OVERVIEW

As of the Latest Practicable Date, Kelun Pharmaceutical was directly interested in approximately 59.75% of the total issued Shares of our Company. In addition, our Employee Incentive Platforms, namely Kelun Huicai, Kelun Huineng, Kelun Huizhi and Kelun Huide, were directly interested in approximately 15.52% of the total issued Shares of our Company. Kelun Jingchuan, a wholly-owned subsidiary of Kelun Pharmaceutical, is the general partner of each of our Employee Incentive Platforms. As such, Kelun Pharmaceutical was entitled to exercise the voting rights attaching to the Shares held by our Employee Incentive Platforms. Therefore, as of the Latest Practicable Date, Kelun Pharmaceutical was able to exercise approximately 75.27% of the voting rights attaching to the Shares of our Company. Immediately following the completion of the [**REDACTED**] (assuming the [**REDACTED**] is not exercised), Kelun Pharmaceutical will be entitled to exercise approximately [**REDACTED**]% voting rights attaching to the Shares directly held by it and those held by our Employee Incentive Platforms. Accordingly, Kelun Pharmaceutical and the Employee Incentive Platforms will continue to be a group of Controlling Shareholders of our Company following the completion of the [**REDACTED**]. Please see "History and Corporate Structure" for the shareholding and corporate structure of our Group.

Mr. LIU Gexin held approximately 25.77% equity interest in Kelun Pharmaceutical as of March 31, 2023 and is deemed as the actual controller of Kelun Pharmaceutical. According to the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange (《深圳證券交易所股票上市規則》) where Kelun Pharmaceutical is listed, an "actual controller" refers to an individual or entity that can control a company by way of investment relationship, contracts or other arrangements. As the actual controller of Kelun Pharmaceutical, Mr. LIU Gexin is able to control Kelun Pharmaceutical and exert substantial influence over it. Considering Kelun Pharmaceutical itself is able to exercise more than 30% voting power at general meetings of our Company, Mr. LIU Gexin is entitled to, through Kelun Pharmaceutical, indirectly control the exercise of more than 30% of the voting power at general meetings of our Company. Therefore, we also regard Mr. LIU Gexin as our Controlling Shareholder.

Therefore, Kelun Pharmaceutical, the Employee Incentive Platforms and Mr. LIU Gexin are considered as a group of Controlling Shareholders of our Company.

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Kelun Pharmaceutical (stock code: 002422) was listed on the Shenzhen Stock Exchange in June 2010. The Remaining Kelun Group is a global leading IV (intravenous) fluids solution products and antibiotics intermediates manufacturer. Pursuant to Kelun Pharmaceutical's A-share annual report of 2022 published on the Shenzhen Stock Exchange, under the PRC GAAP, its total revenue and profit attributable to shareholders reached approximately RMB18,912.65 million and RMB1,708.70 million respectively for the year ended December 31, 2022. Kelun Group is a highly specialized pharmaceutical group with over 60 subsidiaries and branches in China and overseas, including, among others, Kelun Research Institute, which primarily focuses on research and development of generic drugs.

For Mr. LIU Gexin's background, please refer to "Directors, Supervisors and Senior Management – Board of Directors – Chairman of the Board and Non-executive Director" in this document. Mr. LIU Gexin is the actual controller of Kelun Pharmaceutical. Other than his voting interest in Kelun Pharmaceutical, Mr. LIU Gexin did not hold or was otherwise interested in the share capital of our Company, nor had he been involved in the day-to-day management or operations of our Group as a non-executive Director and Chairman of the Board. Mr. LIU Gexin was of the view that our Company has been amply and soundly managed by our Board and senior management and hence did not take on any executive role in our Company.

SPIN-OFF

Kelun Pharmaceutical, our Controlling Shareholder, is a company listed in the PRC. The [**REDACTED**] of our Company constitutes a spin-off from a domestic listed company (the "**Spin-Off**") as defined under the Spin-off Rules. The Spin-Off has been approved by the shareholders of Kelun Pharmaceutical at an extraordinary general meeting held on January 30, 2023. Kelun Pharmaceutical filed the relevant announcements related to the Spin-Off with the Shenzhen Stock Exchange on January 14, 2023.

DELINEATION OF BUSINESS BETWEEN US AND OUR CONTROLLING SHAREHOLDER

We were an internal platform of Kelun Group committed to the R&D, manufacturing and commercialization of novel drugs to address medical needs in China and globally. We were founded by Kelun Pharmaceutical and Employee Incentive Platforms as a joint stock company limited by shares in 2016. The Remaining Kelun Group, however, is an integrated research-driven and market-oriented pharmaceutical company primarily focusing on: (i) manufacturing of IV (intravenous) fluids solution products and antibiotics intermediates (the "**Manufacturing Business**"); and (ii) research and development of generic drugs, which are mainly carried out through Kelun Research Institute (the "**Generic Drug R&D Business**").

Delineation with the Manufacturing Business

The Manufacturing Business mainly focuses on IV fluids solution products and antibiotics intermediates that have been commercialized and widely used in clinical treatment. In contrast, the overall business of our Group is at the pre-commercialization stage with R&D, manufacturing and commercialization of novel drugs to address medical needs. As such, we believe that our business and the Manufacturing Business are explicitly differentiated in nature.

Delineation with the Generic Drug R&D Business

The Generic Drug R&D Business mainly focuses on research, development and commercialization of generic drugs. In contrast, our Group mainly focuses on the discovery, R&D and commercialization of novel drugs. In general, novel drugs and generic drugs are two different classes of drugs that are generally used to treat different stages of patients with a

given disease, based on various factors including disease subtype, disease progression (i.e., treatment line) and the patient's medical history. Therefore, novel drugs and generic drugs are generally not in competition with each other, as confirmed by Frost & Sullivan. The main differences between novel drugs and generic drugs in the Chinese market are generally the following:

	Novel Drugs	Generic Drugs
Nature	Pharmaceutical drug with independent property rights. Comparing against generic drug, it emphasizes on novel chemical structure or novel treatment method with the aim of addressing medical needs.	Pharmaceutical drug containing the same chemical substances as a drug that was originally protected by chemical patents (i.e., brand-name drug). A generic drug has the same active pharmaceutical ingredients as the brand-name drug and is allowed for sale after the patents of the brand-name drug expire. As such, a generic drug is identical to or within an acceptable bioequivalent range of the brand-name drug with respect to pharmacokinetic and pharmacodynamics properties.
R&D Model and Cycle	Development of a drug that contains active ingredient(s) not previously approved in a drug by a regulatory authority and enjoys proprietary barriers to entry, including regulatory or patent-derived market exclusivity.	Development of a drug identical to, or within an acceptable bioequivalent range of, an already marketed brand-name drug in active ingredients, therapeutic effect, safety, and intended use, among other criteria.
Time to Market	Longer than generic drugs primarily attributable to the preclinical studies and clinical trials that are required of the novel drugs to demonstrate safety and effectiveness. According to Frost & Sullivan, it normally takes approximately ten to 15 years for a novel drug to complete R&D cycle.	Relative shorter than novel drugs primarily because generic drug applicants do not have to repeat the preclinical studies and clinical trials required of their brand-name counterparts. According to Frost & Sullivan, it normally only takes approximately 3 years for a generic drug to complete its R&D cycle.

	Novel Drugs	Generic Drugs
R&D Cost	Novel drugs have to go through expensive animal and clinical studies to prove their safety and efficacy. According to Frost & Sullivan, the R&D cost of a novel drug normally amounts to US$500 million to US$1 billion.	Generic drugs use the same active ingredients that the brand-name drugs carried out testing for, so they don't have to conduct the same testing, which benefits generic drugs from a reduction in upfront research costs. According to Frost & Sullivan, the R&D cost of a generic drug normally amounts to US$1 million to US$3 million.
Treatment Costs	Typically maintained at a high level before patent expiration.	Typically sold at substantial discounts, due to significant reduction in upfront research costs.
Clinical Needs	Addressing medical needs that cannot be met by generic drugs through offering new therapeutic options to patients previously without available or effective treatments.	Providing affordable substitutes that work in the same way and offer the same clinical benefit as the marketed brand-name drug.
Sales and Promotion Channel	Unlike generic drugs whose sales and promotion channel in China may be constrained if not being selected through collective pharmaceutical procurement, there are no similar restrictions on the sales and promotion channel for novel drugs in China. Developers of novel drugs face a broader target market and can deploy more diversified marketing and sales strategies to promote their novel drugs.	In China, the primary and most important sales channel of generic drugs is through collective pharmaceutical procurement organized by government. Physicians at public hospitals usually only prescribe generic drugs that have been selected by collective pharmaceutical procurement. Failure to be selected through collective pharmaceutical procurement may result in significant constraints on the sales and promotion channel of such generic drug.

	Novel Drugs	Generic Drugs
Physician Prescribing Behavior	Given the innovative nature of novel drugs, there is no similar labeling requirement which applies to generic drugs. As such, physician prescribing behavior in respect of novel drugs is usually influenced by education conducted by novel drug developers.	Physicians usually prescribe generic drugs by strictly following generic drug labeling, which is the same as the last approved reference listed drug labeling except for permissible differences (e.g., manufacturer/packer/distributor information package size, etc.)
Direct Competitors	Approved drugs or drug candidates in the same class that treat the same indications.	When multiple generic drugs are approved based on the same brand-name drug, more competition exists in the marketplace.

Although certain drugs of the Remaining Kelun Group and our Group are designed for the same broad disease types, their drug modalities, targets, mechanism of action, indications and treatment lines are different. In practice, doctors determine the type and order of therapies given to a patient generally based on established treatment guidelines, recently published clinical trial results, progression of disease and patient's individual situation. The initial therapy used, for example, is referred to as first-line (1L) treatment, followed by second- and later-line (2L+) treatments and so on, after an earlier-line treatment has failed. Certain drugs of the Remaining Kelun Group and our Group designed for the same broad disease types are positioned for different lines of treatment to target the various subpopulations of patients. As such, these drugs are not interchangeable and cannot be replaced by each other. Our Company and our Controlling Shareholders consider that these drugs will not affect the business delineation or give rise to material competition between our Group and the Remaining Kelun Group because of the following:

Oncology Drugs

Cancer treatments have evolved rapidly over the past few decades. The landscape of cancer treatments has progressed from surgery and indiscriminate cytotoxic treatments, such as radiotherapy and chemotherapy, to more innovative modalities such as targeted therapies and immunotherapies, represented by antibody-based drugs, including mAbs, bsAbs and ADCs. For an overview of the oncology drug market, see "Industry Overview – The Oncology Drug Market."

The Remaining Kelun Group specializes in the development of generic drugs as affordable substitutes to marketed brand-name drugs, the latter having existed in the market for a number of years. In contrast, our Group is dedicated to the development of novel drugs representing some of the most cutting-edge treatment modalities in China and globally. For

example, our Core Products, SKB264 and A166, are ADC candidates developed based on our proprietary technologies to selectively target and kill tumor cells. These types of drugs are differentiated from that of traditional cancer treatments like chemotherapy due to fundamentally different treatment philosophies. For example, two of the Remaining Kelun Group's generic drug products are chemotherapy drugs, which are a typical modality of generic drugs that kill both tumor cells and normal cells indiscriminately, leading to serious safety issues. Chemotherapy drugs therefore have mechanisms of action and efficacy and safety profiles differentiated from those of ADCs. As such, the generic chemotherapy drugs developed by the Remaining Kelun Group are different in nature from, and hence generally not in competition with, the ADCs and other targeted therapies developed by our Group.

Moreover, the generic targeted therapies developed by the Remaining Kelun Group and the innovative targeted therapies developed by our Group are directed toward different molecular targets. Driven by the shifting paradigm towards precision oncology, cancer therapies are developed with the recognition that tumors are highly heterogenic in nature and there is no one-size-fits-all approach to cancer care. Due to the difference in tumor profiles between patients, targeted therapies directed toward a particular target are typically only effective in a specific subset of cancer patients. For example, small molecule inhibitor directed toward PARP may only be effective for platinum-sensitive recurrent OC patients but not for platinum-resistant recurrent OC patients. Therefore, targeted therapies directed toward different molecular targets are generally not in competition with each other. For more details on ADCs, their innovative features and competitive landscape, see "Industry Overview – The Antibody-based Drug Market – The ADC Market."

(i) Breast Cancer (BC)

	Our Group		**Remaining Kelun Group**	
	SKB264	**A166**	**Paclitaxel for injection (Albumin Bound) (注射用紫杉醇(白蛋白結合型))**	**Palbociclib (哌柏西利)**
Drug Modality	ADC	ADC	Chemo	Small molecule kinase inhibitor
Target (if any)	TROP2	HER2	N/A	CDK4/6
Mechanism of Action	SKB264 is a novel TROP2 ADC that elicits both targeted killing in TROP2-expressing tumor cells and bystander killing in TROP2-negative tumor cells, which helps overcome heterogeneity in tumors where there is uneven expression of TROP2.	A166 is a differentiated HER2 ADC that potentially exerts strong anti-tumor activity via HER2-targeted cell killing, inhibition of HER2 signaling and ADCC.	Paclitaxel (albumin-bound) is a cytotoxic drug that disrupts microtubule inside the cell, thereby causing cell death.	Palbociclib is a selective CDK4/6 inhibitor that interrupts the process through which tumor cells divide and multiply.

	Our Group		Remaining Kelun Group	
	SKB264	**A166**	**Paclitaxel for injection (Albumin Bound) (注射用紫杉醇(白蛋白結合型))**	**Palbociclib (哌柏西利)**
Indication(s) and Treatment Lines	*Advanced TNBC*: • third-line and beyond (3L+) • first-line (1L) combo with PD-L1 mAb *HR+/HER2- BC*: second-line and beyond (2L+)	*Advanced HER2+BC* that *fails HER2 mAb treatment*: third-line and beyond (3L+)	*Metastatic BC that failed combination chemotherapy or recurrent BC within six months of adjuvant chemotherapy (except for contraindication, prior treatment should include anthracycline-based chemotherapy)*: second-line and beyond	*Advanced HR+/HER2- BC*: first-line (1L) combo with aromatase inhibitor

Paclitaxel (albumin bound) is a chemotherapy drug, which belongs to an entirely different class of cancer treatment compared to ADC drugs like SKB264 and A166. These two classes of cancer treatments differ in terms of drug modality, mechanisms of action and efficacy and safety profiles. Due to these differences, paclitaxel (albumin bound) would be used to treat a different population of cancer patients from that of SKB264 and A166 (i.e., different treatment lines and treatment history). Therefore, SKB264 and A166 and the Remaining Kelun Group's paclitaxel (albumin bound) are not substitutable for, nor in competition with, each other.

Palbociclib is a type of targeted therapy that targets CDK4/6 proteins to interrupt the process through which tumor cells divide and multiply. The molecular target of palbociclib (CDK4/6) is different from that of SKB264 (TROP2) and A166 (HER2). Due to their differentiated molecular targets and hence mechanisms of action, palbociclib would be used to treat a different population of cancer patients from that of SKB264 (i.e., different treatment lines) and that of A166 (i.e., different molecular subtype of cancer). Therefore, SKB264 and A166 and the Remaining Kelun Group's palbociclib are not substitutable for, nor in competition with, each other.

(ii) Lung Cancer (LC)

	Our Group		Remaining Kelun Group			
	SKB264	**A400**	**Pemetrexed disodium powder for injection (培美曲塞二鈉粉針)**	**Gefitinib (吉非替尼)**	**Erlotinib (厄洛替尼)**	**Afatinib (阿法替尼)**
Drug Modality	ADC	Small molecule tyrosine kinase inhibitor ("TKI")	Chemo	Small molecule TKI		
Target (if any)	TROP2	RET	N/A	EGFR		

	Our Group		Remaining Kelun Group			
	SKB264	**A400**	**Pemetrexed disodium powder for injection (培美曲塞二鈉粉針)**	**Gefitinib (吉非替尼)**	**Erlotinib (厄洛替尼)**	**Afatinib (阿法替尼)**
Mechanism of Action	SKB264 is a novel TROP2 ADC that elicits both targeted killing in TROP2-expressing tumor cells and bystander killing in TROP2-negative tumor cells, which helps overcome heterogeneity in tumors where there is uneven expression of TROP2.	A400 is a highly selective and potent small molecule RET inhibitor that selectively inhibits oncogenic RET signaling in RET+ tumor cells.	Pemetrexed is a multi-targeted anti-cancer antifolate containing the pyridopyrimidine-based nucleus that exerts its antineoplastic activity by disrupting folate-dependent metabolic process essential for cell replication.	Gefitinib, erlotinib and afatinib are EGFR TKIs that disrupt oncogenic EGFR signaling in EGFR-mutant tumor cells.		
Indication(s) and Treatment Lines	*Driver mutation-negative advanced NSCLC and driver mutation-positive advanced NSCLC, including EGFR-mutant NSCLC that fails EGFR TKI treatments*: second line and beyond (2L+) *Drive mutation-negative advanced NSCLC*: first line (1L) in combination with PD-L1 mAb *Advanced SCLC*: second line and beyond (2L+)	*Advanced RET+ NSCLC*: first line and beyond (1L+)	*Advanced NSCLC with non-squamous histology*: first line and beyond (1L+)	*Advanced EGFR-mutant NSCLC*: first line and beyond (1L+)		

Pemetrexed is a chemotherapy drug that indiscriminately kills both cancer cells and normal cells, which frequently leads to safety and toxicity issues in patients. Conversely, both SKB264 and A400 are two types of targeted therapy designed to selectively target cancer cells that express a specific protein. Because of their differentiated drug modalities and hence mechanisms of action and efficacy and safety profiles, pemetrexed would be used to treat a different population of cancer patients from that of SKB264 (i.e., different cancer cell histology, tumor cell anatomy under the microscope that reflects the underlying molecular processes and disease progression, and different treatment lines) and that of A400 (i.e., different cancer molecular subtypes and cell histology). Therefore, SKB264 and A400 are not substitutable for, nor in competition with, the Remaining Kelun Group's pemetrexed.

Although EGFR TKIs gefitinib, erlotinib and afatinib are also targeted therapies, their drug modality is different from that of SKB264, and their molecular target (EGFR) is different from that of SKB264 (TROP2) and A400 (RET), which leads to a completely different mechanism of action and therapeutic profile. As a result, gefitinib, erlotinib and afatinib would be used to treat a different population of cancer patients from that of SKB264 (i.e., different lung cancer subtypes and/or different treatment lines) and that of A400 (i.e., different cancer molecular subtypes). Therefore, our SKB264 and A400 and the remaining Kelun Group's gefitinib, erlotinib and afatinib are not substitutable for, nor in competition with, each other.

(iii) Colorectal Cancer (CRC)

	Our Group		Remaining Kelun Group
	A166	**A140**	**Regorafenib (瑞戈非尼)**
Drug Modality	ADC	mAb	Small molecule multi-kinase inhibitor
Target (if any)	HER2	EGFR	multiple angiogenic, stromal and oncogenic RTKs
Mechanism of Action	A166 is a differentiated HER2 ADC for treating HER2+ or HER2-mutant solid tumors. It potentially enables strong anti-tumor activity via HER2-targeted cell killing, inhibition of HER2 signaling and ADCC.	A140 is an EGFR mAb that exerts anti-tumor effects primarily via the interruption of oncogenic EGFR signaling in tumor cells that overexpress EGFR.	Regorafenib is a multi-kinase inhibitor with a triple mechanism of action against RTKs involved in the regulation of angiogenesis, cell proliferation and tumor stroma.
Indication(s) and Treatment Lines	*Advanced HER2+ CRC with wild-type RAS/BRAF proteins, for whom regorafenib has demonstrated limited efficacy with an ORR of about 5% in clinical trials:* third line and beyond (3L+)	*RAS wild-type metastatic CRC (mCRC)*: first line (1L)	*mCRC that fails fluorouracil, oxaliplatin and irinotecan-based chemotherapy, and mCRC that fails or are not suitable for anti-VEGF therapy or anti-EGFR therapy*: third line and beyond (3L+)

Regorafenib is a type of targeted therapy with a different molecular target (multiple receptor tyrosine kinases) from that of A166 (HER2) and A140 (EGFR), which results in a completely different mechanism of action and therapeutic profile from that of A166 and A140. As a result, regorafenib would be used to treat a different population of cancer patients from that of A166 (i.e., different cancer molecular subtypes and medical history) and that of A140 (i.e., different treatment lines). Therefore, A166 and A140 are not substitutable for, nor in competition with, the remaining Kelun Group's regorafenib.

(iv) Ovarian Cancer (OC)

	Our Group **SKB264**	**Remaining Kelun Group** **Olaparib (奥拉帕利)**
Drug Modality	ADC	Small molecule inhibitor
Target (if any)	TROP2	PARPs
Mechanism of Action	SKB264 is a novel TROP2 ADC that elicits both targeted killing in TROP2-expressing tumor cells and bystander killing in TROP2-negative tumor cells, which helps overcome heterogeneity in tumors where there is uneven expression of TROP2.	Olaparib is a small molecule PARP inhibitor that suppresses the DNA repair pathway and causes cytotoxic DNA damage to tumor cells.
Indication(s) and Treatment Lines	*Platinum-resistant recurrent OC*: second line and beyond (2L+) *Note: Platinum-resistant recurrent OC refers to OC that recurs less than six months after completing 1L platinum-based chemotherapy*	*Platinum-sensitive recurrent OC*: second line and beyond (2L+) *Note: platinum-sensitive recurrent OC refers to OC that recurs more than six months after completing 1L platinum-based chemotherapy* *OC with germline BRCA1/2 mutation*: first line (1L) *Advanced BRCA1/2-mutated OC after 1L chemotherapy, platinum-sensitive recurrent OC after chemotherapy*: adjuvant treatment

Olaparib is a type of targeted therapy with a different drug modality and molecular target from that of SKB264, which leads to a completely different mechanism of action and therapeutic profile. As a result, Olaparib would be used to treat a different population of cancer patients from that of SKB264 (i.e., different platinum sensitivity, cancer molecular subtypes and treatment lines). Therefore, our SKB264 is not substitutable for, nor in competition with, the remaining Kelun Group's olaparib.

(v) Thyroid Cancer (TC)

	Our Group	Remaining Kelun Group
	A400	**Sorafenib tosylate (甲苯磺酸索拉非尼)**
Drug Modality	Small molecule TKI	Small molecule multi-kinase inhibitor
Target (if any)	RET	Multiple protein kinases
Mechanism of Action	A400 is a highly selective and potent small molecule RET inhibitor that selectively inhibits oncogenic RET signaling in RET+ tumor cells.	Sorafenib is a multi-kinase inhibitor that suppresses many protein kinases and induces autophagy that inhibit tumor growth.
Indication(s) and Treatment Lines	*Advanced RET+ MTC*: first line and beyond (1L+)	*Advanced progressive radioactive iodine-refractory differentiated TC*: second line (2L)

Sorafenib is a type of targeted therapy with a different molecular target from that of A400, which leads to a completely different mechanism of action and therapeutic profile. As a result, sorafenib would be used to treat a different cancer patient population from that of A400 (i.e., different cancer molecular subtypes, cell histology, treatment history and treatment lines). Therefore, our A400 is not substitutable for, nor in competition with, the remaining Kelun Group's sorafenib.

Non-oncology Drug

Rheumatoid Arthritis (RA)

	Our Group	Remaining Kelun Group	
	A223	**Tofacitinib citrate (枸橼酸托法替布)**	**Celecoxib (塞來昔布)**
Drug Modality	Small molecule inhibitor	Small molecule inhibitor	Small molecule inhibitor
Target (if any)	JAK1/2	preferentially JAK1/2/3	COX-2

Different JAKs have different cell type-specific expression patterns and are associated with different cytokine receptors, thus the blockade of different JAKs may lead to different biological outcomes. JAK1 and JAK2 are broadly expressed in most types of cells and tissues, while JAK3 is primarily expressed in bone marrow cells, thymocytes, NK cells, and activated B and T lymphocytes. Therefore treatment with tofacitinib, but not A223, would have a greater inhibitory effect on the functions of the aforementioned immune cell types.

	Our Group	Remaining Kelun Group	
	A223	**Tofacitinib citrate (枸橼酸托法替布)**	**Celecoxib (塞來昔布)**
Mechanism of Action	A223 is potentially one of the first domestically developed small molecule inhibitors that inhibit JAK1 and JAK2, thereby potentially suppressing cytokine-mediated inflammation and preventing the progression of joint damage in RA.	Tofacitinib preferentially inhibits JAK1, JAK2 and JAK3, thereby potentially suppressing cytokine-mediated inflammation and preventing the progression of joint damage in RA	Celecoxib inhibits COX-2-mediated prostaglandin synthesis to potentially reduce sensitivity to pain and joint swelling.
Indication(s)	*Adult patients with moderate to severe RA* *Adult patients with alopecia areata*	*Adult patients with moderate-to-severe RA who have had an inadequate response or intolerance to one or more types of TNF inhibitors* *Adult patients with active ankylosing spondylitis who have had an inadequate response or intolerance to one or more TNF inhibitors*	It only provides symptomatic relief via the reduction of pain sensitivity and joint swelling, but it does not slow or prevent disease progression.
Drug half-life	Expected half-life of 16 to 18 hours, which are considerably longer than that of tofacitinib. As such, A223 can be dosed much less frequently than tofacitinib.	3 hours	11 hours

A223 and tofacitinib are JAK inhibitors with different selectivity towards the four JAK enzymes, which have distinct biological functions. A223 selectively inhibits JAK1 and JAK2, while tofacitinib inhibits all four JAKs. Due to the difference in JAK selectivity, A223 has different pharmacological properties, efficacy and safety profiles as well as dosing regimen from that of tofacitinib. Therefore, A223 and tofacitinib would be used to treat distinct diseases (i.e., AA for A223, ankylosing spondylitis for tofacitinib). Moreover, even though both A223 and tofacitinib both target RA, their effectiveness and safety for RA vary according to each patient's treatment history, susceptibility to different adverse drug reactions and potential drug-drug interactions. For example, baricitinib (also a JAK1/2 inhibitor) has been shown to be more effective than tofacitinib in patients who have previously received multiple biologic disease-modifying rheumatic drugs. As such, A223 and the Remaining Kelun Group's tofacitinib are not substitutable for, nor in competition with, each other on the same patient.

On the basis of the above, each of our Controlling Shareholders and our Company believes that there is a clear business delineation of business between our Group and the Remaining Kelun Group, and our Directors are of the view that the business of Remaining Kelun Group does not compete, and is unlikely to compete, directly or indirectly, with our Group's business. Our Controlling Shareholders further confirmed that, as of the Latest Practicable Date, save as disclosed in this section, they do not have any interest in a business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, and requires disclosure under Rule 8.10 of the Listing Rules.

DEED OF NON-COMPETITION

In order to avoid potential competition between the Remaining Kelun Group and our Group and protect the interests of the shareholders of the Remaining Kelun Group and our Shareholders, each of our Controlling Shareholders, namely Kelun Pharmaceutical and Mr. LIU Gexin, has entered into a deed of non-competition (referred to as "**Kelun Pharmaceutical's Deed of Non-competition**" and "**Mr. LIU's Deed of Non-competition**", collectively referred to as the "**Deed of Non-Competition**") with the Company.

Pursuant to Kelun Pharmaceutical's Deed of Non-competition, the Remaining Kelun Group has made the following confirmations and undertakings:

(a) it is not directly or indirectly engaged in any business which is the same or similar to, or constitutes direct or indirect competition with, the principal business or principal products of our Group;

(b) during the period of being a Controlling Shareholder of our Company, it will not, directly or indirectly, in any way (including but not limited to new establishment, acquisition or merger of companies or other economic organizations within or outside the PRC) participate in any business which is the same or similar to, or has direct or indirect competition with, the principal business or principal products of our Group;

(c) if it obtains any business opportunities from the market in the future that constitute substantial competition with the principal business of our Group, under the same conditions of possessing relevant development qualifications, tender conditions and obtaining third-party consent (if required), it will use its best endeavours to facilitate our Group to secure such business opportunities;

(d) it will not use the information obtained or known from our Group to assist any third party to engage in business that involves substantial competition with the business conducted by our Group;

(e) it shall procure other enterprises, organizations or institutions controlled by it to comply with Kelun Pharmaceutical's Deed of Non-Competition; and

(f) it agrees to indemnify our Company for any losses or expenses suffered or incurred as a result of any breach of any terms of Kelun Pharmaceutical's Deed of Non-competition by the Remaining Kelun Group.

Pursuant to Mr. LIU's Deed of Non-competition, Mr. LIU Gexin has made the following confirmations and undertakings:

(a) the enterprises, organizations or institutions controlled by him will not directly or indirectly engage in any business which is the same or similar to, or constitutes competition with, the principal business or principal products of our Group;

(b) during the period of being a Controlling Shareholder of our Company, the enterprises, organizations or institutions controlled by him will not directly or indirectly, in any way (including but not limited to new establishment, acquisition or merger of companies or other economic organizations within or outside the PRC) participate in any business which is the same or similar to, or has direct or indirect competition with, the principal business or principal products of our Group;

(c) if our Company explores new areas of business in the future which causes the business conducted by the enterprises, organizations or institutions controlled by him to compete with our Company, the enterprises, organizations or institutions controlled by him shall cease engaging in such business, or our Company shall have

the pre-emptive right to acquire the underlying assets or equity interests of such business under the same conditions, or the underlying assets or equity interests of such business shall be transferred to unrelated third parties based on the principles of fairness and impartiality;

(d) he will procure other enterprises, organizations or institutions controlled by him to comply with Mr. LIU's Deed of Non-competition;

(e) he will not provide proprietary technology or trade secrets such as sales channels and customer information to other companies, enterprises or other institutions, organizations or individuals whose businesses are the same or similar to, or compete in any respect with our Company; and

(f) he agrees to indemnify our Company for any losses or expenses suffered or incurred by our Company as a result of any breach of any terms of Mr. LIU's Deed of Non-competition.

The overall business of our Group is at the pre-commercialization stage with R&D, manufacturing and commercialization of novel drugs to address medical needs. By contrast, the Remaining Kelun Group is an integrated pharmaceutical company primarily focusing on the Manufacturing Business and Generic Drug R&D Business. As such, "any business which is the same or similar to, or constitutes direct or indirect competition with, the principal business or principal products of our Group" referred to in the Deed of Non-competition particularly refers to the R&D, manufacturing and commercialization of novel drugs.

As further elaborated below, our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders. Each of our Controlling Shareholders shall and shall procure his/its relevant close associates to provide all information necessary for the annual review by our independent non-executive Directors for the enforcement of the Deed of Non-competition. Given the fundamental differences of the business focus of the Group and our Controlling Shareholders, which can be differentiated by, among others, nature of drugs, R&D model and cycle, time to market, clinical needs, and sales and marketing channel, it is relatively straightforward and easy to assess whether the Controlling Shareholders have complied with the Deed of Non-competition in reality. As such, the Company believes that the Deed of Non-competition could be effectively implemented to achieve its intended purpose.

If any new business investment or other business opportunity that constitute substantial competition with the principal business of our Group (the "**Competing Business Opportunity**") is identified by or made available to our Controlling Shareholders or their close associates, they will, and will procure that their close associates shall, refer such Competing Business Opportunity to our Company on a timely basis and refer the Competing Business Opportunity to our Company by giving written notice (the "**Offer Notice**") to our Company of such Competing Business Opportunity within 30 business days of identifying the target company (if relevant) and the nature of the Competing Business Opportunity, the investment or acquisition costs and all other details reasonably necessary for our Company to consider whether to pursue such Competing Business Opportunity.

Upon receiving the Offer Notice, our Company shall seek approval from our Board or a board committee (in each case comprising only disinterested Directors) which has no interest in the Competing Business Opportunity (the "**Disinterested Board**") as to whether to pursue or decline the Competing Business Opportunity (any Director who has actual or potential interest in the Competing Business Opportunity shall abstain from attending (unless their attendance is specifically requested by the Disinterested Board) and voting at, and shall not be counted in the quorum for, any meeting convened to consider such Competing Business Opportunity).

The Disinterested Board shall consider the financial impact of pursuing the Competing Business Opportunity offered, whether the nature of the Competing Business Opportunity is consistent with our Group's strategies and development plans and the general market conditions of our business. If appropriate, the Disinterested Board may appoint independent financial advisors and legal advisors to assist in the decision-making process in relation to such Competing Business Opportunity. The Disinterested Board shall, within 30 business days of receipt of the Offer Notice, inform our Controlling Shareholders in writing, on behalf of our Company, its decision whether to pursue or decline the Competing Business Opportunity.

Our Controlling Shareholders shall be entitled but not obliged to pursue such Competing Business Opportunity if they have received a notice from the Disinterested Board declining such Competing Business Opportunity or if the Disinterested Board failed to respond within such 30 business days' period mentioned above. If there is any material change in the nature, terms or conditions of such Competing Business Opportunity pursued by our Controlling Shareholders, they will refer such revised Competing Business Opportunity to our Company as if it were a new Competing Business Opportunity.

INDEPENDENCE OF OUR GROUP FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying on our business independently from our Controlling Shareholders and their close associates after the [**REDACTED**].

Management Independence

Our business is managed and conducted by our Board and senior management. Upon [**REDACTED**], our Board will consist of eleven Directors comprising two executive Directors, five non-executive Directors and four independent non-executive Directors. For more information, please see "Directors, Supervisors and Senior Management" in this document. Out of the eleven Directors, three non-executive Directors currently hold positions in the Remaining Kelun Group, details of which are set out as below:

Name	Positions, roles and responsibilities in the Controlling Shareholder as of the Latest Practicable Date	Positions, roles and responsibilities in our Company
Mr. LIU Gexin (劉革新)	Chairman and secretary of the Party Committee of Kelun Pharmaceutical and director of various subsidiaries of Kelun Group	Chairman of the Board and non-executive Director, responsible for overseeing the management and strategic development of the Group
Mr. LIU Sichuan (劉思川)	Director and general manager of Kelun Pharmaceutical and director and/or manager of various subsidiaries of Kelun Group	Non-executive Director, responsible for overseeing the management and strategic development of the Group
Mr. FENG Hao (馮昊)	Deputy general manager and secretary to the board of directors of Kelun Pharmaceutical	Non-executive Director, responsible for overseeing the management and strategic development of the Group

Our Directors are of the view that the Board and the senior management of our Company are able to function independently of the Remaining Kelun Group for the following reasons:

(a) our executive Directors, who are responsible for the day-to-day management of the Group's business, do not have any ongoing roles in the Remaining Kelun Group;

(b) save as disclosed above, none of our other Directors has any ongoing role with the Remaining Kelun Group;

(c) a majority of the members of the Board, including the executive Directors and all the independent non-executive Directors, will be independent of the Remaining Kelun Group;

(d) none of the members of our senior management have any ongoing managerial role with the Remaining Kelun Group;

(e) should there be a conflict of interest or a connected transaction between our Group (on one hand) and members of the Remaining Kelun Group (on the other hand), the relevant overlapping directors will abstain from voting on, and will not be counted in the quorum for, the relevant board resolution(s) of our Company and relevant member(s) of the Remaining Kelun Group; and

(f) we will adopt corporate governance policies, including but not limited to, rules relating to the procedure for board meetings and decision-making protocols on connected transactions, setting out circumstances that require the relevant common directors to abstain from voting on, and not to be counted in the quorum for, the relevant board resolutions.

Operational Independence

We are an integrated and innovative biopharmaceutical company committed to the R&D, manufacturing and commercialization of novel drugs to address medical needs in China and globally. Over the years, we have developed integrated capabilities encompassing all key drug development functionalities, including R&D, manufacturing, quality control and commercialization. Our Group is able to operate without reliance on the Remaining Kelun Group on the following basis:

Research and development

Our Group has an R&D center independent from the R&D centers of the Remaining Kelun Group. As of December 31, 2022, our R&D team comprised over 760 members, all of whom are full-time employees of our Group not holding any position in the Remaining Kelun Group. With such independent R&D center, and experienced and independent R&D team, our

Group has the requisite resources to carry on the R&D process independently. Currently, all of our fundamental and core on-going R&D activities, including preclinical studies and clinical trials are conducted independently by our R&D team without reliance on our Controlling Shareholders.

During the Track Record Period and in the ordinary and usual course of business, we have engaged certain subsidiaries of the Remaining Kelun Group to provide auxiliary R&D services (the "**Auxiliary R&D Procurement Services**"), which include process development and optimization, sample purification, crystallization screening, GMP batch release testing and packing material release testing. Following the [**REDACTED**], we expect to continue engaging the Remaining Kelun Group to provide these Auxiliary R&D Procurement Services on an arm's length basis and on normal commercial terms. Such transactions will constitute continuing connected transactions of our Company upon completion of the [**REDACTED**]. For further details, see "Connected Transactions – Partially Exempt Continuing Connected Transactions – Procurement and Provision of Auxiliary R&D Services."

Our Company is of the view that such Auxiliary R&D Procurement Services provided by the Remaining Kelun Group will not affect our ability to operate independently from the Remaining Kelun Group for the following reasons:

(a) we are able to function independently of the Remaining Kelun Group in every aspect of our business, including among other things, R&D and commercialization. Particularly, we are not relying on the Remaining Kelun Group in relation to conducting fundamental and core R&D and clinical trial for our products, since we have our own R&D team and are able to take lead in all important and core stages of the clinical trial process.

    The Auxiliary R&D Procurement Services provided by the Remaining Kelun Group are not core to our R&D activities. It is common for pre-profit biopharmaceutical companies like us to outsource these Auxiliary R&D Procurement Services to third parties so the pre-profit biopharmaceutical companies can concentrate on core R&D of their drug candidates. According to Frost & Sullivan, the Auxiliary R&D Procurement Services we procure from the Remaining Kelun Group are widely available in the market from contract development and manufacturing organizations in the PRC, and the terms are comparable to those set out in the Auxiliary R&D Services Framework Agreement.

(b) we are under no obligation to enter into such agreement with the Remaining Kelun Group. Prior to engaging the relevant members of the Remaining Kelun Group as a service provider for Auxiliary R&D Procurement Services, our Group would approach and engage in discussion and negotiations with other independent service provides before making the decision.

    We engaged the Remaining Kelun Group to provide Auxiliary R&D Procurement Services to us because (i) the Remaining Kelun Group has competent and reliable expertise in providing Auxiliary R&D Procurement Services and can provide such services at arm's length and with good quality; and (ii) we have been cooperating with the Remaining Kelun Group for Auxiliary R&D Procurement Services for

anumber of years and the Remaining Kelun Group understands our quality requirement for these services quite well. Continuous procuring such services from the Remaining Kelun Group can reduce our costs associated with involving in prolonged negotiations with new service providers and cooperating with them in run-in period. The procurement of Auxiliary R&D Procurement Services from the Remaining Kelun Group has been conducted in a way following and in compliance with the due internal procurement procedure of our Group;

(c) the procurement of Auxiliary R&D Procurement Services from the Remaining Kelun Group is carried out by both parties in the ordinary course of business and is on normal commercial terms which are fair and reasonable to our Group and the Remaining Kelun Group. The fees payable by us to the Remaining Kelun Group for procuring the Auxiliary R&D Procurement Services are comparable to the market price; and

(d) the risk that the Remaining Kelun Group will terminate the relevant agreement in relation to the procurement of the Auxiliary R&D Procurement Services is remote as it has limited termination rights under the relevant agreements, and the termination would not be in the commercial interest of the Remaining Kelun Group. Providers of these Auxiliary R&D Procurement Services are generally available in the market. In an unlikely event that the Remaining Kelun Group terminates the relevant agreement with us, we are able to find substitute providers to offer Auxiliary R&D Procurement Services. As such, we don't consider such termination will materially and adversely affect our business.

During the Track Record Period and in the ordinary and usual course of business, we have also provided auxiliary R&D services (the "**Auxiliary R&D Provision Services**") to the Remaining Kelun Group, which include preclinical animal toxicology, pharmacokinetics, pharmacodynamic studies (including screening studies and application studies), clinical biostatistics, data management, quality control and clinical audit, and other supporting services. Such transactions will constitute continuing connected transactions of our Company upon completion of the [**REDACTED**]. For further details, see "Connected Transactions – Partially Exempt Continuing Connected Transactions – Procurement and Provision of Auxiliary R&D Services." Our Company is of the view that such Auxiliary R&D Provision Services provided to the Remaining Kelun Group will not affect our ability to operate independently from the Remaining Kelun Group, as such Auxiliary R&D Provision Services are not the principal business of our Company and we will not rely on the revenue generated from the Auxiliary R&D Provision Services.

Procurement from Kelun Medicine & Trade Group

During the Track Record Period and in the ordinary and usual course of business, we procured R&D-related drugs and consumables (the "**R&D-related Drugs and Consumables**") from Kelun Medicine & Trade Group from time to time. Following the [**REDACTED**], we expect to continue engaging Kelun Medicine & Trade Group to provide these R&D-related Drugs and Consumables on an arm's length basis and on normal commercial terms. Such transactions will constitute continuing connected transactions of our Company upon completion of the [**REDACTED**]. For further details, see "Connected Transactions – Partially Exempt Continuing Connected Transactions – Procurement of R&D-related Drugs and Consumables." Our Company is of the view that such Procurement from Kelun Medicine & Trade Group will not affect our ability to operate independently from the Remaining Kelun Group since the providers of such R&D-related Drugs and Consumables are generally available in the market and we are able to find substitute providers to provide similar products in the worst scenario that Kelun Medicine & Trade Group ceases to provide relevant products to us.

We have our own procurement team independent from our Controlling Shareholders. Our Controlling Shareholders and we have been and will be carrying out respective selection of suppliers independently in accordance with respective supplier management policies and system. Our procurement team may select supplier candidates from respective supplier list or reach out to supplier candidates, which are not within the list according to specific procurement demand. Our procurement team runs the supplier selection process and the procurement process independently, negotiate the terms of the procurement agreements with suppliers directly and independently.

Leasing properties from the Remaining Kelun Group

Our Group has been operating on the premises located in Wenjiang District, Chengdu. The facilities include a wide range of R&D centers and production lines for R&D and manufacturing of our pipeline products, which are different from and not interchangeable with the R&D centers and production facilities of the Remaining Kelun Group. There is no sharing of production facilities or production personnel between our Group and the Remaining Kelun Group.

We have been leasing certain properties from the Remaining Kelun Group for operation, R&D activities and office space during the Track Record Period and expect to continue leasing properties after the completion of the [**REDACTED**] to avoid unnecessary relocation cost. It is a common practice in the pharmaceutical industry that a pre-profit biopharmaceutical company operates by leasing premises, and inputs a substantial part of its cash flow into the R&D activities. These leases are recognized as on our statement of financial position as right-of-use assets under IFRS 16 (Leases). As such, such lease transactions will constitute one-off connected transactions of our Company upon [**REDACTED**]. For further details, see "Connected Transactions – One-off Connected Transactions – Lease of Properties."

Our Company is of the view that the ongoing leasing of the properties from the Remaining Kelun Group is unlikely to experience disruption, and will not affect our operational independence, on the basis of the following:

(a) the risk that the ongoing leases will be terminated and that we will be forced to relocate is extremely low given that (i) as the lease agreements were entered into by the parties after arm's length negotiations and on normal terms, the Remaining Kelun Group does not have motivation to terminate the leases recklessly; and (ii) the relevant leases have been continuously renewed during the Track Record Period without any disruption;

(b) we are in the process of constructing three buildings for self-use on the two parcels of land which are close to our current location. The additional space will be used for our R&D activities, manufacturing and office premises. We expect that these three newly-buildings could be put into use in around 2023; and

(c) the properties are currently located in an industrial park in Chengdu, Sichuan Province, where a large number of lands and buildings are offered for lease in the locality. In the unlikely event that the Remaining Kelun Group terminates the lease agreements with us and we are required to relocate, we expect that there will not be any substantive hurdle for us to find substitutive premises nearby with comparable rental rates.

Leasing equipment from the Remaining Kelun Group

Kelun Group implements a centralized equipment procurement policy under which Kelun Group procures equipment necessary to its subsidiaries' business and daily operations and then leases these equipment to its subsidiaries for use. Such centralized procurement policy enhances Kelun Group's bargaining power when negotiating with equipment suppliers which enables Kelun Group to procure these equipment at a favorable price. As a subsidiary of Kelun Group, we have been leasing certain equipment used in connection with our R&D activities and daily operations from the Remaining Kelun Group during the Track Record Period and expect to continue leasing the relevant equipment from the Remaining Kelun Group after completion of the [**REDACTED**]. By leasing equipment from our Controlling Shareholder, we can input more cash flow into our R&D activities. These leases are recognized as on our statement of financial position as a right-of-use assets under IFRS 16 (Leases). As such, such lease transaction will constitute a one-off connected transaction of our Company upon [**REDACTED**]. For further details, see "Connected Transactions – One-off Connected Transaction – Equipment Lease Agreement".

Our Company is of the view that the ongoing leasing of these equipment from the Remaining Kelun Group is unlikely to experience disruption, and will not affect our operational independence, on the following basis:

(a) the risk that the ongoing leases will be terminated and that we are no longer able to use the leased equipment is extremely low given that (i) the leased equipment were procured by Kelun Group at the request of us under its centralized equipment procurement policy; (ii) as the lease agreements were entered into by the parties after arm's length negotiations and on normal commercial terms, the Remaining Kelun Group does not have motivation to terminate the leases recklessly; and (iii) the relevant leases have been continuously renewed during the Track Record Period without any disruption; and

(b) these equipment are generally available on the market. We expect that there will not be any substantive hurdle for us to find substitutive equipment.

Business development

We have our independent business development teams primarily for commercialization of our drugs. Members of our business development team were recruited by our Group independently. We expect to develop our own sales and marketing network in accordance with the commercialization progress of our drugs.

Overlap with the Remaining Kelun Group in Customers, Suppliers and Collaborators

Suppliers

For the years ended December 31, 2021 and 2022, the total transaction amount with the top 10 suppliers of the Group represented 33.5% and 39.1% of the total procurement amounts of the Group. During the Track Record Period, there were two overlapping parties between the top ten suppliers of the Group and the top ten suppliers of the Remaining Kelun Group, namely Kelun Medicine & Trade and Sichuan Yongcun Construction Engineering Co., Ltd. (四川永存建築工程有限公司) ("**Sichuan Yongcun**", together with Kelun Medicine & Trade, the "**Overlapping Suppliers**").

Kelun Medicine & Trade is a connected person of the Company. In the ordinary course of its business, the Company procured R&D-related Drugs and Consumables from Kelun Medicine & Trade and its subsidiaries during the Track Record Period, which were with high quality, stable and quick delivery at reasonable prices. The Company expects to continue such procurement after the [**REDACTED**]. Please refer to "Connected Transactions – Partially Exempt Continuing Connected Transactions – Procurement of R&D-related Drugs and Consumables" for details. The total transaction amounts between the Group and Kelun Medicine & Trade accounted for approximately 1.3% and 2.4% of the Group's total procurement amounts for the years ended December 31, 2021 and 2022, respectively.

Sichuan Yongcun is an Independent Third Party to the Company. The Company procured construction services from Sichuan Yongcun during the Track Record Period. The total transaction amounts between the Group and Sichuan Yongcun accounted for approximately 12.5% and 5.0% of the Group's total procurement amounts for the years ended December 31, 2021 and 2022, respectively.

Our Company believes that the Overlapping Suppliers do not affect the business delineation between the Group and the Remaining Kelun Group, or result in reliance by the Group on the Remaining Kelun Group, on the following basis:

(a) the Group and the Remaining Kelun Group have been and will be carrying out their selection of suppliers independently in accordance with their respective supplier management system. The Group has established its own supplier list, which is separate from the Remaining Kelun Group. The respective procurement teams of the Group and the Remaining Kelun Group may select supplier candidates from their respective supplier list or reach out to supplier candidates which are not within the list according to their specific procurement demand. The respective procurement teams of the Group and the Remaining Kelun Group are responsible for the supplier selection process and the procurement process independently, and they negotiate the terms of the procurement agreements with the suppliers directly and independently. The Group has full discretion to select its suppliers, and all the terms of the procurement agreements are negotiated between the Group and the suppliers directly and independently;

(b) the total transaction amounts between the Overlapping Suppliers and the Group were immaterial during the Track Record Period;

(c) the qualification, capability and satisfactory cooperation history of the suppliers are the reasons that the Group procures the relevant products and services from them, instead of their business relationship with the Remaining Kelun Group; and

(d) the R&D-related Drugs and Consumables provided by Kelun Medicine & Trade; and the construction services provided by Sichuan Yongcun can be readily sourced from other third-party suppliers.

Customers

The Group is an integrated and innovative biopharmaceutical company committed to the R&D, manufacturing and commercialization of novel drugs. During the Track Record Period, given none of the Group's products had been commercialized, the number of Group's customers are quite limited. For the years ended December 31, 2021 and 2022, other than the Remaining Kelun Group, the Group had four and five customers in total, respectively. During the same year, the Group and the Remaining Kelun Group did not have overlapping customers.

In addition, there were no bundled sales from, or bundled suppliers and/or services rendered to, the Group and the Remaining Kelun Group during the Track Record Period.

Collaborators

The Group has established robust, cross-border business development capabilities with local presence across multiple jurisdictions, from Chengdu, Beijing and Shanghai in China to New Jersey in the U.S. The Group's business development team is led by seasoned professional with extensive experience and insights in sourcing and executing licensing deals and collaborations. In addition, the Group also collaborates with CROs to advance its clinical development programs. As disclosed above, for the years ended December 31, 2021 and 2022, (i) there were two overlapping parties between the top ten suppliers of the Group and the top ten suppliers of the Remaining Kelun Group (i.e., Kelun Medicine & Trade and Sichuan Yongcun), both of which are not collaborators of the Group; and (ii) the Group and the Remaining Kelun Group did not have any overlapping customers.

Administration

Our Group has full-time management team and team of staff to carry out our own administration and operation independent of the Remaining Kelun Group. The support services comprising accounting, administration, corporate secretarial, compliance and human resource management will also continue to be handled by a team of staff employed directly by our Group and separated from the Remaining Kelun Group. As all these key administrative functions of our Group will be carried out by us without reliance on the support of the Remaining Kelun Group, our Group will remain administratively independent upon completion of the [**REDACTED**].

Connected transactions with our Controlling Shareholders

The connected transactions set out in "Connected Transactions" of this document were and will be conducted in the ordinary and usual course of business of our Group, on an arm's length basis and on normal commercial terms or better. Furthermore, the risk of our Controlling Shareholders terminating the connected transactions is remote as the parties under the relevant agreements have limited termination rights and the termination would not be in the commercial interest of our Controlling Shareholders in commercial aspect. In an unlikely event that our Controlling Shareholders terminate any connected transaction with us, given the reasons set out in "Connected Transactions" of this document, we do not consider such termination will materially and adversely affect our business. For further details, see "Connected Transactions".

Sharing of personnel, premises, facilities and other resources

Historically, certain of our R&D team members were initially staffed within the Remaining Kelun Group and had been transferred to our Group after our establishment in 2016. As of the Latest Practicable Date, none of our R&D team members held any position in the Remaining Kelun Group, and no R&D personnel employed by the Remaining Kelun Group had any meaningful contribution in the development of our Core Products and other pipeline candidates. See also "Business – Research and Development – In-house R&D." We entered into certain connected transactions with the Remaining Kelun Group, which involve, among others, property leasing, equipment leasing, trademark licensing, and shared administrative services. For further details, see "Connected Transactions".

Save as disclosed above, there is no sharing of personnel, premises, facilities and other resources between the Group and the Remaining Kelun Group.

Measures to Reduce Reliance

R&D

We have our own R&D center independent from that of the Remaining Kelun Group. All of our R&D team are full-time employees of the Group not holding any position in the Remaining Kelun Group. Currently, all of the Group's fundamental and core on-going R&D activities, including preclinical studies and clinical trials are conducted independently by our R&D team without reliance on the Remaining Kelun Group. We have historically procured auxiliary R&D services, including process development and optimization, sample purification, crystallization screening, GMP batch release testing, and other auxiliary R&D services from the Remaining Kelun Group. These auxiliary R&D services provided by the Remaining Kelun Group are not core to our R&D activities, and are generally available in the market. In addition, considering the anticipated increasing improvement of our R&D capabilities, we estimate that the transaction amounts payable by us to the Remaining Kelun Group will decease incrementally from 2023 to 2025.

Manufacturing

We have built our own manufacturing facilities designed in compliance with the NMPA and FDA's regulatory requirements and cGMP standards in China, the U.S. and Europe to meet the manufacturing challenges associated with the production of complex molecules. We have built a dedicated manufacturing site in Chengdu with a total floor area of over 10,600 m^2. In anticipation of the increased demand upon commercialization, we are actively evaluating the addition of new manufacturing facilities and the expansion of existing manufacturing facilities. For our cell culture and purification unit, we plan to install one additional 2,000 L single-use bioreactor, bring our total in-house capacity to 6,000 L. Going forward, we will continue to enhance our manufacturing capabilities, both through expanding our in-house capacity and through collaboration with industry-recognized CMOs.

Quality Control

We have established a comprehensive quality control system that extends across all key stages of the R&D, manufacturing and commercialization processes. We have also established our own quality control and quality assurance procedures to ensure that our manufacturing processes comply with relevant regulatory requirements and internal quality standards. As of December 31, 2022, our quality management team comprised over 150 members. They oversee the quality systems covering all key stages of our drug development process, from R&D, manufacturing to commercialization, including discovery, preclinical research and discovery, clinical trials, procurement, supply chain, process development, production, warehousing, delivery and recalls.

Business Development

We have established our own robust, cross-border business development capabilities with local presence across multiple jurisdictions, from Chengdu, Beijing and Shanghai in China to New Jersey in the U.S. Our business team is led by seasoned professionals with decades-long experience and insights in sourcing and executing licensing deals and collaborations. Our business development competencies are exemplified by a proven track record in forging strategic partnership worldwide. Notably, we have independently and successfully negotiated nine out-license agreements to date, including three license and collaboration agreements with MSD to develop up to nine ADC assets for cancer treatment.

Commercialization

We will be benefiting from the Remaining Kelun Group's decades-long experience, industry connection and extensive network when developing our own commercialization infrastructure and market access. However, given the differences in novel drugs and generic drugs, we have different key target customers with the Remaining Kelun Group.

As we focus on R&D, manufacturing and commercialization of novel drugs, our target customers primarily consist of Class III hospitals with demand for novel drugs to address medical needs. Given the nature of novel drugs, there is no similar labeling requirement which applies to generic drugs. As such, physician prescribing behavior in respect of novel drugs is usually influenced by education conducted by novel drug developers. By contrast, physicians usually prescribe generic drugs by strictly following generic drug labeling, which is the same as the last approved reference listed drug labeling except for permissible difference. As such, for novel drugs, close interaction and cooperation with leading physicians at Class III hospitals would be critical to the successful promotion of our products. Therefore, we are in the process of building our own commercialization infrastructure and expanding our sales and marketing network, with an initial focus on Class III hospitals and leading physicians across China's extensive local markets. It is expected that we will have a fully-fledged commercialization team by the end of 2023 to oversee and coordinate the commercialization of our late-stage assets.

With respect to target customers other than Class III hospitals and leading physicians, we plan to leverage Kelun Pharmaceutical's industry connection and extensive network as well as collaborating with third party CSOs, to expand potential reach of our products to China's extensive local markets to the maximum extent possible. We will independently evaluate the terms of collaborations taking into account all relevant factors as we consider necessary. A decision on whether to enter into any sales service agreement with either Kelun Pharmaceutical or third party CSOs will be made purely based on commercial considerations and only if we consider it is in the best interest of our Company and the Shareholders as a whole. We will comply with the announcement, circular and/or independent Shareholders' approval requirements under Chapter 14A of the Listing Rules if any transaction is to be entered into with Kelun Pharmaceutical.

Procurement

We have been and will be carrying out our selection of suppliers independently in accordance with our supplier management system. Our procurement team runs the supplier selection process and procurement process independently. It is responsible for (i) selecting supplier candidates from the supplier list or reaching out to supplier candidates which are not within the list according to the specific procurement demand; and (ii) negotiating the terms of the procurement agreements with suppliers directly and independently.

Leased Properties from Kelun Pharmaceutical

We have been leasing the relevant properties from Kelun Pharmaceutical during the Track Record Period. However, we have already obtained land use rights to two parcels of land in Chengdu, PRC, with an aggregate site area of approximately 132,341.8 m^2, and are in the process of constructing three buildings for our own use on the two parcels of land. The additional space will be used for our R&D activities, manufacturing and office premises, which could be put into use in around 2023.

Based on the above, our Directors believe that we are able to operate independently of our Controlling Shareholders.

Financial Independence

Our Company has established its own finance department with a team of independent financial staff responsible for discharging treasury, accounting, reporting, group credit and internal control functions independent from our Controlling Shareholders, as well as a sound and independent financial system, and makes independent financial decisions according to our business needs. We have independent internal control and accounting systems. We are capable of obtaining financing from third parties, if necessary, without reliance on our Controlling Shareholders.

During the Track Record Period, our Controlling Shareholders provided guarantees in respect of certain bank borrowings by our Group (the "**Guaranteed Loans**"). Please refer to note 21 of the Accountants' Report in Appendix I to this document for further details. As of the Latest Practicable Date, all the outstanding principal amount of the Guaranteed Loans and the accrued interest under the Guaranteed Loans had been fully repaid by us.

During the Track Record Period, Kelun Pharmaceutical provided certain shareholder loans (the "**Controlling Shareholder Loans**") to support our day-to-day operations and business. It is common for pre-profit biopharmaceutical companies like us to obtain shareholder loan to support its operations and business. The terms of the Controlling Shareholder Loan were negotiated between Kelun Pharmaceutical and us on an arm's length basis and on normal commercial terms. On January 3, 2023, our Company, Kelun Pharmaceutical and the other then Shareholders of the Company entered into a share subscription and debt-to-equity swap agreement, pursuant to which Kelun Pharmaceutical agreed to further subscribe for an aggregate of 51,255,685 Shares at the total subscription price of RMB2.65 billion, among which RMB2.5 billion was settled through debt-to-equity swap. For further details, see "History and Corporate Structure – Corporate History – Establishment and Major Shareholding Changes of Our Company – 4. Series B Financing – Share Subscription by Kelun Pharmaceutical". As of the Latest Practicable Date, all the remaining outstanding principal amount and accrued interest under the Controlling Shareholder Loans had been fully repaid by us. No loans or guarantees provided by, or granted to, our Controlling Shareholders or its respective associates will be outstanding as of the [**REDACTED**].

During the Track Record Period, we had amounts due to related parties of a non-trade nature, which primarily represented the consideration to be paid to Kelun Development for the transfer of shares in KLUS PHARMA. see "History – Our Subsidiaries – KLUS PHARMA." As of the Latest Practicable Date, we had settled such outstanding balance in full.

Based on the above, our Directors are of the view that we are capable of carrying on our business independently of, and do not place undue reliance on our Controlling Shareholders and its close associates after the [**REDACTED**].

CORPORATE GOVERNANCE MEASURES

Our Company and Directors are committed to upholding and implementing the highest standards of corporate governance and recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of our minority Shareholders. We will comply with the provisions of the Corporate Governance Code set forth in Appendix 14 to the Listing Rules, which sets out the principles of good corporate governance.

Our Company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, which provides, among other matters, prohibitions on directors and supervisors' dealings in securities and protection of minority Shareholders' rights.

Additionally, we will also adopt the following measures to ensure good corporate governance standards and to avoid potential conflicts of interest between our Group and our Controlling Shareholders:

(a) as part of our preparation for the [**REDACTED**], we have amended our Articles of Association to comply with the Listing Rules. In particular, our Articles of Association provided that, unless otherwise provided, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his or her associates have a material interest nor shall such Director be counted in the quorum present at the meeting;

(b) our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders. Each of our Controlling Shareholders shall and shall procure his/its relevant close associates to provide all information necessary for the annual review by our independent non-executive Directors for the enforcement of the Deed of Non-competition;

(c) we shall disclose the review by our independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-competition and the decisions on matters reviewed by our independent non-executive Directors either through our annual report or by way of announcement to the public in compliance with the Listing Rules;

(d) each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with their respective deeds of non-competition in accordance with the principle of voluntary disclosure in the corporate governance report;

(e) a Director with material interests shall make full disclosure in respect of matters that may have conflict or potential conflict with any of our interest and abstain from participation of the board meetings on matters in which such Director or his or her associates have a material interest, unless the attendance or participation of such Director at such meeting of our Board is specifically requested by a majority of the independent non-executive Directors. When such conflict or potential conflict arises, the Board will have a sufficient number of independent non-executive directors who have requisite industry experience to advise on any conflicted transactions;

(f) our Company has established internal control mechanisms to identify connected transactions. Upon the [**REDACTED**], if our Company enters into connected transactions with our Controlling Shareholders or any of their associates, our Company will comply with the applicable Listing Rules;

(g) as required by the Listing Rules, our independent non-executive Directors shall review connected transactions annually and confirm in our annual report that such transactions have been entered into in our ordinary and usual course of business, are on normal commercial terms or better and on terms that are fair and reasonable and in the interests of our Shareholders as a whole;

(h) should there be a conflict of interest or a connected transaction between our Company (on one hand) and our Controlling Shareholders (on the other hand), the relevant overlapping directors will abstain from voting on, and will not be counted in the quorum for, the relevant board resolution(s) of our Company;

(i) we are committed that our Board should include a balanced composition of executive Directors and independent non-executive Directors. We have appointed independent non-executive Directors and we believe our independent non-executive Directors possess sufficient experience and they are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment. The independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interests between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our minority Shareholders;

(j) we have appointed First Shanghai Capital Limited as our compliance advisor to provide advice and guidance to us in respect of compliance with the applicable laws and regulations, as well as the Listing Rules, including various requirements relating to corporate governance; and

(k) we have established our audit committee, remuneration committee and nomination committee with written terms of reference in compliance with the Listing Rules and the Code on Corporate Governance and Corporate Governance Report in Appendix 14 to the Listing Rules. All of the members of our audit committee, including the chairman, are independent non-executive Directors.

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 Controlling Shareholders, and to protect our minority Shareholders' interests after the [**REDACTED**].