| Due to related parties | | 396 | 898 | 820 |
| Interest-bearing bank borrowings | | 157,558 | 141,532 | 157,941 |
| Contract liabilities | *23* | 21,208 | 16,180 | 3,575 |
| Total current liabilities | | 400,517 | 355,933 | 357,226 |
| NET CURRENT ASSETS | | 347,384 | 402,820 | 522,165 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 782,678 | 857,645 | 975,349 |

| | Notes | 31 December 2021 RMB'000 | 2022 RMB'000 | 30 September 2023 RMB'000 (unaudited) |
|---|---|---|---|---|
| NON-CURRENT LIABILITIES | | | | |
| Lease liabilities | | 326 | – | 1,379 |
| Interest-bearing bank borrowings | | 45,808 | 78,726 | 64,461 |
| Deferred tax liabilities | | 13,287 | 4,839 | 14,343 |
| Other payables and accruals | | 5,121 | 7,899 | 7,461 |
| Total non-current liabilities | | 64,542 | 91,464 | 87,644 |
| Net assets | | 718,136 | 766,181 | 887,705 |
| EQUITY | | | | |
| Paid-in capital | *25* | 53,446 | 53,446 | 53,446 |
| Reserves | *26* | 664,690 | 712,735 | 834,259 |
| Total equity | | 718,136 | 766,181 | 887,705 |

## II NOTES TO THE HISTORICAL FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Company is a limited company established in the People's Republic of China ("**PRC**") on 31 December 1993. The registered office of the Company is located at No.23, Eighth Street, Baiyang Street, Qiantang District, Hangzhou, Zhejiang Province, PRC. On 5 December 2023, the Company was converted to a joint stock limited liability company and the registered capital of the Company was RMB200,000,000, which was divided into 200,000,000 shares, with a nominal value of RMB1.00 each.

During the Relevant Periods and the nine months ended 30 September 2023, the Company and its subsidiary were principally engaged in the research and development, manufacturing and commercialisation of biopharmaceutical products.

As at the date of this report, the Company had a direct interest in its subsidiary, which is a private limited liability company (and has substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

| Name | Place and date of registration and place of operations | Nominal value of registered share capital | Percentage of equity attributable to the Company directly | Principal activities |
|---|---|---|---|---|
| Hangzhou Cosmotrust Biopharmaceutical Co., Ltd.* 杭州宇信生物醫藥有限公司 | PRC/Chinese Mainland 24 June 2020 | RMB1,000,000 | 100% | Dormant |

The statutory financial statements of the Company for the years ended 31 December 2021 and 2022 prepared under PRC Generally Accepted Accounting Principles ("**PRC GAAP**") were audited by Pan-China Certified Public Accountants LLP (天健會計師事務所(特殊普通合夥)), certified public accountants registered in the PRC.

No audited financial statements have been prepared for this subsidiary for the years ended 31 December 2021 and 2022, as this subsidiary was not subject to any statutory audit requirements under the relevant rules and regulations in its jurisdiction of registration.

* The English name of the subsidiary registered in the PRC represents the best efforts made by management of the Company to directly translate its Chinese name as it did not register any official English name.

## 2. ACCOUNTING POLICIES

### 2.1 BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2023, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods and the Interim Financial Information throughout the nine months ended 30 September 2022 and 2023.

The Historical Financial Information and the Interim Financial Information have been prepared under the historical cost convention except for financial assets at fair value through other comprehensive income which have been measured at fair value.

**Basis of consolidation**

The Historical Financial Information and the Interim Financial Information include the financial information of the Company and its subsidiary (collectively referred to as the "**Group**") for the Relevant Periods and the nine months ended 30 September 2022 and 2023, respectively. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

Generally, there is a presumption that a majority of voting rights results in control. When the Company has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial information of the subsidiary is prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiary are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities and any non-controlling interest; and recognises the fair value of any investment retained, and any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.2 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information and the Interim Financial Information. The Group intends to apply these revised HKFRSs, if applicable, when they become effective.

| | |
|---|---|
| Amendments to HKFRS 10 and HKAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to HKFRS 16 | *Lease Liability in a Sale and Leaseback*[1] |
| Amendments to HKAS 1 | *Classification of Liabilities as Current or Non-current* (the "**2020 Amendments**")[1, 4] |
| Amendments to HKAS 1 | *Non-current Liabilities with Covenants* (the "**2022 Amendments**")[1, 4] |
| Amendments to HKAS 7 and HKFRS 7 | *Supplier Finance Arrangements*[1] |
| Amendments to HKAS 21 | *Lack of Exchangeability*[2] |

1 Effective for annual periods beginning on or after 1 January 2024

2 Effective for annual periods beginning on or after 1 January 2025

3 No mandatory effective date yet determined but available for adoption

4 As a consequence of the 2020 Amendments and 2022 Amendments, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

The Group is in the process of making an assessment of the impact of these revised HKFRSs upon initial application and has concluded that the adoption of them will not have a material impact on the Group's financial performance and financial position.

## 2.3 MATERIAL ACCOUNTING POLICY INFORMATION

**Fair value measurement**

The Group measures certain financial assets at fair value at the end of each of the reporting periods. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**Impairment of non-financial assets**

Where an indication of impairment exists, or when annual impairment testing for non-financial asset is required (other than deferred tax assets, inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs. In testing a cash-generating unit for impairment, a portion of the carrying amount of a corporate asset (e.g., a headquarters building) is allocated to an individual cash-generating unit if it can be allocated on a reasonable and consistent basis or, otherwise, to the smallest group of cash-generating units.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each report period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

**Related parties**

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

  (i) the entity and the Group are members of the same group;

  (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

  (iii) the entity and the Group are joint ventures of the same third party;

  (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

| **Categories** | **Estimated useful lives** |
|---|---|
| Buildings | 5 to 20 years |
| Machinery | 10 years |
| Electronic and office equipment | 3 to 5 years |
| Motor vehicles | 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

**Intangible assets (other than goodwill)**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives. The principal estimated useful lives of intangible assets are as follows:

| Categories | Estimated useful lives |
|---|---|
| Software | 2 years |
| Patents and licences | 10 years |
| Trademark | 10 years |

***Research and development costs***

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

**Leases**

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

***Group as a lessee***

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*(a) Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

| Categories | Estimated useful lives |
|---|---|
| Leasehold land | 27 years |
| Warehouses and office premises | 2 to 3 years |

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

*(b) Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate the lease. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

*(c) Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of warehouses and office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment that is considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

***Group as a lessor***

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to of ownership of an underlying assets to the lessee are accounted for as finance leases.

**Financial assets**

***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("**SPPI**") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

Purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset.

***Subsequent measurement***

The subsequent measurement of financial assets depends on their classification as follows:

***Financial assets at amortised cost (debt instruments)***

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

***Financial assets at fair value through other comprehensive income (debt instruments)***

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

**Derecognition of financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**Impairment of financial assets**

The Group recognises an allowance for expected credit losses ("**ECLs**") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

***General approach***

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the each reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

*Simplified approach*

For trade and bills receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at the end of the reporting period. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as loans and borrowings or payables, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, amounts due to related parties, interest-bearing bank borrowings, and financial liabilities included in other payables and accruals.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at amortised cost (trade and other payables, and borrowings)*

After initial recognition, trade and other payables, and interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

**Derecognition of financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

**Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash on hand and at banks, and short-term highly liquid deposits with a maturity of generally within three months that are readily convertible into known amounts of cash, subject to an insignificant risk of changes in value and held for the purpose of meeting short-term cash commitments.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and at banks, and short-term deposits as defined above, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

**Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of each reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

**Income tax**

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, for which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

**Revenue recognition**

***Revenue from contracts with customers***

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group with a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

The Group has satisfied a performance obligation and recognises revenue over time, if one of the following criteria is met:

(i) The customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

(ii) The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(iii) The Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If none of the above conditions is met, the Group recognises revenue at the point in time when the customer obtains control of the distinct good or service.

If control of the service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at the point in time when the customer obtains control of the service.

For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

The selection of the method to measure progress towards completion requires judgement and is based on the nature of the products or services to be provided. Depending on which better depicts the transfer of value to the customer, the Group generally measures its progress using the cost-to-cost method (input method). The Group uses the known cost measure of progress when it best depicts the transfer of value to the customer which occurs as the Group incurs costs on its contract, generally related to fixed fee service contracts. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. Revenue is recorded proportionally as costs are incurred.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

*(a) Sale of goods*

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

Some contracts for the sale of goods provide customers with rights of return and volume rebates giving rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(ii) Volume rebates

Retrospective volume rebates may be provided to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer. To estimate the variable consideration for the expected future rebates, the most likely amount method is used for contracts with a single-volume threshold and the expected value method for contracts with more than one volume threshold. The selected method that best predicts the amount of variable consideration is primarily driven by the number of volume thresholds contained in the contract. The requirements on constraining estimates of variable consideration are applied and a refund liability for the expected future rebates is recognised.

*(b) Provision of research and development and other services*

(i) Research and development services

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a service (or a bundle of services) that is distinct or a series of distinct services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the service.

(ii) Technology transfer

Revenue from technology transfer is recognised at the point in time when the Group transfers the control for underlying services and have right to payment from the customers for the services performed, upon the delivery or acceptance of the underlying services.

(iii) Outsourcing manufacturing services

Revenue from outsourcing manufacturing services is recognised at the point in time when the Group transfers the control for underlying services and have right to payment from the customers for the services performed, upon the delivery or acceptance of the underlying services.

*Other income*

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

**Contract liabilities**

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).

**Contract costs**

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) The costs are expected to be recovered.

The capitalised contract costs are charged to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. Other contract costs are expensed as incurred.

**Right-of-return assets**

A right-of-return asset is recognised for the right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods and any potential decreases in the value of the returned goods. The Group updates the measurement of the asset for any revisions to the expected level of returns and any additional decreases in the value of the returned goods.

**Refund liabilities**

A refund liability is recognised for the obligation to refund some or all of the consideration received (or receivable) from a customer and is measured at the amount the Group ultimately expects it will have to return to the customer. The Group updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period.

**Share-based payments**

The Company operates a share award plan. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services in exchange for equity instruments ("**equity-settled transactions**").The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the discounted cash flow method, further details of which are given in note 27 to the Historical Financial Information.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

**Other employee benefits**

***Pension scheme***

The employees of the Group which operates in Chinese Mainland are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules and practice of the central pension scheme.

***Housing fund – Chinese Mainland***

The Group contributes on a monthly basis to a defined contribution housing fund plan operated by the local municipal government. Contributions to this plan by the Group are expensed as incurred.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**Dividends**

Dividends are recognised as a liability when they are approved by the shareholders of the Company in a general meeting.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

**Judgements**

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

***Revenue from contracts with customers***

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

*(a) Determining the timing of satisfaction of the provision of research and development services*

The Group concluded that revenue from the provision of research and development services is to be recognised over time because customers simultaneously receive and consume the benefits provided by the Group.

The Group determined that the input method is the best method in measuring the progress of the progress of research and development services because there is a direct relationship between the Group's effort (i.e., staff costs and cost of inventories, consumables incurred) and the transfer of services to the customer. The Group recognises revenue on the basis of the incurred costs expended relative to the total expected costs to complete the services.

*(b) Determining the method to estimate variable consideration and assessing the constraint for the sale of goods*

Certain contracts for the sale of goods include a right of return and volume rebates that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the expected value method is the appropriate method to use in estimating the variable consideration for the sale of goods with rights of return, given the large number of customer contracts that have similar characteristics. In estimating the variable consideration for the sale of goods with volume rebates, the Group determined that using the most likely amount method. The selected method that better predicts the amount of variable consideration related to volume rebates is primarily driven by the number of volume thresholds contained in the contract. The most likely amount method is used for those contracts with a single volume threshold.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

**Estimation uncertainty**

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

***Variable consideration for returns and volume rebates***

The Group estimates variable consideration to be included in the transaction price for the sale of goods with rights of return and volume rebates.

The Group has developed a statistical model for forecasting sales returns. The model used the historical return data of each product to come up with expected return percentages. These percentages are applied to determine the expected value of the variable consideration. Any significant changes in experience as compared to historical return pattern will impact the expected return percentages estimated by the Group.

The Group's expected volume rebates are analysed on a per customer basis for contracts that are subject to a single volume threshold. Determining whether a customer will likely be entitled to a rebate depends on the customer's historical rebate entitlement and accumulated purchases to date.

The Group has applied a statistical model for estimating expected volume rebates for contracts with more than one volume threshold. The model uses the historical purchasing patterns and rebate entitlement of customers to determine the expected rebate percentages and the expected value of the variable consideration. Any significant changes in experience as compared to historical purchasing patterns and rebate entitlements of customers will impact the expected rebate percentages estimated by the Group.

The Group updates its assessment of expected returns and volume rebates quarterly and the refund liabilities are adjusted accordingly. Estimates of expected returns and volume rebates are sensitive to changes in circumstances and the Group's past experience regarding returns and rebate entitlements may not be representative of customers' actual returns and rebate entitlements in the future.

***Provision for expected credit losses on trade receivables***

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on ageing for groupings of various customer segments that have similar loss patterns (i.e., by customer type).

The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the medical industry sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 17 to the Historical Financial Information.

*Onerous contract provisions*

For onerous contracts, the present obligation under the contract must be recognised in the current period and measured as provisions, based on the estimated unrealised centralised procurement contracts.

*Impairment of non-financial assets (other than goodwill)*

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use assets) at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

*Fair value measurement of share-based payments*

The Group has set up a share award scheme and granted restricted ordinary shares to the Group's employees. The fair values of the restricted shares are determined by the discounted cash flow method at the grant dates. Significant estimates on assumptions, including the underlying equity value and discount rate are made by management. Further details are included in note 27 to the Historical Financial Information.

*Development costs*

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.3 to the Historical Financial Information. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

*Leases – Estimating the incremental borrowing rate*

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("**IBR**") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available or when it needs to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is not organised into business units based on their products and has only one reportable operating segment. Management monitors the operating results of the Group's operating segment as a whole for the purpose of making decisions about resource allocation and performance assessment.

**Geographical information**

***(a) Revenue from external customers***

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2021** | **2022** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* | *(unaudited)* |
| Chinese Mainland | 1,170,683 | 1,073,609 | 814,626 | 992,336 |
| Other countries/regions | 136,568 | 51,796 | 37,456 | 30,319 |
| Total revenue | 1,307,251 | 1,125,405 | 852,082 | 1,022,655 |

The revenue information above is based on the locations of the customers.

***(b) Non-current assets***

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | **2021** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Chinese Mainland | 435,294 | 454,825 | 453,184 |

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

**Information about a major customer**

Revenue from the major customer (aggregated if under common control) which amounted to 10% or more of the Group's revenue is set out below:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2021** | **2022** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* | *(unaudited)* |
| Customer A | 330,885 | 263,053 | 201,792 | 226,181 |

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* (unaudited) |
| Revenue from contracts with customers | 1,307,251 | 1,125,405 | 852,082 | 1,022,655 |

**Revenue from contracts with customers**

***(a) Disaggregated revenue information***

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* (unaudited) |
| **Types of goods or services** | | | | |
| Sale of goods | 1,268,427 | 1,105,105 | 844,581 | 975,442 |
| Provision of research and development and other services | 38,824 | 20,300 | 7,501 | 47,213 |
| Total revenue from contracts with customers | 1,307,251 | 1,125,405 | 852,082 | 1,022,655 |
| **Geographical markets** | | | | |
| Chinese Mainland | 1,170,683 | 1,073,609 | 814,626 | 992,336 |
| Other countries/regions | 136,568 | 51,796 | 37,456 | 30,319 |
| Total revenue from contracts with customers | 1,307,251 | 1,125,405 | 852,082 | 1,022,655 |
| **Timing of revenue recognition** | | | | |
| Transferred at a point in time | 1,300,609 | 1,125,405 | 852,082 | 1,022,655 |
| Transferred over time | 6,642 | – | – | – |
| Total revenue from contracts with customers | 1,307,251 | 1,125,405 | 852,082 | 1,022,655 |

The following table shows the amounts of revenue recognised during the Relevant Periods and the nine months ended 30 September 2022 and 2023 that were included in the contract liabilities at the beginning of each of the Relevant Periods and the nine months ended 30 September 2022 and 2023 and recognised from performance obligations satisfied in previous periods:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* (unaudited) |
| Revenue recognised: | | | | |
| Sale of goods | 20,004 | 20,122 | 19,740 | 15,442 |

*(b) Performance obligations*

Information about the Group's performance obligations is summarised below:

*(i) Sale of goods*

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from the date of billing.

*(ii) Research and development and other services*

*Research and development services*

The performance obligation is satisfied over time or at the point as services are rendered and payment is generally due within 10 days from the date of billing.

*Technology transfer*

The performance obligation is satisfied upon transfer of the technology and payment is generally due within 15 days from the date of transfer.

*Outsourcing manufacturing services*

The performance obligation is satisfied at the point as services are rendered, where payment in advance is normally required.

An analysis of other income and gains is as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2021** | **2022** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000 (unaudited)* |
| **Other income** | | | | |
| Government grants* | 4,349 | 14,110 | 12,802 | 5,151 |
| Bank interest income | 319 | 184 | 136 | 173 |
| Rental income from an operating lease | 1,960 | – | – | – |
| Others | 465 | 53 | 36 | 14 |
| Total other income | 7,093 | 14,347 | 12,974 | 5,338 |
| **Gains** | | | | |
| Foreign exchange gains, net | – | 202 | 267 | 199 |
| Total other income and gains | 7,093 | 14,549 | 13,241 | 5,537 |

* Government grants have been received from the PRC local government authorities to support the subsidiaries' research and development activities. There are no unfulfilled conditions related to these government grants.

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | | 2021 | 2022 | 2022 | 2023 |
| | | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000 (unaudited)* |
| Cost of inventories sold | | 325,356 | 250,107 | 187,494 | 193,664 |
| Cost of services provided | | 31,488 | 21,036 | 8,162 | 27,515 |
| | | 356,844 | 271,143 | 195,656 | 221,179 |
| Research and development costs | | 132,631 | 158,312 | 105,493 | 100,447 |
| Depreciation of property, plant and equipment* | *13* | 23,229 | 34,610 | 25,908 | 26,199 |
| Depreciation of right-of-use assets | *14(a)* | 464 | 505 | 388 | 559 |
| Amortisation of intangible assets** | *15* | 551 | 655 | 607 | 225 |
| Loss on disposal of items of property, plant and equipment | | 326 | 37 | 43 | 381 |
| Write-down of inventories to net realisable value | *16* | 1,025 | 1,844 | 1,914 | 55 |
| Impairment losses on financial assets, net | | (80) | 463 | 381 | 1,476 |
| Lease payments not included in the measurement of lease liabilities | *14(c)* | 1,202 | 1,332 | 713 | 793 |
| Foreign exchange differences, net | | 116 | (202) | (267) | (199) |
| Auditor's remuneration | | 283 | 189 | 189 | – |
| **[REDACTED]** expenses | *29* | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| Bank interest income | *5* | (319) | (184) | (136) | (173) |
| Government grants | *5* | (4,349) | (14,110) | (12,802) | (5,151) |
| Employee benefit expense (including directors', chief executive's and supervisors' remuneration as set out in note 8): | | | | | |
| Salaries and other benefits | | 232,553 | 270,034 | 195,365 | 208,922 |
| Pension scheme contributions | | 13,634 | 16,531 | 11,198 | 12,838 |
| Equity-settled share award expense*** | *27* | 147 | 180 | 135 | 10,326 |
| | | 246,334 | 286,745 | 206,698 | 232,086 |

* The depreciation of property, plant and equipment is included in "Cost of sales", "Administrative expenses", "Research and development costs" and "Selling and marketing expenses" in the consolidated statements of profit or loss and other comprehensive income.

** The amortisation of intangible assets is included in "Cost of sales", "Administrative expenses" and "Selling and marketing expenses" in the consolidated statements of profit or loss and other comprehensive income.

*** Equity-settled share award expense is included in "Cost of sales", "Administrative expenses", "Research and development costs" and "Selling and marketing expenses" in the consolidated statements of profit or loss and other comprehensive income.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* | *(unaudited)* |
| Interest on bank borrowings | 9,695 | 9,020 | 6,715 | 7,122 |
| Interest on lease liabilities *(note 14(c))* | 25 | 22 | 18 | 32 |
| Total | 9,720 | 9,042 | 6,733 | 7,154 |

## 8. DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S REMUNERATION

The remuneration of the directors, supervisors and chief executive as recorded is set out below:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* | *(unaudited)* |
| Fees | – | – | – | – |
| Other emoluments: | | | | |
| Salaries, bonuses, allowances and benefits in kind | 3,075 | 3,756 | 2,818 | 2,948 |
| Equity-settled share award expense | 23 | 29 | 22 | 9,604 |
| Pension scheme contributions | 99 | 111 | 84 | 84 |
| Subtotal | 3,197 | 3,896 | 2,924 | 12,636 |
| Total fees and other emoluments | 3,197 | 3,896 | 2,924 | 12,636 |

Year ended 31 December 2021

| | Salaries, bonuses, allowances and benefits in kind *RMB'000* | Equity-settled share award expense *RMB'000* | Pension scheme contributions *RMB'000* | Total remuneration *RMB'000* |
|---|---|---|---|---|
| Directors: | | | | |
| Mr. Li Bangliang *(i)* | – | – | – | – |
| Mr. Fu Hang (chief executive) *(ii)* | 1,172 | – | 33 | 1,205 |
| Mr. Zhou Wei *(iii)* | 1,239 | 3 | 33 | 1,275 |
| Mr. Wu Hui *(iv)* | – | – | – | – |
| Ms. Dong Danqing *(v)* | – | – | – | – |
| Ms. Chen Yanfeng *(vi)* | – | – | – | – |
| Ms. Jiang Yilin *(vii)* | – | – | – | – |
| Mr. Wu Qiyuan *(viii)* | – | 17 | – | 17 |
| Mr. Wu Shihang *(ix)* | – | – | – | – |
| Ms. Ma Honglan *(x)* | – | – | – | – |
| Mr. Albert Esteve Cruella *(xi)* | – | – | – | – |
| Mr. Staffan Schuberg *(xii)* | – | – | – | – |
| Mr. Li Yuedong *(xiii)* | – | – | – | – |
| Mr. Qiu Yang *(xiv)* | – | – | – | – |
| Subtotal | 2,411 | 20 | 66 | 2,497 |
| Supervisor: | | | | |
| Ms. Huang Xiu *(xv)* | 664 | 3 | 33 | 700 |
| Total | 3,075 | 23 | 99 | 3,197 |

Year ended 31 December 2022

| | Salaries, bonuses, allowances and benefits in kind | Equity-settled share award expense | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Directors: | | | | |
| Mr. Li Bangliang *(i)* | – | – | – | – |
| Mr. Fu Hang (chief executive) *(ii)* | 1,162 | – | 37 | 1,199 |
| Mr. Zhou Wei *(iii)* | 1,682 | 4 | 37 | 1,723 |
| Mr. Wu Hui *(iv)* | – | – | – | – |
| Ms. Dong Danqing *(v)* | – | – | – | – |
| Ms. Chen Yanfeng *(vi)* | – | – | – | – |
| Ms. Jiang Yilin *(vii)* | – | – | – | – |
| Mr. Wu Qiyuan *(viii)* | – | 21 | – | 21 |
| Mr. Wu Shihang *(ix)* | – | – | – | – |
| Ms. Ma Honglan *(x)* | – | – | – | – |
| Mr. Albert Esteve Cruella *(xi)* | – | – | – | – |
| Mr. Staffan Schuberg *(xii)* | – | – | – | – |
| Subtotal | 2,844 | 25 | 74 | 2,943 |
| Supervisor: | | | | |
| Ms. Huang Xiu *(xv)* | 912 | 4 | 37 | 953 |
| Total | 3,756 | 29 | 111 | 3,896 |

Nine months ended 30 September 2022 (unaudited)

| | Salaries, bonuses, allowances and benefits in kind<br>*RMB'000* | Equity-settled share award expense<br>*RMB'000* | Pension scheme contributions<br>*RMB'000* | Total remuneration<br>*RMB'000* |
|---|---|---|---|---|
| Directors: | | | | |
| Mr. Li Bangliang *(i)* | – | – | – | – |
| Mr. Fu Hang (chief executive) *(ii)* | 872 | – | 28 | 900 |
| Mr. Zhou Wei *(iii)* | 1,262 | 3 | 28 | 1,293 |
| Mr. Wu Hui *(iv)* | – | – | – | – |
| Ms. Dong Danqing *(v)* | – | – | – | – |
| Ms. Chen Yanfeng *(vi)* | – | – | – | – |
| Ms. Jiang Yilin *(vii)* | – | – | – | – |
| Mr. Wu Qiyuan *(viii)* | – | 16 | – | 16 |
| Mr. Wu Shihang *(ix)* | – | – | – | – |
| Ms. Ma Honglan *(x)* | – | – | – | – |
| Mr. Albert Esteve Cruella *(xi)* | – | – | – | – |
| Mr. Staffan Schuberg *(xii)* | – | – | – | – |
| Subtotal | 2,134 | 19 | 56 | 2,209 |
| Supervisor: | | | | |
| Ms. Huang Xiu *(xv)* | 684 | 3 | 28 | 715 |
| Total | 2,818 | 22 | 84 | 2,924 |

Nine months ended 30 September 2023 (unaudited)

| | Salaries, bonuses, allowances and benefits in kind *RMB'000* | Equity-settled share award expense *RMB'000* | Pension scheme contributions *RMB'000* | Total remuneration *RMB'000* |
|---|---|---|---|---|
| Directors: | | | | |
| Mr. Li Bangliang *(i)* | – | 8,984 | – | 8,984 |
| Mr. Fu Hang (chief executive) *(ii)* | 1,098 | 372 | 28 | 1,498 |
| Mr. Zhou Wei *(iii)* | 1,156 | 161 | 28 | 1,345 |
| Mr. Wu Hui *(iv)* | – | – | – | – |
| Ms. Dong Danqing *(v)* | – | – | – | – |
| Ms. Chen Yanfeng *(vi)* | – | – | – | – |
| Ms. Jiang Yilin *(vii)* | – | – | – | – |
| Mr. Wu Qiyuan *(viii)* | – | 31 | – | 31 |
| Mr. Wu Shihang *(ix)* | – | – | – | – |
| Ms. Ma Honglan *(x)* | – | – | – | – |
| Mr. Albert Esteve Cruella *(xi)* | – | – | – | – |
| Mr. Staffan Schuberg *(xii)* | – | – | – | – |
| Mr. Fei Junjie *(xvi)* | – | – | – | – |
| Subtotal | 2,254 | 9,548 | 56 | 11,858 |
| Supervisor: | | | | |
| Ms. Huang Xiu *(xv)* | 694 | 56 | 28 | 778 |
| Total | 2,948 | 9,604 | 84 | 12,636 |

(i) Mr. Li Bangliang was appointed as the vice chairman of the board of directors of the Company in May 1994 and resigned in May 2000, and then appointed as the chairman of the board of directors of the Company in June 2000.

(ii) Mr. Fu Hang was appointed as a director of the Company in February 2000.

(iii) Mr. Zhou Wei was appointed as a director of the Company in May 2019.

(iv) Mr. Wu Hui was appointed as a director of the Company in November 2018.

(v) Ms. Dong Danqing was appointed as a director of the Company in April 2008.

(vi) Ms. Chen Yanfeng was appointed as a director of the Company in May 2019.

(vii) Ms. Jiang Yilin was appointed as a director of the Company in October 2017 and resigned from the Company in May 2023.

(viii) Mr. Wu Qiyuan was appointed as the vice chairman of the board of directors of the Company in May 1994 and resigned in March 1999, and then appointed as a director of the Company in April 1999.

(ix) Mr. Wu Shihang was appointed as a director of the Company in October 2021.

(x) Ms. Ma Honglan was appointed as a director of the Company in October 2021.

(xi) Mr. Albert Esteve Cruella was appointed as a director of the Company in June 2007.

(xii) Mr. Staffan Schuberg was appointed as a director of the Company in May 2019.

(xiii) Mr. Li Yuedong was appointed as a director of the Company in October 2017 and resigned from the Company in October 2021.

(xiv) Mr. Qiu Yang was appointed as a director of the Company in October 2017 and resigned from the Company in October 2021.

(xv) Ms. Huang Xiu was appointed as a supervisor of the Company in October 2010.

(xvi) Mr. Fei Junjie was appointed as a director of the Company in May 2023.

Mr. Fu Hang and Mr. Zhou Wei were re-designated as executive directors of the Company in January 2024. Mr. Fu Hang was also appointed as the chairman of the board of directors of the Company in November 2023.

Ms. Ma Honglan, Mr. Wu Shihang, Mr. Fei Junjie and Mr. Albert Esteve Cruella were re-designated as non-executive directors of the Company in January 2024.

Mr. Ye Jiancai, Mr. Xu Feihu and Ms. Zhao Fei were appointed as supervisors of the Company in November 2023.

Mr. Zhou Zhihui, Ms. Ho Mei Yi and Dr. Zhou Demin were appointed as independent non-executive directors of the Company in November 2023. Therefore, there were no fees paid to the independent non-executive directors during the Relevant Periods and nine months ended 30 September 2022 and 2023.

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the Relevant Periods and the nine months ended 30 September 2022 and 2023 included two, two, two and three directors, respectively, details of whose remuneration are set out in note 8 above. Details of the remuneration for the remaining three, three, three and two highest paid employees who are not a director of the Company during the Relevant Periods and the nine months ended 30 September 2022 and 2023 are as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2021** | **2022** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000 (unaudited)* |
| Salaries, bonuses, allowances and benefits in kind | 3,683 | 5,282 | 2,408 | 1,980 |
| Equity-settled share award expense | 6 | 18 | 14 | 28 |
| Pension scheme contributions | 69 | 74 | 56 | 56 |
| Total | 3,758 | 5,374 | 2,478 | 2,064 |

The numbers of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands are as follows:

| | Number of employees | | | |
|---|---|---|---|---|
| | Year ended 31 December | | Nine months ended 30 September | |
| | 2021 | 2022 | 2022 | 2023 |
| | | | *(unaudited)* | *(unaudited)* |
| HK$1,000,001 to HK$1,500,000 | 3 | 1 | 1 | 2 |
| HK$1,500,001 to HK$2,000,000 | – | 2 | 2 | – |
| Total | 3 | 3 | 3 | 2 |

## 10. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiary was 25% during the Relevant Periods and the nine months ended 30 September 2022 and 2023. The Company was accredited as a "High and New Technology Enterprise" ("**HNTE**") in 2021 and the certificate was extended in December 2023. Therefore, the Company was entitled to a preferential EIT rate of 15% for the Relevant Periods and the nine months ended 30 September 2022 and 2023. The qualification as a HNTE is subject to review by the relevant tax authority in the PRC every three years.

The income tax charge/(credit) of the Group during the Relevant Periods and the nine months ended 30 September 2022 and 2023 is analysed as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* | *(unaudited)* |
| Current tax – Chinese Mainland | | | | |
| Charge for the year/period | 658 | – | – | – |
| Deferred tax | 7,464 | (8,448) | 2,997 | 9,504 |
| Total tax charge/(credit) | 8,122 | (8,448) | 2,997 | 9,504 |

A reconciliation of the tax charge/(credit) applicable to profit before tax at the statutory rate to the tax expense at the effective tax rate is as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000 (unaudited)* |
| Profit before tax | 127,535 | 51,419 | 89,086 | 120,701 |
| Tax at the statutory tax rate of 25% | 31,884 | 12,855 | 22,272 | 30,175 |
| Lower tax rate for specific provinces or enacted by local authority | (12,754) | (5,142) | (8,909) | (12,070) |
| Expenses not deductible for tax | 8,229 | 7,586 | 5,458 | 6,466 |
| Additional deductible allowance for research and development costs | (19,895) | (23,747) | (15,824) | (15,067) |
| Adjustments in respect of current tax of previous periods | 658 | – | – | – |
| Tax charge/(credit) at the Group's effective tax rate | 8,122 | (8,448) | 2,997 | 9,504 |

## 11. DIVIDEND

On 19 May 2022, the Company declared a cash dividend of RMB12,000,000 to the shareholders of the Company. The dividend was fully paid by November 2022.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful as the Company was converted into a joint stock company with limited liability under the Company Law of the PRC on 5 December 2023.

## 13. PROPERTY, PLANT AND EQUIPMENT

| 31 December 2021 | Buildings<br>*RMB'000* | Machinery<br>*RMB'000* | Electronic and office equipment<br>*RMB'000* | Motor vehicles<br>*RMB'000* | Construction in progress<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| At 1 January 2021: | | | | | | |
| Cost | 131,134 | 181,476 | 6,877 | 4,656 | 140,706 | 464,849 |
| Accumulated depreciation | (50,180) | (66,154) | (3,790) | (3,208) | – | (123,332) |
| Net carrying amount | 80,954 | 115,322 | 3,087 | 1,448 | 140,706 | 341,517 |
| At 1 January 2021, net of accumulated depreciation | 80,954 | 115,322 | 3,087 | 1,448 | 140,706 | 341,517 |
| Additions | – | 61,628 | 814 | – | 16,597 | 79,039 |
| Disposals | – | (326) | (22) | (26) | – | (374) |
| Depreciation provided during the year *(note 6)* | (5,234) | (16,453) | (1,128) | (414) | – | (23,229) |
| Transfers | 137,599 | 19,346 | – | – | (156,945) | – |
| At 31 December 2021, net of accumulated depreciation | 213,319 | 179,517 | 2,751 | 1,008 | 358 | 396,953 |
| At 31 December 2021: | | | | | | |
| Cost | 268,733 | 259,802 | 7,572 | 4,401 | 358 | 540,866 |
| Accumulated depreciation | (55,414) | (80,285) | (4,821) | (3,393) | – | (143,913) |
| Net carrying amount | 213,319 | 179,517 | 2,751 | 1,008 | 358 | 396,953 |

| 31 December 2022 | Buildings<br>*RMB'000* | Machinery<br>*RMB'000* | Electronic and office equipment<br>*RMB'000* | Motor vehicles<br>*RMB'000* | Construction in progress<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| At 1 January 2022: | | | | | | |
| Cost | 268,733 | 259,802 | 7,572 | 4,401 | 358 | 540,866 |
| Accumulated depreciation | (55,414) | (80,285) | (4,821) | (3,393) | – | (143,913) |
| Net carrying amount | 213,319 | 179,517 | 2,751 | 1,008 | 358 | 396,953 |
| At 1 January 2022, net of accumulated depreciation | 213,319 | 179,517 | 2,751 | 1,008 | 358 | 396,953 |
| Additions | 3,121 | 17,297 | 1,131 | – | 1,489 | 23,038 |
| Disposals | – | (48) | – | – | – | (48) |
| Depreciation provided during the year *(note 6)* | (11,960) | (21,175) | (1,141) | (334) | – | (34,610) |
| At 31 December 2022, net of accumulated depreciation | 204,480 | 175,591 | 2,741 | 674 | 1,847 | 385,333 |
| At 31 December 2022: | | | | | | |
| Cost | 271,854 | 277,045 | 8,703 | 4,401 | 1,847 | 563,850 |
| Accumulated depreciation | (67,374) | (101,454) | (5,962) | (3,727) | – | (178,517) |
| Net carrying amount | 204,480 | 175,591 | 2,741 | 674 | 1,847 | 385,333 |

| 30 September 2023 (unaudited) | Buildings<br>*RMB'000* | Machinery<br>*RMB'000* | Electronic and office equipment<br>*RMB'000* | Motor vehicles<br>*RMB'000* | Construction in progress<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|---|
| At 1 January 2023: | | | | | | |
| Cost | 271,854 | 277,045 | 8,703 | 4,401 | 1,847 | 563,850 |
| Accumulated depreciation | (67,374) | (101,454) | (5,962) | (3,727) | – | (178,517) |
| Net carrying amount | 204,480 | 175,591 | 2,741 | 674 | 1,847 | 385,333 |
| At 1 January 2023, net of accumulated depreciation | 204,480 | 175,591 | 2,741 | 674 | 1,847 | 385,333 |
| Additions | – | 11,087 | 955 | – | 833 | 12,875 |
| Disposals | – | (361) | (22) | – | – | (383) |
| Depreciation provided during the period (note 6) | (8,990) | (16,145) | (880) | (184) | – | (26,199) |
| At 30 September 2023, net of accumulated depreciation | 195,490 | 170,172 | 2,794 | 490 | 2,680 | 371,626 |
| At 30 September 2023: | | | | | | |
| Cost | 271,854 | 285,614 | 9,433 | 4,401 | 2,680 | 573,982 |
| Accumulated depreciation | (76,364) | (115,442) | (6,639) | (3,911) | – | (202,356) |
| Net carrying amount | 195,490 | 170,172 | 2,794 | 490 | 2,680 | 371,626 |

Certain of the Group's buildings with net carrying amounts of approximately RMB172,977,000, RMB196,601,000 and RMB187,955,000 (unaudited) as at 31 December 2021 and 2022 and 30 September 2023, respectively, were pledged to secure bank loans (note 22).

The Group was still in the process of applying title certificates of the Group's buildings and structures of RMB1,305,000, RMB1,137,000 and RMB1,011,000 (unaudited) as at 31 December 2021 and 2022 and 30 September 2023, respectively.

## 14. LEASES

**The Group as a lessee**

The Group has lease contracts for warehouses and office premises used in its operations. Lump sum payments were made upfront to acquire the leasehold land from the government with lease periods of 27 years, and no ongoing payments will be made under the terms of these land leases. Leases of warehouses and office premises generally have lease terms between 2 and 3 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are no lease contracts that include extension or termination options and variable lease payments.

***(a) Right-of-use assets***

The carrying amounts of the Group's right-of-use assets and the movements during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

| | **Leasehold land** *RMB'000* | **Warehouses and office premises** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|
| As at 1 January 2021 | 462 | 114 | 576 |
| Additions | – | 860 | 860 |
| Depreciation charge *(note 6)* | (154) | (310) | (464) |
| As at 31 December 2021 and 1 January 2022 | 308 | 664 | 972 |
| Depreciation charge *(note 6)* | (154) | (351) | (505) |
| As at 31 December 2022 and 1 January 2023 | 154 | 313 | 467 |
| Additions (unaudited) | – | 2,507 | 2,507 |
| Depreciation charge (unaudited) *(note 6)* | (115) | (444) | (559) |
| As at 30 September 2023 (unaudited) | 39 | 2,376 | 2,415 |

The Group's leasehold land with net carrying amounts of RMB308,000, RMB154,000 and RMB39,000 (unaudited) as at 31 December 2021 and 2022 and 30 September 2023, respectively, were pledged to secure bank loans (note 22).

On 29 December 2023, the terms of the leasehold land was freely extended from 30 December 2023 to 8 February 2029, which was approved by the local government.

***(b)*** ***Lease liabilities***

The carrying amounts of lease liabilities and the movements during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

| | Year ended 31 December | | Nine months ended 30 September |
|---|---|---|---|
| | **2021** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* *(unaudited)* |
| Carrying amount at 1 January | 76 | 637 | 326 |
| New leases | 860 | – | 2,507 |
| Accretion of interest recognised during the year/period | 25 | 22 | 32 |
| Payments | (324) | (333) | (637) |
| Carrying amount at end of the year/period | 637 | 326 | 2,228 |
| Analysed into: | | | |
| Current portion | 311 | 326 | 849 |
| Non-current portion | 326 | – | 1,379 |

The maturity analysis of lease liabilities is disclosed in note 34 to the Historical Financial Information.

***(c)*** The amounts recognised in profit or loss in relation to leases are as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | **2021** | **2022** | **2022** | **2023** |
| | *RMB'000* | *RMB'000* | *RMB'000* *(unaudited)* | *RMB'000* *(unaudited)* |
| Interest on lease liabilities *(note 7)* | 25 | 22 | 18 | 32 |
| Depreciation charge of right-of-use assets | 464 | 505 | 388 | 559 |
| Expenses relating to short-term leases and leases of low-value assets *(note 6)* | 1,202 | 1,332 | 713 | 793 |
| Total amount recognised in profit or loss | 1,691 | 1,859 | 1,119 | 1,384 |

***(d)*** The total cash outflow for leases is disclosed in note 29(c) to the Historical Financial Information.

**The Group as a lessor**

The Group leases its buildings under operating lease arrangements. Rental income recognised by the Group in 2021 was RMB1,960,000, details of which are included in note 5 to the Historical Financial Information.

## 15. INTANGIBLE ASSETS

| 31 December 2021 | Software<br>*RMB'000* | Patents and licences<br>*RMB'000* | Trademark<br>*RMB'000* | Deferred development costs<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2021: | | | | | |
| Cost | 3,124 | 32,086 | 124 | 21,479 | 56,813 |
| Accumulated amortisation | (2,258) | (32,086) | (96) | – | (34,440) |
| Net carrying amount | 866 | – | 28 | 21,479 | 22,373 |
| At 1 January 2021, net of accumulated amortisation | 866 | – | 28 | 21,479 | 22,373 |
| Additions | – | – | – | 8,967 | 8,967 |
| Amortisation provided during the year *(note 6)* | (539) | – | (12) | – | (551) |
| At 31 December 2021, net of accumulated amortisation: | 327 | – | 16 | 30,446 | 30,789 |
| At 31 December 2021: | | | | | |
| Cost | 3,124 | 32,086 | 124 | 30,446 | 65,780 |
| Accumulated amortisation | (2,797) | (32,086) | (108) | – | (34,991) |
| Net carrying amount | 327 | – | 16 | 30,446 | 30,789 |

| 31 December 2022 | Software<br>*RMB'000* | Patents and licences<br>*RMB'000* | Trademark<br>*RMB'000* | Deferred development costs<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2022: | | | | | |
| Cost | 3,124 | 32,086 | 124 | 30,446 | 65,780 |
| Accumulated amortisation | (2,797) | (32,086) | (108) | – | (34,991) |
| Net carrying amount | 327 | – | 16 | 30,446 | 30,789 |
| At 1 January 2022, net of accumulated amortisation | 327 | – | 16 | 30,446 | 30,789 |
| Additions | 502 | – | – | 35,153 | 35,655 |
| Amortisation provided during the year *(note 6)* | (643) | – | (12) | – | (655) |
| At 31 December 2022, net of accumulated amortisation | 186 | – | 4 | 65,599 | 65,789 |
| At 31 December 2022: | | | | | |
| Cost | 3,626 | 32,086 | 124 | 65,599 | 101,435 |
| Accumulated amortisation | (3,440) | (32,086) | (120) | – | (35,646) |
| Net carrying amount | 186 | – | 4 | 65,599 | 65,789 |

| 30 September 2023 (unaudited) | Software | Patents and licences | Trademark | Deferred development costs | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2023: | | | | | |
| Cost | 3,626 | 32,086 | 124 | 65,599 | 101,435 |
| Accumulated amortisation | (3,440) | (32,086) | (120) | – | (35,646) |
| Net carrying amount | 186 | – | 4 | 65,599 | 65,789 |
| At 1 January 2023, net of accumulated amortisation | 186 | – | 4 | 65,599 | 65,789 |
| Additions | 89 | – | – | 9,034 | 9,123 |
| Amortisation provided during the period (note 6) | (221) | – | (4) | – | (225) |
| At 30 September 2023, net of accumulated amortisation | 54 | – | – | 74,633 | 74,687 |
| At 30 September 2023: | | | | | |
| Cost | 3,715 | 32,086 | 124 | 74,633 | 110,558 |
| Accumulated amortisation | (3,661) | (32,086) | (124) | – | (35,871) |
| Net carrying amount | 54 | – | – | 74,633 | 74,687 |

## 16. INVENTORIES

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* |
| Raw materials and consumables | 54,401 | 39,245 | 58,678 |
| Work in progress | 81,181 | 69,390 | 71,702 |
| Finished goods | 32,703 | 36,146 | 26,942 |
| Contract costs | 34,874 | 29,668 | 9,775 |
| Subtotal | 203,159 | 174,449 | 167,097 |
| Provision for impairment of inventories | (1,630) | (2,551) | (1,561) |
| Total | 201,529 | 171,898 | 165,536 |

For the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023, the impairment of inventories recognised in cost of sales amounted to RMB1,025,000, RMB1,844,000 and RMB55,000 (unaudited), respectively.

## 17. TRADE AND BILLS RECEIVABLES

**Group and Company**

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Trade receivables | 342,522 | 412,182 | 530,659 |
| Bills receivable | 35,719 | 19,272 | 24,518 |
| Financial assets at fair value through other comprehensive income | 32,973 | 44,441 | 43,303 |
| Impairment | (909) | (1,393) | (2,635) |
| Net carrying amount | 410,305 | 474,502 | 595,845 |

The Group's trading terms with its customers are mainly on credit as well as payment in advance. The credit period is generally one month to three months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade and bills receivables balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables of the Group as at the end of each reporting period, based on the invoice date and net of loss allowance, is as follows:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Within 1 year | 408,161 | 471,528 | 591,066 |
| 1 to 2 years | 1,888 | 2,621 | 4,403 |
| 2 to 3 years | 256 | 353 | 376 |
| Total | 410,305 | 474,502 | 595,845 |

The movements in the loss allowance for impairment of trade and bills receivables are as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* | *(unaudited)* |
| At beginning of year/period | 1,186 | 909 | 909 | 1,393 |
| Impairment losses, net | (221) | 484 | (194) | 1,242 |
| Amounts written off as uncollectible | (56) | – | – | – |
| At end of year/period | 909 | 1,393 | 715 | 2,635 |

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on ageing for groupings of various customer segments with similar loss patterns. The calculation reflects, as appropriate the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the end of each reporting period about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2021

| | Gross carrying amount | Expected credit loss rate | Expected credit loss |
|---|---|---|---|
| | *RMB'000* | *%* | *RMB'000* |
| Within 1 year | 339,717 | 0.07 | 248 |
| 1 to 2 years | 1,969 | 4.11 | 81 |
| 2 to 3 years | 348 | 26.44 | 92 |
| Over 3 years | 488 | 100.00 | 488 |
| Total | 342,522 | 0.27 | 909 |

As at 31 December 2022

| | Gross carrying amount | Expected credit loss rate | Expected credit loss |
|---|---|---|---|
| | *RMB'000* | *%* | *RMB'000* |
| Within 1 year | 408,279 | 0.11 | 464 |
| 1 to 2 years | 2,922 | 10.30 | 301 |
| 2 to 3 years | 647 | 45.44 | 294 |
| Over 3 years | 334 | 100.00 | 334 |
| Total | 412,182 | 0.34 | 1,393 |

As at 30 September 2023 (unaudited)

| | Gross carrying amount | Expected credit loss rate | Expected credit loss |
|---|---|---|---|
| | *RMB'000* | *%* | *RMB'000* |
| Within 1 year | 523,943 | 0.13 | 698 |
| 1 to 2 years | 5,377 | 18.11 | 974 |
| 2 to 3 years | 927 | 59.44 | 551 |
| Over 3 years | 412 | 100.00 | 412 |
| Total | 530,659 | 0.50 | 2,635 |

The credit risk of bills receivable and financial assets at fair value through other comprehensive income is remote and therefore, no impairment losses were recognised as at 31 December 2021 and 2022 and 30 September 2023 accordingly.

Certain of the Group's bill receivables with net carrying amounts of approximately RMB17,353,000, RMB1,263,000 and nil (unaudited) as at 31 December 2021 and 2022 and 30 September 2023, respectively, were pledged to secure bank loans (note 22).

## 18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* |
| **Current** | | | |
| Prepayments | 8,291 | 9,550 | 6,071 |
| Tax recoverable | 11,606 | 1,103 | – |
| Right-of-return assets | 1,086 | 810 | 639 |
| Other receivables | 3,771 | 4,779 | 5,436 |
| Deferred **[REDACTED]** expenses | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| | 24,754 | 16,242 | 16,562 |
| Impairment | (540) | (540) | (695) |
| Subtotal | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| **Non-current** | | | |
| Advance payments for property, plant and equipment | 6,580 | 3,236 | 4,456 |
| Total | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

An impairment analysis was performed at the end of each reporting period considering the probability of default of comparable companies with published credit ratings. The Group has applied the general approach to provide for expected credit losses for non-trade other receivables under HKFRS 9. The Group considered the historical loss rate and adjusted it for forward-looking macroeconomic data in calculating the expected credit loss rate.

## 19. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

**Group**

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) |
| Cash and bank balances | 95,206 | 71,918 | 49,403 |
| Less: Restricted bank deposits | (377) | (378) | (20) |
| Cash and cash equivalents | 94,829 | 71,540 | 49,383 |
| Denominated in: | | | |
| RMB | 93,512 | 67,136 | 48,264 |
| United States dollar ("**US$**") | 1,154 | 4,231 | 577 |
| Euro ("**EUR**") | 540 | 551 | 562 |
| | 95,206 | 71,918 | 49,403 |

Cash and bank balances of the Group denominated in RMB amounted to RMB93,512,000, RMB67,136,000 and RMB48,264,000 (unaudited) as at 31 December 2021 and 2022 and 30 September 2023, respectively. The RMB is not freely convertible into other currencies, however, under Chinese Mainland's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

**Company**

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) |
| Cash and bank balances | 95,204 | 71,916 | 49,401 |
| Less: Restricted bank deposits | (377) | (378) | (20) |
| Cash and cash equivalents | 94,827 | 71,538 | 49,381 |
| Denominated in: | | | |
| RMB | 93,510 | 67,134 | 48,262 |
| US$ | 1,154 | 4,231 | 577 |
| EUR | 540 | 551 | 562 |
| | 95,204 | 71,916 | 49,401 |

## 20. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the Relevant Periods and 30 September 2023, based on the invoice date, is as follows:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Within 1 year | 65,527 | 51,401 | 48,203 |
| Over 1 year | 922 | 245 | 315 |
| Total | 66,449 | 51,646 | 48,518 |

The trade payables are non-interest-bearing and are normally settled within 60 days.

## 21. OTHER PAYABLES AND ACCRUALS

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| **Non-current:** | | | |
| Deferred income | 2,500 | 7,555 | 7,461 |
| Onerous contract provisions | 2,621 | 344 | – |
| Subtotal | 5,121 | 7,899 | 7,461 |
| **Current:** | | | |
| Other payables | 99,440 | 84,710 | 93,351 |
| Refund liabilities | 4,367 | 3,687 | 3,229 |
| Payroll payable | 47,914 | 49,022 | 44,687 |
| Deferred income | – | 713 | 777 |
| Onerous contract provisions | 754 | 917 | 192 |
| Other tax payables | 2,119 | 6,301 | 1,879 |
| Accrued **[REDACTED]** expenses *(note 29)* | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| Subtotal | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| Total | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

Other payables are non-interest-bearing and have no fixed terms of settlement.

## 22. INTEREST-BEARING BANK BORROWINGS

| | As at 31 December 2021 | | |
|---|---|---|---|
| | Effective interest rate (%) | Maturity | *RMB'000* |
| Current | | | |
| Bank loans – unsecured | 4.35 – 5.30 | 2022 | 59,077 |
| Bank loans – secured | 3.35 – 4.90 | 2022 | 98,481 |
| | | | 157,558 |
| Non-current | | | |
| Bank loans – secured | 4.90 | 2023 – 2030 | 45,808 |
| Analysed into: | | | |
| Within one year | | | 157,558 |
| In the second to fifth year, inclusive | | | 22,793 |
| Beyond five years | | | 23,015 |
| Total | | | 203,366 |

| | As at 31 December 2022 | | |
|---|---|---|---|
| | Effective interest rate (%) | Maturity | *RMB'000* |
| Current | | | |
| Bank loans – unsecured | 3.90 – 4.70 | 2023 | 23,548 |
| Bank loans – secured | 3.75 – 4.90 | 2023 | 117,984 |
| | | | 141,532 |
| Non-current | | | |
| Bank loans – unsecured | 4.00 – 4.10 | 2024 | 38,450 |
| Bank loans – secured | 4.90 | 2024 – 2030 | 40,276 |
| | | | 78,726 |
| Analysed into: | | | |
| Within one year | | | 141,532 |
| In the second to fifth year, inclusive | | | 61,465 |
| Beyond five years | | | 17,261 |
| Total | | | 220,258 |

| | As at 30 September 2023 (unaudited) | | |
|---|---|---|---|
| | Effective interest rate (%) | Maturity | *RMB'000* |
| Current | | | |
| Bank loans – unsecured | 3.90 – 4.70 | 2024 | 37,675 |
| Bank loans – secured | 3.85 – 4.90 | 2024 | 120,266 |
| | | | 157,941 |
| Non-current | | | |
| Bank loans – unsecured | 4.00 – 4.10 | 2025 | 28,600 |
| Bank loans – secured | 4.10 – 4.90 | 2025 – 2030 | 35,861 |
| | | | 64,461 |
| Analysed into: | | | |
| Within one year | | | 157,941 |
| In the second to fifth year, inclusive | | | 51,515 |
| Beyond five years | | | 12,946 |
| | | | 222,402 |

*Notes:*

The Group's bank loans as at 31 December 2021 were denominated in RMB and secured by:

(i) Mortgages over Group's buildings which had a net carrying amount of RMB172,977,000 as at 31 December 2021;

(ii) Mortgages over Group's leasehold land which had a net carrying amount of RMB308,000 as at 31 December 2021; and

(iii) The pledge of certain of the Group's bill receivables amounting to RMB17,353,000 as at 31 December 2021.

In addition, the Company's shareholder, Hangzhou Huasheng Pharmaceutical Group Co., Ltd. (杭州華昇醫藥集團有限公司), formerly known as "杭州華東醫藥集團控股有限公司", has guaranteed certain of the Group's bank loans up to RMB42,000,000 at 31 December 2021. A third party, Hangzhou Hi Tech Financing Guarantee Co., Ltd. (杭州高科技融資擔保有限公司), has guaranteed certain of the Group's bank loans up to RMB10,000,000 at 31 December 2021.

The Group's bank loans as at 31 December 2022 were denominated in RMB and secured by:

(i) Mortgages over Group's buildings which had a net carrying amount of RMB196,601,000 as at 31 December 2022;

(ii) Mortgages over Group's leasehold land which had a net carrying amount of RMB154,000 as at 31 December 2022; and

(iii) The pledge of certain of the Group's bill receivables amounting to RMB1,263,000 as at 31 December 2022.

In addition, Hangzhou Huasheng Pharmaceutical Group Co., Ltd. has guaranteed certain of the Group's bank loans up to RMB42,000,000 at 31 December 2022.

The Group's bank loans as at 30 September 2023 were denominated in RMB and secured by:

(i) Mortgages over Group's buildings which had a net carrying amount of RMB187,955,000 (unaudited) as at 30 September 2023; and

(ii) Mortgages over Group's leasehold land which had a net carrying amount of RMB39,000 (unaudited) as at 30 September 2023.

In addition, Hangzhou Huasheng Pharmaceutical Group Co., Ltd. has guaranteed certain of the Group's bank loans up to RMB42,000,000 at 30 September 2023.

## 23. CONTRACT LIABILITIES

**Group**

Details of contract liabilities are as follows:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Short-term advances received from customers | 2,621 | 1,923 | 1,794 |
| Sales rebates* | 18,592 | 14,257 | 1,781 |
| | 21,213 | 16,180 | 3,575 |

**Company**

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Short-term advances received from customers | 2,616 | 1,923 | 1,794 |
| Sales rebates* | 18,592 | 14,257 | 1,781 |
| | 21,208 | 16,180 | 3,575 |

* Sales rebates represent the amounts of rebates that have been accrued but not yet paid.

The contract liabilities primarily relate to the Group's obligations to sale of goods for which the Group has received the consideration from the customers.

## 24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods and the nine months ended 30 September 2023 are as follows:

**Deferred tax assets**

| | Provision for inventories *RMB'000* | Impairment losses on financial assets *RMB'000* | Tax losses *RMB'000* | Lease liabilities *RMB'000* | Accrued expenses and others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|---|
| At 1 January 2021 | 189 | 262 | – | 11 | 5,295 | 5,757 |
| Deferred tax credited/(charged) to profit or loss during the year *(note 10)* | 56 | (21) | 4,326 | 85 | (3,940) | 506 |
| Gross deferred tax assets at 31 December 2021 and 1 January 2022 | 245 | 241 | 4,326 | 96 | 1,355 | 6,263 |
| Deferred tax credited/(charged) to profit or loss during the year *(note 10)* | 138 | 70 | 4,690 | (47) | 5,458 | 10,309 |
| Gross deferred tax assets at 31 December 2022 and 1 January 2023 | 383 | 311 | 9,016 | 49 | 6,813 | 16,572 |
| Deferred tax credited/(charged) to profit or loss during the period *(note 10)* | (149) | 220 | (4,542) | 285 | (5,548) | (9,734) |
| Gross deferred tax assets at 30 September 2023 (unaudited) | 234 | 531 | 4,474 | 334 | 1,265 | 6,838 |

**Deferred tax liabilities**

| | Depreciation of equipment | Right-of-use assets | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2021 | 11,563 | 17 | 11,580 |
| Deferred tax charged to profit or loss during the year *(note 10)* | 7,887 | 83 | 7,970 |
| Gross deferred tax liabilities at 31 December 2021 and 1 January 2022 | 19,450 | 100 | 19,550 |
| Deferred tax charged/(credited) to profit or loss during the year *(note 10)* | 1,914 | (53) | 1,861 |
| Gross deferred tax liabilities at 31 December 2022 and 1 January 2023 | 21,364 | 47 | 21,411 |
| Deferred tax charged/(credited) to profit or loss during the period *(note 10)* | (540) | 310 | (230) |
| Gross deferred tax liabilities at 30 September 2023 (unaudited) | 20,824 | 357 | 21,181 |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statements of financial position. The following is an analysis of the deferred tax balances of the Group for reporting purposes:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* *(unaudited)* |
| Net deferred tax assets recognised in the consolidated statement of financial position | – | – | – |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | 13,287 | 4,839 | 14,343 |

The Group has tax losses of approximately RMB28,840,000, RMB60,104,000 and RMB29,827,000 (unaudited) as at 31 December 2021 and 2022 and 30 September 2023 arising in Chinese Mainland, respectively, that will expire in one to ten years for offsetting against future taxable profits.

There are no income tax consequences attaching to the payments of dividends by the Company to its shareholders.

## 25. PAID-IN CAPITAL

**Group and Company**

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Issued and fully paid | 53,446 | 53,446 | 53,446 |

## 26. RESERVES

**Group**

The amounts of the Group's reserves and the movements therein for the Relevant Periods and the nine months ended 30 September 2023 are presented in the consolidated statements of changes in equity.

***Capital reserve***

Capital reserve comprises contributions by shareholders at the respective dates.

***Share award reserve***

The share award reserve of the Group represents the fair value of equity-settled share-based payments as details presented in note 27.

***Surplus reserves***

In accordance with the Company Law of the PRC, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the relevant PRC accounting standards, to its statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to increase share capital, provided that the remaining balance after the conversion is not less than 25% of the registered capital.

In addition to the above statutory surplus reserve, the Company may, subject to the articles of association, draw 5% of its profit after tax to its enterprise development reserve.

Both statutory surplus reserve and enterprise development reserve are included in surplus reserve.

**Company**

| | Capital reserve *RMB'000* | Share award reserve *RMB'000* | Surplus reserve *RMB'000* | Retained profits *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|---|
| At 1 January 2021 | 36,842 | 1,841 | 103,781 | 402,667 | 545,131 |
| Profit and total comprehensive income for the year | – | – | – | 119,412 | 119,412 |
| Transfer to surplus reserve | – | – | 17,913 | (17,913) | – |
| Equity-settled share award arrangements | – | 147 | – | – | 147 |
| At 31 December 2021 and 1 January 2022 | 36,842 | 1,988 | 121,694 | 504,166 | 664,690 |
| Profit and total comprehensive income for the year | – | – | – | 59,865 | 59,865 |
| Transfer to surplus reserve | – | – | 8,980 | (8,980) | – |
| Equity-settled share award arrangements | – | 180 | – | – | 180 |
| Dividend declared *(note 11)* | – | – | – | (12,000) | (12,000) |
| As at 31 December 2022 and 1 January 2023 | 36,842 | 2,168 | 130,674 | 543,051 | 712,735 |
| Profit and total comprehensive income for the period (unaudited) | – | – | – | 111,198 | 111,198 |
| Equity-settled share award arrangements (unaudited) | – | 10,326 | – | – | 10,326 |
| At 30 September 2023 (unaudited) | 36,842 | 12,494 | 130,674 | 654,249 | 834,259 |

## 27. SHARE-BASED PAYMENTS

In December 2006, the Company has adopted an employee incentive scheme (the "**Old Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company's operations. Eligible participants of the Old Scheme include the Company's directors, senior management and other employees.

As set out in the section headed "History, Development and Corporate Structure" of the Document, Hangzhou Weitai was established on 7 December 2006 by certain members of the then directors, management and key employees of the Company as a long-term equity incentive platform under the Old Scheme. Hangzhou Weitai held approximately 10.00% shares of the Company. To simplify and enhance the management of employee shareholding in the Company, the Company adopted some nominee shareholding arrangements. These granted shares of Hangzhou Weitai will be vested in accordance with both service periods and non-market performance conditions.

On 31 July 2023, in order to dissolve the historical nominee shareholding arrangements on Old Scheme, Hangzhou Weitai transferred (i) the equity interests in registered capital of US$48,909 previously held on behalf of Mr. Wu Qiyuan, back to himself; (ii) the equity interests in registered capital of US$374,646 previously held on behalf of other employees to Qingfanghao and Chengheda, two employee shareholding platforms established by the beneficial employees. The service periods and non-market performance conditions under the Old Scheme were cancelled. The shares of Mr. Wu Qiyuan, Qingfanghao and Chengheda were deemed vested immediately. During the Relevant Periods and the nine months ended 30 September 2022 and 2023, share award expenses under the Old Scheme of RMB147,000, RMB180,000, RMB135,000 (unaudited) and RMB270,000 (unaudited), respectively, were charged to profit or loss.

On 31 July 2023, the Company approved and adopted a new employee incentive scheme (the "**New Scheme**"). To allocate the reserved equity interests in Hangzhou Weitai to employees, Hangzhou Weitai transferred (i) the equity interests in registered capital of USD78,225 to Mr. Li Bangliang was regarded as awarded shares to compensate his past contribution to the Group as a director, and one-off share award expense of RMB8,984,000 (unaudited) was charged to profit or loss during the nine months ended 30 September 2023; and (ii) the equity interests in registered capital of US$169,226 to Nanbeiju, an employee shareholding platform under the New Scheme, for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company's operations. Eligible participants of the New Scheme include the Company's directors, senior management and other employees.

The above shares granted to (ii) employees under the New Scheme shall be vested and exercisable at the earlier of: (a) 25% of total number of shares granted after the completion of the **[REDACTED]** of H shares by the Company and the expiration of the corresponding restriction period, and the remaining 25%, 25% and 25% of the total number of the shares granted shall be vested and exercisable on the second, third and fourth anniversaries of the expiration date of the restriction period; and (b) when the grantees served in the Company for five consecutive years after the grant date. During the nine months ended 30 September 2023, share award expense under the New Scheme of RMB1,072,000 (unaudited) was charged to profit or loss.

The fair value of services received in return for shares granted to employees under the New Scheme and Mr. Li Bangliang was measured by reference to the fair value of shares granted and the subscription price paid by employees and Mr. Li Bangliang. The discounted cash flow method were used to determine the underlying equity fair value of the Company. The key input into the model at the grant date was weighted average cost of capital ("**WACC**"), which was 10.85%.

## 28. COMMITMENTS

The Group had the following contracted commitments at the end of each of the Relevant Periods and the nine months ended 30 September 2023:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Property, plant and equipment | 13,134 | 4,114 | 3,587 |

## 29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Major non-cash transactions

(i) During the years ended 31 December 2021 and 2022 and the nine months ended 30 September 2023, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB860,000, nil and RMB2,507,000 (unaudited), respectively, in respect of lease arrangements for office premises and warehouses.

(ii) The Group discounted certain bills receivable to certain banks in Chinese Mainland (the "**Discounted Bills**") to collect cash timely. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Discounted Bills, and accordingly, it continued to recognise the full carrying amounts of the Discounted Bills and the associated bank borrowings. As the Discounted Bills were in maturity, the Group had non-cash settlement to bills receivable and bank borrowings of RMB67,291,000, RMB17,353,000 and RMB1,263,000 (unaudited) during the Relevant Periods and the nine months ended 30 September 2023, respectively.

**(b) Changes in liabilities arising from financing activities**

| | Interest-bearing bank borrowings | Lease liabilities | Accrued [REDACTED] expenses | Total |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2021 | 219,410 | 76 | **[REDACTED]** | 219,486 |
| Changes from financing cash flows | 41,552 | (324) | **[REDACTED]** | 41,228 |
| Non-cash settlement | (67,291) | – | **[REDACTED]** | (67,291) |
| Interest expense | 9,695 | 25 | **[REDACTED]** | 9,720 |
| New leases | – | 860 | **[REDACTED]** | 860 |
| At 31 December 2021 and 1 January 2022 | 203,366 | 637 | **[REDACTED]** | 204,003 |
| Changes from financing cash flows | 25,225 | (333) | **[REDACTED]** | 24,892 |
| Non-cash settlement | (17,353) | – | **[REDACTED]** | (17,353) |
| Interest expense | 9,020 | 22 | **[REDACTED]** | 9,042 |
| As at 31 December 2022 and 1 January 2023 | 220,258 | 326 | **[REDACTED]** | 220,584 |
| Changes from financing cash flows | (3,715) | (637) | **[REDACTED]** | (8,115) |
| Changes from operating cash flows | – | – | **[REDACTED]** | (4,345) |
| **[REDACTED]** expenses | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| Deferred **[REDACTED]** expenses | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| Non-cash settlement | (1,263) | – | **[REDACTED]** | (1,263) |
| Interest expense | 7,122 | 32 | **[REDACTED]** | 7,154 |
| New leases | – | 2,507 | **[REDACTED]** | 2,507 |
| As at 30 September 2023 (unaudited) | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

**(c) Total cash outflow for leases**

The total cash outflow for leases included in the statements of cash flows is as follows:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* *(unaudited)* | *RMB'000* *(unaudited)* |
| Within operating activities | 1,202 | 1,332 | 713 | 793 |
| Within financing activities | 324 | 333 | 250 | 637 |
| | 1,526 | 1,665 | 963 | 1,430 |

**30. PLEDGE OF ASSETS**

Details of the Group's assets pledged for the Group's bank loans are included in notes 13, 14, 17, 19 and 22, respectively, to the Historical Financial Information.

## 31. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods and the nine months ended 30 September 2022 and 2023:

| | | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|---|
| | *Notes* | **2021** | **2022** | **2022** | **2023** |
| | | *RMB'000* | *RMB'000* | *RMB'000* (unaudited) | *RMB'000* (unaudited) |
| Shareholder: | | | | | |
| The research and development and other services | *(i)* | 38,735 | 20,300 | 7,500 | 47,213 |
| Rental income | *(ii)* | 1,960 | – | – | – |
| The holding company of a shareholder: | | | | | |
| Sales of products | *(iii)* | 32,304 | 59,861 | 47,365 | 45,706 |
| Purchases of raw materials | *(iii)* | 3,398 | 4,260 | 3,067 | 2,330 |
| Purchases of devices | *(iii)* | 8,101 | 2,055 | 2,033 | 1,988 |
| Rental charges | *(ii)* | 64 | 64 | 64 | 64 |
| The entities controlled by the holding company of a shareholder: | | | | | |
| Sales of products | *(iii)* | 25,932 | 10,993 | 8,825 | 8,477 |
| Purchases of raw materials | *(iii)* | 175 | 424 | 424 | 2 |

*Notes:*

(i) The research and development and other services to the shareholder were provided according to the agreed prices and conditions offered to the major customers of the Group.

(ii) The rental with the shareholder and the holding company of a shareholder were made according to the agreed prices.

(iii) The purchases from and sales to the related parties were made according to the agreed prices between the Group and its major customers and suppliers.

(b) Other transactions with related parties:

The Company's shareholder, Hangzhou Huasheng Pharmaceutical Group Co., Ltd. has guaranteed certain of the Group's bank loans up to RMB42,000,000, RMB42,000,000 and RMB42,000,000 as at 31 December 2021 and 2022 and 30 September 2023, respectively.

(c) Outstanding balances with related parties:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Due to related parties: | | | |
| The holding company of a shareholder | 360 | 898 | 820 |
| The entities controlled by the holding company of a shareholder | 36 | – | – |
| | 396 | 898 | 820 |
| Due from related parties: | | | |
| Shareholders | 1,028 | 30 | 19,366 |
| The holding company of a shareholder | 6,951 | 15,510 | 24,134 |
| The entities controlled by the holding company of a shareholder | 3,426 | 3,923 | 3,999 |
| Other related party | 5,247 | 5,272 | 5,243 |
| | 16,652 | 24,735 | 52,742 |

*Note:* The above balances with related parties are trade-in-nature, unsecured and interest-free.

(d) Compensation of key management personnel of the Group:

| | Year ended 31 December | | Nine months ended 30 September | |
|---|---|---|---|---|
| | 2021 | 2022 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* | *(unaudited)* |
| Salaries, bonuses, allowances and benefits in kind | 5,533 | 7,604 | 5,703 | 4,757 |
| Pension scheme contributions | 199 | 212 | 159 | 141 |
| Equity-settled share award expense | 46 | 56 | 42 | 9,273 |
| Total compensation paid to key management personnel | 5,778 | 7,872 | 5,904 | 14,171 |

Further details of directors', supervisors' and the chief executive's remuneration are included in note 8 to the Historical Financial Information.

## 32. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods and 30 September 2023 are as follows:

**Financial assets**

As at 31 December 2021

| | **Financial assets at fair value through other comprehensive income** | **Financial assets at amortised cost** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables | 32,973 | 377,332 | 410,305 |
| Financial assets included in prepayments, other receivables and other assets | – | 3,231 | 3,231 |
| Due from related parties | – | 16,652 | 16,652 |
| Cash and cash equivalents | – | 94,829 | 94,829 |
| Restricted bank deposits | – | 377 | 377 |
| | 32,973 | 492,421 | 525,394 |

As at 31 December 2022

| | **Financial assets at fair value through other comprehensive income** | **Financial assets at amortised cost** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables | 44,441 | 430,061 | 474,502 |
| Financial assets included in prepayments, other receivables and other assets | – | 4,239 | 4,239 |
| Due from related parties | – | 24,735 | 24,735 |
| Cash and cash equivalents | – | 71,540 | 71,540 |
| Restricted bank deposits | – | 378 | 378 |
| | 44,441 | 530,953 | 575,394 |

As at 30 September 2023 (unaudited)

| | Financial assets at fair value through other comprehensive income | Financial assets at amortised cost | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables | 43,303 | 552,542 | 595,845 |
| Financial assets included in prepayments, other receivables and other assets | – | 4,741 | 4,741 |
| Due from related parties | – | 52,742 | 52,742 |
| Cash and cash equivalents | – | 49,383 | 49,383 |
| Restricted bank deposits | – | 20 | 20 |
| | 43,303 | 659,428 | 702,731 |

**Financial liabilities**

As at 31 December 2021

| | Financial liabilities at amortised cost |
|---|---|
| | *RMB'000* |
| Trade payables | 66,449 |
| Financial liabilities included in other payables and accruals | 99,440 |
| Due to related parties | 396 |
| Interest-bearing bank borrowings | 203,366 |
| | 369,651 |

As at 31 December 2022

| | Financial liabilities at amortised cost |
|---|---|
| | *RMB'000* |
| Trade payables | 51,646 |
| Financial liabilities included in other payables and accruals | 84,710 |
| Due to related parties | 898 |
| Interest-bearing bank borrowings | 220,258 |
| | 357,512 |

As at 30 September 2023 (unaudited)

| | Financial liabilities at amortised cost |
|---|---|
| | *RMB'000* |
| Trade payables | 48,518 |
| Financial liabilities included in other payables and accruals | 94,759 |
| Due to related parties | 820 |
| Interest-bearing bank borrowings | 222,402 |
| | 366,499 |

## 33. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

| | Carrying amounts | | | Fair values | | |
|---|---|---|---|---|---|---|
| | As at 31 December | | As at 30 September | As at 31 December | | As at 30 September |
| | 2021 | 2022 | 2023 | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* | *RMB'000* | *RMB'000* | *RMB'000 (unaudited)* |
| **Financial liabilities** | | | | | | |
| Interest-bearing bank borrowings | 203,366 | 220,258 | 222,402 | 204,515 | 221,378 | 223,630 |

The fair values of the non-current portion of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

Management has assessed that the fair values of cash and cash equivalents, financial assets included in prepayments, other receivables and other assets, amount due from related parties, trade and bills receivables, trade payables, the current portion of interest-bearing bank borrowings, amount due to related parties and financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the financial controller is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the financial controller. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the financial controller. The valuation process and results are discussed with the directors of the Company periodically for financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair value of those not traded in an active market is determined by the Group using valuation techniques. The valuation model used is discounted cash flow model. The input of the valuation technique is future cash flows.

**Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2021

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables | – | 32,973 | – | 32,973 |

As at 31 December 2022

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables | – | 44,441 | – | 44,441 |

As at 30 September 2023 (unaudited)

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade and bills receivables | – | 43,303 | – | 43,303 |

Liability for which fair value is disclosed:

As at 31 December 2021

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** *RMB'000* | **Significant observable inputs (Level 2)** *RMB'000* | **Significant unobservable inputs (Level 3)** *RMB'000* | **Total** *RMB'000* |
| Interest-bearing bank borrowings | – | 204,515 | – | 204,515 |

As at 31 December 2022

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** *RMB'000* | **Significant observable inputs (Level 2)** *RMB'000* | **Significant unobservable inputs (Level 3)** *RMB'000* | **Total** *RMB'000* |
| Interest-bearing bank borrowings | – | 221,378 | – | 221,378 |

As at 30 September 2023 (unaudited)

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** *RMB'000* | **Significant observable in puts (Level 2)** *RMB'000* | **Significant unobservable in puts (Level 3)** *RMB'000* | **Total** *RMB'000* |
| Interest-bearing bank borrowings | – | 223,630 | – | 223,630 |

During the Relevant Periods and nine months ended 30 September 2023, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

## 34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, financial assets at fair value through other comprehensive income and interest-bearing bank borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, other receivables, trade payables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. To keep the Group's exposure to these risks at a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors of the Company review and agree policies for managing each of these risks and they are summarised below.

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

After the assessment, the directors of the Company consider the Group's exposure to interest risk is not significant.

**Foreign currency risk**

The Group's businesses are principally located in Chinese Mainland and substantially all transactions are conducted in RMB, except for the sales of goods to overseas market. The fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. However, in the opinion of the directors, the foreign currency risk exposure is not significant and under management's control.

**Credit risk**

The Group is exposed to credit risk in relation to its cash and cash equivalents, amounts due from related parties, trade and bills receivables and financial assets included in prepayments, other receivables and other assets. The carrying amounts of each class of the above financial assets represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an on-going basis.

**Maximum exposure and year-end staging**

The tables below show the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on ageing information unless other information is available without undue cost or effort, and year-end staging classification. The amounts presented are gross carrying amounts for financial assets.

| **31 December 2021** | **12-month ECLs** | **Lifetime ECLs** | | | |
|---|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Simplified approach** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables* | – | – | – | 342,522 | 342,522 |
| Prepayments, other receivables and other assets – Normal** | 3,771 | – | – | – | 3,771 |
| Due from related parties | – | – | – | 16,652 | 16,652 |
| Cash and cash equivalents | 94,829 | – | – | – | 94,829 |
| Restricted bank deposits | 377 | – | – | – | 377 |
| | 98,977 | – | – | 359,174 | 458,151 |

| 31 December 2022 | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified approach | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables* | – | – | – | 412,182 | 412,182 |
| Prepayments, other receivables and other assets – Normal** | 4,779 | – | – | – | 4,779 |
| Due from related parties | – | – | – | 24,735 | 24,735 |
| Cash and cash equivalents | 71,540 | – | – | – | 71,540 |
| Restricted bank deposits | 378 | – | – | – | 378 |
| | 76,697 | – | – | 436,917 | 513,614 |

| 30 September 2023 (unaudited) | 12-month ECLs | Lifetime ECLs | | | |
|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Simplified approach | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade receivables* | – | – | – | 530,659 | 530,659 |
| Prepayments, other receivables and other assets – Normal** | 5,436 | – | – | – | 5,436 |
| Due from related parties | – | – | – | 52,742 | 52,742 |
| Cash and cash equivalents | 49,383 | – | – | – | 49,383 |
| Restricted bank deposits | 20 | – | – | – | 20 |
| | 54,839 | – | – | 583,401 | 638,240 |

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 17 to the Historical Financial Information.

** The credit quality of financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 17 to the Historical Financial Information.

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management of the Group to finance the operations and mitigate the effects of fluctuations in cash flows.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods and the nine months ended 30 September 2023, based on the contractual undiscounted payments, is as follows:

| | As at 31 December 2021 | | | | |
|---|---|---|---|---|---|
| | **On demand** | **Within 1 year** | **1 to 5 years** | **Over 5 years** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | – | 66,449 | – | – | 66,449 |
| Financial liabilities included in other payables and accruals | 99,440 | – | – | – | 99,440 |
| Due to related parties | – | 396 | – | – | 396 |
| Lease liabilities | – | 333 | 333 | – | 666 |
| Interest-bearing bank borrowings | – | 161,257 | 29,829 | 25,318 | 216,404 |
| | 99,440 | 228,435 | 30,162 | 25,318 | 383,355 |

| | As at 31 December 2022 | | | | |
|---|---|---|---|---|---|
| | **On demand** | **Within 1 year** | **1 to 5 years** | **Over 5 years** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | – | 51,646 | – | – | 51,646 |
| Financial liabilities included in other payables and accruals | 84,710 | – | – | – | 84,710 |
| Due to related parties | – | 898 | – | – | 898 |
| Lease liabilities | – | 333 | – | – | 333 |
| Interest-bearing bank borrowings | – | 145,746 | 69,830 | 18,565 | 234,141 |
| | 84,710 | 198,623 | 69,830 | 18,565 | 371,728 |

| | As at 30 September 2023 (unaudited) | | | | |
|---|---|---|---|---|---|
| | **On demand** | **Within 1 year** | **1 to 5 years** | **Over 5 years** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Trade payables | – | 48,518 | – | – | 48,518 |
| Financial liabilities included in other payables and accruals | 94,759 | – | – | – | 94,759 |
| Due to related parties | – | 820 | – | – | 820 |
| Lease liabilities | – | 931 | 1,428 | – | 2,359 |
| Interest-bearing bank borrowings | – | 162,065 | 57,389 | 13,633 | 233,087 |
| | 94,759 | 212,334 | 58,817 | 13,633 | 379,543 |

**Capital management**

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group monitors capital by regularly reviewing the capital structure. As a part of this review, the Group considers the cost of capital and the risks associated with the issued share capital. The Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or repurchase the Company's shares.

The Group monitors capital using a gearing ratio, which is total liabilities divided by total assets. The gearing ratios as at the end of each of the Relevant Periods and the nine months ended 30 September 2023 were as follows:

| | As at 31 December | | As at 30 September |
|---|---|---|---|
| | 2021 | 2022 | 2023 |
| | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(unaudited)* |
| Total liabilities | 465,063 | 447,396 | 444,870 |
| Total assets | 1,183,200 | 1,213,580 | 1,332,577 |
| Gearing ratio | 39% | 37% | 33% |

## 35. EVENT AFTER THE RELEVANT PERIODS

Pursuant to the promoters' agreement dated 13 November 2023, the then shareholders of the Company agreed to convert the Company into a joint stock limited liability company. The net asset value of the Company as at 31 August 2023 ("**conversion base date**") was approximately RMB881,430,000, of which (i) RMB200,000,000 was converted to 200,000,000 shares with par value of RMB1.00 per share; and (ii) the remaining amount of approximately RMB681,430,000 was converted into capital reserve. The above conversion was completed on 5 December 2023.

## 36. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, the Group or its subsidiary in respect of any period subsequent to 30 September 2023.

[**REDACTED**]

[**REDACTED**]

[**REDACTED**]

[REDACTED]

[REDACTED]

## TAXATION OF SECURITY HOLDERS

The taxation of income and capital gains of holders of H Shares is subject to the laws and practices of the PRC and jurisdictions in which holders of H Shares are residents or otherwise subject to tax. The discussion is based upon laws and relevant interpretations in effect as of the Latest Practicable Date, all of which are subject to changes or adjustments and may have retrospective effect, and does not constitute any comments or suggestions accordingly. The discussion does not deal with all possible tax consequences relating to an investment in the H Shares, nor does it take into account the specific circumstances of any particular investors, some of whom may be subject to special regulation. Accordingly, prospective [**REDACTED**] should consult their own tax advisers regarding the tax consequences of an investment in the H Shares.

This discussion does not address any aspects of PRC or Hong Kong taxation other than income tax, capital gains and profit tax, business tax/appreciation tax, stamp duty and estate duty. Prospective [**REDACTED**] should consult their own advisers regarding PRC, Hong Kong and other tax consequences of purchasing, owning and disposing of the H Shares.

## TAXATION IN THE PRC

### Taxation on dividends

#### *Individual investors*

According to the Individual Income Tax Law of the PRC (中華人民共和國個人所得税法) (the "**IIT Law**") that was promulgated on 10 September 1980 and amended on 31 August 2018 by the Standing Committee of the National People's Congress and came into effect on 1 January 2019, and the Regulations for the Implementation of the IIT Law (中華人民共和國個人所得税法實施條例), that were amended by the State Council on 18 December 2018 and came into effect on 1 January 2019, dividends paid by PRC companies to individual investors are generally subject to a withholding tax at a flat rate of 20%. At the same time, according to the Notice on Issues Concerning Differentiated IIT Policies for Dividends and Bonuses of Listed Companies (關於上市公司股息紅利差別化個人所得税政策有關問題的通知) (Cai Shui [2015] No. 101) issued by the MOF, the SAT and CRSC on 7 September 2015, where an individual acquires stocks of a listed company from public offering of the company or from the stock transfer market and holds the stocks for more than one year, the income from dividends is exempt from IIT; where an individual acquires stocks of a listed company from public offering of the company or from the stock transfer market and holds the stocks for one month or less, the full amount of such income from dividends shall be included in taxable income; if the individual holds the stocks for one month to one year, 50% of such income from dividends shall be included in taxable income; the aforesaid income is subject to an IIT at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, the receipt of dividends from a PRC company is normally subject to IIT of 20% unless specifically exempted by an authority of the State Council or reduced by an applicable tax treaty. As stated in "Risk Factors — Risks Related to Conducting Business in the PRC — We are a PRC enterprise and are subject to PRC taxation on our worldwide income, and both dividends payable to investors and

investors' proceeds from the sale of H Shares are subject to PRC taxation", in fact, the withholding tax rate for dividends of non-resident individuals may be lower than 20% under a number of circumstances.

Pursuant to the Arrangement between the Mainland PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income signed on 21 August 2006, the PRC government may impose tax on dividends paid by a PRC company to a Hong Kong resident (including natural person and legal entity), but such tax will not exceed 10% of the total amount of the dividends payable. The Fifth Protocol to the Arrangement between the Mainland PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income issued by the State Administration of Taxation, effective on 6 December 2019, stipulates that the arrangements or transactions made for the primary purpose of obtaining the above-mentioned tax benefits are not subject to the above-mentioned provisions.

***Enterprise Investors***

In accordance with the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法》) (the "**EIT Law**"), which was latest amended and came into effect on 29 December 2018, and the Implementation Provisions for the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得税法實施條例》), which was latest amended and came into effect on 23 April 2019, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income (including dividends received from a PRC resident enterprise whose shares are offered and listed in Hong Kong), if such non-resident enterprise does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but the PRC-sourced income is not connected with such establishment or premise in the PRC. The aforesaid income tax payable by a non-resident enterprise must be withheld at source, and the payer of the income is the withholding obligator. Such withholding tax may be reduced pursuant to applicable treaties to avoid double taxation.

The Notice of the Issues Concerning Withholding EIT on the Dividends Distributed by PRC Resident Enterprises to Overseas H-share Non-PRC Resident Enterprise Shareholders (國家税務總局關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得税有關問題的通知) that was promulgated by the SAT and came into effect on 6 November 2008, further clarifies that with regard to dividends distributed from profits generated after 1 January 2008, PRC resident enterprises must withhold and pay enterprise income tax at a tax rate of 10% on dividends distributed to H-share non-PRC resident enterprise shareholders. The Reply of the Imposition of Enterprise Income Tax on B-share and Other Dividends of Non-resident Enterprises (關於非居民企業取得B股等股票股息徵收企業所得税問題的批覆) that was promulgated by the SAT on 24 July 2009, further provides that any PRC resident enterprise listed on any overseas stock exchange must withhold enterprise income tax at a rate of 10% on dividends distributed to non-PRC resident enterprise shareholders. Such tax rates may be further changed pursuant to the tax treaty or agreement that the PRC has concluded with relevant jurisdictions, where applicable.

Pursuant to the Arrangement between the Mainland PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of

Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排) signed on 21 August 2006, the PRC government may impose tax on dividends paid by a PRC company to a Hong Kong resident (including natural person and legal entity), but such tax shall not exceed 10% of the total amount of the dividends payable. If a Hong Kong resident directly holds 25% or more of the equity interest in a PRC company, such tax shall not exceed 5% of the total dividends payable by the PRC company. The Fifth Protocol to the Arrangement between the Mainland PRC and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income issued by the SAT (《內地和香港特別行政區關於對所得避免雙重徵税和防止偷漏税的安排》第五議定書) effective on 6 December 2019 stipulates that the arrangements or transactions made for the primary purpose of obtaining the above-mentioned tax benefits are not subject to the above-mentioned provisions.

*Tax treaties*

Non-PRC resident investors residing in countries that have entered into treaties for the avoidance of double taxation with the PRC or residing in Hong Kong or Macau Special Administrative Region are entitled to preferential tax rates on dividends received by such investors from the PRC companies. The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau Special Administrative Region, respectively, and has entered into treaties for the avoidance of double taxation with certain other countries, including but not limited to Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States. A non-PRC resident enterprise entitled to a preferential tax rate under a relevant income tax treaty or arrangement may apply to the PRC tax authorities for a refund of the difference between the amount of tax withheld and the amount of tax calculated according to the treaty rate.

**Taxation on income from transfer of equity**

*Individual investors*

According to the IIT Law and its implementation regulations, individuals shall pay the IIT at the rate of 20% on their income from the sale of equity in PRC resident enterprises. In accordance with the Circular of the Declaring that IIT Continues to Be Exempted over Income of Individuals from Transfer of Shares (財政部及國家税務總局關於個人轉讓股票所得繼續暫免徵收個人所得税的通知) (the "**Circular 61**") that was promulgated by the MOF and the SAT on 30 March 1998, from 1 January 1997, income of individuals from the transfer of shares of listed companies remain exempt from IIT. According to the Announcement about the Catalogue of Preferential IIT Policies with Continued Effect (財政部、國家税務總局關於繼續有效的個人所得税優惠政策目錄的公告) promulgated by the MOF and the SAT on 29 December 2018 (MOF and SAT Announcement [2018] No. 177), Circular 61 will remain effective.

*Enterprise Investors*

In accordance with the EIT Law and its implementation provisions, a non-resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income,

including gains derived from the disposal of equity interests in a PRC resident enterprise, if it does not have an establishment or premise in the PRC or has an establishment or premise in the PRC but the PRC-sourced income is not connected in reality with such establishment or premise. The aforesaid income tax payable by a non-resident enterprise must be withheld at source, and the payer of the income is the withholding obligator. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

***Tax policies for Shanghai — Hong Kong Stock Connect***

Pursuant to the Announcement on Continued Implementation of IIT Policies Relating to Interconnection Mechanism for Transactions in Shanghai — Hong Kong Stock Markets and Shenzhen — Hong Kong Stock Markets and Mutual Recognition of Funds Between Mainland PRC and Hong Kong (關於繼續執行滬港、深港股票市場交易互聯互通機制和內地與香港基金互認有關個人所得稅政策的公告) (MOF Announcement [2019] No. 93) that came into effect on 5 December 2019, from 5 December 2019 to 31 December 2022, the income from the transfer price difference obtained by Mainland PRC individual investors investing in stocks listed on the Hong Kong Stock Exchange through Shanghai-Hong Kong Stock Connect is exempt from IIT. Pursuant to the "Circular of the MOF, SAT and China Securities Regulatory Commission on the Relevant Taxation Policies for the Pilot Interconnected Mechanism for Trading in the Stock Markets of Hong Kong and Shanghai" that came into effect on 17 November 2014, in respect of dividends and bonuses received by mainland PRC individual investors from investing in the H shares listed on the Hong Kong Stock Exchange through the Shanghai-Hong Kong Stock Connect, the H share company should submit an application to China Securities Depository and Clearing Company Limited (the "**CSDC**"), whereby the CSDC will provide a list of the mainland PRC individual investors to the H share company, and the H share company will deduct the IIT on behalf of the mainland PRC individual at the tax rate of 20%.

Pursuant to the "Circular of the MOF, SAT and China Securities Regulatory Commission on the Relevant Taxation Policies for the Pilot Interconnected Mechanism for Trading in the Stock Markets of Hong Kong and Shanghai" (Cai Shui [2014] No. 81) that came into effect on 17 November 2014, the income derived from the difference in the price of the transfer of the stocks listed on the Hong Kong Stock Exchange obtained by mainland PRC enterprise investors through the Shanghai-Hong Kong Stock Connect shall be counted as part of their gross income and be subject to the enterprise income tax according to the law. Income tax will be levied in accordance with the law. Among them, dividend and bonus income obtained by mainland PRC resident enterprises from their continuous holding of H shares for 12 months or more is exempted from enterprise income tax in accordance with the law. H share companies do not withhold dividend and bonus income tax on behalf of mainland PRC enterprises in respect of dividend and bonus income obtained by mainland PRC enterprises. The tax payable shall be declared and paid by the enterprise itself.

***Tax policies for Shenzhen — Hong Kong Stock Connect***

Pursuant to the Announcement on Continued Implementation of IIT Policies Relating to Interconnection Mechanism for Transactions in Shanghai — Hong Kong Stock Markets and Shenzhen — Hong Kong Stock Markets and Mutual Recognition of Funds

Between mainland PRC and the Hong Kong that came into effect on 5 December 2019, from 5 December 2019 to 31 December 2022, the income from the transfer price difference obtained by mainland PRC individual investors investing in stocks listed on the Hong Kong Exchanges and Clearing Market through Shenzhen — Hong Kong Stock Connect are temporarily exempted from IIT. Pursuant to the Circular on the Relevant Taxation Policy for the Pilot Programme of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (關於深港股票市場交易互聯互通機制試點有關稅收政策的通知) (Cai Shui [2016] No. 127) which came into effect on 5 December 2016, for dividends and bonus obtained by individual investors of mainland PRC investing in the PRC listed on the Stock Exchange through Shenzhen — Hong Kong Stock Connect, the H share companies shall apply to the CSDC for provision by the CSDC to the H-share companies the register of mainland PRC individual investors, and the H-share companies shall withhold IIT at a rate of 20%.

Pursuant to the Circular on the Relevant Taxation Policy for the Pilot Programme of an Interconnection Mechanism for Transactions in the Shenzhen and Hong Kong Stock Markets (關於深港股票市場交易互聯互通機制試點有關稅收政策的通知) (Cai Shui [2016] No. 127) which came into effect on 5 December 2016, the income from the transfer price difference obtained by enterprise investors of mainland PRC investing in stocks listed on the Stock Exchange through Shenzhen — Hong Kong Stock Connect shall be included in their total income, and the EIT shall be levied on such income in accordance with the law. Among them, dividend and bonus income obtained by mainland PRC enterprise residents from their continuous holding of H shares for 12 months or more is exempted from enterprise income tax in accordance with the law. H share companies do not withhold dividend and bonus income tax on behalf of mainland PRC enterprises in respect of dividend and bonus income obtained by mainland PRC enterprises. The tax payable shall be declared and paid by the enterprise itself.

***Stamp duty in the PRC***

In accordance with the Stamp Duty Law of the PRC (中華人民共和國印花税法) which came into effect on 1 July 2022, (i) entities and individuals that conclude taxable certificates, or conduct securities transactions within the territory of the PRC shall be taxpayers of stamp duty, and shall pay the PRC stamp duty; (ii) entities and individuals who are located outside the territory of the PRC and conclude taxable certificates that are to be used within the territory of the PRC shall pay the PRC stamp duty.

***Estate Duty***

The PRC currently has not imposed any estate duty yet.

***Enterprise income tax***

According to the EIT Law, the EIT rate in the PRC is 25%, which is in line with the rate applicable to foreign-invested enterprises and foreign enterprises.

According to the Administrative Measures for Recognition of High and New-Technology Enterprises that was promulgated by the Ministry of Science and

Technology, the MOF and the SAT on 14 April 2008, amended on 29 January 2016 and came into effect on 1 January 2016, enterprises which are recognized as high and new-tech enterprises could apply for a preferential EIT rate of 15% in accordance with the EIT Law. According to the Notice Regarding the Promotion of the Income Tax Policy for Technologically Advanced Service Enterprises to the Whole Country that was promulgated by the MOF, the SAT, the MOFCOM, the Ministry of Science and Technology, and the NDRC on 2 November 2017 and came into effect on 1 January 2018, upon recognition, technologically advanced service enterprises are entitled to a reduced rate of 15% for the EIT nationwide. The education expenditures of employees in recognized technologically advanced service enterprises that do not exceed 8% of the total wages and salaries can be deducted from the taxable income. The excess is allowed to be carried forward for deduction in subsequent tax years.

***Value-added tax ("VAT")***

Pursuant to the Provisional Regulations on VAT of the PRC (中華人民共和國增值税暫行條例) promulgated by the State Council on 13 December 1993 and amended and came into effect on 19 November 2017, all organisations and individuals engaged in sales of goods, provision of processing, repairs and replacement services, or import of goods within the territory of the PRC are subject to VAT. For taxpayers selling or importing goods, except as otherwise provided in the above regulations, the general tax rate is 17%.

Pursuant to the Notice on the Full Implementation of Pilot Program for Transition from Business Tax to VAT (《關於全面推開營業税改徵增值税試點的通知》) (Cai Shui [2016] No. 36) promulgated by the MOF and the SAT on 23 March 2016 and coming into effect on 1 May 2016, upon approval of the State Council, the pilot programme of replacing business tax with VAT will be promoted nationwide from 1 May 2016. All business tax taxpayers in the construction industry, the real estate industry, the financial industry, and the living service industry are included in the scope of the pilot programme, and the payment of business tax will be replaced by the payment of VAT. Pursuant to the Measures for the Implementation of the Pilot Programme of Replacing Business Tax with VAT (營業税改徵增值税試點實施辦法) that was issued and came into effect at the same time with the aforementioned notice, the tax rates applied to taxpayers for selling services, intangible assets or real estates shall be 17%, 11%, 6% and zero, respectively.

Pursuant to the Notice on Adjusting VAT Rates (關於調整增值税税率的通知) (Cai Shui [2018] No. 32) that was promulgated by the MOF and the SAT on 4 April 2018 and came into effect on 1 May 2018, for taxpayers engaging in taxable sales or import of goods, the previously applicable VAT rates of 17% and 11% are adjusted to 16% and 10%, respectively.

Pursuant to the Announcement on Relevant Policies for Deepening the VAT Reform (關於深化增值税改革有關政策的公告) that was promulgated by the MOF, the SAT and General Administration of Customs of the PRC (中華人民共和國海關總署) on 20 March 2019 and came into effect on 1 April 2019, for taxpayers engaging in taxable sales or import of goods, the previously applicable VAT rates of 16% and 10% are adjusted to 13% and 9%, respectively.

## TAXATION IN HONG KONG

### Tax on dividends

Under the current practice of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

### Capital gains and profit tax

No tax is imposed in Hong Kong in respect of capital gains from the sale of H Shares. However, trading gains from the sale of H Shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers (for example, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment purposes.

Trading gains from sales of H Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares effected on the Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

### Stamp duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of Hong Kong securities, including H Shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H Shares). In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If no stamp duty is paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

### Estate duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after February 11, 2006.

## FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is currently subject to foreign exchange control and is not freely convertible into foreign exchange. The SAFE under the PBOC is responsible for administration of all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Pursuant to the Regulations of the People's Republic of China on Foreign Exchange Administration (the "**Foreign Exchange Administration Regulations**") that was promulgated by the State Council on 29 January 1996 and came into effect on 1 April 1996, all international payments and transfers are classified into current and capital items, with most of the current items no longer subject to the approval of the SAFE, while capital items are still subject to its approval. The Foreign Exchange Administration Regulations was subsequently amended on 14 January 1997 and 5 August 2008, respectively. The latest amended Foreign Exchange Administration Regulations clarifies that the State does not impose restriction on international current account payments and transfers.

According to the "Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange" (Yin Fa [1996] No. 210) which was issued by the PBOC on 20 June 1996 and came into effect on 1 July 1996, the existing restrictions on foreign exchange transactions under capital items were retained while the residual restrictions on foreign exchange conversions under current items were abolished.

Pursuant to the Announcement on Reforms to Improve the Exchange Rate Formation Mechanism of Renminbi ("**PBOC Announcement [2005] No. 16**"), which was promulgated by the PBOC and took effect on 21 July 2005, the PRC began to implement a managed floating exchange rate system, under which the exchange rate is determined according to market demand and supply and adjusted with reference to a basket of currencies. The exchange rate of RMB is no longer pegged to the U.S. dollar. The PBOC will announce the closing price of foreign currencies, such as the U.S. dollar, against the RMB in the interbank foreign exchange market after the close of business on each business day, which will be used as the mid-rate for RMB transactions on the following business day.

Pursuant to the Announcement on Further Improvement of the Interbank Spot Foreign Exchange Market promulgated by the PBOC which came into effect on 3 January 2006, with effect from 4 January 2006, over-the-counter transactions were introduced into the interbank spot foreign exchange market, and the practice of matching was kept at the same time. In addition to the above, the PBOC introduced the market-maker rule to provide liquidity to the foreign exchange market. On 1 July 2014, the PBOC issued the Notice of the People's Bank of China on Matters Relating to the Management of Exchange Rates for Transactions in the Interbank Foreign Exchange Market and Exchange Rates for Quotations by Banks (Yin Fa [2014] No. 188), the PRC Foreign Exchange Trade System is authorized to make inquiries with the market makers before the interbank foreign exchange market opens every day for their offered quotations which are used as samples to calculate the central parity of the RMB against the USD on that day, and announce the central parity of the RMB against currencies such as the USD at 9:15 a.m. on each working day.

On 5 August 2008, the State Council promulgated the revised Foreign Exchange Control Regulations (the "**Revised Foreign Exchange Control Regulations**"), which have made substantial changes to the foreign exchange supervision system of the PRC. Firstly, the Revised Foreign Exchange Control Regulations has adopted an approach of balancing the inflow and outflow of foreign exchange, foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and settlement funds

under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administrative authorities. Secondly, the Revised Foreign Exchange Control Regulations has improved the RMB exchange rate floating system based on market supply and demand. Thirdly, the Revised Foreign Exchange Control Regulations has strengthened the monitoring of cross-border foreign exchange cash flows. In the event that international balance of payment suffers or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourthly, the Revised Foreign Exchange Control Regulations has enhanced the supervision and administration of foreign exchange transactions and grant extensive authorities to the SAFE to enhance its relevant supervisory and administrative powers.

In accordance with the relevant State regulations and laws, all foreign exchange earnings of PRC enterprises from recurring transactions may be retained or sold to financial institutions that operate foreign exchange settlement and sales businesses. Foreign exchange income from loans from overseas organizations or foreign exchange income generated from the issuance of bonds and stocks does not need to be sold to designated foreign exchange banks, but can be deposited into the foreign exchange account of a designated foreign exchange bank.

PRC enterprises (including foreign-invested enterprises) which need foreign exchange for current item transactions may, without the approval of the SAFE, effect payment from foreign exchange accounts at the designated foreign exchange banks, on the strength of valid transaction receipt or evidence. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders and PRC enterprises which, in accordance with regulations, are required to pay dividends to their shareholders in foreign exchange may, on the strength of resolutions of the board of directors or the shareholders' meeting on the distribution of profits, effect payment from foreign exchange accounts at a designated foreign exchange bank or effect exchange and payment at a designated foreign exchange bank.

On 23 October 2014, the State Council promulgated the Decisions on Matters including Canceling and Adjusting a Batch of Administrative Approval Items (《國務院關於取消和調整一批行政審批項目等事項的決定》) (Guo Fa [2014] No. 50), which canceled the approval requirement of the SAFE and its branches for the remittance and settlement of the proceeds raised from the overseas listing of the foreign shares into RMB domestic accounts.

On 26 December 2014, the SAFE issued the Notice of the State Administration of Foreign Exchange on Issues Concerning the Foreign Exchange Administration of Overseas Listing (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) (Hui Fa [2014] No. 54), pursuant to which a domestic company shall, within 15 business days from the date of the completion of its overseas listing and issuance, register the overseas listing with the SAFE's local branch at the place of its incorporation. The proceeds from an overseas listing of a domestic company may be remitted to the domestic account or deposited in an overseas account, but the use of the proceeds shall be consistent with the content of documents as publicly disclosed by the document.

According to the Notice of the State Administration of Foreign Exchange of the PRC on Revolutionizing and Regulating Capital Account Settlement Management

Policies (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (Hui Fa [2016] No. 16), which was issued by the SAFE and came into effect on 9 June 2016, foreign currency earnings in capital account that relevant policies of willingness exchange settlement have been clearly implemented on (including the recalling of raised capital by overseas listing) may undertake foreign exchange settlement in the banks according to actual business needs of the domestic institutions. The tentative percentage of foreign exchange settlement for foreign currency earnings in capital account of domestic institutions is 100%. The SAFE may adjust the above proportion in due time according to balance of payments.

On 26 January 2017, the SAFE issued the Circular of State Administration of Foreign Exchange on Further Promoting Foreign Exchange Management Reform and Improving the Verification of True Compliance (國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知) (Hui Fa [2017] No. 3) to further expand the scope of settlement of domestic and overseas foreign exchange loans by allowing the settlement of foreign exchange loans with a background of exporting goods for trading, the redeployment of the funds under the domestic guaranteed loans to be used in the domestic market, and the settlement of domestic foreign exchange accounts of foreign institutions in the pilot free trade zones; and implementing the full-scale external loan management in local and foreign currencies, where a domestic institution handles overseas lending business, the total balance of overseas lending in local currency and the balance of overseas lending in foreign currency shall not exceed the maximum of 30% of the owner's equity in its audited financial statements of the previous year.

On 23 October 2019, the SAFE issued the Circular of the State Administration of Foreign Exchange on Further Promoting Cross-border Trade and Investment Facilitation (Hui Fa [2019] No. 28), which came into effect on the same day, with the exception of Article 8.2 (which came into effect on 1 January 2020). Pursuant to such circular, on the basis that the foreign invested enterprises with an investment nature (including foreign invested companies with an investment nature, foreign-invested venture capital enterprises and foreign-invested equity investment enterprises) may make equity investments in the PRC with capital fund in accordance with the law, foreign invested enterprises without an investment nature are allowed to make equity investments in the PRC with capital in accordance with the law on the premise of not violating the existing special administrative measures for access to foreign investment (the Negative List), and that the projects they invest in the PRC are genuine and in compliance with the law.

According to the Circular of the State Administration of Foreign Exchange on Optimising Foreign Exchange Management to Support the Development of Foreign-Related Businesses (Hui Fa [2020] No. 8) issued by SAFE and effective on 10 April 2020, eligible enterprises are not required to provide proofs of truthfulness to the banks beforehand for each and every payment when they use the income from capital, foreign debts and overseas listings in the domestic market, provided that the use of the funds is genuine and regulation-abiding, and in compliance with the existing regulations on the use of income from capital items. The handling banks shall manage and control the relevant business risks in accordance with the principle of prudent business development and conduct retrospective random checks on the facilitation of capital account receipts and payments in accordance with the relevant requirements.

## THE PRC LEGAL SYSTEM

The PRC legal system is based on the PRC Constitution (《中華人民共和國憲法》) revised and took effect on 11 March 2018 (hereinafter referred to as the "**Constitution**") and is made up of written laws, administrative regulations, local regulations, autonomous regulations, separate regulations, rules and regulations of State Council departments, rules and regulations of local governments, laws of special administrative regions and international treaties of which the PRC government is the signatory and other regulatory documents. Court judgments do not constitute legally binding precedents, although they are used for the purposes of judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) which was last revised on 13 March 2023 and took effect on 15 March 2023 (hereinafter referred to as the "**Legislation Law**"), the NPC and its Standing Committee are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing State organs, civil, criminal and other matters. The Standing Committee of the NPC formulates and amends the laws other than those required to be enacted by the NPC and to supplement and amend parts of the laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of state administration and has the power to formulate administrative regulations based on the Constitution and laws. The people's congresses of the provinces, autonomous regions and municipalities and their standing committees may formulate local regulations based on the specific circumstances and actual needs of their respective administrative areas, provided that such regulations do not contravene any provision of the Constitution, laws or administrative regulations. The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual needs of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. If the law provides otherwise on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the Standing Committee of the people's congresses of the relevant provinces or autonomous regions. The Standing Committee of the people's congresses of the provinces or autonomous regions shall examine the legality of local regulations submitted for approval, and such approval shall be granted within four months if they are not in conflict with the Constitution, laws, administrative regulations and local regulations of the relevant provinces or autonomous regions. Where, during the examination for approval of local regulations of cities divided into districts by the Standing Committee of the people's congresses of the provinces or autonomous regions, conflicts are identified with the rules and regulations of the people's governments of the provinces or autonomous regions, a decision should be made to resolve the issue. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The ministries and commissions of the State Council, PBOC, the National Audit Office and the subordinate institutions with administrative functions directly under the State Council may formulate departmental rules and regulations within the permissions of their respective departments based on the laws and administrative regulations, and the decisions and orders of the State Council. Provisions of departmental rules should be the matters related to the enforcement of the laws and administrative regulations, and the decisions and orders of the State Council. The people's governments of the provinces, autonomous regions, municipalities and cities or autonomous prefectures divided into districts may formulate rules and regulations based on the laws, administrative regulations and local regulations of such provinces, autonomous regions and municipalities.

The NPC has the right to alter or annul any inappropriate laws enacted by its Standing Committee, and also has the right to annul any autonomous regulations and separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the right to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws and administrative regulations, and to annul any autonomous regulations or separate regulations which have been approved by the standing committees of the people's congresses of the provinces, autonomous regions or municipalities, but which contravene the Constitution and the Legislation Law. The State Council has the right to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities have the right to alter or annul any inappropriate local regulations enacted and approved by their respective standing committees. The Standing Committee of the local people's congresses has the right to annul any inappropriate rules enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the right to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

Pursuant to the Resolution of the Standing Committee of the NPC Providing an Improved Interpretation of the Law (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, in cases where the scope of provisions of laws or decrees needs to be further defined or additional stipulations need to be made, the Standing Committee of the NPC shall provide interpretations or make stipulations by means of decrees. Issues related to the application of laws in a court trial should be interpreted by the Supreme People's Court, issues related to the application of laws in a prosecution process of the procuratorate should be interpreted by the Supreme People's Procuratorate, and issues related to laws other than the abovementioned and the specific application of decrees should be interpreted by the State Council and the competent authorities. The State Council and its ministries and commissions are also vested with the power to give interpretations of the administrative regulations and departmental rules which they have promulgated. At the regional level, the power to interpret regional regulations is vested in the regional legislative and administrative authorities which promulgate such regulations.

## THE PRC JUDICIAL SYSTEM

Under the Constitution, the Law of Organization of the People's Court of the PRC (2018 Revision) (《中華人民共和國人民法院組織法(2018修訂)》) and the Law of Organization of the People's Procuratorate of the PRC (2018 Revision) (《中華人民共和國人民檢察院組織法(2018修訂)》), the people's courts of the PRC are divided into the Supreme People's Court, the local people's courts at all levels and special people's courts. The local people's courts at all levels are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts may set up certain people's tribunals based on the status of the region, population and cases. The Supreme People's Court shall be the highest judicial organ of the state. The Supreme People's Court shall supervise the administration of justice by the local people's courts at all levels and by the special people's courts. The people's courts at a higher level shall supervise the judicial work of the people's courts at lower levels. The people's procuratorates of the PRC are divided into the Supreme People's Procuratorate, the local people's procuratorates at all levels, Military Procuratorates and other special people's procuratorates. The Supreme People's Procuratorate shall be the highest procuratorial organ. The Supreme People's Procuratorate shall direct the work of the local people's procuratorates at all levels and of the special people's procuratorates; the people's procuratorates at higher levels shall direct the work of those at lower levels.

The people's courts employ a two-tier appellate system, i.e., judgments or rulings of the second instance at the people's courts are final. A party may appeal against the judgment or ruling of the first instance of a local people's courts. The people's procuratorate may present a protest to the people's courts at the next higher level in accordance with the procedures stipulated by the laws. In the absence of any appeal by the parties and any protest by the people's procuratorate within the stipulated period, the judgments or rulings of the people's courts are final. Judgments or rulings of the second instance of the intermediate people's courts, the higher people's courts and the Supreme People's Court and those of the first instance of the Supreme People's Court are final. However, if the Supreme People's Court or the people's courts at the next higher level finds any definite errors in a legally effective final judgment or ruling of the people's court at a lower level, or if the chief judge of a people's court at any level finds any definite errors in a legally effective final judgment or ruling of such court, the case can be retried according to judicial supervision procedures.

The Civil Procedure Law of the PRC (《中華人民共和國民事訴訟法》) (hereinafter referred to as the "**PRC Civil Procedure Law**") adopted on 9 April 1991, last amended on 1 September 2023 and took effect on 1 January 2024, prescribes the conditions for instituting a civil action, the jurisdiction of the people's court, the procedures for conducting a civil action, and the procedures for enforcement of a civil judgment or ruling. All parties to a civil action conducted within the PRC must abide by the PRC Civil Procedure Law. A civil case generally falls under the jurisdiction of the court located in the defendant's place of domicile. In respect of civil proceedings, the parties to a contract may, by written agreement, choose the people's court of the defendant's domicile, the location where the contract is performed or signed, the plaintiff's domicile, the location where the subject matter is located, for jurisdiction, provided that such choice shall not in any circumstances contravene the regulations of differential jurisdiction and exclusive jurisdiction.

A foreign individual, a person without nationality, a foreign enterprise or a foreign organization is given the same litigation rights and obligations as a citizen, a legal person or other organizations of the PRC when initiating actions or defending against litigations at a people's court. Should a foreign court limit the litigation rights of PRC citizens or enterprises, the PRC court may apply the same limitations to the citizens or enterprises of such foreign country. A foreign individual, a person without nationality, a foreign enterprise or a foreign organization must engage a PRC lawyer in case he or it needs to engage a lawyer for the purpose of initiating actions or defending against litigations at a people's court. In accordance with the international treaties to which the PRC is a signatory or participant or according to the principle of reciprocity, a people's court and a foreign court may request each other to serve documents, conduct investigation and collect evidence and conduct other actions on its behalf. A people's court shall not accommodate any request made by a foreign court which will result in the violation of sovereignty, security or public interests of the PRC.

All parties to a civil action shall perform the legally effective judgments and rulings. If any party to a civil action refuses to abide by a judgment or ruling made by a people's court or an award made by an arbitration tribunal in the PRC, the other party may apply to the people's court for the enforcement of the same within two years subject to application for postponed enforcement or revocation. The provisions relating to the suspension or discontinuance of the litigation limitation period shall be applicable to the suspension or discontinuance of the limitation period for applications to enforce a judgment. If a party fails to satisfy within the stipulated period a judgment which the court has granted an enforcement approval, the court may, upon the application of the other party, mandatorily enforce the judgment against such party.

Where a party requests for enforcement of an effective judgment or ruling made by a people's court, but the opposite party or his property is not within the territory of the People's Republic of China, the party may directly apply to the foreign court with jurisdiction for recognition and enforcement of the judgment or ruling, or the people's court may, in accordance with the provisions of international treaties to which the PRC is a signatory or in which the PRC is a participant or according to the principle of reciprocity, request for recognition and enforcement by the foreign court. Similarly, for an effective judgment or ruling made by a foreign court that requires recognition and enforcement by a people's court of the PRC, a party may directly apply to an intermediate people's court of the PRC with jurisdiction for recognition and enforcement of the judgment or ruling, or the foreign court may, in accordance with the provisions of international treaties to which its country and the PRC are signatories or in which its country is a participant or according to the principle of reciprocity, request for recognition and enforcement by the people's court, unless the people's court considers that the recognition or enforcement of such judgment or ruling would violate the basic legal principles of the PRC, its sovereignty or national security or would not be in social and public interest.

## THE COMPANY LAW OF THE PRC, THE TRIAL ADMINISTRATIVE MEASURES OF OVERSEAS SECURITIES OFFERING AND LISTING BY DOMESTIC COMPANIES AND THE GUIDELINES FOR THE ARTICLES OF ASSOCIATION OF LISTED COMPANIES

The Company Law of the People's Republic of China (hereinafter referred to as the "**PRC Company Law**") was adopted by the Standing Committee of the Eighth NPC at its Fifth Session on 29 December 1993 and came into effect on 1 July 1994. It was successively amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013, 26 October 2018 and 29 December 2023. The newly revised the PRC Company Law will be implemented from 1 July 2024.

On 17 February 2023, CSRC published the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the "**Overseas Listing Trial Measures**"), which came into effect on 31 March 2023. Under Overseas Listing Trial Measures, the PRC domestic companies that seek to offer and list securities in overseas markets, either in direct or indirect means, are required to fulfill the filing procedure with the CSRC and report relevant information.

On 15 December 2023, CSRC promulgated the newly revised Guidelines for the Articles of Association of Listed Companies (the "**AoA Guidelines**"), which took effect on the same date. Pursuant to the Overseas Listing Trial Measures and its complementary guidelines, Guidelines on the Application of Regulatory Rules — Overseas Listing Category No. 1, domestic enterprises that directly offer shares and list overseas shall prepare an articles of association with reference to the AoA Guidelines and other relevant provisions of the CSRC on corporate governance to standardize corporate governance.

Major provisions of the PRC Company Law (as revised in 2018), the Overseas Listing Trial Measures and the AoA Guidelines in effect are summarized as follows.

### GENERAL

A "joint stock limited company" (hereinafter referred to as the "**company**") refers to a corporate legal person incorporated in China under the PRC Company Law with independent legal person properties and entitlements to such legal person properties. The liability of the company for its own debts is limited to the total amount of all assets it owns and the liability of its shareholders for the company is limited to the extent of the shares they subscribe for.

A company must conduct its business in accordance with laws as well as public and commercial ethics. A company may invest in other limited liability companies. The liabilities of the company to such invested companies are limited to the amount invested. Unless otherwise provided by laws, a company cannot be the capital contributor who has the joint liabilities associated with the debts of the invested enterprises.

## INCORPORATION

A company may be established by promotion or subscription. A company shall have a minimum of two but no more than 200 people as its promoters, over half of which must have a domicile within the PRC. Companies established by promotion are companies of which the registered capital is the total share capital subscribed for by all the promoters registered with the company's registration authorities. No share offering shall be made before the shares subscribed for by promoters are fully paid up. For companies established by share offering, the registered capital is the total paid-up share capital as registered with the company's registration authorities. If laws, administrative regulations and State Council decisions provide otherwise on paid-in registered capital and the minimum registered capital, a company should follow such provisions.

For companies incorporated by way of promotion, the promoters shall subscribe in writing for the shares required to be subscribed for by them and pay up their capital contributions under the articles of association. Procedures relating to the transfer of titles to non-monetary assets shall be duly completed if such assets are to be contributed as capital. Promoters who fail to pay up their capital contributions in accordance with the foregoing provisions shall assume default liabilities in accordance with the covenants set out in the promoters' agreements. After the promoters have confirmed the capital contribution under the articles of association, a board of directors and a supervisory committee shall be elected and the board of directors shall apply for registration of establishment by filing the articles of association with the company registration authorities, and other documents as required by the law or administrative regulations.

Where companies are incorporated by share offering, not less than 35% of their total number of shares must be subscribed for by the promoters, unless otherwise provided by laws or administrative regulations. A promoter who offers shares to the public must publish a document and prepare a subscription letter to be completed, signed and sealed by subscribers, specifying the number and amount of shares to be subscribed for and the subscribers' addresses. The subscribers shall pay up monies for the shares they subscribe for. Where a promoter is offering shares to the public, such offer shall be underwritten by security companies established under PRC law, and underwriting agreements shall be entered into. A promoter offering shares to the public shall also enter into agreements with banks in relation to the receipt of subscription monies. The receiving banks shall receive and keep in custody the subscription monies, issue receipts to subscribers who have paid the subscription monies and is obliged to furnish evidence of receipt of those subscription monies to relevant authorities. After the subscription monies for the share issue have been paid in full, a capital verification institution established under PRC laws must be engaged to conduct a capital verification and furnish a certificate thereof. The promoters shall preside over and convene an inauguration meeting within 30 days from the date of the full payment of subscription money, and notify all subscribers or announce the date of the meeting 15 days prior to the date of the inauguration meeting. The inauguration meeting shall be formed by the promoters and subscribers representing more than half of the total number of shares. Powers to be exercised at the inauguration meeting include but not limited to the adoption of articles of association and the election of members of the board of directors and the supervisory committee of a company. The aforesaid matters shall be

resolved by more than 50% of the votes to be casted by subscribers presented at the meeting. Where the shares issued remain undersubscribed by the deadline stipulated in the document, or where the promoter fails to convene an inauguration meeting within 30 days of the subscription monies for the shares issued being fully paid up, the subscribers may demand that the promoters refund the subscription monies so paid together with the interest at bank rates of a deposit for the same period. Within 30 days after the conclusion of the inauguration meeting, the board of directors shall apply to the company registration authority for registration of the establishment of the company. A company is formally established and has the capacity of a legal person after approval of registration has been given by the relevant company registration authority for industry and commerce and a business license has been issued. A joint stock limited company established by the subscription method shall obtain the approval for public offering from the securities regulatory authority of the State Council and submit the approval to the company registration authority.

A company's promoters shall be liable for: (1) the debts and expenses incurred in the establishment process jointly and severally if the company cannot be established; (2) the subscription monies paid by the subscribers together with interest at bank rates of deposit for the same period jointly and severally if the company cannot be established; and (3) the compensation of any damages suffered by the company in the course of its establishment as a result of the promoters' fault. According to the Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) promulgated by the State Council on 22 April 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, the promoters of such company are required to sign on the document to ensure that the document does not contain any misrepresentation, serious misleading statements or material omissions, and assume joint responsibility for it.

**SHARE CAPITAL**

The promoters may make a capital contribution in currencies, or non-monetary assets such as in kind or intellectual property rights or land use rights which can be appraised with monetary value and transferred lawfully, except for assets which are prohibited from being contributed as capital by the laws or administrative regulations. Non-monetary assets contributed as capital shall be valued and verified, and shall not be over-valued or under-valued. Where laws or administrative regulations have provisions on valuation, such provisions shall prevail.

The issuance of shares shall be conducted in a fair and equitable manner. Each share of the same class must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. The same price per share shall be paid by any share subscriber (whether an entity or an individual). The share offering price may be equal to or greater than the nominal value of the share, but may not be less than the nominal value.

Under the PRC Company Law, a company issuing registered share certificates shall maintain a shareholder registry which sets forth the following matters: (1) the name and

domicile of the shareholders; (2) the number of shares held by each shareholder; (3) the serial numbers of shares held by each shareholder; and (4) the date on which each shareholder acquired the shares.

The Overseas Listing Trial Measures provides that domestic enterprises that are listed overseas may raise funds and distribute dividends in foreign currencies or Renminbi. Under certain circumstances, such as equity incentives and issuing securities to acquire assets, domestic enterprises may issue securities to specific domestic parties when issuing securities directly overseas. Under the Trial Measures, for a domestic company directly offering and listing overseas, shareholders of its domestic unlisted shares applying to convert such shares into shares listed and traded on an overseas trading venue shall conform to relevant regulations promulgated by the CSRC, and authorize the domestic company to file with the CSRC on their behalf, submit filing reports, legal opinions and other relevant materials, and truthfully, accurately and completely explain shareholder information and other information. The domestic unlisted shares mentioned in the preceding paragraph refer to the shares that have been issued by domestic enterprises but have not been listed or listed for trading on domestic exchanges. Domestic unlisted shares shall be centrally registered and deposited with domestic securities registration and settlement institutions. The registration and settlement arrangements of overseas listed shares shall be subject to the provisions of overseas listing places. Where a domestic enterprise is indirectly listed overseas, the issuer shall designate a domestic principal operating entity as the domestic responsible person and file with the CSRC.

**INCREASE IN SHARE CAPITAL**

Pursuant to the relevant provisions of the PRC Company Law, where a company is issuing new shares, resolutions shall be passed at general meeting in accordance with the articles of association in respect of the class and amount of the new shares, the issue price of the new shares, the commencement and end dates for the issue of the new shares and the class and amount of the new shares proposed to be issued to existing shareholders. When a company launches a public issue of new shares to the public upon the approval by CSRC, a new share offering prospectus and financial accounting report must be announced and a subscription letter must be prepared. After the new shares issued by the company has been paid up, the change must be registered with the company registration authority and a public announcement must be made accordingly.

In addition, the Securities Law of the PRC (hereinafter referred to as the "**PRC Securities Law**") also provides for the following conditions for companies to offer new shares to the public: (1) having a sound and well-operated organizational structure; (2) having sustainable operation ability; (3) an unqualified auditor's report on its financial and accounting reports for the latest three years; (4) the issuer as well as its controlling shareholders and the actual controller have not committed any crime such as corruption, bribery, embezzlement, misappropriation of property or undermining the order of the socialist market economy during the latest three years; and (5) other requirements of the securities regulatory authority under the State Council which are approved by the State Council. After the new shares issued by the company has been paid up, the change must be registered with the company registration authority and a public announcement must be made accordingly.

## REDUCTION OF SHARE CAPITAL

A company shall reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law: (1) the company shall prepare a balance sheet and an inventory of assets; (2) the reduction of registered capital must be approved by shareholders at general meeting; (3) the company shall notify its creditors within 10 days and publish an announcement in newspapers within 30 days from the day on which the resolution approving the reduction was passed; (4) the creditors of the company are entitled to require the company to repay its debts or provide guarantees for such debts within 30 days from receipt of the notification or within 45 days from the date of the announcement if he/she/it has not received any notification; and (5) the company must apply to the company registration authority for change in registration.

## REPURCHASE OF SHARES

Pursuant to the PRC Company Law, a company may not repurchase its own shares other than for the following purposes: (1) reducing its registered capital; (2) merging with other companies which hold its shares; (3) carrying out an employee stock ownership plan or equity incentive plan; (4) acquiring its shares at the request of its shareholders who vote in a shareholders' general meeting against a resolution regarding a merger and division; (5) utilizing the shares for conversion of listed corporate bonds which are convertible into shares; and (6) where it is necessary for the listed company to safeguard the value of the company and the interests of its shareholders. The acquisition by a company of its own shares on the grounds set out in item (1) to (2) above shall be approved by way of a resolution of a shareholders' general meeting; the acquisition by a company of its own shares in circumstances as set out in items (3), (5) and (6) above may be approved by way of a resolution at a board meeting with two-third or more of the directors present in accordance with the provisions of the company's articles of association or the authorization of the shareholders' general meeting.

Following the acquisition by a company of its own shares in accordance with these requirements, such shares shall be canceled within 10 days from the date of the acquisition under the circumstance in item (1); such shares shall be transferred or canceled within six months under the circumstances in items (2) or (4); the total shares held by the Company shall not exceed 10% of the total shares issued by the Company and such shares shall be transferred or canceled within three years under the circumstances in items (3), (5) or (6).

A listed company shall perform its information disclosure obligations in accordance with the provisions of the Securities Law of People's Republic of China when acquiring its own shares. The acquisition by a listed company of its own shares in circumstances as set out in items (3), (5) and (6) of this article shall be conducted through open centralized trading.

The Company shall not accept the shares of the Company as the subject of pledge.

## TRANSFER OF SHARES

Shares held by shareholders may be transferred legally. Pursuant to the PRC Company Law, a shareholder should effect a transfer of his shares on a stock exchange established in accordance with laws or by any other means as required by the State Council. Registered shares may be transferred after the shareholders endorse the back of the share certificates or in other manner specified by laws and administrative regulations. Following the transfer, the company shall enter the names and addresses of the transferees into its share register. No changes of registration in the share register described above shall be effected during a period of 20 days prior to convening a shareholders' general meeting or 5 days prior to the record date for the purpose of determining entitlements to dividend distributions, unless otherwise stipulated by laws on the registration of changes in the share register of listed companies. The transfer of bearer share certificates shall become effective upon the delivery of the certificates to the transferee by the shareholder.

Pursuant to the PRC Company Law, no modifications of registration in the share register caused by transfer of shares shall be carried out within 20 days prior to the convening of shareholder's general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on alternation of registration in the share register of listed companies, those provisions shall prevail.

Pursuant to the PRC Company Law, shares held by promoters may not be transferred within one year of the establishment of the company. Shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company's listing on a stock exchange. Directors, supervisors and the senior management of a company shall declare to the company their shareholdings in it and changes in such shareholdings. During their terms of office, they may transfer no more than 25% of the total number of shares they hold in the company every year. They shall not transfer the shares they hold within one year from the date of the company's listing on a stock exchange, nor within six months after they leave their positions in the company. The articles of association may set out other restrictive provisions in respect of the transfer of shares in the company held by its directors, supervisors and the senior management.

Under the Overseas Listing Trial Measures, for a domestic company directly offering and listing overseas, shareholders of its domestic unlisted shares applying to convert such shares into shares listed and traded on an overseas trading venue shall conform to relevant regulations promulgated by the CSRC, and authorize the domestic company to file with the CSRC on their behalf.

## SHAREHOLDERS

Under the PRC Company Law and the AoA Guidelines, the rights of shareholders include the rights: (1) to receive a return on assets, participate in significant decision-making and select management personnel; (2) to petition the people's court to revoke any resolution passed on a shareholders' general meeting or a meeting of the board of directors that has been convened or whose voting has been conducted in violation of the

laws, regulations or the articles of association, or any resolution the contents of which is in violation of the articles of association, provided that such petition shall be submitted within 60 days of the passing of such resolution; (3) to transfer the shares of the shareholders legally; (4) to attend or appoint a proxy to attend shareholders' general meetings and exercise the voting rights; (5) to inspect the articles of association, share register, counterfoil of company debentures, minutes of shareholders' general meetings, board resolutions, resolutions of the board of supervisors and financial and accounting reports, and to make suggestions or inquiries in respect of the company's operations; (6) to receive dividends in respect of the number of shares held; (7) to participate in distribution of residual properties of the company in proportion to their shareholdings upon the liquidation of the company; and (8) any other shareholders' rights provided for in laws, administrative regulations, other normative documents and the articles of association.

The obligations of shareholders include the obligation to abide by the company's articles of association, to pay the subscription monies in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription monies agreed to be paid in respect of the shares taken up by them, may not abuse shareholder's rights to harm the interests of the company or other shareholders, or abuse the independent status of the company legal person and the limited liability of shareholders to harm the interests of the creditors of the company, and any other shareholder obligation specified in the articles of association.

Under the Overseas Listing Trial Measures, domestic enterprises issued and listed overseas shall file with the CSRC in accordance with Trial Measures, submit filing reports, legal opinions and other relevant materials, and truthfully, accurately and completely explain shareholder information and other information.

## SHAREHOLDERS' GENERAL MEETINGS

The general meeting is the organ of authority of the company, which exercises its powers in accordance with the PRC Company Law. The general meeting may exercise its powers: (1) to decide on the company's operational objectives and investment plans; (2) to elect and change the directors and supervisors not being representative(s) of employees and to decide on the matters relating to the remuneration of directors and supervisors; (3) to review and approve the reports of the board of directors; (4) to review and approve the reports of the board of supervisors or the reports of the supervisors; (5) to review and approve the company's annual financial budgets proposals and final accounts proposals; (6) to review and approve the company's profit distribution proposals and loss recovery proposals; (7) to decide on any increase or reduction of the company's registered capital; (8) to decide on the issue of corporate bonds; (9) to decide on merger, division, dissolution and liquidation of the company or change of its corporate form; (10) to amend the articles of association; and (11) to exercise other authority stipulated in the articles of association.

Pursuant to the PRC Company Law and the AoA Guidelines, a shareholders' general meeting is required to be held once every year within six months after the end of the previous accounting year. An extraordinary general meeting is required to be held within

two months upon the occurrence of any of the following: (1) the number of directors is less than the number required by law or less than two-thirds of the number specified in the articles of association; (2) the outstanding losses of the company amounted to one-third of the company's total paid-in share capital; (3) shareholders individually or in aggregate holding 10% or more of the company's shares request to convene an extraordinary general meeting; (4) the board deems necessary; (5) the board of supervisors so proposes; or (6) other circumstances as provided for in the articles of association.

A shareholders' general meeting shall be convened by the board of directors and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or is not performing his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or is not performing his duties, a director recommended by half or more of the directors shall preside over the meeting. Where the board of directors is incapable of performing or is not performing its duties, the board of supervisors shall convene and preside over the shareholders' general meeting in a timely manner. If the board of supervisors fails to convene and preside over the shareholders' general meeting, shareholders individually or in aggregate holding 10% or more of the company's shares for 90 days or more consecutively may unilaterally convene and preside over the shareholders' general meeting.

In accordance with the PRC Company Law, a notice of the general meeting stating the date and venue of the meeting and the matters to be considered at the meeting shall be given to all shareholders 20 days prior to the meeting. A notice of extraordinary general meeting shall be given to all shareholders 15 days prior to the meeting. For the issuance of bearer share certificates, the time and venue of and matters to be considered at the meeting shall be announced 30 days prior to the meeting. A single shareholder who holds, or several shareholders who jointly hold, more than three percent of the shares of the company may submit an interim proposal in writing to the board of directors within 10 days before the general meeting. The board of directors shall notify other shareholders within two days upon receipt of the proposal, and submit the interim proposal to the general meeting for deliberation. The contents of the interim proposal shall fall within the scope of powers of the general meeting, and the proposal shall provide clear agenda and specific matters for a resolution is to be made. A general meeting shall not make any resolution in respect of any matter not set out in the notices. Holders of bearer share certificates who intend to attend a general meeting shall deposit their share certificates with the company during the time from five days before the meeting to the conclusion of the meeting.

Pursuant to the Official Reply of the State Council regarding Adjusting the Application of Provisions to Matters Including the Notice Period for Convention of Shareholders' Meetings by Overseas Listed Companies (《國務院關於調整適用在境外上市公司召開股東大會通知期限等事項規定的批覆》(Guo Han [2019] No. 97)), which came into effect on 17 October 2019, for those joint stock companies registered in the PRC but listed outside the PRC, the requirements for the notice period for convening a shareholders' meeting, shareholders' proposal right, and the procedures for convening a shareholders' meeting shall be collectively governed by the relevant provisions of the PRC Company Law.

Pursuant to the PRC Company Law, shareholders present at a shareholders' general meeting have one vote for each share they hold, save that the Company's shares held by the company are not entitled to any voting rights.

An accumulative voting system may be adopted for the election of directors and supervisors at the general meeting pursuant to the provisions of the articles of association or a resolution of the general meeting. Under the accumulative voting system, each share shall be entitled to the number of votes equivalent to the number of directors or supervisors to be elected at the general meeting, and shareholders may consolidate their votes for one or more directors or supervisors when casting a vote.

Pursuant to the PRC Company Law, resolutions of the general meeting must be passed by more than half of the voting rights held by shareholders present at the meeting, with the exception of resolutions relating to merger, division or dissolution of the company, increase or reduction of registered share capital, change of corporate form or amendments to the articles of association, in each case of which must be passed by more than two-thirds of the voting rights held by the shareholders present at the meeting. Where the PRC Company Law and the articles of association provide that the transfer or acquisition of significant assets or the provision of external guarantees by the company and such other matters must be approved by way of resolution of the general meeting, the board of directors shall convene a shareholders' general meeting promptly to vote on such matters. A shareholder may entrust a proxy to attend the general meeting on his/her behalf. The proxy shall present the shareholders' power of attorney to the company and exercise voting rights within the scope of authorization.

Minutes shall be prepared in respect of matters considered at the general meeting and the chairperson and directors attending the meeting shall endorse such minutes by signature. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

**BOARD OF DIRECTORS**

A company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include staff representatives, who shall be democratically elected by the company's staff at a staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, provided that no term of office shall last for more than three years. A director may serve consecutive terms if re-elected. A director shall continue to perform his/her duties as a director in accordance with the laws, administrative regulations and the articles of association until a duly reelected director takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of director results in the number of directors being less than the quorum.

Under the PRC Company Law, the board of directors may exercise its powers:

(1) to convene shareholders' general meetings and report on its work to the shareholders' general meetings;

(2) to implement the resolutions passed by the shareholders at the shareholders' general meetings;

(3) to decide on the company's operational plans and investment proposals;

(4) to formulate proposal for the company's annual financial budgets and final accounts;

(5) to formulate the company's profit distribution proposals and loss recovery proposals;

(6) to formulate proposals for the increase or reduction of the company's registered capital and the issue of corporate bonds;

(7) to formulate proposals for the merger, division or dissolution of the company or change of corporate form;

(8) to decide on the setup of the company's internal management organs;

(9) to appoint or dismiss the company's manager and decide on his/her remuneration and, based on the manager's recommendation, to appoint or dismiss any deputy general manager and financial officer of the company and to decide on their remunerations;

(10) to formulate the company's basic management system; and

(11) to exercise any other authority stipulated in the articles of association.

Meetings of the board of directors shall be convened at least twice each year. Notices of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of the voting rights, more than one-third of the directors or the supervisory board. The chairman shall convene the meeting within 10 days of receiving such proposal, and preside over the meeting. The board of directors may otherwise determine the means and the period of notice for convening an interim board meeting. Meetings of the board of directors shall be held only if more than half of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for a resolution to be approved by the board. Directors shall attend board meetings in person. If a director is unable to attend for any reason, he/she may appoint another director to attend the meeting on his/her behalf by a written power of attorney specifying the scope of authorization. Meanwhile, the board of directors shall keep minutes of resolutions passed at board meetings. The minutes shall be signed by the directors present at the meeting.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association or resolutions of the general meeting, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director shall be relieved from that liability.

Under the PRC Company Law, the following person may not serve as a director in a company: (1) a person who is unable or has limited ability to undertake any civil liabilities; (2) a person who has been convicted of an offense of corruption, bribery, embezzlement, misappropriation of property or destruction of the socialist economic order, or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence; (3) a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise; (4) a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law or has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; and (5) a person who is liable for a relatively large amount of debts that are overdue.

Where a company elects or appoints a director to which any of the above circumstances applies, such election or appointment shall be null and void. A director to which any of the above circumstances applies during his/her term of office shall be released of his/her duties by the company.

Under the PRC Company Law, the board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman shall be elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and review the implementation of board resolutions. The vice chairman shall assist the chairman to perform his/her duties. Where the chairman is incapable of performing, or is not performing his/her duties, the duties shall be performed by the vice chairman. Where the vice chairman is incapable of performing, or is not performing his/her duties, a director jointly elected by more than half of the directors shall perform his/her duties.

**SUPERVISORY BOARD**

A company shall have a supervisory board composed of not less than three members. The supervisory board shall consist of representatives of the shareholders and an appropriate proportion of representatives of the company's staff, among which the proportion of representatives of the company's staff shall not be less than one-third, and the actual proportion shall be determined in the articles of association. Representatives of the company's staff at the supervisory board shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise.

The supervisory board shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory board shall be elected by more than half of all the supervisors. Directors and senior management members shall not act concurrently as supervisors.

The chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the chairman of the supervisory board is incapable of performing, or is not performing his/her duties, the vice chairman of the supervisory board shall convene and preside over supervisory board meetings. Where the vice chairman of the supervisory board is incapable of performing, or is not performing his/her duties, a supervisor elected by more than half of the supervisors shall convene and preside over supervisory board meetings.

Pursuant to the PRC Company Law, the Supervisory Committee shall convene at least one meeting every six months. Supervisors may propose to convene an extraordinary Supervisor Committee meeting. Resolutions of the Supervisory Committee shall be passed by more than half of the Supervisors. Meeting minutes shall be prepared in respect of decisions on matters discussed at the Supervisor Committee meeting. The Supervisors attending the meeting shall sign to endorse such minutes.

Each term of office of a supervisor is three years and he/she may serve consecutive terms if re-elected. A supervisor shall continue to perform his/her duties as a supervisor in accordance with the laws, administrative regulations and the articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his/her term of office or if the resignation of supervisor results in the number of supervisors being less than the quorum.

The Supervisory Committee may exercise its powers:

(1) to review the company's financial position;

(2) to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or resolutions of the shareholders' general meetings;

(3) when the acts of a director or a senior management personnel are detrimental to the company's interests, to require the director and senior management to correct these acts;

(4) to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board fails to perform the duty of convening and presiding over shareholders' general meetings under the PRC Company Law;

(5) to submit proposals to the shareholders' general meetings;

(6) to bring actions against directors and senior management personnel pursuant to the relevant provisions of the PRC Company Law; and

(7) to exercise any other authority stipulated in the articles of association.

Supervisors may be present at board meetings and make inquiries or proposals in respect of the resolutions of the board. The supervisory board may investigate any irregularities identified in the operation of the company and, when necessary, may engage an accounting firm to assist its work at the cost of the company.

**MANAGER AND SENIOR MANAGEMENT**

Under the relevant requirements of the PRC Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager, who reports to the board of directors, may exercise his/her powers:

(1) to manage the production and operation and administration of the company and arrange for the implementation of the resolutions of the board of directors;

(2) to arrange for the implementation of the company's annual operation plans and investment proposals;

(3) to formulate proposals for the establishment of the company's internal management organs;

(4) to formulate the fundamental management system of the company;

(5) to formulate the company's specific rules and regulations;

(6) to recommend the appointment or dismissal of any deputy manager and any financial officer of the company;

(7) to appoint or dismiss management personnel (other than those required to be appointed or dismissed by the board of directors); and

(8) to exercise any other authority granted by the board of directors.

Other provisions in the articles of association on the manager's powers shall also be complied with. The manager shall be present at meetings of the board of directors. However, the manager shall have no voting rights at meetings of the board of directors unless he/she concurrently serves as a director.

According to the PRC Company Law, senior management refers to manager, deputy manager, financial officer, secretary to the board of a listed company and other personnel as stipulated in the articles of association.

## DUTIES OF DIRECTORS, SUPERVISORS, GENERAL MANAGERS AND OTHER SENIOR MANAGEMENT

Directors, supervisors and senior management are required under the PRC Company Law to comply with the relevant laws, administrative regulations and the articles of association, and shall be obliged to be faithful and diligent towards the Company. Directors, supervisors and management personnel are prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's property. Furthermore, directors and senior management are prohibited from:

(1) misappropriating company funds;

(2) depositing company funds into accounts under their own names or the names of other individuals;

(3) loaning company funds to others or providing guarantees in favor of others supported by company's property in violation of the articles of association or without approval of the general meeting or the board of directors;

(4) entering into contracts or transactions with the company in violation of the articles of association or without approval of the general meeting;

(5) using their position to procure business opportunities for themselves or others that should have otherwise been available to the company or operating businesses similar to that of the company for their own benefits or on behalf of others without approval of the general meeting;

(6) accepting for their own benefit commissions from a third party for transactions conducted with the company;

(7) unauthorized divulgence of confidential information of the company; and

(8) other acts in violation of their duty of loyalty to the company.

Income generated by directors or senior management in violation of aforementioned shall be returned to the company.

A director, supervisor or senior management who contravenes law, administrative regulation or the articles of association in the performance of his/her duties resulting in any loss to the company shall be liable to the company for compensation.

Where a director, supervisor or senior management is required to attend a shareholders' general meeting, such director, supervisor or senior management shall attend the meeting and answer the inquiries from shareholders. Directors and senior management shall furnish all true information and data to the supervisory board, without impeding the discharge of duties by the supervisory board or supervisors.

Where a director or senior management contravenes laws, administrative regulations or the articles of association in the performance of his/her duties resulting in any loss to the company, shareholder(s) holding individually or in aggregate more than 1% of the company's shares consecutively for more than 180 days may request in writing that the supervisory board institute litigation at the people's court. Where the supervisory violates the laws or administrative regulations or the articles of association in the discharge of its duties resulting in any loss to the company, such shareholder(s) may request in writing that the board of directors institute litigation at the people's court on its behalf. If the supervisory board or the board of directors refuses to institute litigation after receiving this written request from the shareholder(s), or fails to institute litigation within 30 days of the date of receiving the request, or in case of emergency where failure to institute litigation immediately will result in irrecoverable damage to the company's interests, such shareholder(s) shall have the power to institute litigation directly at the people's court in its own name for the company's benefit. For other parties who infringe the lawful interests of the company resulting in loss to the company, such shareholder(s) may institute litigation at the people's court in accordance with the procedure described above. Where a director or senior management contravenes any laws, administrative regulations or the articles of association in infringement of shareholders' interests, a shareholder may also institute litigation at the people's court.

The Overseas Listing Trial Measures provides that filing materials of domestic enterprises offering shares and listing overseas shall be true, accurate and complete, and there shall be no false or misleading statements or major omissions. Domestic enterprises and their controlling shareholders, actual controllers, directors, supervisors and senior management shall fulfill the obligations of information disclosure in accordance with the law, integrity and diligence, and ensure that the filing materials are true, accurate and complete.

## FINANCE AND ACCOUNTING

Under the PRC Company Law, A company shall establish its own financial and accounting systems according to the laws, administrative regulations and the regulations of the competent financial departments under the State Council. At the end of each accounting year, a company shall prepare a financial report which shall be audited by an accounting firm in accordance with laws. The financial and accounting reports shall be prepared in accordance with laws, administrative regulations and the regulations of the financial departments under the State Council. The company's financial and accounting reports shall be made available for shareholders' inspection at the company within 20 days before the convening of an annual general meeting. A joint stock limited company that makes public stock offerings shall announce its financial and accounting reports.

When distributing each year's profits after taxation, the company shall set aside 10% of its profits after taxation for the company's statutory common reserve fund until the fund has reached more than 50% of the PRC company's registered capital. When the company's statutory common reserve fund is not sufficient to make up for the company's losses for the previous years, the current year's profits shall first be used to make good the losses before any allocation is set aside for the statutory common reserve fund. After the

company has made allocations to the statutory common reserve fund from its profits after taxation, it may, upon passing a resolution at a shareholders' general meeting, make further allocations from its profits after taxation to the discretionary common reserve fund. After the company has made good its losses and made allocations to its discretionary common reserve fund, the remaining profits after taxation shall be distributed in proportion to the number of shares held by the shareholders, except for those which are not distributed in a proportionate manner as provided by the articles of association.

The company shall not be entitled to any distribution of profits in respect of its own shares held by it.

The premium over the nominal value of the shares of a joint stock limited company from the issue of shares and other incomes required by the financial department of the State Council to be treated as the capital reserve fund shall be accounted for as the capital reserve fund of the company.

Profits distributed to shareholders by a resolution of a shareholders' general meeting or the board of directors before losses have been made good and allocations have been made to the statutory common reserve fund in violation of the requirements described above must be returned to the company. The company shall not be entitled to any distribution of profits in respect of its own shares held by it.

The premium over the nominal value per share of the company on issue and other income as required by relevant governmental department to be treated as the capital reserve fund shall be accounted for as the capital reserve fund. The common reserve fund of a company shall be applied to make good the company's losses, expand its business operations or increase its capital. The capital reserve fund, however, shall not be used to make good the company's losses. Upon the transfer of the statutory common reserve fund into capital, the balance of the fund shall not be less than 25% of the registered capital of the company before such transfer.

The company shall have no accounting books other than the statutory books. The company's assets shall not be deposited in any account opened under the name of an individual.

**APPOINTMENT AND DISMISSAL OF AUDITORS**

Pursuant to the PRC Company Law, the engagement or dismissal of an accounting firm responsible for the company's auditing shall be determined by a shareholders' general meeting or the board of directors in accordance with the articles of association. The accounting firm should be allowed to make representations when the general meeting or the board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidence, accounting books, financial and accounting reports and other accounting information to the engaged accounting firm without any refusal or withholding or falsification of data.

The Guidelines for Articles of Association provides that the company guarantees to provide true and complete accounting vouchers, accounting books, financial accounting

reports and other accounting materials to the employed accounting firm, and shall not refuse, conceal or falsely report. And the audit fee of the accounting firm shall be decided by the general meeting of shareholders.

## PROFIT DISTRIBUTION

According to the PRC Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve fund is provided. Also, the Overseas Listing Trial Measures provides that domestic enterprises that are listed overseas may raise funds and distribute dividends in foreign currencies or Renminbi.

## AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Pursuant to PRC Company Law, the resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by more than two-thirds of the votes held by shareholders attending the meeting.

## DISSOLUTION AND LIQUIDATION

Under the PRC Company Law, a company shall be dissolved for any of the following reasons:

(1) the term of its operation set out in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;

(2) the shareholders have resolved at a shareholders' general meeting to dissolve the company;

(3) the company shall be dissolved by reason of its merger or division;

(4) the business license of the company is revoked or the company is ordered to close down or to be dissolved in accordance with the laws; or

(5) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders of the company, on the grounds that the operation and management of the company has suffered serious difficulties that cannot be resolved through other means, rendering ongoing existence of the company a cause for significant losses to the shareholders' interests.

In the event of paragraph (1) above, the company may carry on its existence by amending its articles of association. The amendments to the articles of association in accordance with the provisions described above shall require the approval of more than two-thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved under the circumstances set forth in paragraph (1), (2), (4) or (5) above, it should establish a liquidation committee within 15 days of the date on which the dissolution matter occurs. The liquidation committee shall be composed of directors or any other person determined by a shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the people's court for setting up a liquidation committee with designated relevant personnel to conduct the liquidation. The people's court should accept such application and form a liquidation committee to conduct liquidation in a timely manner.

The sort out committee may exercise following powers during the liquidation:

(1) to sort out the company's assets and to prepare a balance sheet and an inventory of assets;

(2) to notify the company's creditors or publish announcements;

(3) to deal with any outstanding business related to the liquidation;

(4) to pay any overdue tax together with any tax arising during the liquidation process;

(5) to settle the company's claims and liabilities;

(6) to handle the company's remaining assets after its debts have been paid off; and

(7) to represent the company in any civil procedures.

The liquidation committee shall notify the company's creditors within 10 days of its establishment, and publish an announcement in newspapers within 60 days.

A creditor shall lodge his claim with the liquidation committee within 30 days of receipt of the notification or within 45 days of the date of the announcement if he has not received any notification.

A creditor shall report all matters relevant to his claimed creditor's rights and furnish relevant evidence. The liquidation committee shall register such creditor's rights. The liquidation committee shall not make any settlement to creditors during the period of the claim.

Upon disposal of the company's property and preparation of the required balance sheet and inventory of assets, the liquidation committee shall draw up a liquidation plan and submit this plan to a shareholders' general meeting or a people's court for endorsement. The remaining part of the company's assets, after payment of liquidation expenses, employee wages, social insurance expenses and statutory compensation, outstanding taxes and the company's debts, shall be distributed to shareholders in

proportion to shares held by them. The company shall continue to exist during the liquidation period, although it cannot conduct operating activities that are not related to the liquidation. The company's property shall not be distributed to shareholders before repayments are made in accordance with the requirements described above.

Upon liquidation of the company's property and preparation of the required balance sheet and inventory of assets, if the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to a people's court for a declaration of bankruptcy in accordance with the laws. Following such declaration by the people's court, the liquidation committee shall hand over the administration of the liquidation to the people's court.

Upon completion of the liquidation, the liquidation committee shall prepare a liquidation report and submit it to the shareholders' general meeting or the people's court for verification, and to the company registration authority for the cancellation of company registration, and an announcement of its termination shall be published. Members of the liquidation committee shall be faithful in the discharge of their duties and shall perform their liquidation duties in compliance with laws. Members of the liquidation committee shall be prohibited from abusing their authority in accepting bribes or other unlawful income and from misappropriating the company's properties. Members of the liquidation committee who have caused the company or its creditors to suffer from any loss due to intentional fault or gross negligence, should be liable for making compensations to the company or its creditors. In addition, liquidation of a company declared bankrupt according to laws shall be processed in accordance with the laws on corporate bankruptcy.

**OVERSEAS LISTING**

Pursuant to the Overseas Listing Trial Measures, "securities" refers to the stocks, depositary receipts, corporate bonds convertible into stocks or other equity securities that are directly or indirectly offered and listed overseas by domestic enterprises. Direct overseas offering and listing by a domestic enterprise refers to overseas offering and listing by a joint-stock company registered and formed in China. Indirect overseas offering and listing by a domestic enterprise refers to overseas offering and listing by an enterprise in the name of an overseas registered company, whereas the enterprise's main business activities are in China and such offering and listing is based on the equity, assets, earnings or other similar rights and interests of a domestic enterprise.

The Overseas Listing Trial Measures also provides for the conditions for overseas listing. No overseas offering and listing shall be conducted under any of the following circumstances:

(1) financing through listing is expressly prohibited by laws, administrative regulations or relevant rules of the state;

(2) the overseas offering and listing may endanger national security as determined by the relevant competent department under the State Council after examination according to the law;

(3) a domestic enterprise or its controlling shareholder or actual controller has committed a criminal crime of corruption, bribery, embezzlement, misappropriation of property or disrupting the economic order of the socialist market in the last three years;

(4) a domestic enterprise is under formal investigation according to the law for being suspected of any crime or major violation of laws and regulations, but no clear conclusions have been made;

(5) there is a major dispute over ownership of the equity held by the controlling shareholder or a shareholder controlled by the controlling shareholder or the actual controller.

In addition, pursuant to the Overseas Listing Trial Measures, a Chinese domestic enterprise submitting an IPO application to an overseas competent regulatory authority or an overseas stock exchange shall file with the CSRC within three working days after submission of the application documents. Upon offering and listing overseas, such issuer who offers securities in the same overseas market shall file with the CSRC within 3 working days upon completion of the offering. Where an issuer, upon listing of its shares overseas, offers its shares in other overseas markets, such issuer shall file in accordance with provision 1 of this article. In addition, upon receipt of all compliant filing materials, the CSRC shall complete the filing procedures within 20 working days from the date of receipt of such filing data, and make public the filing information public on its website. If the filing materials so submitted were identified as incomplete or non-compliant, the CSRC shall make a request to the issuer for supplementary information within 5 working days from the date of receipt of such filing information. The issuer shall submit such supplementary information within 30 working days.

Upon the occurrence of the following major events subsequent to the overseas listing of a Chinese domestic enterprise, it shall report the specific situation to the CSRC within 3 working days from the date of occurrence and announcement of the relevant matters:

(1) a change of control;

(2) any investigation or punishment initiated by overseas securities regulatory authorities or relevant competent departments;

(3) a change of listing status or listing venue;

(4) voluntary or involuntary delisting of shares.

On 10 August 2023, the CSRC revised the Guidelines for the Application for the "Full Circulation" of the Domestic Unlisted Shares of H-Share Companies (SFC Announcement No. [2023]50) (the "**Full Circulation Guidelines**"), effective from the same date. Such provisions aim to regulate the circulation of domestic unlisted shares of

domestic joint-stock limited companies (including the unlisted domestic shares held by domestic shareholders before overseas listing, the unlisted domestic shares issued domestically after overseas listing and the unlisted shares held by foreign shareholders) listed on the Hong Kong Stock Exchange (hereinafter referred to as "**H-share companies**") on the Hong Kong Stock Exchange (hereinafter referred to as the "**Full Circulation**").

Pursuant to the Full Circulation Guidelines, upon compliance with relevant laws and regulations, state-owned assets management, foreign investment and industry-specific supervision and other policy requirements, holders of domestic unlisted shares may independently negotiate to determine the number and proportion of shares applied for circulation, and entrust H-share companies to file with the CSRC on Full Circulation. A domestic joint-stock limited company that has not yet been listed may file with the CSRC when applying for an overseas initial public offering and listing.

According to the Notice of Launching the Information System for the Filing-Based Administration of the Overseas Offering and Listing of Domestic Enterprises issued by the CSRC on 17 February 2023 and effective from the same day, domestic enterprises that have offered its shares and listed overseas prior to 31 March 2023 are stock enterprises ("**Stock Enterprises**"). Stock enterprises are not required to file immediately, and shall file subsequently as required for other purposes for which filing is required such as refinancing. Domestic enterprises that have obtained approval from the CSRC on overseas public offering of shares and listing (including placement) in respect of joint stock limited companies may continue to proceed with overseas offering and listing within the effective period of such approval. Where such overseas offering and listing were not completed before the expiration of the effective period, the entity shall file as required.

In accordance with the Provisions on Strengthening the Confidentiality and Archives Administration Concerning the Overseas Securities Offering and Listing by Domestic Enterprises promulgated by the CSRC, the Ministry of Finance, the National Administration of State Secrets Protection and the National Archives Administration on 24 February 2023 and effective from 31 March 2023, where a domestic enterprise provides or publicly discloses, either directly or through its overseas listed entities, documents and data involving state secrets and working secrets of state organs to relevant securities companies, securities service agencies, overseas regulatory agencies, it shall obtain approval from the competent authorities according to law and file with the confidentiality administrative department at the same level for record. Where a domestic enterprise provides accounting archives or copies of accounting archives to relevant securities companies, securities service agencies, overseas regulatory agencies and other bodies and individuals, it shall perform corresponding procedures in accordance with relevant state regulations.

## LOSS OF SHARE CERTIFICATES

A shareholder may, in accordance with the public notice procedures set out in the PRC Civil Procedure Law, apply to a people's court if his share certificate(s) in registered form is either stolen, lost or destroyed, for a declaration that such certificate(s) will no longer be valid. After the people's court declares that such certificate(s) will no longer be valid, the shareholder may apply to the company for the issue of a replacement certificate(s).

## SUSPENSION AND TERMINATION OF LISTING

The Company Law has deleted provisions governing suspension and termination of listing. The PRC Securities Law (as revised on 28 December 2019) has also deleted provisions regarding suspension of listing. Where listed securities fall under the delisting circumstances stipulated by the stock exchange, the stock exchange shall terminate its listing and trading in accordance with the business rules.

According to the Overseas Listing Trial Measures, in case of active or compulsory termination of listing, the issuer shall report the specific situation to the CSRC within 3 working days from the date of occurrence and announcement of the relevant matters.

## MERGER AND DIVISION

Under the PRC Company Law, a merger agreement shall be signed by merging companies and the involved companies shall prepare respective balance sheets and inventory of assets. The companies shall within 10 days of the date of passing the resolution approving the merger notify their respective creditors and publicly announce the merger in Newspapers within 30 days. A creditor may, within 30 days from the date of reception of the notification, or within 45 days from the date of the announcement if he has not received such notification, request the company to settle any outstanding debts or provide corresponding guarantees.

In case of a merger, the credits and debts of the merging parties shall be assumed by the surviving or the new company. In case of a division, the company's assets shall be divided and a balance sheet and an inventory of assets shall be prepared. When a resolution regarding the company's division is approved, the company should notify all its creditors within 10 days of the date of passing such resolution and publicly announce the division in newspapers within 30 days.

Unless an agreement in writing is reached with creditors before the company's division in respect of the settlement of debts, the liabilities of the company which have accrued prior to the division shall be jointly borne by the divided companies.

Changes in the registration as a result of the merger or division shall be registered with the relevant administration authority for industry and commerce.

## THE PRC SECURITIES LAWS, REGULATIONS AND REGULATORY REGIMES

The PRC has promulgated a series of regulations that relate to the issue and trading of the Shares and disclosure of information. In October 1992, the State Council established the Securities Committee and CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering CSRC. CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies,

regulating public offerings of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the Securities Committee and CSRC and reformed CSRC.

On 22 April 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares (《股票發行與交易管理暫行條例》) govern the application and approval procedures for public offerings of shares, issuing of and trading of shares, the acquisition of listed companies, deposit, clearing and transfer of shares, the disclosure of information, investigation, penalties and dispute resolutions with respect to a listed company.

On 25 December 1995, the State Council promulgated the Special Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的特別規定》), which was abolished on 31 March 2023. These regulations principally govern the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

The PRC Securities Law took effect on 1 July 1999 and was revised as of 28 August 2004, 27 October 2005, 29 June 2013, 31 August 2014 and 28 December 2019, respectively. The latest Securities Law was implemented on 1 March 2020. It was the first national securities law in the PRC, and is divided into 14 chapters and 226 articles comprehensively regulating activities in the PRC securities market, including the issue and trading of securities, takeovers by listed companies and the duties and responsibilities of the securities exchanges, securities companies, securities clearing institutions and securities regulatory authorities. Article 224 of the PRC Securities Law provides that domestic enterprises shall satisfy the relevant requirements of the State Council when it issues shares or lists shares outside the PRC directly or indirectly. Currently, the issue and trading of foreign issued securities (including shares) are principally governed by the regulations and rules promulgated by the State Council and CSRC.

## ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (2017 Amendment) (《中華人民共和國仲裁法(2017修正)》) (the "**PRC Arbitration Law**") was enacted by the Standing Committee of the NPC on 31 August 1994, which became effective on 1 September 1995 and was amended on 27 August 2009 and 1 September 2017. It is applicable to, among other matters, economic disputes involving foreign parties where all parties have entered into a written agreement to resolve disputes by arbitration before an arbitration committee constituted in accordance with the PRC Arbitration Law. The PRC Arbitration Law provides that an arbitration committee may, before the promulgation of arbitration regulations by the PRC Arbitration Association, formulate interim arbitration provisions in accordance with the PRC Arbitration Law and the PRC Civil Procedure Law. Where the involved parties have agreed to settle disputes by means of arbitration, a people's court will refuse to handle a

legal proceeding initiated by one of the parties at such people's court, unless the arbitration agreement has lapsed.

Under the PRC Arbitration Law and PRC Civil Procedure Law, an arbitral award shall be final and binding on the parties involved in the arbitration. If one party fails to comply with the arbitral award, the other party to the award may apply to a people's court for its enforcement. However, the people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural irregularity (including but not limited to irregularity in the composition of the arbitration tribunal, the jurisdiction of the arbitration commission, or the making of an award on matters beyond the scope of the arbitration agreement or outside the jurisdiction of the arbitration commission).

Any party seeking to enforce an award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not located within the PRC may apply to a foreign court with jurisdiction over the relevant matters for recognition and enforcement of the award. Likewise, an arbitral award made by a foreign arbitral body may be recognized and enforced by a PRC court in accordance with the principle of reciprocity or any international treaties concluded or acceded to by the PRC.

The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the "**New York Convention**") passed on 10 June 1958 pursuant to a resolution passed by the Standing Committee of the NPC on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognized and enforced by other parties thereto subject to their rights to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of that state. At the time of the PRC's accession to the Convention, the Standing Committee of the NPC declared that (1) the PRC will only apply the New York Convention to the recognition and enforcement of arbitral awards made in the territories of other parties based on the principle of reciprocity; and (2) the New York Convention will only apply to disputes deemed under PRC laws to be arising from contractual or non-contractual mercantile legal relations.

An arrangement for mutual enforcement of arbitral awards between Hong Kong and the Supreme People's Court of China was reached. The Supreme People's Court of China adopted the Arrangements on the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region on 18 June 1999, which went into effect on 1 February 2000, which was amended by the Supplemental Arrangement of the Supreme People's Court for the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region implemented in 27 November 2020 and the Supplemental Arrangement of the Supreme People's Court for the Mutual Enforcement of Arbitral Awards between the Mainland and the Hong Kong Special Administrative Region (2021) implemented in 19 May 2021. The arrangements reflects the spirit of the New York Convention. Under the arrangements, the awards by the Mainland arbitral bodies recognized by Hong Kong may be enforced in Hong Kong and the awards by the Hong Kong arbitral bodies may also be enforced in the Mainland China. If the Mainland court finds that the enforcement of awards made by the Hong Kong arbitral bodies in the Mainland will be against public interests of the Mainland, the awards may not be enforced.

## JUDICIAL JUDGMENT AND ITS ENFORCEMENT

Under the Supreme People's Court's Arrangement on Mutual Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of Mainland and Hong Kong SAR Pursuant to Agreed Jurisdiction by Parties Concerned promulgated by the Supreme People's Court on 3 July 2008 and effective on 1 August 2008, as for an enforceable final judgment made by a PRC court or Hong Kong court concerning a civil and commercial case under a written agreement on jurisdiction, in which payment must be made, the party concerned may, under the Arrangement, apply to a PRC court or a Hong Kong court for recognition and enforcement. The term "written agreement on jurisdiction" refers to agreements clearly stipulated in written form by parties concerned that a PRC court or Hong Kong court has sole jurisdiction as to the effectiveness of the Arrangement, so as to settle disputes relevant to a certain legal relationship that has either arisen or might arise. Therefore, the party concerned may apply to the Court of China or the court of the Hong Kong Special Administrative Region to recognize and enforce the final judgment made in China or Hong Kong that meet certain conditions of the aforementioned regulations.

On 18 January 2019, the Supreme People's Court and the government of the Hong Kong Special Administrative Region entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (the "**New Arrangement**"), which seeks to establish a mechanism with further clarification on and certainty for recognition and enforcement of judgements in a wider range of civil and commercial matters between Hong Kong Special Administrative Region and the China. The New Arrangement discontinued the requirements for a choice of court agreement for bilateral recognition and enforcement. The New Arrangement will only take effect after the promulgation of a judicial interpretation by the Supreme People's Court and the completion of the relevant legislative procedures in the Hong Kong Special Administrative Region. The New Arrangement will, upon its effectiveness, supersede such arrangement.

## SHANGHAI-HONG KONG STOCK CONNECT

On 10 April 2014, CSRC and SFC issued the Joint Announcement of China Securities Regulatory Commission and Hong Kong Securities and Futures Commission – Principles that Should be Followed when the Pilot Programme that Links the Stock Markets in Shanghai and Hong Kong is Expected to be Implemented and approved in principle the launch of the pilot programme that links the stock markets in Shanghai and Hong Kong (《中國證券監督管理委員會香港證券及期貨事務監察委員會聯合公告－預期實行滬港股票市場交易互聯互通機制試點時將需遵循的原則》) (hereinafter referred to as "**Shanghai-Hong Kong Stock Connect**") by the Shanghai Stock Exchange (hereinafter referred to as "**SSE**"), the Stock Exchange, China Securities Depository and Clearing Co., Ltd. (hereinafter referred to as "**CSDCC**") and HKSCC. Shanghai-Hong Kong Stock Connect comprises the two portions of Northbound Trading Link and Southbound Trading Link. Southbound Trading Link refers to the entrustment of China securities houses by China investors to

trade stocks listed on the Stock Exchange within a stipulated range via filing by the securities trading service company established by the SSE with the Stock Exchange. During the initial period of the pilot programme, the stocks of Southbound Trading Link consist of constituent stocks of the Stock Exchange Hang Seng Composite Large Cap Index and the Hang Seng Composite MidCap Index as well as stocks of A+H stock companies concurrently listed on the Stock Exchange and the SSE. The total limit of Southbound Trading Link is RMB250 billion and the daily limit is RMB10.5 billion. During the initial period of the pilot programme, it is required by SFC that China investors participating in Southbound Trading Link are only limited to institutional investors and individual investors with a securities account and capital account balance of not less than RMB500,000.

On 10 November 2014, CSRC and SFC issued a Joint Announcement, approving the official launch of Shanghai-Hong Kong Stock Connect by SSE, the Stock Exchange, CSDCC and HKSCC. Pursuant to the Joint Announcement, trading of stocks under Shanghai-Hong Kong Stock Connect will commence on 17 November 2014.

On 30 September 2016, CSRC issued the Filing Provision on the Placement of Shares by Hong Kong Listed Companies with Domestic Original Shareholders under Southbound Trading Link (《關於港股通下香港上市公司向境內原股東配售股份的備案規定》) which came into effect on the same day. The act of the placement of shares by Hong Kong listed companies with domestic original shareholders under Southbound Trading Link shall be filed with CSRC. Hong Kong listed companies shall file the application materials and approved documents with CSRC after obtaining approval from the Stock Exchange for their share placement applications. CSRC will carry out supervision based on the approved opinion and conclusion of the Hong Kong side.

This Appendix contains a summary of the principal provisions of the Articles of Association adopted on January 17, 2024, which will become effective on the date on which the H Shares are [**REDACTED**] on the Stock Exchange. The main purpose of this Appendix is to provide potential [**REDACTED**] with an overview of the Articles of Association and it may not necessarily contain all information that is important to potential [**REDACTED**]. As discussed in the appendix headed "Appendix VII — Documents delivered to the Registrar of Companies and displayed" to this document, the full Chinese text of the Articles of Association is available for inspection.

## 1 DIRECTORS AND THE BOARD OF DIRECTORS

### (1) Power to allot and issue Shares

Subject to the relevant laws, regulations, prescriptive documents of the PRC and the mandatory provisions of the laws and regulations and the listing rules of the place where the shares of the Company are [**REDACTED**], the general meeting may authorise or entrust the Board of Directors (the "**Board**") to handle the matters authorised or entrusted by it, including but not limited to granting the Board a general mandate to issue, allot and deal with additional shares not exceeding 20 per cent (20%) of the total issued share capital of the Company as at the date of passing the resolution (or such other proportion as stipulated by the applicable laws, regulations and the listing rules of the place where the shares of the Company are [**REDACTED**]).

The Board shall prepare a proposal on the allotment or issue of Shares, which shall be subject to the approval of the Shareholders at a general meeting by way of a special resolution. Any such allotment or issue shall be made in accordance with the procedures stipulated by applicable laws, administrative regulations and the regulatory rules of the place where the Shares are [**REDACTED**].

### (2) Power to dispose of the assets of the Company or that of its subsidiaries

The Board shall determine the authority of external investment, acquisition and disposal of assets, pledge of assets, external guarantee, entrusted wealth management, connected transactions and other major matters, and establish strict examination and decision-making procedures; for major investment projects, relevant experts and professionals shall be organised to review and report to the shareholders' general meeting for approval.

### (3) Provision of loans guarantees to Directors, Supervisors or other management personnel

The external guarantees of the Company shall be submitted to the Board or the shareholders' general meeting (the "**General Meeting**") for consideration.

The following external guarantees of the Company shall be considered and approved at the General Meeting:

(1) any guarantee provided after the total amount of external guarantees provided by the Company and its controlled subsidiaries exceeds 50% of the latest audited net assets;

(2) any guarantee provided after the total amount of external guarantees provided by the Company and its controlled subsidiaries exceeds 30% of the latest audited total assets;

(3) any guarantee with an amount exceeding 30% of the latest audited total assets of the Company within one year;

(4) Guarantee provided to subjects with a gearing ratio of over 70%;

(5) a single guarantee with an amount exceeding 10% of the latest audited net assets;

(6) Guarantees provided to shareholders, de facto controllers and their connected parties;

(7) other external guarantees required by laws, regulations and prescriptive documents and the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] to be submitted to the general meeting for consideration.

The external guarantees to be considered at the general meeting shall only be submitted to the general meeting for consideration and approval after being considered and approved by the Board.

**(4) Financial assistance for acquisition of shares of the Company or shares of any subsidiaries**

The Company or its subsidiaries (including affiliated enterprises of the Company) shall not provide any financial assistance in the form of gift, advance, guarantee, compensation or loan to a person who acquires or proposes to acquire shares of the Company.

**(5) Emoluments**

The appointment and removal of the members of the Board and the Supervisory Committee and their remuneration and payment methods shall be passed by an ordinary resolution of the shareholders' general meeting.

**(6) Appointment, Resignation and Dismissal**

Our Board consists of nine Directors, including three independent non-executive Directors. The Directors of the Company shall be elected by the General Meeting. The Board of the Company shall have independent non-executive directors. The number of independent non-executive directors shall not be less than three (3) and shall not be less than one-third (1/3) of all directors, and at least one of them shall have appropriate professional qualifications or appropriate accounting or related financial management expertise, and one (1) independent non-executive director shall be ordinarily resident in Hong Kong.

The Board shall have one chairman and no vice chairman. The chairman of the Board shall be elected by more than half of all the Directors. The term of office of the chairman shall be three years, which is renewable upon re-election.

Directors shall be elected or replaced by the general meeting, with a term of three years. The shareholders' general meeting may remove any director whose term of office has not expired by an ordinary resolution. A director may serve consecutive terms if re-elected, except as otherwise provided in relevant laws and regulations, laws and regulations of the place where the shares of the Company are [**REDACTED**] and the Listing Rules and the Articles of Association. Pursuant to the Hong Kong Listing Rules, every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three (3) years.

The following persons shall not serve as our directors, supervisors or senior management:

(1) a person who has no civil capacity or has restricted civil capacity;

(2) a person who has been sentenced to criminal punishment due to corruption, bribery, embezzlement, misappropriation of property or sabotage of socialist market economic order and is within five years of the expiration of the enforcement period, or has been deprived of political rights due to criminal offences and is within five years of the expiration of the enforcement period;

(3) a person who is a former director, factory manager or general manager of a company or enterprise which has entered into insolvent liquidation and who is personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvent liquidation of such company or enterprise;

(4) a person who served as the legal representative of a company or enterprise which has its business licence revoked or is ordered to close down due to violation of the law and who is personally liable, where less than three years have elapsed since the date of revocation of the business licence of such company or enterprise;

(5) a person who has a relatively large amount of debts due and outstanding;

(6) other contents required by laws, regulations and prescriptive documents.

If a director is elected or appointed in violation of this Article, such election, appointment or engagement shall be invalid. The Company shall remove a director from office if any of the circumstances set forth in this Article occurs during the director's term of office.

**(7) Borrowing powers**

The directors shall abide by the laws, regulations and prescriptive documents, the listing rules of the stock exchange where the Company's shares are **[REDACTED]** and the Articles of Association, and shall faithfully perform their obligations to the Company, and shall not violate the provisions of the Articles of Association, lend the Company's funds to others or provide guarantees for others with the Company's property without the consent of the general meeting or the Board;

The Board has the power to make proposals in relation to the issue of bonds and the **[REDACTED]** of the shares of the Company, and such issue of bonds is subject to the approval of the Shareholders at the general meeting by way of special resolution.

**(8) Responsibilities**

The directors shall abide by the laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are **[REDACTED]** and the Articles of Association, and bear the following faithful obligations to the Company:

(1) not to take advantage of their powers to accept bribes or other illegal income and not to misappropriate the Company's property;

(2) not to misappropriate the Company's funds;

(3) not to open accounts in his own name or in the name of any other person for the deposit of the Company's assets or funds;

(4) not to lend the Company's funds to others or provide guarantees for others with the Company's properties in violation of the Articles of Association or without the consent of the general meeting or the Board;

(5) not to enter into any contract or transaction with the Company in violation of the Articles of Association or without the consent of the General Meeting;

(6) without the consent of the General Meeting, not to take advantage of inside information or position to seek business opportunities for himself/herself or others that should have been attributed to the Company, or to operate for himself/herself or others businesses similar to those of the Company;

(7) not to accept commissions in connexion with the Company's transactions for his/her own benefit;

(8) not to disclose secrets of the Company without authorization;

(9) not to take advantage of their connected relationships to prejudice the interests of the Company;

(10) other loyalty obligations stipulated by laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] and the Articles of Association.

The income obtained by a director in violation of this Article shall belong to the Company; if any loss is caused to the Company, he/she shall be liable for compensation.

The directors shall abide by the laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] and the Articles of Association, and bear the following duties of diligence to the Company:

(1) to exercise the rights granted by the Company in a prudent, serious and diligent manner to ensure that the Company's business activities comply with the requirements of laws, regulations and prescriptive documents and various national economic policies, and the business activities do not exceed the business scope specified in the business licence;

(2) to treat all shareholders fairly;

(3) to carefully peruse the Company's various commercial and financial reports and keep abreast of the Company's business operation and management;

(4) sign a written confirmation on the Company's regular reports. Ensure that the Company discloses information in a timely and fair manner, and the information disclosed is true, accurate and complete. If there is no guarantee of the authenticity, accuracy and completeness of the contents of the securities issuance documents and regular reports or there is any objection, they shall express their opinion and state the

reasons in the written confirmation opinion, which shall be disclosed by the issuer. Where the issuer does not disclose, the directors may directly apply for disclosure;

(5) shall truthfully provide the Supervisory Committee with relevant information and materials, and shall not hinder the Supervisory Committee or the Supervisors from exercising their functions and powers;

(6) other duty of diligence stipulated by laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] and the Articles of Association.

When a director's resignation takes effect or his/her term of office expires, he/she shall complete all handover procedures with the Board, and his/her duty of loyalty to the Company and shareholders shall not necessarily be released upon conclusion of his/her term of office. The directors' obligation to keep confidential the Company's trade secrets shall remain valid after the expiration of their terms of office until such secrets become public information. The duration of other obligations of a director shall be determined in accordance with the principle of fairness, depending on the length of time between the occurrence of the event and the resignation, as well as the circumstances and conditions under which the relationship with the Company is terminated.

No Director shall act on his/her own behalf on behalf of the Company or the Board without the legal authorization of the Articles of Association or the Board. When a director acts on his/her own behalf and a third party may reasonably believe that the director acts on behalf of the Company or the Board, the director shall declare his/her position and identity in advance.

If a director violates the laws, regulations and prescriptive documents, the listing rules of the stock exchange where the Company's shares are [**REDACTED**] or the Articles of Association when performing his/her duties and causes losses to the Company, he/she shall be liable for compensation.

## 2 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company may amend the Articles of Association in accordance with the provisions of laws, administrative regulations and the Articles of Association.

Amendments to the Articles of Association passed by the General Meeting shall be reported to the competent authorities for approval if they are subject to examination and approval. If the amendment to the Articles of Association involves registration matters, the registration change procedures shall be performed in accordance with the law.

Any information that are required to be disclosed by laws and regulations regarding amendments to the Articles of Incorporation shall be announced in accordance with the requirements.

## 3 SPECIAL RESOLUTION — ABSOLUTE MAJORITY REQUIRED

The resolutions of the General Meeting shall be divided into ordinary resolutions and special resolutions.

An ordinary resolution may be passed by more than half of the voting rights held by the shareholders (including proxies) attending the General Meeting.

A special resolution may be passed by more than two-thirds of the voting rights held by the shareholders (including proxies) attending the shareholders' General Meeting.

## 4 VOTING RIGHTS

Shareholders (including proxies) shall exercise their voting rights according to the number of voting shares they represent. Each share shall carry the right to one vote.

When the General Meeting considers significant matters affecting the interests of small and medium-sized [**REDACTED**], the votes of small and medium-sized [**REDACTED**] shall be counted separately. The results of separate vote counting shall be disclosed publicly in a timely manner in accordance with relevant laws and regulations and the rules of the stock exchange where the shares of the Company are [**REDACTED**].

The shares of the Company held by the Company have no voting rights, and such shares are not counted in the total number of voting shares present at the shareholders' General Meeting.

The Board, independent non-executive directors and shareholders who meet the relevant requirements may publicly solicit voting rights from shareholders. Information such as specific voting intentions shall be fully disclosed to the shareholders whose voting rights are being solicited. Soliciting shareholders' voting rights with compensation or disguised compensation is prohibited. The Company shall not impose any minimum shareholding limitation for soliciting voting rights.

The same voting right can only be exercised by one of the following means of on-site voting, online voting or other means of voting. In the event of repeated voting of the same voting right, the results of the first vote shall prevail.

Shareholders attending the General Meeting shall express one of the following opinions on the proposals submitted for voting: for, against or abstain, except for the securities registration and clearing institution, as the nominal holder of shares under the Shanghai-Hong Kong Stock Connect, makes declaration according to the intention of the actual holder.

If a vote is not filled in, incorrectly filled in, illegible or not cast, the voter shall be deemed to have waived his/her voting rights, and the voting results for the number of shares held by him/her shall be counted as "abstain".

Where the Hong Kong Listing Rules require any shareholder to abstain from voting on any particular resolution or restrict any shareholder to vote for or against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

According to the Hong Kong Listing Rules, any vote of shareholders at a General Meeting must be taken by poll except where the chairman of the meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. The Company must announce the results of the poll in the manner prescribed under the Hong Kong Listing Rules. On a poll taken at a meeting, a shareholder (including proxy) entitled to two or more votes need not cast all his votes in the same way.

## 5 RULES OF GENERAL MEETING

General meetings are divided into annual General Meeting and extraordinary General Meeting. The annual General Meeting shall be held once a year within six months after the end of the previous fiscal year.

When convening a General Meeting, all directors, supervisors and the secretary to the Board of the Company shall attend the meeting, and the general manager and other relevant senior management shall be present at the meeting, unless there is a proper reason for taking leave and a written request is submitted to the convener of the meeting in advance. However, if any director, supervisor, secretary to the Board, general manager or other senior management member needs to be questioned at the General Meeting, he/she shall not take leave.

## 6 ACCOUNTING AND AUDITING

### (1) Financial and accounting policies

The Company formulates its financial and accounting policies, profit distribution and audit systems in accordance with the Accounting Law of the People's Republic of China and other laws, regulations and prescriptive documents, as well as the laws, regulations and listing rules of the place where the shares of the Company are [**REDACTED**].

The Company shall prepare a financial report at the end of each fiscal year, which shall be examined and verified according to law. The Company shall submit, disclose and/or submit annual reports, interim reports, preliminary results announcements and other documents to shareholders in accordance with the laws and regulations of the place where the shares of the Company are [**REDACTED**], the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] and other prescriptive documents.

The Company shall not keep accounts other than those provided by law. Assets of the Company shall not be deposited in an account opened in the name of any individual.

**(2) Appointment and dismissal of accountant**

The Company shall engage an accounting firm that complies with the relevant provisions of the Securities Law and the Hong Kong Listing Rules to audit the accounting statements, verify the net assets and provide other relevant consulting services for a term of one year, which may be re-appointed from the conclusion of the current annual General Meeting of the Company to the conclusion of the next annual General Meeting.

The appointment of an accounting firm by the Company must be determined by the General Meeting and the Board shall not appoint an accounting firm before the decision of the General Meeting. The Audit Committee may propose to the Board the audit fees of the accounting firm or the determination of the audit fees. If the Supervisory Committee finds any abnormal operation of the Company, it may engage an accounting firm to assist its work if necessary.

The Company guarantees to provide the engaged accounting firm with true and complete accounting vouchers, accounting books, financial and accounting reports and other accounting information, and shall not refuse to provide, conceal or falsify such documents.

The appointment, removal or non-reappointment of an accounting firm shall be decided upon by the General Meeting.

Where the General Meeting proposes to pass a resolution to appoint an accounting firm other than an incumbent accounting firm to fill any vacancy in the office of accounting firms, to reappoint an accounting firm appointed by the Board to fill the vacancy, or to remove an accounting firm before the expiration of its term of office, the following provisions shall be complied with:

(1) The proposal on appointment or dismissal shall be delivered to the accounting firm proposed to be appointed or which has left office in the relevant accounting year before the notice of General Meeting is issued. Leaving office includes leaving by removal, resignation and retirement.

(2) If the accounting firm leaving its post makes representations in writing and requests the Company to notify such representations to the shareholders, the Company shall (unless the representations are received too late):

1. in any notice of the resolution given to shareholders, state the fact of the representations having been made by the leaving accounting firm;

2. attach a copy of the representations to the notice and deliver it to the shareholders in the manner stipulated in the Articles of Association.

(3) If the representations of the relevant accounting firm are not sent out in accordance with item (2) of this Article, the relevant accounting firm may require that the representations be read out at the General Meeting and may further appeal.

(4) The leaving accounting firm shall be entitled to attend the following meetings:

1. the General Meeting at which its term of office shall expire;

2. any General Meeting at which it is proposed to fill the vacancy caused by its removal from office;

3. any General Meeting summoned due to its resignation.

The leaving accounting firm shall be entitled to receive all notices of, and other communications relating to any such meeting, and to speak at any such meeting in relation to any matter which concerns it as a former accounting firm of the Company.

When the Company dismisses or does not renew the engagement of the accounting firm, it shall notify the accounting firm 30 days in advance. The accounting firm shall be allowed to make representations at the General Meeting of the Company when voting on the dismissal of the accounting firm.

Where the accounting firm resigns, it shall make clear to the General Meeting whether there is any irregularity in the Company.

The accounting firm may resign its office by depositing at the legal address of the Company a notice of resignation. The notice shall take effect on the date when it is placed at the legal address of the Company or the later date specified therein. The notice shall contain the following statements:

(1) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; or

(2) any such statement of circumstances that should be explained.

Within 14 days after receiving the written notice referred to in the preceding paragraph, the Company shall send a copy of the notice to the relevant competent authority. If the notice contains a statement under paragraph (2) of the preceding paragraph, a copy of such statement shall be placed at the Company for shareholders' inspection. The Company shall also send a copy of such statement to every shareholder entitled to a copy of the financial position report of the Company at the address registered in the register of shareholders.

Where the notice of resignation of the accounting firm contains a statement of any circumstances which should be explained, the accounting firm may require the Board to convene an extraordinary General Meeting for the purpose of receiving an explanation of the circumstances in connection with its resignation.

## 7 NOTICE AND AGENDA OF GENERAL MEETINGS

The General Meeting is an authorised body for the Company to perform its duties and exercise its powers in accordance with the law.

The Company shall convene an extraordinary General Meeting within two months from the date of occurrence of any of the following events:

(1) when the number of directors is less than the minimum number required by the Company Law or two-thirds of the number required by the Articles of Association;

(2) when the unrecovered losses of the Company amount to one-third of the total paid-up share capital;

(3) when shareholder(s) severally or jointly holding 10% or more of the shares of the Company so request(s);

(4) when deemed necessary by the Board;

(5) when proposed by the Supervisory Committee;

(6) other circumstances stipulated by laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] or the Articles of Association.

The number of shareholding in item (3) above shall be calculated based on the number of shares held on the date when the shareholders make the written request or the close of the previous (1) [**REDACTED**] day (if the date on which the written request is made is a non-[**REDACTED**] day).

If the Board agrees to convene the extraordinary General Meeting, it shall issue a notice of convening the meeting within five days after the resolution of the Board is made; if the Board does not agree to hold the extraordinary General Meeting, it shall explain the reasons and make an announcement.

The Supervisory Committee has the right to propose to the Board to convene an extraordinary General Meeting, and such proposal shall be made in writing. The Board shall, in accordance with the laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] and the Articles of Association, give a written reply on whether to agree or disagree with the convening of the extraordinary General Meeting within ten days after receiving the proposal.

If the Board agrees to convene the extraordinary General Meeting, a notice of General Meeting shall be issued within five days after the resolution of the Board is made, and any changes to the original proposal in the notice shall be subject to the consent of the Supervisory Committee.

If the Board does not agree to convene the extraordinary General Meeting or fails to give feedback within ten days after receiving the proposal, it shall be deemed that the Board is unable or fails to perform its duty of convening the General Meeting, and the Supervisory Committee may convene and preside over the meeting on its own initiative.

Shareholders individually or jointly holding more than 10% of the shares of the Company shall have the right to request the Board to convene an extraordinary General Meeting, and shall put forward the proposal to the Board in writing to clarify the agenda of the meeting. The Board shall, in accordance with the laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] and the Articles of Association, give a written reply on whether to agree or disagree with the convening of the extraordinary General Meeting within ten days after receiving the request.

If the Board agrees to convene an extraordinary General Meeting, a notice of General Meeting shall be issued within five days after the resolution of the Board is made. Any change to the original request in the notice shall be subject to the consent of the relevant shareholders.

If the Board does not agree to convene an extraordinary General Meeting or does not provide feedback within ten days after receiving the request, shareholders individually or jointly holding more than 10% of the Company's shares shall have the right to propose to the Supervisory Committee to convene an extraordinary General Meeting, and shall make a request to the Supervisory Committee in writing.

If the Supervisory Committee agrees to convene the extraordinary General Meeting, it shall issue a notice of General Meeting within five days after receiving the request. Any changes to the original proposal in the notice shall be subject to the consent of the relevant shareholders.

If the Supervisory Committee fails to issue the notice of General Meeting within the prescribed period, it shall be deemed that the Supervisory Committee will not convene and preside over the General Meeting, and shareholders individually or jointly holding more than 10% of the shares of the Company for more than 90 consecutive days may convene and preside over the meeting on their own initiative.

Shareholders individually or jointly hold 3% or more of the Company's shares may submit ad hoc proposals to the convener in writing ten days prior to the date of the General Meeting. The convener shall issue a supplementary notice of the General Meeting within two days after receiving the proposal to announce the content of the provisional proposal.

The convener will notify all shareholders at least twenty-one (21) days before the annual General Meeting and the extraordinary General Meeting will notify all shareholders at least 14 (14) days before the meeting.

When calculating the starting period, the date of the meeting shall not be included.

A notice of General Meeting shall meet the following requirements:

(1) made by way of an announcement;

(2) specify the time, place, method and duration of the meeting;

(3) state the matters and proposals submitted to the meeting for consideration;

(4) provide shareholders with the information and explanations they need to make an informed decision on the matters discussed; this principle includes but is not limited to providing information about the proposed transaction when the Company proposes a merger, repurchase of shares, capital reorganization or other reorganization. Specific conditions and contracts (if any), with a careful explanation of their causes and consequences;

(5) contain a disclosure of the nature and extent, if any, of the material interests of any Director, Supervisor, general manager or other senior management personnel in the proposed transaction and the effect of the proposed transaction on them in their capacity as shareholders insofar as it is different from the effect on the interests of the shareholders of the same class;

(6) contain the full text of any special resolution to be proposed for adoption at the meeting;

(7) contain a clear statement that: all shareholders are entitled to attend the General Meeting and may appoint a proxy in writing to attend and vote at the meeting on his/her behalf and that such proxy need not be a shareholder of the Company;

(8) specify the time and place for lodging proxy forms for the relevant meeting;

(9) specify the shareholding record date for shareholders entitled to attend the shareholders' General Meeting, and the interval between the record date and the date of the meeting shall not be more than 7 working days. Once the shareholding record date is confirmed, it shall not be changed;

(10) the name and telephone number of the standing contact person for the meeting;

(11) the time and procedure for voting by online or other means.

The notice and supplementary notice of the General Meeting shall fully and completely disclose all the specific contents of all the proposals and all the information or explanation necessary for the shareholders to make a reasonable judgement on the matters to be discussed. If the matters to be discussed require the opinions of the independent non-executive Directors, the opinions and reasons of the independent non-executive Directors will be disclosed simultaneously when the notice or supplementary notice of the General Meeting is issued.

The resolutions of the General Meeting shall include ordinary resolutions and special resolutions.

The following matters shall be resolved by an ordinary resolution at a General Meeting:

(1) work reports of the Board and the Supervisory Committee;

(2) profit distribution plans and loss recovery plans formulated by the Board;

(3) appointment and removal of members of the Board and the Supervisory Committee, their remuneration and method of payment;

(4) the Company's annual budget plans and final accounts plans, balance sheets, income statements and other financial statements;

(5) Annual reports of the Company;

(6) engagement, dismissal or discontinuation of engagement of an accounting firm and remuneration of an accounting firm by the Company;

(7) matters other than those required by laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] or the Articles of Association to be adopted by special resolution.

The following matters shall be resolved by a special resolution at a General Meeting:

(1) the increase or reduction of the Company's registered capital and the issuance of any class of shares, certified shares and other similar securities;

(2) the issuance of corporate bonds;

(3) the division, merger, dissolution and liquidation of the Company;

(4) Amendments to the Articles of Association;

(5) purchase or disposal of material assets or provision of guarantee by the Company within one year with an amount exceeding 30% of the latest audited total assets of the Company;

(6) share incentive schemes;

(7) to buy back its own shares in accordance with the Articles of Association;

(8) other matters stipulated by laws, regulations and prescriptive documents, the listing rules of the place where the shares of the Company are [**REDACTED**] or the Articles of Association, and matters determined by an ordinary

resolution at a General Meeting that may have a material impact on the Company and need to be approved by a special resolution.

If the content of the resolutions of the General Meeting and the Board of the Company violate the laws, regulations and prescriptive documents, the shareholders shall have the right to request the people's court to hold it invalid.

If the convening procedures and voting methods of the General Meeting or the Board violate laws, regulations and prescriptive documents or the Articles of Association, or the contents of the resolutions violate the Articles of Association, the shareholders shall have the right to request the people's court to revoke the resolutions within 60 days from the date of adoption of the resolutions.

## 8 TRANSFER OF SHARES

Shares of the Company held by the promoters shall not be transferred within one year from the date of establishment of the Company. Shares of the company issued prior to the public issue of shares may not be transferred within one year of the date of the company's [**REDACTED**] on a stock exchange.

Directors, supervisors and the senior management of the Company shall declare to the Company their shareholdings in it and changes in such shareholdings. During their terms of office, they may transfer no more than 25% of their total number of shareholding in the Company every year; they shall not transfer their shareholding within one year from the date of [**REDACTED**] of the Company's shares on a stock exchange. The aforesaid persons shall not transfer the shares of the Company held by them within half a year after they leave office.

If a Director, Supervisor, senior management personnel of the Company or shareholder holding more than 5% of the Company's shares sells his/her shares or other securities of an equity nature within six months of the date of purchase, or buys them again within six months of the date of sale, the proceeds therefrom shall belong to the Company, and the Board of Directors of the Company shall recover the proceeds therefrom, except for cases where the securities company holds more than 5% of the shares as a result of the purchase of the remaining shares after the underwriting, and in other cases as stipulated by the China Securities Regulatory Commission.

The shares or other securities of equity nature held by directors, supervisors, senior management and natural person shareholders referred to in the preceding paragraph shall include the shares or other securities of equity nature held by their spouses, parents and children and held through others' accounts.

If the Board of the Company fails to comply with the provisions of the first paragraph of this Article, the shareholders shall have the right to request the Board to implement the same within 30 days. If the Board of the Company fails to implement the above-mentioned period, the shareholders shall have the right to directly file a lawsuit with the people's court in their own name for the benefit of the Company.

If the Board of the Company does not comply with the provisions of the first paragraph of this article, the responsible directors shall bear joint and several liabilities in accordance with the law.

## 9 RIGHTS OF THE COMPANY TO PURCHASE ITS OUTSTANDING ISSUED SHARES

The Company may, in the following circumstances, buy back its own shares in accordance with laws, regulations, prescriptive documents and the Articles of Association:

(1) to reduce the Company's registered capital;

(2) merging with another company that holds shares in the Company;

(3) Use of shares for employee stock ownership plans or equity incentives;

(4) acquiring shares held by shareholders (upon their request) who disagrees with any resolution adopted at the General Meeting on the merger or division of the Company;

(5) using the shares for the conversion of the debts of the Company which are convertible into shares issued by the Company;

(6) where it is necessary for safeguarding the Company's value and shareholders' rights and interests.

Save for the above circumstances, the Company shall not engage in the [**REDACTED**] of its own shares.

The Company may repurchase its shares through public centralised [**REDACTED**] or other methods recognised by laws, regulations, prescriptive documents and securities regulatory authorities.

If the Company acquires its own shares due to the circumstances specified in items (3), (5) and (6) of the first paragraph of Article 23 of the Articles of Association, it shall be conducted through public centralised [**REDACTED**].

Where the Company repurchases its shares by an off-market agreement, it shall seek prior approval of the shareholders' General Meeting in accordance with the Articles of Association. With the prior approval of the General Meeting obtained in the same manner, the Company may cancel or change the contract already concluded in the aforesaid manner or waive any right in the contract. A contract to repurchase shares referred to in the preceding paragraph includes, but is not limited to, an agreement to become obliged to repurchase or to acquire the right to repurchase shares.

The Company shall not assign a contract to repurchase its shares or any of its rights thereunder.

The purchase of the Company's shares for reasons set out in items (1) and (2) of Article 23 of the Articles of Association shall be resolved by the General Meeting; the purchase of the Company's shares for reasons set out in items (3), (5) and (6) of Article 23 of the Articles of Association shall be resolved by the Board meeting attended by more than two-thirds of the Directors.

Where the Company acquires its own shares in accordance with the provisions of Article 23, such shares shall be cancelled within ten days from the date of acquisition under the circumstances set out in item (1); where such shares are acquired under the circumstances set out in items (2) and (4), such shares shall be transferred or cancelled within six months. The shares purchased by the Company in accordance with items (3), (5) and (6) of Article twenty-three shall not exceed 10% of the total issued shares of the Company, and shall be transferred or cancelled within three years.

If the Company cancels such shares due to the repurchase of shares of the Company, it shall apply to the original company registration authority for registration of the change of registered capital in accordance with the law. The total par value of the cancelled shares shall be deducted from the registered capital of the Company.

The repurchase of H Shares of the Company shall comply with the Hong Kong Listing Rules and other relevant laws, regulations and regulatory requirements of the place where the H Shares are [**REDACTED**].

## 10 POWER OF ANY SUBSIDIARY OF THE COMPANY TO OWN SHARES IN ITS PARENT COMPANY

There are no provisions in the Articles of Association relating to ownership by a subsidiary of the Company of shares in its parent company.

## 11 DIVIDENDS AND OTHER MEANS OF DISTRIBUTION

If the proposal on cash distribution, bonus issue or conversion of capital reserve into share capital is approved at the General Meeting, the Company will implement the specific proposal within two months after the conclusion of the General Meeting.

After the profit distribution plan is resolved at the General Meeting of the Company, the Board of the Company shall complete the distribution of dividends (or shares) within two months after the General Meeting.

The profit distribution of the Company shall be in the form of cash or shares, and in principle, cash dividends shall be given priority.

The Company shall appoint one or more receiving agents for holders of H Shares. The receiving agent shall collect on behalf of the relevant shareholders the dividends distributed and other monies payable by the Company in respect of H shares, and shall declare such monies on behalf of the holders of such securities, pending payment to such holders. The receiving agents appointed by the Company shall meet the requirements of the laws or relevant regulations of the stock exchange where the Company is

[**REDACTED**]. The receiving agents appointed by the Company for holders of H Shares [**REDACTED**] in Hong Kong shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

## 12 SHAREHOLDERS' PROXIES

Shareholders may attend the General Meeting in person or appoint a proxy to attend and vote on their behalf.

A shareholder shall appoint a proxy in writing, and the power of attorney shall be signed by the principal or by his attorney appointed in writing; if the principal is a legal person, it shall be affixed with the seal of the legal person or signed by its director or formally appointed agent.

The power of attorney issued by a shareholder entrusting another person to attend a shareholders' General Meeting shall contain the following:

(1) name of the proxy;

(2) the proportion of shares of the principal represented by the proxy;

(3) whether the proxy has voting rights or not;

(4) instructions to vote for, against or abstain from voting on each matter to be considered on the agenda of the General Meeting;

(5) date of issuance and validity period of the power of attorney;

(6) the signature (or seal) of the principal. If the principal is a corporate shareholder, the corporate seal shall be affixed.

Any form issued to a shareholder by the Board of the Company for use by him for appointing a proxy shall allow the shareholder to freely instruct the proxy to vote in favour of or against each resolution and give separate instructions for each matter to be voted on at the meeting. Such a form shall contain a statement that in the absence of specific instructions from the shareholder the proxy may vote as he/she thinks fit. If the shareholder is a recognised clearing house or its agent as defined by the relevant laws and regulations of the place where the shares of the Company are [**REDACTED**], the shareholder may authorise one or more persons it deems suitable to act as its representative (s) at any shareholders' General Meeting; however, if more than one person is authorised, the power of attorney shall specify the number and class of shares involved by each such person, and the power of attorney shall be signed by the authorised personnel of the recognised clearing house. The person (s) so authorised may attend the meeting on behalf of the Recognised Clearing House (or its agent) (without presenting the shareholding certificate, notarized authorization and/or further evidence to prove that he/she is duly authorised) to exercise his/her rights as if he/she was an individual shareholder of the Company.

## 13 INSPECTION OF REGISTER OF MEMBERS AND OTHER RIGHTS OF SHAREHOLDERS

A shareholder of the Company is a person who lawfully holds shares of the Company and whose name is entered in the register of members. The Company shall establish a register of members based on the evidence provided by the share registrar, which shall be sufficient evidence to prove that the shareholders hold the Company's shares. A shareholder shall enjoy rights and assume obligations according to the class of shares held by him; shareholders who holds shares of the same class shall enjoy the same rights and assume the same obligations.

When the Company convenes a General Meeting, distributes dividends, goes into liquidation or engages in other acts that require the confirmation of the identity of the shareholders, the Board or the convener of the General Meeting shall confirm the equity registration date, and the shareholders whose names appear on the register of members after the close of [**REDACTED**] on the equity registration date shall be the shareholders entitled to the relevant rights and interests.

## 14 LIMITATION OF RIGHTS OF CONTROLLING SHAREHOLDER

The controlling shareholders and actual controllers of the Company shall not use their connected relationships to the detriment of the interests of the Company. Those who violate such requirements and cause losses to the Company shall be liable for compensation.

The controlling shareholders and de facto controllers of the Company owe a duty of good faith to the Company and all shareholders of the Company. The controlling shareholder shall exercise its rights as a contributor in strict compliance with the laws, and shall not prejudice the legitimate rights and interests of the Company and other shareholders by means of profit distribution, asset restructuring, external investment, capital appropriation, loan guarantee, etc., and shall not prejudice the interests of the Company and other shareholders by taking advantage of its controlling position.

## 15 PROCEDURES OF LIQUIDATION

The Company shall be dissolved for the following reasons:

(1) expiry of the term of business stipulated in the Articles of Association or occurrence of other reasons for dissolution stipulated in the Articles of Association;

(2) the General Meeting has resolved to dissolve the Company;

(3) dissolution is necessary due to merger or division of the Company;

(4) the Company is legally declared bankrupt due to its failure to pay its debts as they fall due;

(5) the business licence of the Company is revoked, the Company is ordered to close down or is revoked in accordance with the law;

(6) where the Company encounters any serious difficulty in its operation and management and its continuance shall cause a significant loss to the interests of the shareholders, and such difficulty cannot be solved by any other means, the shareholders holding more than 10% of the voting rights of all the shareholders of the Company may petition the people's court to dissolve the Company.

Where the Company is dissolved pursuant to items (1), (2), (5) and (6), a liquidation committee shall be established and the liquidation shall commence within 15 days after the occurrence of the cause of dissolution. The liquidation committee shall be composed of directors or any other person determined by a shareholders' general meeting. If a liquidation committee is not established within the stipulated period, the creditors may apply to the people's court for setting up a liquidation committee with designated relevant personnel to conduct the liquidation.

Where the Company is dissolved under circumstance (3), the liquidation shall be handled by the parties to the merger or division in accordance with the contract signed at the time of merger or division.

Where the Company is dissolved pursuant to item (4), the people's court shall, in accordance with the provisions of relevant laws, organise the shareholders, relevant authorities and relevant professionals to establish a liquidation committee to carry out the liquidation.

Where the Company is dissolved pursuant to item (5), the relevant competent authority shall organise the shareholders, relevant authorities and relevant professionals to establish a liquidation committee to carry out the liquidation.

If a liquidation committee is not established within the stipulated period, the creditors may apply to the people's court for setting up a liquidation committee with designated relevant personnel to conduct the liquidation.

The functions and powers of the Board of the Company shall cease immediately after the resolution for carrying out liquidation is passed at the General Meeting.

The liquidation committee shall notify the creditors within ten days from the date of its establishment and make at least three announcements on the media for information disclosure within 60 days. Creditors shall declare their claims to the liquidation committee within 30 days after receiving the notice or within forty-five days after the announcement if they have not received the notice.

When declaring their claims, creditors shall explain the relevant matters of their claims and provide supporting materials. The liquidation committee shall register the creditor's rights.

During the period of claiming creditors' rights, the liquidation committee shall not pay off the creditors.

After the liquidation committee has cleaned up the Company's assets and prepared a balance sheet and an inventory of assets, it shall formulate a liquidation plan and submit it to the General Meeting or the people's court for confirmation.

The remaining assets of the Company after payment of liquidation expenses, wages, social insurance expenses and statutory compensation of employees, outstanding taxes and the Company's debts shall be distributed to the shareholders in proportion to their shareholdings.

During the liquidation period, the Company continues to exist but shall not carry out business activities unrelated to the liquidation. The properties of the Company shall not be distributed to the shareholders before repayment in accordance with the preceding paragraph.

If the liquidation committee, after examining the Company's assets and preparing a balance sheet and an inventory of assets, discovers that the Company's assets are insufficient to pay off its debts, it shall apply to the people's court for bankruptcy in accordance with the law.

After the Company is declared bankrupt by a people's court, the liquidation committee shall hand over the liquidation matters to the people's court.

Upon completion of the liquidation of the Company, the liquidation committee shall prepare a liquidation report and a statement of the receipts and payments and financial accounts for the period of the liquidation which shall be audited by a certified public accountant in the PRC and submitted to the General Meeting or the people's court for confirmation. The liquidation committee shall, within 30 days from the date of confirmation by the General Meeting or the people's court, submit the aforesaid documents to the company registration authority, apply for cancellation of the company's registration and announce the termination of the company.

## 16 OTHER IMPORTANT PROVISIONS REGARDING THE COMPANY OR ITS SHAREHOLDERS

### (1) General provisions

The Company is a joint stock limited company with perpetual existence.

The entire capital of the Company is divided into shares of equal value. Shareholders of the Company shall be liable to the Company to the extent of the shares they subscribe for, and the Company shall be liable for the debts of the Company to the extent of all its assets.

From the date on which the Articles of Association come into effect, the Articles of Association constitute a legally binding document regulating the Company's organisation and activities, and the rights and obligations between the Company and each shareholder and among the shareholders, and are legally binding on the Company and its shareholders, directors, supervisors and officers. Pursuant to the Articles of Association, any Shareholder may sue any other Shareholder, Director, Supervisor, manager or any other senior officer, any Shareholder may sue the Company, and the Company may sue any Shareholder, Director, Supervisor, manager or any other officers.

In accordance with the provisions of the Constitution of the Communist Party of China, the Company shall establish a Communist Party organisation and carry out activities of the Party. The Company provides the necessary conditions for the activities of the Party organisation.

**(2) Shares and transfer thereof**

The Company may, based on its needs for operation and development and in accordance with the laws, regulations and prescriptive documents, increase its capital in the following ways subject to separate resolutions of the General Meeting:

(1) public offering of shares;

(2) non-public offering of shares;

(3) placement of new shares to existing shareholders;

(4) distributing bonus shares to its existing shareholders;

(5) converting reserves into share capital;

(6) other methods stipulated by laws, regulations and prescriptive documents and approved by the China Securities Regulatory Commission, the securities regulatory authorities of the place where the shares of the Company are [**REDACTED**] and other relevant regulatory authorities.

The Company's increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association and the rules of the stock exchange where the Company's shares are [**REDACTED**], be conducted in accordance with the procedures stipulated in the relevant laws, regulations, prescriptive documents and the laws, regulations and listing rules of the place where the Company's shares are [**REDACTED**].

The Company may reduce its registered capital. The reduction of registered capital shall be conducted in accordance with the procedures set forth in the Company Law, other relevant regulations and the Articles of Association.

The Company may, in the following circumstances, buy back its own shares in accordance with laws, regulations, prescriptive documents and the Articles of Association:

(1) to reduce the Company's registered capital;

(2) merging with another company that holds shares in the Company;

(3) use of shares for employee stock ownership plans or equity incentives;

(4) acquiring shares held by shareholders (upon their request) who disagrees with any resolution adopted at the General Meeting on the merger or division of the Company;

(5) using the shares for the conversion of the debts of the Company which are convertible into shares issued by the Company;

(6) where it is necessary for safeguarding the Company's value and shareholders' rights and interests.

Save for the above circumstances, the Company shall not engage in the [**REDACTED**] of its own shares.

**(3) Shareholders**

A shareholder shall enjoy rights and assume obligations according to the type and proportion of his/her shares. Shareholders holding the same class of shares enjoy equal rights and assume equal obligations.

Shareholders shall enjoy the following rights:

(1) the right to dividends and other distributions in proportion to the number of shares held;

(2) the right to request, convene, chair, attend or appoint a proxy to attend General Meetings and to exercise corresponding voting rights in accordance with the law;

(3) to supervise the operation of the Company, and make suggestions or inquiries;

(4) to transfer, gift or pledge the shares held by them in accordance with the laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] and the Articles of Association;

(5) to obtain relevant information in accordance with the provisions of the Articles of Association, including:

1. to obtain a copy of the Articles of Association after paying the cost;

2. the right to inspect and copy the following, subject to payment of a reasonable fee:

(1) all parts of the register of members;

(2) personal particulars of each of the Company's directors, supervisors, general manager and other senior management members, including: (a) present and former name and alias; (b) principal address (residence); (c) nationality; (d) full-time and all other part-time occupations and positions; (e) identification document and the number thereof;

(3) the status of the Company's share capital;

(4) reports showing the aggregate par value, quantity, maximum and minimum prices paid in respect of each class of shares repurchased by the Company since the end of the last accounting year and the aggregate amount paid by the Company for this purpose (break down by Domestic Shares and H Shares);

(5) corporate bond stubs;

(6) the minutes of General Meetings (for inspection by shareholders only) and special resolutions of the Company, resolutions of board meetings and resolutions of supervisory committee meetings;

(7) the latest audited financial statements of the Company and the reports of the Board, auditors and the supervisory committee;

(8) financial accounting reports;

(9) a copy of the latest annual report which has been filed with the Administration for Industry and Commerce and other competent authorities.

The Company shall make available the documents referred to in items (1), (3), (4), (6), (7), (8) and (9) above and any other applicable documents at the Company's address in Hong Kong in

accordance with the requirements of the Hong Kong Listing Rules for inspection by the public and shareholders free of charge.

(6) in the event of the termination or liquidation of the Company, to participate in the distribution of the remaining assets of the Company in accordance with the number of shares held by him at that time;

(7) to demand the Company to purchase his/her shares if he/she objects to the resolutions of the General Meeting on the merger or division of the Company;

(8) shareholders individually or jointly holding 3% or more of the Company's shares have the right to propose extraordinary resolutions and submit them to the convener in writing 10 working days before the General Meeting;

(9) other rights stipulated by the laws, regulations and prescriptive documents of the place where the shares of the Company are [**REDACTED**], the listing rules of stock exchanges or the Articles of Association.

The Company shall not exercise any power to freeze or otherwise impair any of the rights attaching to any share by any person who is directly or indirectly interested in the Company by reason of that the person has failed to disclose his interests to the Company only.

If a shareholder requests to inspect or obtain the relevant information in item (5) of the preceding Article, he/she shall provide the Company with written documents evidencing the class and number of shares held by him/her, and the Company shall provide such information as requested by the shareholder after verifying his/her identity.

The ordinary shareholders of the Company shall assume the following obligations:

(1) to abide by the laws, regulations and prescriptive documents of the place where the shares of the Company are [**REDACTED**], the listing rules of the stock exchange and the Articles of Association;

(2) to pay subscription monies according to the number of shares subscribed and the method of subscription;

(3) no withdrawal of their shares unless in circumstances stipulated by laws, regulations and prescriptive documents;

(4) not to abuse the rights of shareholders to damage the interests of the Company or other shareholders, and shareholders of the Company who abuse their rights of shareholders to cause losses to the Company or other shareholders shall be liable for compensation in accordance with the law;

(5) not to abuse the Company's independent legal person status and shareholder's limited liability to damage the interests of the Company's creditors;

If a shareholder of the Company abuses his/her shareholder's rights and causes losses to the Company or other shareholders, he/she shall be liable for compensation in accordance with the law;

Shareholders of the Company who abuse the independent status of the Company as a legal person and the limited liability of shareholders to evade debts and seriously damage the interests of the creditors of the Company shall be jointly and severally liable for the debts of the Company.

(6) other obligations imposed by the laws, regulations and prescriptive documents of the place where the shares of the Company are [**REDACTED**], the listing rules of the stock exchange and the Articles of Association.

Shareholders shall not be liable to make any further contribution to the share capital other than as agreed by the subscriber of the relevant shares on subscription.

**(4) Board of directors**

The Board shall be accountable to the General Meeting and exercise the following functions and powers:

(1) to summon the General Meeting and report its work to the General Meeting;

(2) to implement the resolutions of the General Meeting;

(3) to decide on the Company's business plans and investment plans;

(4) to formulate the Company's annual financial budget and final accounts;

(5) to formulate the Company's profit distribution plans and loss recovery plans;

(6) to formulate proposals for the increase or reduction of the Company's registered capital, the issuance of bonds or other securities and listing plans;

(7) to formulate plans for material acquisitions, purchase of shares of the Company or merger, division, dissolution and change of corporate form of the Company;

(8) to decide on the Company's external investment, acquisition and disposal of assets, pledge of assets, external guarantees, entrusted wealth management, connected transactions, external donations and other matters within the scope of authorization of the General Meeting;

(9) investment, acquisition or disposal of assets, financing and connected transactions (excluding transactions between the Company and its subsidiaries) which are subject to the decision of the Board in accordance with the Hong Kong Listing Rules and other securities regulatory rules of the place where the shares of the Company are [**REDACTED**];

(10) to decide on the establishment of the Company's internal management structure;

(11) to appoint or dismiss the Company's general manager and secretary to the Board in accordance with the procedures; to appoint or dismiss the Company's deputy general manager, chief financial officer and other senior management members in accordance with the general manager's nomination, and to decide on their remuneration, rewards and penalties;

(12) to formulate the basic management system of the Company;

(13) to formulate proposals for amendment to the Articles of Association;

(14) to manage the information disclosure matters of the Company;

(15) to propose to the General Meeting the appointment or replacement of the accounting firm that audits the Company;

(16) to hear the work report of the manager of the Company and inspect the work of the manager;

(17) to be responsible for environmental, social and governance (hereinafter referred to as "**ESG**") works, including identifying ESG risks, formulating and reviewing the Company's ESG strategies, goals (no less frequently than twice a year) and internal control;

(18) other functions and powers conferred by laws, regulations and prescriptive documents, the listing rules of the stock exchange where the shares of the Company are [**REDACTED**] or the Articles of Association.

Except for items (6), (7), (13) and other matters specified in laws, regulations and prescriptive documents, the listing rules of the stock exchange where the Company's shares are [**REDACTED**] and the Articles of Association, which shall be approved by more than two-thirds of the Directors, the Board may resolve on the aforesaid matters by more than half of the Directors.

Matters beyond the scope of authorization by the General Meeting shall be submitted to the General Meeting for consideration.

**(5) Independent non-executive directors**

The Board of the Company shall have independent non-executive directors. The number of independent non-executive directors shall not be less than three (3) and shall not be less than one-third (1/3) of all directors, and at least one of them shall have appropriate professional qualifications or appropriate accounting or related financial management expertise, and one (1) independent non-executive director shall be ordinarily resident in Hong Kong.

**(6) Secretary to the Board**

The Company shall have a secretary to the Board. The secretary to the Board shall have professional knowledge and experience, and shall be responsible for the preparation of General Meetings and Board meetings of the Company, the storage of documents, the management of shareholders' information of the Company, and the handling of information disclosure matters, and the main responsibilities of the secretary to the Board shall be:

(1) to ensure that the Company has complete organisational documents and records;

(2) to ensure that the Company prepares and submits the reports and documents required by the competent authorities in accordance with the law;

(3) to ensure that the register of members of the Company is properly established and that persons entitled to access to relevant records and documents of the Company are provided with relevant records and documents in a timely manner.

The secretary to the Board shall comply with the laws, regulations and prescriptive documents, the rules of the stock exchange where the shares of the Company are [**REDACTED**] and the relevant provisions of the Articles of Association.

**(7) Supervisory Committee**

The Company shall have a Supervisory Committee. The Supervisory Committee shall consist of three Supervisors, and the Supervisory Committee shall have one chairman. The chairman of the Supervisory Committee shall be elected by more than half of all supervisors. The chairman of the Supervisory Committee shall summon and preside over the meetings of the Supervisory Committee. If the chairman of the Supervisory Committee is unable or fails to perform his/her duties, a supervisor shall be jointly elected by more than half of the supervisors to summon and preside over the meetings of the Supervisory Committee.

The Supervisory Committee shall have one employee representative supervisor. The shareholder representative supervisors in the Supervisory Committee shall be elected by the General Meeting, and the employee representative supervisors shall be elected by the employees of the Company through the employee representative meeting, the employee meeting or other forms of democratic election.

The Supervisory Committee shall exercise the following functions and powers:

(1) it shall review the Company's securities offering documents and the Company's periodic reports prepared by the Board and shall sign on the written review opinion. Supervisors shall ensure that the issuer discloses information in a timely and fair manner, and the information disclosed is true, accurate and complete. If the supervisors cannot guarantee the authenticity, accuracy and completeness of the contents of the securities issuance documents and regular reports or have objections, they shall express their opinions and state their reasons in the written confirmation, which shall be disclosed by the issuer. Where the issuer failed to not disclose, supervisors may directly apply for disclosure;

(2) to examine the financial affairs of the Company;

(3) to supervise the performance of duties by directors and senior management, and propose the removal of directors and senior management who have violated laws, regulations, prescriptive documents, the Articles of Association or the resolutions of the General Meeting;

(4) to require directors and senior management to make corrections when their conduct is detrimental to the Company's interests;

(5) to check the financial reports, business reports, profit distribution plans and other financial information to be submitted by the Board to the shareholders' General Meeting, and if any doubt is found, may entrust

certified public accountants and practising auditors in the name of the Company to assist in the re-examination;

(6) to propose the convening of an extraordinary General Meeting, and to summon and preside over the General Meeting when the Board fails to perform the duty of summoning and presiding over the General Meeting under the Company Law;

(7) to submit proposals to the General Meetings;

(8) to initiate legal proceedings against directors and senior management personnel in accordance with Article 151 of the Company Law;

(9) to carry out investigations when abnormalities in the Company's operations are discovered; if necessary, professional organizations such as accounting firms and law firms may be engaged to assist in its work at the Company's expense;

(10) other functions and powers stipulated by laws, regulations and prescriptive documents, the rules of the stock exchange where the shares of the Company are [**REDACTED**], the Articles of Association or as conferred by the General Meeting.

**(8) General Manager**

The Company shall appoint a general manager, who shall be appointed or dismissed by the Board.

The general manager shall be accountable to the Board and exercise the following functions and powers:

(1) to be in charge of the production, operation and management of the Company, organise the implementation of the resolutions of the Board and report to the Board;

(2) to organise the implementation of the Company's annual business plan and investment plan;

(3) to formulate plans for the establishment of the Company's internal management structure;

(4) to formulate the basic management system of the Company;

(5) to formulate the specific rules and regulations of the Company;

(6) to propose to the Board the appointment or dismissal of the Company's deputy general managers and financial controller (chief financial officer);

(7) to decide on the appointment or dismissal of management personnel and relevant personnel other than those required to be appointed or dismissed by the Board in accordance with the Articles of Association;

(8) other functions and powers conferred by the Articles of Association or the Board.

The general manager shall be present at meetings of the Board; the general manager who is not a Director shall have no voting rights at the Board meetings.

**(9) Reserve Funds**

When distributing the after-tax profits of the current year, the Company shall allocate 10% of the profits into its statutory reserve fund. If the accumulated amount of the Company's statutory reserve fund is more than 50% of the registered capital of the Company, further appropriation is not necessary.

If the statutory reserve fund of the Company is insufficient to make up for the losses of previous years, the profits of the current year shall be used to make up for the losses before making allocations to the statutory reserve fund in accordance with the provisions of the preceding paragraph.

After the Company has withdrawn the statutory reserve fund from the after-tax profit, it may also withdraw discretionary reserve fund from the after-tax profit upon the resolution of the General Meeting.

After the Company has made up for its losses and made allocations to its common reserve fund, the remaining after-tax profits shall be distributed to the shareholders in proportion to their shareholdings, except for those shall not be distributed in proportion to their shareholdings as stipulated in the Articles of Association.

If the General Meeting, in violation of the provisions of the preceding paragraph, distributes profits to shareholders before the Company makes up for losses and makes allocations to the statutory common reserve fund, the shareholders must return the profits distributed in violation of the provisions to the Company.

The shares of the Company held by the Company shall not participate in profit distribution.

The reserve fund of the Company shall be used to make up for the losses of the Company, to expand the production and operation of the Company or to increase the capital of the Company. However, the capital reserve shall not be used to make up for the losses of the Company.

The capital reserve fund shall include the following:

(1) premium received from the issuance of shares in excess of their par value;

(2) other income that shall be included in the capital reserve as required by the competent financial department of the State Council.

When the statutory surplus reserve is converted into capital, the retained portion of the statutory surplus reserve shall not be less than 25% of the registered capital of the Company before such conversion.

## A. FURTHER INFORMATION ABOUT OUR GROUP

### 1. Establishment of Our Company

Our Company was established as a limited liability company in the PRC on December 31, 1993 and was converted into a joint stock limited company on December 5, 2023. Our registered office is located at No. 23, Eighth Street, Baiyang Street, Qiantang District, Hangzhou, Zhejiang Province, PRC.

Our Company has established a place of business in Hong Kong at 46/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, and [has] been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance. Ms. Tsang Man Kuen (曾文娟) has been appointed as our authorized representative for acceptance of service of process and notices in Hong Kong whose address for service of process and notices is the same as our place of business in Hong Kong.

### 2. Changes in the Share Capital of Our Company

Save as disclosed in "History, Development and Corporate Structure," there has been no change in the share capital of our Company within the two years immediately preceding the date of this document.

### 3. Changes in the Share Capital of Our Subsidiary

There has been no change in the share capital of our subsidiary, Cosmotrust Biopharmaceutical, within the two years immediately preceding the date of this document.

### 4. Resolutions of Our Shareholders

At the extraordinary general meeting of the Company held on January 17, 2024, among other things, the following resolutions were passed by the Shareholders:

(a) the issuance by our Company of H Shares with a nominal value of RMB1.00 each and such H Shares being [**REDACTED**] on the Stock Exchange;

(b) the number of H Shares to be issued shall not be more than 25% of the total issued share capital of our Company as enlarged by the [**REDACTED**], and the grant of the [**REDACTED**] in respect of no more than [**REDACTED**]% of the number of H Shares initially available under the [**REDACTED**];

(c) subject to the completion of the filing with the CSRC, upon completion of the [**REDACTED**], [**REDACTED**] Unlisted Shares in aggregate held by Zhongmei Huadong, Hangzhou Huasheng, CQFE, Zhejiang Wangxin, Highland Pharma, Wanliyang, Chengheda, Mr. Wu Qiyuan, Nanbeiju and Qingfanghao will be converted into H Shares on a one-for-one basis;

(d) subject to the grant to our Board of general mandate to separately or concurrently allot, issue and deal with additional Shares, and the number of such Shares shall not exceed 20% of the total Shares in issue as of the [**REDACTED**];

(e) subject to the completion of the [**REDACTED**], the adoption of the Articles of Association which shall become effective on the [**REDACTED**], and authorization to our Board to amend the Articles of Association to the extent necessary in accordance with laws, regulations and regulatory rules and requirements from relevant government bodies or regulatory authorities and for the purpose of the [**REDACTED**]; and

(f) authorization of our Board or its authorized individual(s) to handle all matters relating, among other things, to the [**REDACTED**], the issue and the [**REDACTED**] of H Shares on the Stock Exchange.

### 5. Restriction on Share Repurchase

For details of the restrictions on share repurchase by our Company, please refer to the section headed "Summary of Articles of Association" set out in Appendix V to this document.

## B. FURTHER INFORMATION ABOUT OUR BUSINESS

### 1. Summary of Material Contract

We have entered into the following contract (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this document that is or may be material:

(a) the [**REDACTED**].

## 2. Intellectual Property Rights

### *Trademarks*

As of the Latest Practicable Date, we had registered the following trademarks which we considered to be material to our business:

| No. | Trademark | Registration number | Registered owner | Place of registration | Class | Validity period |
|---|---|---|---|---|---|---|
| 1. | 吉可亲 | 68101346 | Company | PRC | 5 | May 14, 2023 to May 13, 2033 |
| 2. | 吉优泰 | 68095048 | Company | PRC | 5 | May 14, 2023 to May 13, 2033 |
| 3. | 吉婷美 | 68101335 | Company | PRC | 5 | May 14, 2023 to May 13, 2033 |
| 4. | 吉唐安 | 68112599 | Company | PRC | 5 | May 14, 2023 to May 13, 2033 |
| 5. | 吉弗唯 | 38110374 | Company | PRC | 5 | January 14, 2020 to January 13, 2030 |
| 6. | 吉芙惟 | 38113568 | Company | PRC | 5 | January 14, 2020 to January 13, 2030 |
| 7. | 吉利赛 | 37329928 | Company | PRC | 5 | November 21, 2019 to November 20, 2029 |
| 8. | 利沙佳 | 37329927 | Company | PRC | 5 | November 21, 2019 to November 20, 2029 |
| 9. |  | 21953880 | Company | PRC | 10 | January 7, 2018 to January 6, 2028 |
| 10. |  | 21953961 | Company | PRC | 42 | December 7, 2018 to December 6, 2028 |
| 11. | 吉优沛 | 10897764 | Company | PRC | 5 | August 14, 2023 to August 13, 2033 |
| 12. | 吉坦苏 | 10897940 | Company | PRC | 5 | August 14, 2023 to August 13, 2033 |

| No. | Trademark | Registration number | Registered owner | Place of registration | Class | Validity period |
|---|---|---|---|---|---|---|
| 13. | 吉立欣 | 8512852 | Company | PRC | 5 | August 7, 2021 to August 6, 2031 |
| 14. | 吉力健 | 8512812 | Company | PRC | 5 | August 7, 2021 to August 6, 2031 |
| 15. | 九源 | 8512913 | Company | PRC | 5 | August 7, 2021 to August 6, 2031 |
| 16. |  | 8484001 | Company | PRC | 5 | July 28, 2021 to July 27, 2031 |
| 17. | 吉立康 | 8484021 | Company | PRC | 5 | July 28, 2021 to July 27, 2031 |
| 18. | 骨优导 | 7894669 | Company | PRC | 10 | February 7, 2021 to February 6, 2031 |
| 19. | 吉新芬 | 6073795 | Company | PRC | 5 | February 14, 2020 to February 13, 2030 |
| 20. | 吉唐 | 6073794 | Company | PRC | 5 | February 14, 2020 to February 13, 2030 |
| 21. | 吉宁甘 | 6073862 | Company | PRC | 5 | February 14, 2020 to February 13, 2030 |
| 22. | 吉降依 | 6073773 | Company | PRC | 5 | February 14, 2020 to February 13, 2030 |
| 23. | 吉欧停 | 4805098 | Company | PRC | 5 | February 14, 2020 to February 13, 2030 |
| 24. | 亿喏林 | 4278193 | Company | PRC | 5 | September 14, 2017 to September 13, 2027 |
| 25. | 亿喏佳 | 4278192 | Company | PRC | 5 | September 14, 2017 to September 13, 2027 |
| 26. | 吉迈佳 | 3046631 | Company | PRC | 5 | February 28, 2023 to February 27, 2033 |

| No. | Trademark | Registration number | Registered owner | Place of registration | Class | Validity period |
|---|---|---|---|---|---|---|
| 27. | 吉巨芬 | 3046632 | Company | PRC | 5 | February 28, 2023 to February 27, 2033 |
| 28. |  | 1604124 | Company | PRC | 5 | July 21, 2021 to July 20, 2031 |
| 29. | 九源 JIUYUAN | 1596573 | Company | PRC | 5 | July 7, 2021 to July 6, 2031 |
| 30. | 骨优导 | 1577773 | Company | PRC | 10 | May 28, 2021 to May 27, 2031 |
| 31. | 吉派林 | 1355243 | Company | PRC | 5 | October 28, 2017 to October 27, 2027 |
| 32. |  | 1122356 | Company | PRC | 5 | October 28, 2017 to October 27, 2027 |
| 33. |  | 952756 | Company | PRC | 5 | February 28, 2017 to February 27, 2027 |
| 34. | 吉派啉 | 952752 | Company | PRC | 5 | February 28, 2017 to February 27, 2027 |
| 35. | 吉粒芬 | 952753 | Company | PRC | 5 | February 28, 2017 to February 27, 2027 |
| 36. |  | 68934463 | Company | PRC | 41 | October 7, 2023 to October 6, 2033 |

***Patents***

As of the Latest Practicable Date, we had registered the following patents which we considered to be material to our business:

| No. | Patent name | Patent number | Place of registration | Patent type | Patent holder | Patent application date |
|---|---|---|---|---|---|---|
| 1. | Methods for regeneration of chromatographic stationary phase in preparation of acylated polypeptide step (製備醯化多肽步驟中色譜固定相的再生方法) | 202011619851.6 | PRC | Invention | Company | December 30, 2020 |
| 2. | Injection pen (注射筆) | 202030812813.7 | PRC | Design | Company | December 29, 2020 |
| 3. | A spinal fusion device (一種脊柱融合裝置) | 202021876645.9 | PRC | Utility model | Company and the First Affiliated Hospital of Soochow University (蘇州大學附屬第一醫院) | September 1, 2020 |
| 4. | A pharmaceutical formulation comprising GLP-1 analogue and its preparation method (一種包含GLP-1類似物的藥物製劑及其製備方法) | 201680007374.3 | PRC | Invention | Company and Zhongmei Huadong | May 12, 2016 |
| 5. | A refined palladium removal process for fosaprepitant (一種福沙匹坦的精製除鈀工藝) | 201610133979.9 | PRC | Invention | Company | March 9, 2016 |
| 6. | An assay method for the biological activity of liraglutide (一種利拉魯肽生物學活性的檢測方法) | 201410079787.5 | PRC | Invention | Company and Zhongmei Huadong | March 6, 2014 |
| 7. | A capillary electrophoresis method for the detection of EPO mutants (一種EPO突變體的毛細管電泳檢測方法) | 201310608883.X | PRC | Invention | Company | November 26, 2013 |

| No. | Patent name | Patent number | Place of registration | Patent type | Patent holder | Patent application date |
|---|---|---|---|---|---|---|
| 8. | A pharmaceutical preparation for the treatment of diabetes and its preparation method (一種治療糖尿病的藥物製劑及其製備方法) | 201210568286.4 | PRC | Invention | Company and Zhongmei Huadong | December 24, 2012 |
| 9. | A method for determining the fine structure of enoxaparin sodium based on capillary electrophoresis (一種基於毛細管電泳的依諾肝素鈉精細結構測定方法) | 201280000857.2 | PRC | Invention | Company and Shanghai institute of Organic Chemistry of Chinese Academy of Sciences (中國科學院上海有機化學研究所) | January 20, 2012 |
| 10. | An RP-HPLC method for the detection of recombinant human granulocyte colony-stimulating factor (一種重組人粒細胞集落刺激因子的RP-HPLC檢測方法) | 201010523645.5 | PRC | Invention | Company | October 27, 2010 |
| 11. | A method for the production of a recombinant human bone morphogenetic protein-2 maturation peptide (一種重組人骨形態發生蛋白-2成熟肽的生產方法) | 201010284844.5 | PRC | Invention | Company | September 9, 2010 |
| 12. | A method for isolation and purification of polyethylene glycol-modified proteins (一種聚乙二醇修飾蛋白的分離純化方法) | 201010162575.5 | PRC | Invention | Company | April 30, 2010 |
| 13. | A crystalline form of fulvestrant and its preparation method (一種氟雄司群的晶型及其製備方法) | 200810060130.9 | PRC | Invention | Company and Hangzhou Heta Pharm & Chem Co., Ltd. (杭州海達醫藥化工有限公司) | March 7, 2008 |
| 14. | A production process for palonosetron hydrochloride (一種鹽酸帕洛諾司瓊的生產工藝) | 200710156229.4 | PRC | Invention | Company | October 18, 2007 |

| No. | Patent name | Patent number | Place of registration | Patent type | Patent holder | Patent application date |
|---|---|---|---|---|---|---|
| 15. | Production method of recombinant human interleukin 11 expressed by Pichia pastoris yeast (畢赤酵母表達重組人白介素11的生產方法) | 201110293041.0 | PRC | Invention | Company | November 25, 2004 |

***Copyrights***

As of the Latest Practicable Date, we had registered the following copyright which we considered to be material to our business:

| No. | Copyright | Place of registration | Owner | Registration date | Registered number |
|---|---|---|---|---|---|
| 1. | Logo of Jiuyuan Gene | PRC | Company | July 11, 2017 | 浙作登字-2017-F-9036 |

***Domain Names***

As of the Latest Practicable Date, we had registered the following internet domain name which we considered to be material to our business:

| No. | Domain name | Registered owner | Registration date | Expiry date |
|---|---|---|---|---|
| 1. | china-gene.com | Company | May 13, 1997 | May 14, 2029 |

## C. FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Particulars of Directors' and Supervisors' Service Contracts

We [have] entered into a service contract with each of our Directors and Supervisors in respect of, among others, (i) term of service, (ii) termination, and (iii) dispute resolution mechanism.

Save as disclosed above, none of our Directors or Supervisors has or is proposed to have a service contract with any member of our Group.

## 2. Remuneration of Directors and Supervisors

Save as disclosed in the section headed "Directors, Supervisors and Senior Management" in this document and Note 8 to the Accountants' Report in Appendix I to this document, none of our Directors or Supervisors received other remuneration or benefits in kind from our Company in respect of the years ended December 31, 2021 and 2022 and the nine months ended September 30, 2023.

## 3. Disclosure of Interests

### *Disclosure of Interests of Directors, Supervisors and Chief Executive of the Company*

Save as disclosed below, immediately following the completion of the **[REDACTED]** (assuming no exercise of the **[REDACTED]**) and the conversion of the Unlisted Shares into H Shares, so far as our Directors are aware, none of our Directors, Supervisors or chief executive will have any interest and/or short position (as applicable) in the Shares, underlying Shares or debentures of our Company or our associated corporation (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of **[REDACTED]** Issuers as set out in Appendix C3 to the Listing Rules to be notified to our Company and the Stock Exchange, once the H Shares are **[REDACTED]** on the Stock Exchange.

| Name | Position | Nature of interest | Description of the Shares | Number of Shares held | Approximate percentage of shareholding in the relevant class of Shares[(1)] (%) | Approximate percentage of shareholding in the total share capital of our Company[(1)] (%) |
|---|---|---|---|---|---|---|
| Mr. Fu Hang[(2)] | Executive Director, chairman of the Board and general manager | Interest in a controlled corporation | Unlisted Shares | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |
| | | | H Shares | **[REDACTED]** | **[REDACTED]** | **[REDACTED]** |

*Notes:*

(1) The calculation is based on the total number of [**REDACTED**] Unlisted Shares and [**REDACTED**] H Shares in issue immediately following the completion of the [**REDACTED**] (without taking into account the H Shares which may be issued upon the exercise of the [**REDACTED**]) and the conversion of the Unlisted Shares into H Shares.

(2) As of the Latest Practicable Date, Mr. Fu Hang was the general partner who held 34.68% partnership interests in Nanbeiju. As such, Mr. Fu Hang was deemed to be interested in the [**REDACTED**] H Shares and [**REDACTED**] Unlisted Shares directly held by Nanbeiju under the SFO.

***Disclosure of Interests of Substantial Shareholders***

Save as disclosed in "Substantial Shareholders" in this document, our Directors are not aware of any other person (other than our Directors, Supervisors or chief executive) who will, immediately following the completion of the [**REDACTED**] (assuming no exercise of the [**REDACTED**]) and the conversion of the [**REDACTED**] Shares into H Shares, have an interest and/or short position in the Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group.

**4. Agency Fees or Commissions Received**

The [**REDACTED**] will receive an [**REDACTED**] in connection with the [**REDACTED**], as detailed in "[**REDACTED**]" in this document.

Within the two years immediately preceding the date of this document, no [**REDACTED**] has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any share in or debentures of the Company.

**5. Disclaimers**

(i) Saved as disclosed in this document, none of the Directors, Supervisors nor any of the experts referred to in "Qualifications of Experts" below has any direct or indirect interest in the promotion of, or in any assets which have been, within two years immediately preceding the date of this document, acquired or disposed of by, or leased to, any member of our Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

(ii) Save in connection with the [**REDACTED**], none of the Directors, Supervisors nor any of the experts referred to in "Qualifications of Experts" below is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of the Group.

(iii) No cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this document to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the **[REDACTED]** or related transactions as mentioned.

(iv) None of our Directors or their respective close associates or our Shareholders who to the knowledge of our Directors are interested in more than 5% of our issued share capital has any interest in our five largest customers or suppliers during the Track Record Period.

(v) Save as disclosed in this document, none of our Directors is a director or employee of a company that has an interest in the share capital of our Company which would have to be disclosed pursuant to Divisions 2 and 3 of Part XV of the SFO.

## D. OTHER INFORMATION

### 1. Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or our subsidiary.

### 2. Litigation

As of the Latest Practicable Date, no member of our Group was involved in any litigation, arbitration, administrative proceedings or claims of material importance, and so far as we are aware, no litigation, arbitration, administrative proceedings or claims of material importance are pending or threatened against any member of our Group.

### 3. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. A fee of US$1.0 million is payable by our Company to the Sole Sponsor to act as a sponsor to our Company in connection with the **[REDACTED]**.

### 4. Preliminary Expense

Our Company did not incur any material preliminary expense.

### 5. Promoters

The promoters of our Company are all then 12 shareholders of our Company as of November 21, 2023 before our conversion into a joint stock company with limited liability. Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the **[REDACTED]** or the related transactions described in this document.

## 6. Qualifications of Experts

The qualifications of the experts who have given opinions or advice in this document are as follows:

| Name | Qualification |
|---|---|
| Huatai Financial Holdings (Hong Kong) Limited | A corporation licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance), Type 7 (providing automated trading services) and Type 9 (asset management) of the regulated activities as defined under the SFO |
| Ernst & Young | Certified Public Accountants and Registered Public Interest Entity Auditor |
| Zhejiang T&C Law Firm | PRC Legal Adviser |
| China Insights Industry Consultancy Limited | Independent Industry Consultant |
| Hogan Lovells | International Sanctions Legal Adviser to our Company as to International Sanctions laws |

## 7. Consents of Experts

Each of the experts referred to in "Qualification of Experts" above has given and has not withdrawn its written consent to the issue of this document with the inclusion of its reports, letters or opinions (as the case may be) and the references to its name included herein in the form and context in which they are included.

As of the Latest Practicable Date, none of the experts named above had any shareholding interest in our Company or our subsidiary or rights (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## 8. Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is 0.1% of the consideration or, if higher, the fair value of the H Shares being sold or transferred. For further information in relation to taxation, please refer to the paragraphs headed "Taxation and Foreign Exchange — Taxation in Hong Kong" set out in Appendix III to this document.

## 9. Binding Effect

This document shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance as far as applicable.

## 10. Bilingual Document

The English language and Chinese language versions of this document are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

## 11. Miscellaneous

Save as otherwise disclosed in this document,

(i) within the two years immediately preceding the date of this document, no share or loan capital or debenture of our Company or our subsidiary has been issued or agreed to be issued or is proposed to be issued for cash or as fully or partially paid other than in cash or otherwise;

(ii) within the two years immediately preceding the date of this document, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or our subsidiary;

(iii) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;

(iv) we have not issued nor agreed to issue any founder or management or deferred shares;

(v) there is no restriction affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;

(vi) there are no arrangements under which future dividends are waived or agreed to be waived;

(vii) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;

(viii) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;

(ix) no part of the equity or debt securities of our Company, if any, is currently [**REDACTED**] or [**REDACTED**] on any stock exchange or trading system, and no such [**REDACTED**] or permission to [**REDACTED**] on any stock exchange other than the Stock Exchange is being or is proposed to be sought;

(x) our Company has no outstanding convertible debt securities or debentures;

(xi) our Company is a joint stock limited company and is subject to the PRC Company Law; and

(xii) the English text of this document shall prevail over its respective Chinese text.

## DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

1. the written consents referred to in "Appendix VI — Statutory and General Information — D. Other Information — 7. Consents of Experts" to this document; and

2. a copy of the material contract referred to in "Appendix VI — Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contract" to this document.

## DOCUMENTS AVAILABLE ON DISPLAY

Copies of the following documents will be available on display on the website of the Stock Exchange at **www.hkexnews.hk** and our website at **www.china-gene.com** during a period of 14 days from the date of this document:

1. the Articles of Association;

2. the Accountants' Report prepared by Ernst & Young, the text of which is set out in Appendix I to this document;

3. the audited consolidated financial statements of our Group for the years ended December 31, 2021 and 2022 and the unaudited consolidated financial statements of our Group for the nine months ended September 30, 2023;

4. the report prepared by Ernst & Young on the unaudited [**REDACTED**] financial information of our Group, the text of which is set out in Appendix II to this document;

5. the material contract in "Appendix VI — Statutory and General Information — B. Further Information about Our Business — 1. Summary of Material Contract" to this document;

6. the written consents referred to in "Appendix VI — Statutory and General Information — D. Other Information — 7. Consents of Experts" to this document;

7. the service contracts and the letters of appointment referred to in "Appendix VI — Statutory and General Information — C. Further Information about our Directors, Supervisors and Substantial Shareholders — 1. Particulars of Directors' and Supervisors' Service Contracts" to this document;

8. the PRC legal opinion issued by Zhejiang T&C Law Firm, our PRC Legal Adviser, in respect of, among other things, the general corporate matters and property interests of our Group under PRC law;

9. the legal memorandum prepared by Hogan Lovells, our International Sanctions Legal Adviser as to International Sanctions laws;

10. the industry report issued by China Insights Industry Consultancy Limited, the summary of which is set forth in the section headed "Industry Overview"; and

11. the PRC Company Law and the Trial Measures for Overseas Listing, together with their unofficial English translations.