

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

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As of the Latest Practicable Date, Mr. Li Bangliang, chairman of the Board and executive Director, is entitled to exercise an aggregate of approximately 31.25% of the voting rights in the Company through: (i) 7,500,000 Shares (representing approximately 14.75% of the voting rights in the Company) directly held by Hangzhou Wanyuhe, which is controlled and owned as to 99.00% by Mr. Li Bangliang; (ii) 6,000,000 Shares (representing approximately 11.80% of the voting rights in the Company) directly held by Hangzhou Sanrui, which is controlled by Mr. Li Bangliang as its general partner; and (iii) 2,385,000 Shares (representing approximately 4.69% of the voting rights in the Company) directly held by Hangzhou Liuyintai, which is controlled by Mr. Li Bangliang as its general partner. Mr. Li Bangliang, Hangzhou Wanyuhe, Hangzhou Sanrui and Hangzhou Liuyintai are considered to be a group of controlling shareholders as of the Latest Practicable Date.

Immediately after completion of the [REDACTED] (assuming the [REDACTED] is not exercised), Shares held by Mr. Li Bangliang, Hangzhou Wanyuhe, Hangzhou Sanrui and Hangzhou Liuyintai will represent [REDACTED]% of the voting rights in the Company in aggregate. Accordingly, Mr. Li Bangliang, Hangzhou Wanyuhe, Hangzhou Sanrui and Hangzhou Liuyintai will no longer constitute a group of controlling shareholders, but will remain as our Single Largest Group of Shareholders upon the completion of the [REDACTED].

Hangzhou Sanrui and Hangzhou Liuyintai are both managed by Mr. Li as the general partner. Details of the limited partners of Hangzhou Sanrui and Hangzhou Liuyintai are set out below:

	General partner	Partnership interest	Limited partners	Partnership interest
Hangzhou Sanrui	Mr. Li	80.00%	Dr. Lyu (our executive Director and general manager)	10.00%
			Du Yanjun (杜延軍) ⁽¹⁾	5.00%
			Pan Haofang (潘昊舫) ⁽¹⁾	5.00%
Hangzhou Liuyintai . . .	Mr. Li	1.00%	Li Yuedong (李閱東) (our executive Director and deputy general manager)	82.02%
			Du Ying (杜瑩) (our financial controller)	1.89%
			Ye Shuaidong (葉帥東) (our Board secretary and company secretary)	1.89%
			Seven of our current employees ⁽¹⁾	13.20%

(1) Each limited partner is an independent third party of the Company.

COMPETITION

The Single Largest Group of Shareholders have confirmed that they do not have any interest in a business, apart from the business of the Group (being R&D of innovative drugs), which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM THE SINGLE LARGEST GROUP OF SHAREHOLDERS

Having considered the following factors, the Directors are satisfied that we are capable of carrying out our business independently of the Single Largest Group of Shareholders and their close associates after the [REDACTED].

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Management Independence

Our Board consists of nine Directors, including four executive Directors, two non-executive Directors and three independent non-executive Directors. We are able to carry on our business independently from the Single Largest Group of Shareholders from a management perspective.

The executive Directors and senior management team are responsible for the day-to-day management of our operations. Notwithstanding the roles of Mr. Li Bangliang in the Board, the Directors are of the view that the Company is able to function independently from Mr. Li Bangliang for the following reasons:

- (a) all of the independent non-executive Directors are independent of Mr. Li Bangliang, and decisions of the Board require the approval of a majority vote from members of the Board;
- (b) each of the Directors is aware of fiduciary duties of a director which require, among other things, that he/she must act for the benefit and in the best interest of the Group and must not allow any conflict between his/her duties as a Director and his/her personal interest;
- (c) in the event that there is a potential conflict of interests arising out of any transaction to be entered into between the Company and the Directors, the interested Director(s) will abstain from voting at the relevant meeting of the Board in respect of such transactions and shall not be counted in the quorum;
- (d) we have three independent non-executive Directors and certain matters of the Company must always be referred to the independent non-executive Directors for review;
- (e) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between the Group and the Single Largest Group of Shareholders which would support our independent management; and
- (f) our daily management and operations are carried out by the Company's senior management team, all of whom have substantial experience in the industry in which the Company is engaged, and will therefore be able to make business decisions that are in the best interests of our Group.

Based on the above, the Directors believe that the Board as a whole and together with our senior management are able to perform the management role in the Group independently from the Single Largest Group of Shareholders and their close associates (other than the Group) after the [REDACTED].

Operational Independence

We have independent operating capabilities and management systems. We do not rely on any operational or administrative resources of the Single Largest Group of Shareholders or their close associates (other than the Group) for research and development, manufacturing, business development, staffing and administration (including financial and accounting management, human resources and information technology). We have independent access to suppliers and customers, and an independent management team to handle our day-to-day operations. We also possess the necessary licenses, certificates, facilities and intellectual property rights to carry on and operate our business, and we have sufficient operational capacity in terms of capital and employees to operate independently.

Based on the above, the Directors are satisfied that we are able to operate independently from the Single Largest Group of Shareholders and their close associates (other than the Group) after the [REDACTED].

RELATIONSHIP WITH OUR SINGLE LARGEST GROUP OF SHAREHOLDERS

Financial Independence

We have established our own finance department with a team of financial staff, who are responsible for financial control, accounting, reporting, group credit and internal control functions of the Company, independent from the Single Largest Group of Shareholders and their respective close associates (other than the Group). We are able to make financial decisions independently and the Single Largest Group of Shareholders and their respective close associates do not intervene with our financial matters. We have also established an independent audit system, a standardized financial and accounting system and a complete financial management system. In addition, we are capable of obtaining financing from third parties at reasonable costs without relying on any guarantee or security provided by the Single Largest Group of Shareholders or their close associates (other than the Group).

We do not rely on the Single Largest Group of Shareholders and/or their respective close associates by virtue of their provision of financial assistance. As of the Latest Practicable Date, there were no outstanding loans, advances and balances of non-trade nature due to or from the Single Largest Group of Shareholders or their respective associates (other than the Group) and we do not intend to rely on any member of the Single Largest Group of Shareholders in the future.

Based on the above, the Directors are of the view that we are capable of carrying on our business independently of, and do not place undue reliance on the Single Largest Group of Shareholders and their respective close associates after the [REDACTED].

CORPORATE GOVERNANCE MEASURES

The Company will comply with the provisions of the Corporate Governance Code, which sets out principles of good corporate governance.

The Directors recognize the importance of good corporate governance in protecting the Shareholders' interests. We would adopt the following measures to promote good corporate governance and to avoid potential conflict of interests between the Group and the Single Largest Group of Shareholders:

- (a) where a Shareholders' meeting is to be held for considering proposed transactions in which the Single Largest Group of Shareholders or any of their respective associates has a material interest, the Single Largest Group of Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (b) the Company has established internal control mechanisms to identify connected transactions. Upon [REDACTED], if the Company enters into connected transactions with the Single Largest Group of Shareholders or any of their respective associates, the Company will comply with the applicable Listing Rules;
- (c) we have appointed three independent non-executive Directors, and we believe our independent non-executive Directors possess sufficient experience. They will provide impartial and professional advice to protect the interest of our minority Shareholders;
- (d) where the Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at the Company's expenses; and
- (e) we have appointed Somerley 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, the Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflict of interests that may arise between the Group and the Single Largest Group of Shareholders, and to protect minority Shareholders' interests after the [REDACTED].