# CONNECTED TRANSACTIONS

Our Group has entered into the following transactions with our connected persons in our ordinary and usual course of business. Upon the [REDACTED] of the Shares on the Stock Exchange, the transactions disclosed in this section will constitute continuing connected transaction under the Listing Rules.

**Our Connected Persons**

We have entered into certain transactions with the following entities which are associates of Dr. Ge Li, a director of our Company in the past 12 months, during the Track Record Period in our ordinary and usual course of business and such transactions are expected to continue after the [REDACTED].

- WuXi AppTec Co., Ltd. ("WuXi AppTec")

  WuXi AppTec is indirectly owned as to more than 30% by Dr. Ge Li and his concert parties. Accordingly, WuXi AppTec is an associate of Dr. Ge Li and a connected person of our Company upon [REDACTED]. WuXi AppTec is a PRC incorporated company and a leading global pharmaceutical and medical device open-access capability and technology platform with global operations. Its shares are listed on the Shanghai Stock Exchange.

- Shanghai SynTheAll Pharmaceutical Co., Ltd. ("Shanghai STA")

  Shanghai STA is an indirect subsidiary of WuXi AppTec and indirectly owned as to more than 30% by Dr. Ge Li and his concert parties. Accordingly, Shanghai STA is an associate of Dr. Ge Li and a connected person of our Company upon [REDACTED]. Shanghai STA is a PRC incorporated company and a global leading small molecule pharmaceutical development and manufacturing capability and technology platform company serving the life science industry. Its shares are listed on the National Equities Exchange and Quotation.

**Non-exempt Continuing Connected Transactions**

1. **Framework Agreement for Non-Clinical Studies Service with WuXi AppTec**

**Parties**: Hua Shanghai and WuXi AppTec

**Reasons for the transactions**: As we are a drug development company in the early stages of development, we need various services in connection with non-clinical studies as part of our development process. Such services require sophisticated and specialized technologies that are better handled by service providers equipped with suitable laboratories, or better technical services capabilities. As such, we typically outsource such services to the WuXi AppTec, which is one of the leading biologics services provider and has one of the leading non-clinical studies support capabilities in the industry which will most appropriately suit our needs.

**Major terms**: We entered into framework agreement for non-clinical studies service with WuXi AppTec dated August 26, 2018 ("Framework Agreement for Non-Clinical Studies Service"), pursuant to which the WuXi AppTec and its subsidiaries (the "WuXi AppTec Group") will provide certain

services for non-clinical studies to our Group. The major terms of the Framework Agreement for Non-Clinical Studies Service are as follows:

- the WuXi AppTec Group provides certain services for non-clinical studies to our Group. Such services include but are not limited to pharmacological testing, radiolabeled compound synthesis and autoradiography studies;

- with respect to specific service requests that may be identified in future, our Group members and the relevant members of the WuXi AppTec Group will enter into separate individual agreements or work orders to provide for the specific terms and conditions including service scope, service fee and other terms, subject to and in accordance with the Framework Agreement for Non-Clinical Studies Service;

- **pricing policy**: services fees will be charged at rates no less favourable than rates at which our Group pays independent third parties for comparable transactions and will be determined by the relevant parties through arm's length negotiation based on a number of factors applicable to all service providers, including but not limited to the nature, complexity and value of tasks completed by WuXi AppTec Group at each stage under each work order, the resources spent on providing specific service, the fees charged for historical transactions of similar nature and the then prevailing market rates; and

- the Framework Agreement for Non-Clinical Studies Service is effective from the [REDACTED] Date until December 31, 2018 and may be renewed conditional on the fulfillment of the relevant requirements under the relevant laws, regulations and the Listing Rules.

**Historical amount**: For the year ended December 31, 2016 and December 31, 2017 and the three months ended March 31, 2018, the total amount of service fees incurred by our Group to the WuXi AppTec Group was approximately RMB7.5 million, RMB2.9 million and RMB0.1 million, respectively. There was a decrease in the service fees incurred during the Track Record Period due to the completion of certain toxicology trials in 2016 and 2017 respectively.

**Annual cap**: For the year ending December 31, 2018, the total amount payable by our Group to the WuXi AppTec Group for the services under the Framework Agreement for Non-Clinical Studies Service is not expected to exceed RMB6.5 million.

**Basis of cap**: The above proposed annual caps are set based on the following factors: (i) the historical transaction amount paid by our Group to the WuXi AppTec Group; and (ii) the volume of services our Group expects to procure from the WuXi AppTec Group for non-clinical studies involving Dorzagliatin and potential new projects.

2. **Framework Agreement for Clinical Trials Management Services with WuXi AppTec**

**Parties:** Hua Shanghai and WuXi AppTec

**Reasons for the transactions**: As we are a drug development company in the early stages of development, various clinical trial services are essential to our development process and such clinical trial services require sophisticated technologies and knowledge that are better handled by service providers with such capabilities. As such, we typically outsource such services to the WuXi AppTec Group. We believe the WuXi AppTec Group has one of the leading clinical trial, research and coordination capabilities in the industry which will most appropriately suit our needs.

**Major terms**: We entered into framework agreement for clinical trials management services with WuXi AppTec dated August 26, 2018 ("Framework Agreement for Clinical Trials Management Services"), pursuant to which the WuXi AppTec Group will provide certain clinical trials management services to our Group. The major terms of the Framework Agreement for Clinical Trials Management Services are as follows:

- the WuXi AppTec Group provides certain clinical trials management services to our Group, including but not limited to coordinating clinical research, providing integrated research services, designing, implementing and managing clinical development programs;

- with respect to specific service requests that may be identified in future, our Group members and the relevant members of the WuXi AppTec Group will enter into separate individual agreements or work orders to provide for the specific terms and conditions including service scope, service fee and other terms, subject to and in accordance with the Framework Agreement for Clinical Trials Management Services;

- **pricing policy**: services fees will be charged at rates no less favourable than rates at which our Group pays independent third parties for comparable transactions and will be determined by the relevant parties through arm's length negotiation based on a number of factors applicable to all service providers, including but not limited to the nature, complexity and value of tasks completed by WuXi AppTec Group at each stage under each work order, the personnel and working hours estimated to be equipped and spent on providing specific service, the fees charged for historical transactions of similar nature and the then prevailing market rates; and

- the Framework Agreement for Clinical Trials Management Services is effective from the [REDACTED] until December 31, 2018 and may be renewed conditional on the fulfillment of the relevant requirements under the relevant laws, regulations and the Listing Rules.

**Historical amount**: For the year ended December 31, 2016 and 2017 and the three months ended March 31, 2018, the total amount incurred by our Group for the services provided by the WuXi AppTec Group was approximately RMB1.9 million, RMB9.7 million and RMB6.7 million, respectively. The substantial increase in the service fees during the Track Record Period was due to the increased costs associated with the initiation of Phase III trials in third quarter of 2017, additional Phase I trials conducted in 2017 and the advancement of Phase III trials in 2018.

**Annual cap**: For the year ending December 31, 2018, the total amount payable by our Group to the WuXi AppTec Group for the services under the Framework Agreement for Clinical Trials Management Services is not expected to exceed RMB50.5 million.

**Basis of cap**: The above proposed annual caps are set based on the following factors: (i) the historical transaction amount paid by our Group to the WuXi AppTec Group; and (ii) the volume of clinical trials management services our Group expects to procure from the WuXi AppTec Group for the two phase III clinical trials for Dorzagliatin in 2018.

3. **Framework Agreement for Process Development and Manufacturing Services with Shanghai STA**

**Reasons for the transactions:** As disclosed in the section headed "Business — Manufacturing", the CFDA has granted us a MAH certification for Dorzagliatin, which allows us, as a drug license holder, to use a qualified CMO to meet our manufacturing needs. Shanghai STA is a qualified CMO in China, has the relevant manufacturing capabilities, and a long history of experience in working with Dorzagliatin. Its experience with Dorzagliatin predates our acquisition of the molecule from Roche by several years.

**Parties:** Hua Shanghai and Shanghai STA

**Major terms:** We entered into process development and manufacturing services framework agreement with Shanghai STA dated August 26, 2018 ("Framework Agreement for Process Development and Manufacturing Services"), pursuant to which the Shanghai STA, its indirect holding company, WuXi AppTec, and its subsidiaries (the "STA Group") will provide certain manufacturing services to our Group. The major terms of the Framework Agreement for Process Development and Manufacturing Services are as follows:

- the STA Group provides certain process development and manufacturing services to our Group, including but not limited to provision of APIs for clinical trials;

- with respect to specific service requests that may be identified in future, our Group members and the relevant members of the STA Group will enter into separate individual agreements or work orders to provide for the specific terms and conditions including service scope, service fee and other terms, subject to and in accordance with the Framework Agreement for Process Development and Manufacturing Services;

- **pricing policy**: services fees will be charged at rates no less favourable than rates at which our Group pays independent third parties for comparable transactions and will be determined by the relevant parties through arm's length negotiation based on a number of factors applicable to all service providers, including but not limited to the nature, complexity, and value of tasks completed by the STA Group at each stage under each work order, the market rates, quantity and sourcing of materials, the method of delivery, the fees charged for historical transactions of similar nature and the then prevailing market rates; and

- the Framework Agreement for Process Development and Manufacturing Services is effective from the [REDACTED] to December 31, 2018 and may be renewed conditional on the fulfillment of the relevant requirements under the relevant laws, regulations and the Listing Rules.

**Historical amount**: For the year ended December 31, 2016 and 2017 and the three months ended March 31, 2018, the total amount incurred by our Group for the services provided by the STA Group was approximately RMB16.0 million, RMB17.3 million and RMB1.6 million, respectively. The historical amount for the three months ended March 31, 2018 is substantially lower than that for the year ended December 31, 2016 and 2017 since the clinical manufacturing services which our Group expects to procure from the STA Group in 2018 for the preparation of NDA filing of Dorzagliatin will be delivered after the first quarter of 2018.

**Annual cap**: For the year ending December 31, 2018, the total amount payable by our Group to the STA Group for the services under the Framework Agreement for Process Development and Manufacturing Services is not expected to exceed RMB62.1 million.

**Basis of cap**: The above proposed annual caps are set based on the following factors: (i) the historical transaction amount paid by our Group to the STA Group; and (ii) the volume of clinical manufacturing services our Group expects to procure from the STA Group in 2018 for the preparation of NDA filing of Dorzagliatin.

**Internal Control Measures for Non-exempt Continuing Connected Transactions**

For non-exempt continuing connected transactions under the Framework Agreement for Non-Clinical Studies Services, the Framework Agreement for Clinical Trials Management Services and the Framework Agreement for Process Development and Manufacturing Services, we have established the following internal review procedures to ensure that the pricing under the non-exempt continuing connected transactions is fair and reasonable:

- If a comparable market price is available, we shall compare the proposed service fee against market price to ensure that the proposed service fee will not be higher than the service fee for similar nature of service provided by independent third-party providers;

- Before selecting a service provider, our sourcing department shall obtain price quotations from certain independent third-party providers. The factors to be considered by us in conducting internal assessments include service fee, quality of service, and value added to us;

- If no comparable market price is available, our sourcing department shall conduct arm's length negotiation with the relevant connected person to determine the terms in line with the relevant pricing policies based on the value of the relevant service and the actual costs and expenses incurred;

- After arm's length negotiation with the relevant connected person, our sourcing department will report to our senior management who will approve individual transactions as appropriate;

- The financial management department is responsible for preparing the accounting records, accounting, reporting, and statistical analysis of the continuing connected transactions, and for submitting the same to the Board for filing on a regular basis. The financial management department will also regularly collect and monitor the transaction amount of continuing connected transactions to ensure timely assessment on whether the annual caps are exceeded;

- The legal affairs department is responsible for identifying and reviewing the list of connected persons and the continuing connected transactions, and submitting the same to the Board for filing on a regular basis;

- Our audit committee shall conduct periodic examination of the overall situation of the continuing connected transactions, and report the review opinions to the Board;

- Our independent non-executive Directors will also conduct annual review on the non-exempt continuing connected transactions to ensure that such transactions have been entered into on normal commercial terms, are fair and reasonable, and conducted according to the terms of the relevant framework agreement; and

- The auditor of our Company shall issue a letter to the Board to express opinions on the continuing connected transactions of the Group on an annual basis. The Company shall allow its auditor to review and check the relevant accounts to facilitate them to express opinions.

**Confirmation of Directors**

Our Directors (including independent non-executive Directors) consider that the above non-exempt continuing connected transactions have been and will be entered into in our Group's ordinary and usual course of business and on normal commercial terms, are fair and reasonable, and in the interest of our Company and Shareholders as a whole. The proposed annual caps in respect of the non-exempt continuing connected transactions are also fair and reasonable and in the interest of our Company and our Shareholders as a whole.

**Confirmation of Joint Sponsors**

The Joint Sponsors have reviewed the relevant information and historical figures prepared and provided by us in relation to the non-exempt continuing connected transactions as set out above, and have also discussed these transactions with us and obtained various representations from us. Based on the aforementioned due diligence work, the Joint Sponsors are of the view that (i) the non-exempt continuing connected transactions as set out above have been entered into in the ordinary and usual course of business of our Group, on normal commercial terms or better, and are fair and reasonable, and in the interests of our Group and our Shareholders as a whole; and (ii) the proposed annual caps for such transactions are fair and reasonable, and in the interests of our Company and our Shareholders as a whole.

**Waiver from the Stock Exchange**

Under Rules 14A.81 and 14A.82(1) of the Listing Rules, as the Framework Agreement for Non-Clinical Studies Service, the Framework Agreement for Clinical Trials Management Services and the Framework Agreement for Process Development and Manufacturing Services are all entered into within a 12-month period with counterparties that are related to each other, the non-exempt continuing connected transactions thereunder shall be aggregated as if they were one transaction.

Although the revenue ratio and the profit ratio are not applicable given that the Company is a pre-revenue biopharmaceutical company and has been loss-making during the Track Record Period, the assets ratio remains applicable and does not produce any anomalous result. In respect of the transactions under the services for Framework Agreement for Non-Clinical Studies Service, the Framework Agreement for Clinical Trials Management Services and the Framework Agreement for Process Development and Manufacturing Services, the assets ratio is more than 5%, the transactions contemplated thereunder are subject to the announcement, circular, independent shareholders' approval, annual review and annual reporting requirements under Rule 14A.35, Rule 14A.36, Rule 14A.46, Rule 14A.49, 14A.55 and Rule 14A.71 of the Listing Rules.

We have applied for and the Stock Exchange [has granted] a waiver to us from strict compliance with the announcement, circular and independent shareholders' approval requirement under the Listing Rules in respect of the transactions under the Framework Agreement for Non-Clinical Studies Service, the Framework Agreement for Clinical Trials Management Services and the Framework Agreement for Process Development and Manufacturing Services, provided that the total transaction amount of the transactions thereunder for the year ending December 31, 2018 will not exceed the relevant proposed annual cap set forth above.

In addition, our Directors confirm that we will comply with the applicable requirements under Chapter 14A of the Listing Rules and will immediately inform the Stock Exchange if any of the proposed annual caps set out above are exceeded, or when there is a material change in the terms of the transactions.