
CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to Chapter 14A of the Listing Rules, our Directors, Substantial Shareholders and chief executive of our Company and our subsidiaries (other than the Directors, Substantial Shareholders and chief executive of our insignificant subsidiaries), any person who was a director of our Company or our subsidiaries within 12 months preceding the [REDACTED] and any of their respective associates will be connected persons of our Company upon the [REDACTED].

Our Group has entered into a number of transactions with our connected persons in our ordinary and usual course of business. Upon completion of the [REDACTED], the transactions disclosed in this section will constitute connected transactions under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Purchase and Equipment Lease Framework Agreement

Principal terms

On January 10, 2022, our Company and ACON Biotech (Hangzhou) Company Limited (艾康生物技術(杭州)有限公司) (“ACON”) entered into a purchase and equipment lease framework agreement (the “**Purchase and Equipment Lease Framework Agreement**”), pursuant to which we agreed to purchase certain testing equipment and reagents from, and to lease certain testing equipment from, ACON from time to time in our ordinary course of business. ACON is currently indirectly owned as to 50% by Mr. LIN Jixun (our founder and one of our non-executive Directors), and is therefore a connected person of our Company under Rule 14A.07(4) of the Listing Rules.

The Purchase and Equipment Lease Framework Agreement is for a term commencing on the [REDACTED] until December 31, 2025, and will be renewed for another three years upon expiration, conditional upon the fulfillment of requirements under the Listing Rules and other applicable laws and regulations. The parties will enter into separate agreements setting out the specific terms and conditions in respect of the relevant purchases and leases, including the relevant transaction amounts, the types of testing equipment and/or reagents involved, and the payment methods.

Reasons for the transactions

We purchase or lease testing equipment and purchase testing reagents in our ordinary course of business. While our Group did not lease or purchase any testing equipment from ACON during the Track Record Period, and does not currently plan to lease or purchase testing equipment from ACON after the [REDACTED], as ACON offers a wide range of testing equipment, we have covered in the framework agreement the potential leasing of testing equipment from ACON to allow us to have the flexibility to lease testing equipment from ACON in case (i) ACON offers certain equipment only for leasing; or (ii) we consider the terms offered by ACON for leasing the relevant equipment to be more commercially viable.

Our Group does not exclusively source the relevant testing equipment and reagents from ACON, and could procure the relevant testing equipment and reagents from other suppliers in the PRC. Our Group is not the sole customer of ACON.

CONNECTED TRANSACTIONS

We have a long standing business relationship with ACON, and ACON has been one of our major suppliers during the Track Record Period. As ACON has a proven track record in providing our Group with a broad range of high quality and reliable testing equipment and reagents at competitive pricing, our Directors are of the view that it is in the interest of our Group in terms of cost and stability to continue procuring testing equipment and reagents from ACON, instead of procuring from other suppliers which offer higher price or we are less familiar with.

Pricing policy

We procure testing equipment and reagents through bids from our list of approved qualified suppliers, taking into account their bidding price, product quality, reliability and specifications, product delivery time, range of offerings and their track records with our Group. ACON is an approved qualified supplier of our Group. The amounts payable by us under the Purchase and Equipment Lease Framework Agreement will be determined after a bidding process involving ACON and other approved qualified suppliers. Any successful bids from ACON should not be less favourable than bids from other suppliers and bids offered by ACON to independent third parties. After a successful bid of ACON, we enter into a separate agreement on terms which will be determined on an arm’s length basis, with reference to, among others, (i) the historical transaction amounts paid by us to ACON for the purchase of similar testing equipment and reagents from ACON, (ii) the amount, quality and specifications of the relevant testing equipment and reagents, and (iii) the bidding price, product quality, reliability and specifications, product delivery time and range of offerings of ACON as compared to other suppliers in the list of our approved qualified suppliers.

Historical Transaction Amounts

For the years ended December 31, 2020, 2021 and 2022, the historical fees paid to ACON amounted to approximately RMB107.9 million, RMB102.0 million and RMB78.9 million, respectively.

Annual Caps on Future Transaction Amounts

The maximum amounts payable by us to ACON under the Purchase and Equipment Lease Framework Agreement for the years ending December 31, 2023, 2024 and 2025 shall not exceed the annual caps as set out below:

	Proposed annual cap for the years ending December 31,		
	2023	2024	2025
	(RMB in millions)		
Fees payable by us to ACON (including applicable taxes)	110.0	110.0	110.0

The above annual caps are determined based on (i) the historical transaction amounts we paid to ACON in consideration for the purchase of testing equipment and reagents; (ii) the improvement in our business after recovering from the impact of COVID-19; (iii) the possibility that we will experience an increasing need for testing equipment and reagents in view of the continual expansion of our ICL business; and (iv) the market prices and expected trends in relation to the relevant testing equipment and reagents.

CONNECTED TRANSACTIONS

The Company foresees the need to set annual caps at such levels despite the decreasing historical transaction amounts for the years ended December 31, 2020, 2021 and 2022. Our historical transaction amounts decreased by approximately 29.3% from RMB102.0 million for the year ended December 31, 2021 to RMB78.9 million for the year ended December 31, 2022, primarily due to the unexpected change in demand in relation to some of ACON’s products (including HPV products) in 2022. The change in demand was primarily attributable to the availability of certain HPV products at more competitive prices from other manufacturers and decline in elective checkups due to impact from COVID-19.

Based on (i) the increase of 10.4% in our transaction amounts with ACON between December 31, 2018 and December 31, 2021; (ii) anticipated recovery of demand for ACON’s products (including HPV products) in 2023 and beyond, taking into account ACON’s consistent efforts to develop quality products at competitive prices, respond to market pressures and expected recovery in elective checkups after zero Covid policy was relaxed; (iii) potential for quality molecular biology and ELISA based products to be produced by ACON which meets Adicon’s end market demands in the future; and (iv) our expectation that transaction amounts with ACON will continue to grow over the long term as we expand our business, we consider it to be fair and reasonable to set our annual caps at RMB110.0 million for each of the three years ending December 31, 2025.

Listing Rules Implications

In respect of the purchase of testing equipment and reagents from ACON as contemplated under the Purchase and Equipment Lease Framework Agreement, as the highest applicable percentage ratio (other than the profit ratio) under the Listing Rules is expected to be more than 0.1% but less than 5% on an annual basis, the transactions will be subject to the reporting, annual review and announcement requirements but exempt from the circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

In respect of the leasing of testing equipment from ACON as contemplated under the Purchase and Equipment Lease Framework Agreement, in the event that we lease any testing equipment from ACON in the future, we will, in accordance with HKFRS 16 “Leases”, recognize a right-of-use asset and a lease liability on our balance sheet in connection with the lease of the testing equipment from ACON. Accordingly, the leasing of testing equipment from ACON will be regarded as a one-off connected transaction of our Company for the purposes of the Listing Rules. We will comply with the reporting, announcement, annual review and independent shareholders’ approval requirements, as applicable, in Chapter 14A of the Listing Rules if we lease any testing equipment from ACON under the Purchase and Equipment Lease Framework Agreement in the future.

CONTRACTUAL ARRANGEMENTS

Background

Due to regulatory restrictions on foreign ownership in the PRC, we entered into the Contractual Arrangements whereby Aidiken WFOE has acquired effective control over Hangzhou Adicon and its subsidiaries, and become entitled to all the economic benefits derived from the laboratories operated by Hangzhou Adicon and its subsidiaries.

The Contractual Arrangements currently in effect mainly comprise the following agreements, namely (i) the exclusive business cooperation agreement; (ii) the exclusive option agreement; (iii) the loan agreements; and (iv) the equity pledge agreements, which were entered into between or amongst Aidiken WFOE, Hangzhou Adicon and the Registered Shareholders, and the irrevocable power of attorney executed by the Registered Shareholders. For details, please refer to the section headed “Contractual Arrangements” in this Document.

CONNECTED TRANSACTIONS

Listing Rules Implications

For the purposes of Chapter 14A of the Listing Rules, our PRC Operating Entities will be treated as our wholly-owned subsidiaries, and their directors, chief executives or substantial shareholders (as defined in the Listing Rules) and their respective associates will be treated as our connected persons.

Our Directors, including the independent non-executive Directors, and the Joint Sponsors are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group’s legal structure and business operation and it is justifiable and normal business practice for agreements under the Contractual Arrangements to have a term of longer than three years to ensure that (i) the financial and operational policies of the PRC Operating Entities can be effectively controlled by Aidiken WFOE; (ii) Aidiken WFOE can obtain the economic benefits derived from the PRC Operating Entities; and (iii) any possible leakage of assets and values of the PRC Operating Entities can be prevented on an uninterrupted basis. Such transactions have been entered into on normal commercial terms and are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.

Our Directors also believe that our Group’s structure, whereby the financial results of the PRC Operating Entities are consolidated into our Group’s financial statements as subsidiaries and the flow of economic benefit of their business to our Group, places our Group in a special position in relation to relevant rules concerning connected transactions under the Listing Rules. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements or renewal of existing agreements to be entered into between the PRC Operating Entities and any member of our Group (“**New Intergroup Agreements**”) technically constitute continuing connected transactions under Chapter 14A of the Listing Rules, our Directors consider that it is unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if the Contractual Arrangements are subject to the requirements set out under Chapter 14A of the Listing Rules.

WAIVER APPLICATIONS

Purchase and Equipment Lease Framework Agreement

As illustrated above, the purchase of testing equipment and reagents under the Purchase and Equipment Lease Framework Agreement constitute continuing connected transactions that are subject to the reporting, annual review and announcement requirements but exempt from the circular and independent Shareholders’ approval requirements of the Listing Rules.

Pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange [has granted], a waiver exempting us from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules.

The Contractual Arrangements

In relation to the Contractual Arrangements, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver pursuant to Rule 14A.102 of the Listing Rules from strict compliance with (i) the announcement, circular and independent Shareholders’ approval requirements under Rule 14A.105 of the Listing Rules, (ii) the annual cap requirement for the transactions under the Contractual Arrangements under Rule 14A.53 of the Listing Rules, and (iii) the requirement for limiting the term of the Contractual Arrangements to three years or less under Rule 14A.52 of the Listing Rules, for so long as the Shares are [REDACTED] on the Stock Exchange subject, however, to the following conditions:

(a) *No change without independent non-executive Directors’ approval*

No change to the Contractual Arrangements will be made without the approval of the independent non-executive Directors.

CONNECTED TRANSACTIONS

(b) No change without independent Shareholders’ approval

Save as described in paragraph (d) below, no change to the agreements governing the Contractual Arrangements will be made without the approval of our Company’s independent Shareholders. Once independent Shareholders’ approval of any change has been obtained, no further announcement to or approval of the independent Shareholders will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. However, the periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will continue to be applicable.

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by the PRC Operating Entities through (i) our Group’s option, to the extent permitted under PRC laws and regulations, to acquire all or part of the equity interest in the PRC Operating Entities at the minimum purchase price permitted under PRC laws and regulations, (ii) the business structure under which the profit generated by the PRC Operating Entities is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Aidiken WFOE by the PRC Operating Entities under the exclusive business cooperation agreement, and (iii) our Group’s right to control the management and operation of, as well as, in substance, all of the voting rights of, the PRC Operating Entities.

(d) Renewal and reproduction

On the basis that the Contractual Arrangements provide an acceptable framework for the relationship between our Company and its subsidiaries in which our Company has direct shareholding on the one hand, and the PRC Operating Entities on the other hand, that framework may be renewed and/or reproduced upon the expiry of the existing arrangements or in relation to any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group might wish to establish when justified by business expediency, without obtaining the prior approval of our Shareholders, on substantially the same terms and conditions as the existing Contractual Arrangements. The directors, chief executive or substantial shareholders of any existing or new wholly foreign owned enterprise or operating company (including branch company) engaging in the same business as that of our Group which our Group may establish will, upon renewal and/or reproduction of the Contractual Arrangements, however be treated as connected persons of our Company and transactions between these connected persons and our Company other than those under similar contractual arrangements shall comply with Chapter 14A of the Listing Rules. This condition is subject to relevant PRC laws, regulations and approvals.

(e) Ongoing reporting and approvals

Our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:

- the Contractual Arrangements in place during each financial period will be disclosed in our Company’s annual report and accounts in accordance with relevant provisions of the Listing Rules;
- our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company’s annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, and that the profit generated by the PRC Operating Entities has been substantially retained by Aidiken WFOE, (ii) no dividends or other

CONNECTED TRANSACTIONS

distributions have been made by the PRC Operating Entities or any non-wholly owned subsidiary of our Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and the PRC Operating Entities during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole;

- Our Company's auditor will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and that no dividends or other distributions have been made by the PRC Operating Entities or any non-wholly owned subsidiary of our Group to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group;
- For the purpose of Chapter 14A of the Listing Rules, and in particular the definition of "connected person", the PRC Operating Entities and each of its subsidiaries will be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the PRC Operating Entities, its subsidiaries and their associates will be treated as connected persons of our Company (excluding for this purpose, the PRC Operating Entities), and transactions between these connected persons and our Group (including for this purpose, the PRC Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules; and
- The PRC Operating Entities will undertake that, for so long as the Shares are [REDACTED] on the Stock Exchange, the PRC Operating Entities will provide our Group's management and our Company's auditor with full access to their relevant records, and (where applicable) relevant records of their subsidiaries, for the purpose of our Company's auditor's review of the connected transactions.

In addition, we have also applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver pursuant to Rule 14A.105 of the Listing Rules from strict compliance with (i) the announcement, circular and independent Shareholders' approval requirements under Rule 14A.105 of the Listing Rules in respect of the transactions contemplated under any New Intergroup Agreement, (ii) the requirement of setting an annual cap for the fees payable by/to any member of our Group to/from the PRC Operating Entities under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules, and (iii) the requirement of limiting the term of any New Intergroup Agreement to three years or less under Rule 14A.52 of the Listing Rules, for so long as Shares are [REDACTED] on the Stock Exchange subject however to the condition that the Contractual Arrangements subsist and that the PRC Operating Entities will continue to be treated as our Company's subsidiaries, but at the same time, the directors, chief executives or substantial shareholders of the PRC Operating Entities and their associates will be treated as connected persons of our Company (excluding for this purpose, the PRC Operating Entities), and transactions between these connected persons and our Group (including for this purpose, the PRC Operating Entities), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

We will comply with the applicable requirements under the Listing Rules, and will immediately inform the Stock Exchange if there are any changes to these continuing connected transactions.

CONNECTED TRANSACTIONS

JOINT SPONSORS’ AND DIRECTORS’ VIEWS

Our Directors (including our independent non-executive Directors) are of the view that the connected transactions set out above have been entered into (i) in the ordinary and usual course of business of our Company, (ii) on normal commercial terms or better that are fair and reasonable and in the interests of our Company and our Shareholders as a whole and (iii) the proposed monetary annual caps in respect of the Purchase and Equipment Lease Framework Agreement are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

The Joint Sponsors have reviewed the relevant documents and information provided by our Group, have participated in the due diligence and discussions with our management and our PRC Legal Advisor, and have obtained necessary representations and confirmations from our Company and our Directors. The Joint Sponsors are of the view that the non-exempted continuing connected transaction set out above (i) have been entered into in the ordinary and usual course of business of our Company, and on normal commercial terms or better; (ii) are fair and reasonable and in the interests of our Company and our Shareholders as a whole; and (iii) the proposed monetary annual caps in respect of the Purchase and Equipment Lease Framework Agreement are fair and reasonable and in the interests of our Company and our Shareholders as a whole.