

CONTINUING CONNECTED TRANSACTION

OVERVIEW

Pursuant to Chapter 14A of the Listing Rules, the directors, substantial shareholders and chief executive of our Company and any person who was a director of our Company within 12 months preceding the [REDACTED] and any of their respective associates will be connected persons of our Company upon [REDACTED].

We have entered into certain agreements with Chifeng Saliont, a company controlled by Mr. Li, chairman of the Board, an executive Director, general manager and one of the Controlling Shareholders of the Company, who will become a connected person of our Company upon [REDACTED] and the transactions contemplated under such agreements will constitute continuing connected transaction of our Company under Chapter 14A of the Listing Rules upon [REDACTED]. As our Company is eligible for [REDACTED] on the Stock Exchange under Chapter 18A of the Listing Rules as a pre-revenue biotech company, the revenue ratio under Rule 14.07 of the Listing Rules would not be an appropriate measurement of the size of relevant continuing connected transactions as set out in this section. Accordingly, we have applied a percentage ratio test based on the total expenses for R&D and administrative matters of our Company as an alternative size test.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

The following transaction is made in the ordinary and usual course of business and on normal commercial terms or better which will be regarded as non-exempt continuing connected transaction of our Company under Chapter 14A of the Listing Rules.

CMO Services Framework Agreement

Transaction	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending December 31,		
			2026	2027	2028
			(RMB'000)		
CMO Services Framework Agreement	14A.34 to 14A.36, 14A.49, 14A.51 to 14A.59, 14A.71, 14A.105	Announcement, circular, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules	7,000	7,000	18,000

We have historically procured contract manufacturing organization services (the “**CMO Services**”) from Chifeng Saliont from time to time in our ordinary course of business. The CMO services primarily include processing and testing of clinical samples based on Company’s specific technical requirements. We intend to continue to engage Chifeng Saliont to provide us with CMO Services after the [REDACTED].

Principal terms

On [●], our Company and Chifeng Saliont entered into a framework agreement in relation to the procurement of CMO Services (the “**CMO Services Framework Agreement**”), pursuant to which Chifeng Saliont agreed to provide CMO Services to our Company. The CMO Services Framework Agreement has a term commencing from the [REDACTED] to December 31, 2028, which may be renewed for a further term not exceeding three years from time to time, as the parties may mutually agree, subject to compliance with the requirements under Chapter 14A of the Listing Rules and all other applicable laws and regulations. Relevant members of both parties will enter into separate CMO services agreements setting out the specific terms and conditions based on the principles provided in the CMO Services Framework Agreement.

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Reasons for the Transactions

Chifeng Salient is primarily engaged in pharmaceutical wholesale and pharmaceutical manufacturing, including: (1) production and wholesale of generic drugs; and (2) providing contract manufacturing services (CMO business) to innovative pharmaceutical companies, encompassing the synthesis of active pharmaceutical ingredients (APIs) and the processing of finished drug products.

Fully considering the diverse needs of different stages of new drug R&D and production, Chifeng Salient has a complete configuration of R&D and quality laboratories, API workshops, formulation workshops and warehousing facilities, which provides solid hardware support and meets the core facility requirements for undertaking CMO business. Chifeng Salient also covers all stages of drug R&D and production, including lab-scale trial, pilot-scale trial, process validation and commercial production, which enables Chifeng Salient to improve overall efficiency, reduce conversion costs, and further demonstrates its qualification and capability to provide one-stop personalized CMO services and solutions to us, ranging from intermediates to active pharmaceutical ingredients (API) and formulations.

Taking into account (i) our past collaboration with Chifeng Salient and its track record in providing CMO Services to us, particularly its pricing, reliability in delivery of our orders, service quality and production capacity; and (ii) its understanding of our requirements for our service specifications, our Directors believe that Chifeng Salient is able to provide the required services that suit our needs and that it is in the best interests of our Company and Shareholders to enter into the CMO Services Framework Agreement.

Pricing Policy

The service fees payable by us to the Chifeng Salient under the CMO Services Framework Agreement shall be determined after arm’s length negotiations between the parties with reference to the nature, scope and complexity of processing service and testing service to be provided, the expected cost and expenses for provision of the required services plus a profit margin and the prevailing market price of independent third party suppliers in the same industry. Specifically, the service fees will be determined having regard to the specific nature of the CMO services to be provided, the overall scope of services covered by the CMO Services Framework Agreement, and the complexity of the technical requirements involved in the CMO Services, as different service types and technical difficulty levels will directly affect the resource input required. In addition, the expected costs and expenses incurred by Chifeng Salient in providing the required services, including labor costs, material costs, technical support costs and other related operating expenses. Furthermore, the prevailing market prices of independent third-party suppliers in the same industry that provide comparable processing and testing services are taken into account to ensure that the agreed service fees are in line with normal commercial standards and do not deviate from the market level.

We will obtain quotations from independent third party suppliers for the services of comparable specification. We shall solicit one to three other quotations from independent third parties for comparable products to determine if the price and terms offered by the Chifeng Salient are fair and reasonable and comparable to those offered by independent third parties. The pricing terms under the CMO Services Framework Agreement shall be no less favorable to our Company than the terms offered by independent third parties or the terms offered by the Chifeng Salient to customers who are not connected thereto. Our independent non-executive Directors will review and reassess the amounts of payments made to the Chifeng Salient on an annual basis. Besides, we will take into account factors including the quality of the services and specifications offered by independent third party qualified suppliers and as such, in the event that we are able to obtain more preferential terms from independent third party qualified suppliers, including better payment terms, and the relevant technical and quality requirements are satisfied, we may opt not to procure the products from the Chifeng Salient.

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The Company has established a multi-level monitoring mechanism to supervise the implementation of the pricing policy. The Audit Committee will conduct regular inspections on the service fees, including reviewing the quotation records, negotiation minutes, service contracts and payment documents, to verify that the pricing policy is strictly followed in practice. The Company’s internal audit department will also conduct periodic audits of the service pricing process, identify any potential non-compliance issues and put forward rectification suggestions in a timely manner. In practice, the Company will dynamically track the market prices of comparable services and the terms offered by independent third-party qualified suppliers. If the Company is able to obtain more preferential terms from independent third-party qualified suppliers that meet the relevant technical and quality requirements, our independent non-executive Directors and Audit Committee will urge the Company to procure the services from such independent third-party qualified suppliers (as opposed to Chifeng Saliont), which further ensures that the transactions are conducted on normal commercial terms and in the best interests of the Company.

Further, to ensure that the transactions are fair and reasonable to our minority Shareholders, the Company has implemented the following measures: (i) the pricing policy is formulated based on arm’s length negotiations and market comparison taking into account our minority Shareholders’ opinions, eliminating any potential bias in favor of connected parties; and (ii) the Company maintains complete records of the quotation process, negotiation details, monitoring results and the track record of the service fees paid by our Company to Chifeng Saliont, which are available for inspection by regulatory authorities and our minority Shareholders.

Historical amounts

The historical aggregate purchase of CMO services by our Company to the Chifeng Saliont for the years ended December 31, 2024 and 2025 and the four months ended April 30, 2026 amounted to RMB11.6 million, RMB5.8 million and RMB1.1 million, representing 11.0%, 6.3% and 3.7% of our Company’s total purchase, respectively. The fluctuations in historical transaction amounts were primarily attributable to the reduced demand for CMO services in light of the status of the research and development activities.

Annual caps

Our Directors estimate that the maximum amount of service fees payable by the Company to Chifeng Saliont under the CMO Services Framework Agreement for each of the three years ending December 31, 2028 will not exceed RMB7.0 million, RMB7.0 million and RMB18.0 million, respectively.

In arriving at the above annual caps, our Directors have considered the volume, work order and estimated schedule of CMO services we expect to procure from Chifeng Saliont for the three years ending December 31, 2028. Based on the current status of the clinical trial of our Core Product, we expect an increase in CMO Services for the year ending December 31, 2028. In arriving at the proposed annual caps for each year from 2026 to 2028 under the CMO Services Framework Agreement, our Directors have conducted a comprehensive assessment and precise calculation based on the Company’s internal calculation working papers, which detail the specific CMO service items, quantities, and corresponding cost breakdowns. Specifically, the annual caps for the two years ending December 31, 2026 and 2027 are determined based on the expected production and testing costs of various products (including API and formulations) to be procured from Chifeng Saliont. For the year ending December 31, 2028, driven by the substantial increase in commercial production volume of core products (including expected 13 batches of commercial production of API), the total estimated production and testing costs are expected to reach approximately RMB15.2 million, resulting in a significant increase of the annual cap to RMB18 million. This adjustment is fully based on the specific service content, quantity, and cost standards specified in the calculation working papers, ensuring that the proposed annual cap is reasonable, prudent, and consistent with the Company’s actual business needs.

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Listing Rules implications

As one or more of the applicable percentage ratios (other than the profits ratio) in respect of the annual caps under the CMO Services Framework Agreement is expected to be more than 5% on an annual basis, the transactions contemplated under the CMO Services Framework Agreement constitute continuing connected transaction for our Company which will, upon [REDACTED], be subject to the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

WAIVER APPLICATION FOR THE NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Under Rule 14A.76(2) of the Listing Rules, the transactions under the paragraph headed “Non-exempt continuing connected transaction” will constitute our continuing connected transaction subject to those requirements under Chapter 14A of the Listing Rules upon the [REDACTED].

As the non-exempt continuing connected transaction is expected to continue on a recurring and continuing basis and have been fully disclosed in this document, our Directors consider that compliance with the announcement and the independent Shareholders’ approval requirements (as the case may be) would be impractical, and such requirements would lead to unnecessary administrative costs and would be unduly burdensome to us.

Accordingly, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange [has granted], waivers exempting us from strict compliance with the announcement and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transaction as disclosed in “Non-exempt Continuing Connected Transaction” in this section, subject to the condition that the aggregate amounts of the continuing connected transaction for each financial year shall not exceed the relevant amounts set forth in the respective annual caps (as stated above).

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 transaction referred to in this document, we will take immediate steps to ensure compliance with such new requirements within reasonable time.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) consider that all the aforesaid continuing connected transactions in this section have been and will be carried out (i) in the ordinary and usual course of our business, (ii) on normal commercial terms or better; and (iii) in accordance with the respective terms that are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Directors (including our independent non-executive Directors) are also of the view that the proposed annual caps of all the respective continuing connected transaction in this section are fair and reasonable and are in the interests of our Company and our Shareholders as a whole.

JOINT SPONSORS’ CONFIRMATION

Based on the documentation and information provided by our Company and the due diligence and discussions with our Company, the Joint Sponsors are of the view (i) that the continuing connected transaction described under this section has been entered into in the ordinary and usual course of our business, on normal commercial terms or better, and are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (ii) that the proposed annual caps of such continuing connected transaction are fair and reasonable, and in the interests of our Company and our Shareholders as a whole.

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INTERNAL CONTROL MEASURES TO SAFEGUARD SHAREHOLDERS’ INTERESTS

In order to further safeguard the interests of our Shareholders as a whole (including the minority Shareholders), our Company has implemented the following internal control measures in relation to the continuing connected transaction:

- We have approved internal guidelines which provide that if the value of any proposed connected transaction is expected to exceed certain thresholds, the relevant staff must report the proposed transactions to the head of the relevant business unit in order for our Company to commence the necessary additional assessment and approval procedures and ensure that we will comply with the applicable requirements under Chapter 14A of the Listing Rules; and
- We will provide information and supporting documents to the independent non-executive Directors and the auditors in order for them to conduct an annual review of the continuing connected transaction(s) entered into by our Company. In accordance with the requirements under the Listing Rules, the independent non-executive Directors will conduct annual review to ensure that the continuing connected transaction(s) have been entered into in the ordinary and usual course of business of our Company, are on normal commercial terms and are in accordance with the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole, and the auditors will also conduct annual review on the pricing and annual cap of the non-exempt continuing connected transaction(s).