

## RISK FACTORS

*Potential [REDACTED] should read and consider carefully all the information set out in this document, and, in particular, should evaluate the following risks and uncertainties before deciding to make any [REDACTED] in our Shares. You should pay attention to the fact that we conduct substantial operations in China where the legal and regulatory environment is commensurate with its own economic and social conditions. Any of the risks and uncertainties listed below could have a material adverse effect on our business, results of operations, financial condition or on the trading price of our Shares, and could cause you to lose all or part of your [REDACTED]. The risks and uncertainties identified below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business and results of operations.*

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorized into (1) risks relating to our business and industry, (2) risks relating to our relationship with the Remaining WXB Group and the WXAT Group, (3) risks relating to conducting business in China and other jurisdictions where we operate, and (4) risks relating to the [REDACTED].

### RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**We are dependent on our customers’ spending on and demand for our services. A reduction in customer spending or demand and uncertainties of future advancements of ADCs and other bioconjugates beyond ADC could have a material adverse effect on our business, particularly given that its development is still at a preliminary stage.**

The success of our business depends primarily on the number and size of service contracts with our customers, primarily pharmaceutical and biotechnology companies that develop and commercialize ADCs and other bioconjugates. Over the past several years, we have benefited from an increased demand for our services as a result of the continued growth of the global ADC and broader bioconjugate market, and a greater degree of development and manufacturing outsourcing by our customers. A slowing or reversal of any of these trends could have a material adverse effect on the demand for our services. Specifically, the global ADC and broader bioconjugate market is still at a nascent stage of development, and the pharmacological profile and efficacy of this novel treatment may be subject to further clinical validation. In particular, the development of other bioconjugates beyond ADC is still at a preliminary stage, facing uncertainties to progress from traditional ADCs to broader bioconjugates and application expansion in terms of timing, market acceptance and likelihood of obtaining approval. If ADCs and other bioconjugates are perceived to be less viable than other drug modalities, customer demands for our CRDMO services for ADCs and other bioconjugates may decline, which may materially and adversely affect our business, results of operations and financial condition.

In addition to the foregoing industry trends, our customers’ willingness and ability to utilize our services are also subject to, among other things, their own financial performance, changes in their available resources, access to capital, their decisions to acquire in-house discovery, development or commercial manufacturing capacity, their spending priorities, their budgetary policies and practices, and their need to develop new products, which, in turn, are dependent upon a number of factors, including their competitors’ research, development and product initiatives and the anticipated market uptake, and clinical and reimbursement scenarios for specific products and therapeutic areas. We may experience reduction in spending by domestic customers due to the lack of sufficient funding and overseas customers choosing not to engage Chinese companies for the provision of ADC CRDMO services leading to the narrowing of our customer base to domestic customers. In addition, consolidation in the industries in which our customers operate may also impact such spending as customers integrate acquired operations, including R&D departments and manufacturing operations. Any reduction in customer spending on CRDMO services for their ADC and other bioconjugate products as a result of these and other factors could have a material adverse effect on our business, results of operations and financial condition.

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### **Competition may intensify as the industry grows and attracts more market entrants.**

The global ADC and broader bioconjugate market is booming, benefiting the growth of the ADC outsourcing services industry as a whole. However, the fast evolving industry may attract an influx of new entrants, which could substantially increase competition within the industry. These new entrants may include established outsourcing service providers from other sectors as well as new start-ups, and each may bring substantial financial resources, advanced technologies or innovative business strategies. If these new market entrants offer lower prices, superior technology or more comprehensive service capabilities, we may be forced to adjust our own pricing strategies, upgrade our service capabilities, and consequently incur significant expenses and expenditure, which may not necessarily provide the return as anticipated. Moreover, outsourcing service providers with a business focus on payload-linkers and antibody intermediates may compete with us for customers’ budget on outsourced discovery, development and manufacturing for ADCs and other bioconjugates. If we are unable to compete effectively against these new market entrants, our business, results of operations, financial condition and prospects may be adversely affected.

### **We may face customer attrition as a result of fierce market competition.**

Given the project-based nature of our services, our customers are not obligated to stay with us for subsequent development stages. Customers who engage our services during the early stages of their projects, such as the discovery or preclinical stages, may not necessarily continue their association with us for subsequent stages of development. As they progress, customers may evaluate our performance and, based on comparative quality, pricing, or technological advantage, may decide to transition to other CRDMOs. As most of our ongoing projects are in early stages, which are subject to higher risks of experimental failure, such projects may not be able to progress to subsequent developmental stages and expose us to higher risks of customer attribution. As the competition within the ADC outsourcing services industry intensifies, we cannot assure you that we will maintain our competitive edge in every aspect of our service offerings. Our competitors may target our customers by offering more attractive service solutions in terms of pricing, technology or service scope, and we may be unable to beat their offers and consequently face customer attrition. If we are unable to maintain our competitive position and fail to retain our customers as they progress to subsequent development stages, our business, financial condition, and results of operations could be adversely affected. See also “— We may fail to retain our existing customers.”

### **We may not be successful in developing new technologies and improving existing technologies to maintain our competitive position.**

The global ADC and broader bioconjugate industry is characterized by rapid technological changes. The development of new ADCs and other bioconjugates relies on advancements of several technologies, such as linker and conjugation technology, mAb discovery and manufacturing, and the introduction of new payloads that are powerful against tumor cells with limited side effects. Demand for our services may change in ways that we may not be able to anticipate because of evolving industry standards or as a result of evolving customer needs that are increasingly sophisticated and varied or because of the introduction by competitors of new services and technologies. To maintain our technological advantages and expand our discovery and development capabilities, we have invested significant amounts of capital and resources into our R&D activities, through which we have mastered over 10 conjugation technologies and established our growing library of ready-made payload-linkers. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, our research and development expenses were RMB4.1 million, RMB13.8

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million, RMB33.8 million, RMB11.1 million and RMB29.7 million, respectively. We must continue to invest significant amounts of human and capital resources to develop or acquire technologies that will allow us to enhance the scope and quality of our services. See “Business — Our Strategies — Continue to focus on cutting-edge technologies through internal R&D and strategic partnerships” for details. However, we cannot assure you that we will be able to develop, enhance or adapt to new technologies and methodologies. Any failure to do so may make our techniques and services obsolete, which could significantly reduce demand for our services and harm our business and prospects. Even if we are able to successfully develop new technologies or optimize existing technologies after we spend significant time and efforts on research and development, we cannot guarantee you that we will definitely be able to generate sufficient return on our investment.

In addition, to develop and market our new technologies successfully, we must accurately assess and meet customers’ needs, make significant capital expenditures, optimize the process of discovery, testing, development and manufacturing of ADC drugs to predict and control costs, hire, train and retain the necessary personnel, and obtain required regulatory clearances or approvals. If we fail to create demand for or incorrectly predict customer demand for new technologies, our future business, results of operations, financial condition and prospects could be materially and adversely affected.

### **Our growth strategies and business expansion may not be successful.**

We pursue certain strategies to further grow our business. For more information, see “Business — Our Strategies.” Pursuing our growth strategies has resulted in, and will continue to result in, substantial demands on capital and other resources. In addition, managing our growth and executing on our growth strategies will require, among other things, our ability to continue to innovate and develop advanced technology in the highly competitive ADC and broader bioconjugate market globally, effective coordination and integration of our facilities and teams across different sites, successful hiring and training of personnel, effective cost control, sufficient liquidity, effective and efficient financial and management control, increased marketing and customer support activities, effective quality control, and management of our suppliers to leverage our purchasing power. Any failure to execute our growth strategies or realize our anticipated growth could adversely affect our business, financial condition, results of operations and prospects.

The success of our business expansion also depends on our customers’ success in launching drug candidates through development, regulatory approval and commercial manufacturing. Any delay in regulatory approvals, lower than expected treatment effectiveness, unexpected side effect, low success rate or lack of patient demand may have a material impact on their demands for our services. If our growth strategy or business expansion is not successful or sufficient or does not earn a satisfactory return on investment, our business, financial condition, results of operations and prospects could be materially and adversely affected.

### **If we fail to implement our expansion plan to enhance our manufacturing capabilities as planned, or if such plan fails to achieve expected benefits, our business and prospects could be materially and adversely affected.**

We experienced significant increase in the demand for our services during the Track Record Period and expect such increase to continue. We expect to launch commercial manufacturing of the first ADC drug in the near future. We provide manufacturing services at different scales, including laboratory scale, non-GMP pilot scale and cGMP-compliant commercial scale, to support our customers’ non-clinical,

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clinical and commercialization needs. We currently rely on our facilities in Shanghai, Changzhou and Wuxi to manufacture bioconjugate components, drug substances and drug products. We plan to increase our production capacity by building additional facilities in Wuxi for clinical or commercial manufacturing of bioconjugate components, drug substances and drug products, which is expected to be completed by the end of 2023. We also intend to establish a manufacturing base in Singapore to better serve our global customers. However, we cannot assure you that our expansion plan will be successfully implemented without delays or at all. Our ability to implement our expansion plan is subject to a number of factors. New manufacturing facilities may require prior review by regulatory authorities and/or approval of the manufacturing process and procedures in accordance with applicable requirements. This review may be costly and time-consuming. In addition, we will need to ensure that our new manufacturing facilities meet applicable quality standards, such as GLP, GMP and cGMP, for which we may incur substantial costs.

Any failure or delay in implementing any part of our expansion plan may result in a lack of production capacity to support our growth, market expansion, and the commercialization of our customers' products, which in turn could adversely affect our business, results of operations and financial condition. Specifically, if the manufacturing capacity of our existing and future facilities is not sufficient to cover the volume of antibodies or payload-linkers required by customer and project demands, we may need to acquire such additional intermediates from other suppliers, including the Remaining WXB Group and the WXAT Group. Moreover, our plans to increase our production capacity require significant capital investment, and the actual costs of our expansion plan may exceed our original estimates, which could materially and adversely affect the realization of expected return on our expenditures. In addition, if we fail to fully utilize the additional production capacity due to any adverse change to the market environment, technologies, and relevant policies, our business, results of operations and financial condition could be materially and adversely affected.

**If we are unable to successfully expand or operate in new geographic markets, our growth, results of operations and financial condition could be adversely affected.**

During the Track Record Period, we generated a majority of our revenue from customers in the United States, China and Europe. We intend to further expand our geographic footprint, and specifically, we intend to establish a manufacturing base in Singapore to meet the growing demand from customers worldwide and implement a “global dual sourcing” strategy. The legal and regulatory frameworks and competitive landscapes in Singapore and any other jurisdictions where we may maintain operations in the future may be different from those of the PRC. We may encounter unforeseeable barriers and challenges, which may result in a delay to or failure of our expansion plans. In addition, we may not be able to manage our costs or generate sufficient revenue to justify the time and resources spent on such expansion plan. If our geographic expansion is unsuccessful, our business operation and financial condition could be materially and adversely affected.

**Our success depends on our ability to attract, train, motivate and retain highly skilled scientists and other technical personnel.**

Our success depends, to a significant extent, on our team of scientists and other technical personnel and their ability to deliver high-quality and timely services to our customers and keep abreast of cutting-edge technologies and developments in the global ADC and broader bioconjugate market. We compete vigorously with pharmaceutical and biotechnology companies, other contract development and manufacturing companies and research and academic institutions for qualified and experienced scientists and other technical personnel. In particular, our customers value trained scientists with experience at

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renowned pharmaceutical or biotechnology companies. As a result, such scientists are well-sought after by our competitors and we may face challenges in attracting and retaining skilled scientists and other technical personnel. We may not be able to hire and retain sufficient skilled and experienced scientists or other technical personnel at our current level of compensation. As a result, we may need to offer higher compensation and other benefits, which could materially and adversely affect our profit margin, financial condition and results of operations. In addition, we may not be successful in training our professionals to keep pace with changes in customer needs and technological and regulatory standards. Any inability to attract, motivate, train or retain qualified scientists or other technical personnel may have a material adverse effect on our business, financial condition, results of operations, cash flows and prospects.

**The loss of services of our senior management and key scientific personnel could severely disrupt our business and growth.**

Our commercial success depends significantly on the continued service of our senior management. The loss of any of our senior management or key scientific personnel could have a material adverse effect on our business and operations. If we lose the services of any senior management members or key scientific personnel, we may be unable to identify, hire and train suitable qualified replacements and may incur additional expenses and time to recruit and train new personnel, which could severely disrupt our business and growth. In addition, although each member of our senior management and key scientific personnel has signed a non-compete agreement with us, we may not be able to successfully enforce these clauses should any of them leaves us, which could adversely affect our business operations.

**We operate in a highly competitive market, and if we do not compete effectively, our business, results of operations, financial condition and prospects could be harmed.**

The global ADC and broader bioconjugate market is highly competitive and we expect this high level of competition to be increasingly fierce. As a CRDMO service provider for ADCs and other bioconjugates, we compete, both domestically and internationally, with other players in the market, such as full-service or specialty pharmaceutical outsourcing companies, large pharmaceutical companies offering third-party manufacturing services to fill their excess capacity, and universities and other research institutions. In addition, some pharmaceutical companies may elect to utilize their own development and manufacturing capabilities internally rather than outsourcing those functions to us or any of our competitors. We compete primarily on the basis of scientific expertise, knowledge and experience in research and development, availability of a broad range of equipment, technology availability (e.g., chemical and biotechnology means), on-time delivery, compliance with cGMPs, regulatory compliance, cost-effective services and financial stability. Moreover, we face multi-faceted competition from outsourcing service providers that focus on other drug modalities for customers’ limited spending on drug discovery. See “— We are dependent on our customers’ spending on and demand for our services. A reduction in customer spending or demand could have a material adverse effect on our business” for details.

Some of our competitors may have substantially greater financial, marketing, technical or other resources than we do, which may allow them to respond to changes in market demand more quickly with new, alternative or emerging technologies. Changes in the nature or extent of our customer requirements may render our service and product offerings obsolete or non-competitive. In addition, our competitors may improve the performance of their services and introduce new services at lower prices and with improved performance characteristics. Furthermore, increased competition could create pricing pressure on our services, which could reduce our revenue and profitability. There is no assurance that we will be able to compete effectively with existing competitors or new competitors or that the level of competition will not adversely affect our business, results of operations, financial condition and prospects.

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**Any failure to comply with existing or future laws, regulations and industry standards, any failure to pass inspections conducted by relevant regulatory authorities or any adverse actions by the drug approval authorities against us could negatively impact our reputation and our business, financial condition, results of operations and prospects.**

In many countries or regions where an ADC or other bioconjugate drug is intended to be ultimately sold, such as China, the United States and Europe, the relevant government agencies and industry regulatory bodies impose high standards on the safety and efficacy of such drug, as well as strict rules, regulations and industry standards on the development and manufacture of such drug. Depending on different jurisdictions in which our customers operate, our provision of CRDMO services for those customers is subject to various and extensive ongoing regulations of the NMPA, the FDA, the EMA and equivalent regulatory authorities of other jurisdictions. These regulatory authorities may conduct inspections of our facilities to monitor our regulatory compliance from time to time. Although we passed all the inspections and obtained clearance in relation to drug development and manufacturing from the relevant regulatory authorities in all material respects during the Track Record Period, we cannot assure you that we will be able to do so going forward. Any failure by us to comply with the requirements of these regulatory authorities, existing regulations and industry standards could result in warning letters, product recalls or seizures, monetary sanctions, injunctions to halt manufacture and distribution, restrictions on our operations, civil or criminal sanctions, or withdrawal of existing or denial of pending approvals, including those relating to products or facilities. Such a failure could expose us to contractual or product liability claims, contractual claims from our customers, including claims for reimbursement for lost or damaged active pharmaceutical ingredients, as well as ongoing remediation and increased compliance costs. Any of the above negative consequences could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects. In addition, any action against us for violation of the relevant regulations or industry standards, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management’s attention from the operation of our business and adversely affect our reputation and financial results.

Changes in government regulations or in practices relating to the pharmaceutical and biotechnology industries, including reform of the drug approval process in relevant jurisdictions, could decrease demand for the services we provide, and compliance with new regulations may result in additional costs. Changes that result in a relaxation in regulatory requirements, or the introduction of simplified approval procedures which will lower the entry barrier for potential competitors, or an increase in regulatory requirements which may increase the difficulty for us to satisfy such requirements or may make our services less competitive, could eliminate or substantially reduce the demand for our services.

**Our failure to obtain or renew certain approvals, licenses, permits and certificates required for our business may materially and adversely affect our business, financial condition and results of operations.**

Pursuant to the relevant laws and regulations, we are required to obtain and maintain various approvals, licenses, permits and certificates from relevant authorities to operate our business. Any failure to obtain any approvals, licenses, permits and certificates necessary for our operations may result in enforcement actions thereunder, including orders issued by the relevant regulatory authorities causing operations to cease, and may include corrective measures requiring capital expenditure or remedial actions, which in the future could materially and adversely affect our business, financial condition and results of operations. There is also no assurance that the relevant authorities would not take any enforcement action against us. In the event that such enforcement action is taken, our business operations could be materially and adversely disrupted.

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In addition, some of these approvals, permits, licenses and certificates are subject to periodic renewal and/or reassessment by the relevant authorities, and the standards of such renewal and/or reassessment may change from time to time. We are committed to applying for the renewal and/or reassessment of these approvals, permits, licenses and certificates when required by applicable laws and regulations; however, we cannot assure you that we will be able to successfully maintain or renew existing permits, licenses or any other regulatory approvals or obtain permits, licenses or other approvals needed for the operation of our businesses in the future. Any failure by us to obtain the necessary renewals and/or reassessment and otherwise maintain all approvals, licenses, permits and certificates necessary to carry out our business at any time could severely disrupt our business and prevent us from continuing to carry out our business, which could have a material adverse effect on our business, financial condition and results of operations.

Furthermore, if existing laws and regulations evolve or new regulations come into effect requiring us to obtain any additional approvals, permits, licenses or certificates that were previously not required to operate our existing businesses, we cannot assure you that we will successfully obtain such approvals, permits, licenses or certificates. Our failure to obtain the additional approvals, permits, licenses or certificates may restrict the conduct of our business, decrease our revenue and/or increase our costs, which could materially reduce our profitability.

**We have made significant capital investments to meet growing demands of our customers, and, as a result, we depend on the continued success of our customers’ projects and business.**

We have made and are continuing to make significant capital expenditures based on anticipated demand from existing and potential new businesses. We depend on our customers’ success in advancing their products through development, regulatory approval and commercialization. As of June 30, 2023, we had 67 ongoing preclinical bioconjugate projects and 43 ongoing post-IND bioconjugate projects. We depend on the continued success of these projects, as well as exploration of new business opportunities, to support our sustained growth. Any delay, non-approval or lack of demand may have a material impact on our business. Consequently, we may be required to reallocate our resources, a decision that could cause delays in our service offerings and result in lower-than-expected revenue.

Our customers operate in a heavily regulated industry and are subject to the oversight of regulators across the globe, including in China, the United States and Europe. Changes in laws and regulations in those jurisdictions relating to the pharmaceutical and biotechnology industries could materially and adversely affect the business of our customers and in turn affect the demand for our services. For example, the Guiding Principles for Clinical Research and Development of Oncology Drugs Oriented by Clinical Value (以臨床價值為導向的抗腫瘤藥物臨床研發指導原則) issued by the NMPA’s Center for Drug Evaluation came into force in November 2021. The guidelines call for a patient-oriented approach to the R&D of oncology drugs and require drug innovators to use the standard-of-care treatment as control in late-stage clinical trials, rather than comparing to treatments that have already been replaced in clinical practice. The Guiding Principles for Clinical Research and Development and Technology of Oncology Antibody Drug Conjugates (抗腫瘤抗體偶聯藥物臨床研發技術指導原則) issued by the NMPA’s Center for Drug Evaluation came into force in April 2023, which provided for, among others, several key areas of focus for the R&D of ADC drugs. Any such existing or proposed regulations could expose our services to higher requirements and the evolving interpretation and application of these laws and regulations may have a material impact on our and our customers’ operation and business. If the business of our customers is negatively affected, the demand for our services may decrease as a result.

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Specifically, early-stage biotech companies which have little assets or capital may rely particularly on the success of their projects to maintain their business. If their projects were to fail, these companies may not be able to continue to operate and may become insolvent. If this were to happen, these companies may not be able to pay our service fees and may need to terminate their service agreement with us.

**Our services are highly complex, and if we are unable to provide high quality services to our customers or if our services do not meet evolving demands of our customers, our business could be adversely affected.**

The services we offer are highly customized, exacting and complex. Failure to deliver our CRDMO services to the satisfaction of our customers may impair our reputation and result in decline in customer demands for our services. Our results of operations further depend on our ability to execute and, when necessary, improve our quality management strategy and systems, and our ability to effectively train and maintain our employee base with respect to quality management. A failure of our quality control systems in our existing and future operations and facilities could result in problems with facility operations or preparation or provision of product, service or technology. In each case, such problems could arise from a variety of factors, including equipment malfunction, failure to follow specific protocols and procedures, problems with raw materials or manufacturing operations, operator error, and failure to comply with regulations enforced by relevant government. Such problems could affect our development and production process, and may result in project suspension, destruction of products or a halt of facility production altogether.

In addition, our failure to meet required quality standards may result in our failure to timely deliver high quality work products, including the intermediates and products we manufacture for our customers' projects, to our customers, which in turn could damage our reputation and business relationship with our customers. Any such failure could, among other things, lead to increased costs, lost revenue, reimbursement to customers for lost drug product, registered intermediates, registered starting materials, and active pharmaceutical ingredients, other customer claims, damage to and possibly termination of existing customer relationships, time and expense spent investigating the cause and, depending on the cause, similar losses with respect to other products. If problems are not discovered before a product is released to the market by our customers, product recall and liability costs may also be incurred. In addition, such risks may be greater at facilities that are new or going through significant expansion or renovation.

**We may not be successful in protecting the intellectual property owned by us or our customers or licensed from third parties.**

Our success depends on the protection of the intellectual property owned by us or our customers or licensed from third parties. We primarily rely on our own know-how, trade secrets and other intellectual property to carry out our CRDMO services for ADCs and other bioconjugates. In addition, due to the nature of our services, we typically have access to a significant amount of know-how, intellectual property and even trade secrets owned by our customers. Our customers typically retain ownership of all intellectual property associated with their projects, including the intellectual property provided to us and the intellectual property arising from the services we provide, except for intellectual property created or developed in connection with the provision of our services that is derivative of our own intellectual property or that relates to manufacturing processes developed at our expense. We take significant efforts to protect our customers' proprietary and confidential information, including requiring our employees and relevant other third parties to enter into confidentiality agreements prohibiting them from disclosing our



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customers' proprietary information or technology. However, these agreements may not provide meaningful protection for our customers' trade secrets and proprietary know-how as relevant parties may breach these agreements, which is out of our control. Any failure to protect the intellectual property owned by our customers or licensed from third parties may subject us to liability for breach of contract, as well as significantly damage our reputation, which is fundamental to our business.

Further, unauthorized third parties may obtain access to our trade secrets or know-how, and others may independently develop similar or equivalent trade secrets or know-how. Although we strive to diligently protect our intellectual property rights, we cannot assure you that all of our efforts to protect and defend our intellectual property will be successful, and we may encounter challenges in securing and enforcing our intellectual property rights. If our proprietary information is divulged to third parties, including our competitors, or our intellectual property rights are otherwise misappropriated or infringed, our competitive position could be harmed. Any failure to protect our own intellectual property may severely disrupt our business operations and reduce or eliminate any competitive advantage we have developed. Failure to protect the intellectual property owned by us or our customers or licensed from third parties could materially harm our business, financial condition, results of operations and prospects, and any remediation may significantly divert management's attention and resources from other activities.

### **Our services and our customers' products may infringe on or misappropriate the intellectual property rights of third parties.**

We cannot assure you that we do not infringe on the intellectual rights of third parties. Any claims that our services infringe third parties' rights, including claims arising from our contracts with our customers, regardless of their merit or resolution, could be costly and may divert the efforts and attention of our management and technical personnel. We may not prevail in such proceedings given the complex technical issues and inherent uncertainties in intellectual property litigation. If such proceedings result in an adverse outcome, we could be required, among other things, to pay substantial damages, discontinue the use of the infringing technology, expend significant resources to develop non-infringing technology, license such technology from the third party claiming infringement (which license may not be available on commercially reasonable terms or at all) and/or cease the infringing processes or offerings, any of which could have a material adverse effect on our business.

In addition, our customers' products may be subject to intellectual property infringement claims and such claims could materially affect our business if their products cease to be manufactured and they have to discontinue the use of the infringing technology which we may provide. Any of the foregoing could affect our ability to compete or could have a material adverse effect on our business, financial condition and results of operations.

Under most of our long-term service agreements and project-based service contracts and work orders, we have agreed to indemnify the customer for intellectual property infringement claims arising out of our infringement of a third party's intellectual property. Our liability is usually capped at the total payments we have received under the service contract or work order except for losses arising from breach of confidentiality obligations or from our gross negligence or willful misconduct. As a result, if any aspect of a deliverable to a customer that we create infringes a third party's intellectual property rights due to our gross negligence or willful misconduct, and particularly if such deliverable ultimately becomes a commercially successful product, we could be exposed to substantial liability. Any material intellectual property infringement claim, if raised against us, could have a material adverse impact on our reputation, business, financial condition and results of operations.

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**If we fail to acquire new customers, our business, financial condition and results of operations may be adversely affected.**

Our success depends on our ability to acquire new customers. We may not be able to attract new customers if we are unable to maintain our competitive edges including, among others, service capabilities and quality, timeliness of delivery and proprietary technical capabilities. Our success in attracting customers will also depend, in part, on our ability to be responsive to pricing pressures and changing industry trend. To remain competitive in the global ADC outsourcing services market, we must continuously expand our integrated service capabilities, develop and upgrade our proprietary technical capabilities and grow with our customers to establish long-term relationship. We also may not be able to attract customers if we are unable to market ourselves effectively. If we are unable to attract new customers, our business, financial condition or results of operations could be materially and adversely affected.

**We may fail to retain our existing customers.**

We have a diverse and growing customer base with a global footprint. However, we cannot assure you that we will be able to retain all existing or future customers. A large number of projects we have executed are at discovery or preclinical stages characterized by a high rate of experimental failure, inherent uncertainties and other complexities, which may lead to our customers’ decision to discontinue the project earlier than we expected. Additionally, given the project-based nature of our services, customers are not obligated to stay with us for subsequent development stages and may seek services elsewhere. We rely on our ability to deliver high-quality services and maintain strong relationships with our customers to retain them. Our ability to retain customers may also be affected if we fail to maintain our competitive edges and be responsive to pricing pressures and changing industry trend. See “— If we fail to acquire new customers, our business, financial condition and results of operations may be adversely affected.” If we are unable to retain customers effectively, our business, financial condition and results of operations may be materially and adversely affected.

**The potential loss of major customers or any of our large contracts could materially and adversely affect our business, financial condition and results of operations.**

In 2020, 2021, 2022 and the six months ended June 30, 2023, revenue generated from our five largest customers accounted for 51.9%, 39.8%, 34.1% and 45.7% of our revenue in each year/period, respectively, and revenue generated from our largest customer accounted for 14.5%, 13.1%, 8.9% and 13.2% of our revenue in each year/period, respectively, taking into account the customers who formally contracted with the Remaining WXB Group but made use of our services. For more information about our top five customers, see “Business — Customers.” We cannot assure you that we will be able to maintain or strengthen our relationships with our major customers, or that our major customers will continue to outsource projects to us. If there is any significant reduction in spending on our CRDMO services by our major customers due to industry consolidation, deterioration of their financial conditions, budget cuts on R&D activities, pending regulatory approvals or other reasons, and we are unable to obtain suitable contracts or work orders of a comparable size and terms in substitution, our business, financial condition and results of operations may be materially and adversely affected. In addition, any deterioration on our key customers’ ability to settle their trade receivables in a timely manner will have a material adverse effect on our results of operations.

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**We may not recover some or all of our cost or receive service fees, if we fail to complete our services stipulated under our contracts or work orders, or if we under-price our services for any reason.**

We generate revenue primarily for CRDMO services provided on an FFS basis. We generally receive payments in accordance with a pre-agreed payment schedule specified in the contract or work order. The payment schedule sets out the fees for services we provide at relevant discovery, development or manufacturing steps that fall under the scope of work in the contract or work order. Our service contracts and work orders under the FFS model typically include a detailed schedule that sets forth specifications of and anticipated time required for completing each step as well as the corresponding payment. For more information, see “Business — Our Business Model — Our Fee models.” As a result, if we fail to deliver services in a timely manner in accordance with our contractual requirements, regulatory standards or ethical considerations, if we incur cost overruns or if we price these contracts or work orders below our costs because of competitive pressures, we could be subject to significant costs.

Moreover, we generally allow our customers to terminate the contracts or work orders without cause by giving prior written notice. If a customer terminates a project-based service contract or a work order, the customer is typically obligated to pay for the services already rendered and costs and expenses already incurred or irrevocably committed up to the date we receive the termination notice, and in some cases the customer is also obligated to pay a cancellation fee. Therefore, even if we are able to deliver services as required in the contracts or work orders and recognize such revenue, we are still exposed to the risks of early termination of contracts or work orders or delay in payment due to factors such as unsatisfactory research results, failure in clinical development or changes in our customers’ willingness to research and develop drugs, which could have an adverse effect on our business, financial condition, results of operations, cash flows and prospects. Furthermore, if our customers’ drug candidates fail to pass the requisite steps or proceed through development, regulatory approval or commercialization, our services would be cut short and we would not be able to fully realize the value of our contracts or work orders. Cancellation or modification of a large contract or work order, or cancellation or modification of multiple smaller contracts or work orders, could materially and adversely affect our business, financial condition, results of operations and prospects.

We determine the fee level of our services based on the scope of the services, the estimated costs and expenses, the estimated amount of time to deliver our services, and the prices charged by our competitors for similar services, among others. However, our evaluation of these factors may be inaccurate or incorrect. If we underprice our contracts or experience cost overruns, we could incur losses from our contracts or work orders, and our business, financial condition, results of operations, cash flows and prospects would be adversely affected.

**We are subject to product and other liability risks that could have a material adverse effect on our results of operations and financial condition.**

In providing our services, we face a range of potential liabilities. We typically undertake to defend, indemnify and hold our customers harmless from and against any liabilities and damages (including reasonable attorneys’ fees) resulting from any third-party claims, demands, suits or proceedings to the extent arising out of or relating to our negligence, willful misconduct, unlawful activities or material breach of the long-term service agreement or project-based service contract or a work order under the long-term service agreement. In particular, we may face product liability risks if the ADCs and other bioconjugates we help to discover, develop or manufacture are subject to product liability claims. We provide services in the discovery, development and commercial manufacturing of ADCs and other

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bioconjugates that are intended ultimately to be used in humans, either in clinical trials or as marketed products, although we do not commercially market or sell these products to end users. If any of these drugs harms people due to our negligence, willful misconduct, unlawful activities or material breach, we may be subject to litigation and may be required to pay damages. Damages awarded in a product liability action could be substantial and could have a material adverse effect on our reputation, business, financial condition, results of operations and prospects. Although we currently maintain product liability insurance, our insurance coverage may be inadequate or may become unavailable on terms acceptable to us.

Our customers’ ADCs and bioconjugates are, or may in the future be, sold, in jurisdictions, particularly in developed markets such as the United States and Europe, which may have onerous product liability and pharmaceutical product regulatory regimes, as well as litigious environments that may further expose us to the risk of product liability claims. Even if we are able to successfully defend ourselves against any such product liability claims, doing so may require significant resources and the time and attention of our management.

**Outsourcing certain development steps to other outsourcing service providers may expose us to potential risks and liabilities.**

We may outsource certain development steps to other outsourcing service providers from time to time during the ordinary course of our business. Historically, we have outsourced antibody intermediate manufacturing to the Remaining WXB Group and payload-linker manufacturing to the WXAT Group to meet the unfulfilled customer demand which exceeded our capacity. We cannot assure you that we will not continue to outsource certain development steps to other outsourcing service providers in the future even though we are actively building up our manufacturing capacities. Outsourcing to other service providers may subject us to potential risks and liabilities. Our outsourcing partners may face challenges or interruptions in their operations due to various factors that are beyond our control, including but not limited to labor disputes, raw material shortages and equipment failures. Such disruptions may result in delays or compromises to the projects. Failure on their part to meet deadlines, maintain product quality or comply with regulatory standards can affect our ability to fulfill our service obligations to our customers, which may harm our reputation and relationships with customers. Additionally, any negligent or willful misconduct by our outsourcing partners may expose us to potential liabilities. While we may seek indemnities from these partners, any such attempt can be costly and any indemnities obtained could be time-consuming and may not fully cover our losses.

**The ADCs and other bioconjugates we help to discover, develop or manufacture may cause undesirable adverse events or have other properties that could delay or prevent their regulatory approval, limit their commercial profile or harm our reputation.**

Undesirable adverse events caused by the ADCs and other bioconjugates we help to discover, develop or manufacture could cause our customers or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval for the relevant drugs. Results of our customers’ trials could reveal a high and unacceptable level of severity or prevalence of adverse events. In such event, trials could be suspended or terminated and the regulatory authority may order our customers to cease further development of, or deny approval of, such drugs. If any of adverse events is attributable to or associated with our services, with or without merits, our reputation may be harmed, which may cause a decline in customer demand for our services and materially and adversely affect our business, results of operations and financial condition.

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**Any disruption of our current facilities could restrict our ordinary business operations and materially and adversely affect our results of operations and financial condition.**

As of the Latest Practicable Date, we operated three sites in Shanghai, Changzhou and Wuxi, respectively. These sites are proximately located within a 200-kilometer radius, or approximately a two-hour drive. Our facilities may be harmed or rendered inoperable by physical damage from fires, floods, earthquakes, typhoons, power outages, mechanical breakdowns, telecommunications failures, loss of licenses, certifications and permits, changes in governmental planning for the land underlying the facility, and the regulatory development, many of which are beyond our control. We intend to further expand our geographic footprint, and specifically, we intend to establish facilities in Singapore to meet the growing demand from customers worldwide. However, we cannot assure you that such overseas expansion could effectively diversify and hedge against the risks arising from the proximity of our current facilities. Any substantial interruption in the development and manufacturing operations at our current facilities could result in our inability to satisfy customer demands, or even lead to our failure to fulfill contractual obligations, which could in turn materially and adversely affected our business, results of operations and financial condition.

**Our reputation is key to our business success. Negative publicity may adversely affect our reputation, business and growth prospect.**

Any negative publicity concerning us, our affiliates or any entity that shares the “WuXi” name, even if untrue, could adversely affect our reputation and business prospects. In particular, in light of our specialized customer base, customer referrals and word-of-mouth marketing have significantly contributed to our ability to acquire customers. Furthermore, a significant number of our affiliates or unrelated entities bear the “WuXi” name. As a result, any negative publicity about us or any of our affiliates or any entity that shares the “WuXi” name could also adversely affect our ability to retain our existing customers or attract new customers which in turn could negatively affect our revenue and profitability. Damage to our reputation could be difficult, expensive and time-consuming to repair and could make potential or existing customers reluctant to select us for new engagements, resulting in a loss of business and could adversely affect our recruitment and retention efforts. Damage to our reputation could also reduce the value and effectiveness of our brand name and could reduce investor confidence in us, adversely affecting the price of our Shares.

**The economic, social and other general conditions in China could affect our business, results of operations, financial conditions and prospects.**

We conduct a substantial part of our business operations in China. Accordingly, our business, results of operations and financial condition are influenced by economic, social, legal and other general developments in China. In particular, factors such as consumer, corporate and government spending, business investment, level of economic development, and resource allocation could affect the growth of our business.

The PRC economy has experienced significant growth over the past decades since the implementation of China’s reform and opening-up policy. In recent years, the PRC government has implemented measures emphasizing the utilization of market forces in economic reform and the establishment of sound corporate governance practices in business enterprises. These economic reform measures may be adaptively adjusted from industry to industry or across different regions of the country. If the business environment in China changes, our business in China and the growth of our business may also be adversely affected.

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### **Doing business with overseas customers and planned international expansion may subject us to a number of economic, political, regulatory, operation and management risks.**

We have developed a global customer base, covering customers from the United States, China and Europe. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, 28.7%, 58.7%, 69.1%, 70.7% and 64.1% of our revenue were attributable to customers with headquarters located outside China. As a CRDMO, we may have obligations under the medicinal products regime that applies in the jurisdictions where our customers are located to the extent that we are involved in R&D, preclinical studies and/or clinical trials. Failure to comply with any of the legal and regulatory requirements may result in material impact on our provision of services to customers in the relevant jurisdictions. We intend to establish facilities in Singapore to meet the growing demand from customers worldwide. As of the Latest Practicable Date, the WXB Group had secured a land offer from the relevant authority in Singapore for its Singapore expansion as well as our Singapore site. We were formulating the detailed construction plan as of the same date. We face risks and challenges in serving overseas customers, future overseas operations and competing in international markets, including, but not limited to:

- our ability to effectively manage our employees at remote locations, or in different business environments from that of the PRC;
- our ability to develop and maintain relationships with customers, suppliers and other local businesses;
- compliance with product safety requirements and standards that are different from those of the PRC;
- variations and changes in laws applicable to our operations in different jurisdictions, including enforceability of intellectual property and contract rights;
- a rising trade protectionism, a decline in world trade or a downturn in the economy of the United States or the European Union (including the impact of the exit of the United Kingdom from the European Union);
- customs regulations and the import and export of goods and raw materials;
- the ability to provide sufficient levels of technical support in different locations;
- our ability to obtain and renew licenses that may be needed in various jurisdictions to support operations;
- fluctuations in currency exchange rates;
- changes in local tax laws, tax rates in certain countries that may exceed those of the PRC and lower earnings due to withholding requirements or the imposition of tariffs, exchange controls or other restrictions;
- seasonal reductions in business activity;
- local laws related to, and relationships with, local labor unions and works councils; and
- general economic and political conditions.

If any of these risks later materializes and we have failed to anticipate and effectively manage them, we may suffer a material adverse effect on our business and results of operations.

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## RISK FACTORS

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### **We may be subject to various laws relating to export controls.**

We procure a substantial portion of raw materials and equipment and license technologies required for our operations from overseas, including the United States, and we may thus be subject to export control laws and regulations in the applicable jurisdictions, and specifically, the U.S. Export Administration Regulations, U.S. customs regulations and economic and trade sanctions administered by the United States governments, including but not limited to the U.S. Department of Commerce and its agencies, such as the Bureau of Industry and Security, and the U.S. Department of the Treasury and its agencies. These regulations provide that certain products may be exported outside of the United States only with the required export authorizations, including by license, license exception or other appropriate government authorizations. If we fail to comply with these laws or complete inspections required by the regulatory authorities in the United States, such as the U.S. Department of Commerce, in coordination with relevant government authorities of China, we may be adversely affected by reputational harm or loss of access to certain materials and equipment. During the Track Record Period and up to the Latest Practicable Date, we did not procure raw materials or equipment or license technologies that were subject to the export control laws and regulations of the United States or that required authorization from government authorities of the United States.

China imposes controls on the import and export of technology and software products. Under the Regulations on Administration of Imports and Exports of Technologies (技術進出口管理條例) promulgated by the State Council, which were amended in November 2020, technology import and export is defined to include, among others, the transfer or licensing of patents and know-how, and the provision of services related to technology. Depending on the nature of the relevant technology, the import and export of technology require either approvals by or registrations with the relevant PRC governmental authorities. As advised by our PRC Legal Advisor, on the basis of the aforesaid definition of technology export, the provision of our CRDMO services to overseas customers involving our technologies may be deemed as technology export. Nevertheless, our exported technologies do not fall within the currently effective catalogue of prohibited or restricted technologies for exportation, and therefore can be freely exported outside the PRC. The Measures for the Administration of Registration of Technology Import and Export Contracts (技術進出口合同登記管理辦法), issued by MOFCOM in February 2009, specify that agreements involving freely exported technologies shall be registered with the applicable PRC governmental authorities. Although there are no explicit penalties set forth in these regulations for lack of such registration, failure to register an agreement where such registration is required may result in restrictions concerning foreign exchange, banking and taxation matters relating to such agreements. We have registered some of our agreements involving the export of the relevant technologies, and with respect to other agreements which have not been registered, we have so far not encountered any issues with respect to foreign exchange, banking and taxation matters, nor have we received any penalties imposed by the competent government authority or received any notice from any government authority requiring us to complete the registration procedures. As advised by our PRC Legal Advisor, considering the relevant regulatory policies and the facts stated above, failure to register such agreements involving freely exported technologies will not have a material adverse effect on our overall financial condition or results of operations.

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## RISK FACTORS

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**Our investments in different countries may be adversely affected by regulatory or government scrutiny of the target countries.**

We may selectively pursue strategic alliances, licensing arrangements, investments and acquisitions in the future to enhance our technology platform. See “Business — Our Strategies — Continue to focus on cutting-edge technologies through internal R&D and strategic partnerships.” Such investments may be subject to stringent regulatory or governmental scrutiny imposed by relevant authorities. For example, the United States Congress has passed legislation that will expand the jurisdiction and powers of the Committee on Foreign Investment in the United States (“CFIUS”), the United States interagency committee that conducts national security reviews of foreign investment. The Foreign Investment Risk Review Modernization Act (“FIRRMA”) was signed into law in August 2018. Pursuant to FIRRMA, investments in companies that deal in “critical technology” are subject to filing requirements and, in some instances, review and approval by CFIUS. The term “critical technology” includes, among others, technology subject to United States export controls and certain “emerging and foundational technology,” a term that is still being defined but that is expected to include a range of United States biotechnology. If an investment by a foreign entity in a United States business dealing in “critical technology” meets certain thresholds, a filing with CFIUS is mandatory. While FIRRMA currently grants CFIUS jurisdiction on only controlling and certain non-controlling investments made by foreign persons in United States businesses in research and development in biotechnology, CFIUS’s jurisdiction may be further expanded in the future, which may increase the uncertainty and transaction costs of our future investments in and acquisitions of United States biotechnology businesses and therefore adversely affect the implementation of our future merger and acquisition activities and investment strategies in respect of United States biotechnology assets and businesses.

**We are subject to environmental protection and health and safety laws and regulations and may be exposed to potential costs for compliance and liabilities, including consequences of accidental contamination, chemical or biological hazards or personal injury.**

Our business operations are subject to national and local laws and regulations of the PRC pertaining to protection of the environment and health and safety, including but not limited to the treatment and discharge of pollutants into the environment and the use of highly toxic and hazardous chemicals in our development and manufacturing process. In addition, our construction projects can only be put into operation after the relevant administrative authorities in charge of environmental protection and health and safety have examined and approved the relevant facilities. Since the requirements imposed by such laws and regulations may change and more stringent laws or regulations may be adopted, we may be unable to comply in a timely manner, or to accurately predict the potentially substantial cost of complying, with these laws and regulations. If we fail to comply with environmental protection and health and safety laws and regulations, we may be subject to rectification orders, substantial fines, potentially significant monetary damages, suspend production or suspensions in our business operations. As a result, any failure by us to control the use or discharge of hazardous substances could have a material and adverse impact on our business, financial condition, results of operations and prospects.



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In addition, we cannot fully eliminate the risk of accidental contamination, biological hazards or personal injury at our facilities during the development and manufacturing process. In the event of such accident, we could be held liable for damages and clean-up costs which, to the extent not covered by existing insurance or indemnification, could harm our business. Other adverse effects could result from such liability, including reputational damage resulting in the loss of business from customers. We may also be forced to close or suspend operations at certain of our affected facilities temporarily, or permanently. As a result, any accidental contamination, biological hazards or personal injury could have a material and adverse impact on our business, financial condition, results of operations and prospects.

**We may be directly or indirectly subject to applicable anti-corruption and anti-bribery laws and regulations, which could expose us to penalties and other adverse effects.**

We provide CRDMO services primarily for pharmaceutical and biotechnology companies that develop and commercialize ADCs and other bioconjugates, and we and our customers are subject to anti-bribery laws of China. The PRC government has taken increasingly stringent measures to correct corruptive practices in the pharmaceutical industry (“**Anti-Corruption Campaign**”) since 2023. For example, in May 2023, 14 governmental departments including the National Health Commission jointly issued the Key Points for the Correction of Malpractice in the Purchase and Sales of Medical Products and Medical Services in 2023 (2023年糾正醫藥購銷領域和醫療服務中不正之風工作要點), emphasizing the need to address prominent corruption issues in the healthcare industry, particularly to rectify the malpractice that may occur involving the medical industrial associations and during the process of the purchases and sales of medical products. The Anti-Corruption Campaign targets not only at the medical and health institutions, but has also extended to upstream manufacturers, distribution channels, and third-party organizations, such as medical industrial associations. As this campaign deepens, the proposed sales and marketing programs of our customers may be impacted and the demand for our services may decrease. In addition, many of our customers are located in the United States and are subject to the Foreign Corrupt Practices Act (“**FCPA**”) that generally bans an entity from, directly or indirectly, making improper payments to foreign officials for the purpose of obtaining or retaining business. As a result, our service contracts often include anti-bribery provisions which require us to comply with the FCPA and other anti-bribery laws in the United States. As our business has expanded, the applicability of the FCPA and other anti-bribery laws to our operations has increased.

Although we have procedures and controls to monitor anti-bribery compliance, we cannot guarantee these measures can fully protect us from reckless or criminal acts committed by our employees or agents, and we could be held liable for actions taken by our employees or agents, which could expose us to risks of regulatory investigations and penalties. If we fail to comply with applicable anti-bribery laws due to our own deliberate or inadvertent acts or those of our employees, our reputation could be harmed and we could incur criminal or civil penalties, other sanctions and significant expenses, which could have a material adverse effect on our business, financial condition and results of operations.

**We may not be able to continue to serve our customers if we fail to meet our customers’ standards in audits and inspections.**

Our customers regularly audit and inspect our facilities, processes and practices to ensure that our services meet their standards in the discovery, development and manufacturing process. However, we cannot assure you that we will be able to pass all the customer audits and inspections at all times. Failure to pass any of these audits or inspections to our customers’ satisfaction could significantly harm our reputation and result in the termination of ongoing projects by our customers, which could materially and adversely affect our business, financial condition, results of operations and prospects.

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### **Increased labor costs could slow our growth and affect our profitability.**

Our operations require a sufficient number of qualified employees. In recent years, the average labor cost in the global ADC and broader bioconjugate market, has been steadily increasing as the competition for qualified employees has become more intense, according to Frost & Sullivan. Our direct labor costs accounted for 51.3%, 41.5%, 20.7%, 29.1% and 14.2% of our cost of services in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. We cannot assure you that there will not be further increase in labor cost. If there is a significant increase in our labor cost, our operations and profitability may be adversely affected.

### **We depend on a stable and adequate supply of quality raw materials from our suppliers, and price increases or interruptions of such supply could have an adverse impact on our business.**

Our business operations require a substantial amount of raw materials, pharmaceutical intermediates and consumable materials. In 2020, 2021, 2022 and June 30, 2022 and 2023, our cost of raw materials accounted for 29.2%, 30.5%, 13.4%, 26.2% and 10.4% of our cost of services, respectively. During the Track Record Period, procurement of raw materials for the WXB Group was conducted on a centralized basis, and we also sourced certain property, plant and equipment through such centralized procurement system rather than directly from suppliers. Going forward, as our business continues to scale up, we intend to independently procure raw materials. The raw materials and equipment required for the provision of our services are generally readily available in the market through a number of suppliers. In the event of significant price increases for raw materials, we cannot assure you that we will be able to raise the prices of our services sufficiently to cover the increased costs. As a result, any significant price increase for our raw materials may have an adverse effect on our profitability.

Furthermore, suppliers may fail to provide us with raw materials and other components that meet the qualifications and standards required by us or our customers. If suppliers are not able to provide us with materials that meet our or our customers’ specifications on a timely basis, our discovery, development and manufacturing activities may be interfered, or such materials may be available only at a higher cost or after a long delay, which could prevent us from successful and timely completion of the specified tasks in the drug development process as prescribed in our service contracts or work orders. Any such inability to deliver or delay in delivering our services may create liability for us to our customers for breach of contract or cause us to experience order cancellations and loss of customers.

We cannot assure you that we will be able to secure a stable supply of raw materials going forward. Our suppliers may not be able to keep up with our fast growth or may reduce or cease their supply of raw materials to us at any time. Our supplier relationships could be interrupted due to natural disasters, international supply disruptions caused by geopolitical issues, trade frictions, global shipping crises, or other events beyond our control or could be terminated in the future. Any sustained interruption in our receipt of adequate supplies could have an adverse effect on our business and financial results.

In addition, while we have supply chain processes intended to reduce volatility in component and material pricing, we may not be able to successfully manage price fluctuations. Price fluctuations or shortages could have a material adverse effect on our results of operations and financial condition. In addition, we cannot assure you that our suppliers have obtained and will be able to renew all licenses, permits and approvals necessary for their operations or comply with all applicable laws and regulations, and such failure by them may lead to interruption in their business operation, which in turn may result in shortage of raw materials supplied to us. Some of our suppliers are based overseas and therefore may need to maintain export or import licenses. If the supply of raw materials is interrupted, our business operation and financial position may be adversely affected.

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## RISK FACTORS

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### **We may not be able to effectively manage our inventory levels.**

Our inventories include raw materials and consumables used for our services, such as laboratory supplies, antibody intermediates, and payload-linkers. We manage the raw materials’ inventory level by monitoring the status of our ongoing projects and incoming new projects, and place orders through the centralized procurement system or with suppliers for any inventory that is expected to decline below targeted levels. We procure raw materials and equipment in accordance with our business expansion plan or to replace obsolete equipment on an as-needed basis. Adequate inventory level, however, is subject to numerous uncertainties, including current project progress, our level of success in securing new projects and other factors beyond our control. We recorded inventories of RMB7.7 million, RMB23.8 million, RMB62.9 million and RMB47.4 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively.

If we fail to manage our inventory levels effectively, we may be subject to a heightened risk of inventory obsolescence, a decline in the value of inventories, and potential inventory write-downs or write-offs. Procuring additional inventories may also require us to commit substantial working capital, preventing us from using such capital for other purposes. Any of the foregoing may materially and adversely affect our results of operations and financial condition.

### **Significant impairment losses with respect to our trade receivables and contract assets may materially and adversely affect our business, results of operations and financial condition.**

We allow our customers a credit period ranging from 10 to 90 days. As of December 31, 2020, 2021 and 2022 and June 30, 2023, our trade receivables, net of impairment of credit loss, were RMB23.9 million, RMB89.2 million, RMB453.3 million and RMB672.7 million, respectively, and we recorded allowance for impairment of trade receivables of RMB0.3 million, RMB10.8 million, RMB51.9 million and RMB28.1 million as of the same dates, respectively. We recognized impairment losses with respect to trade receivables of RMB0.3 million, RMB10.6 million and RMB41.0 million in 2020, 2021 and 2022, respectively, and a reversal of impairment losses with respect to our trade receivables of RMB3.0 million and RMB23.8 million in the six months ended June 30, 2022 and 2023, respectively. Additionally, we recorded contract assets, net of allowance for credit losses, of RMB1.0 million, RMB10.7 million, RMB17.3 million and RMB24.7 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, and we recorded allowance for credit losses in relation to our contract assets of nil, RMB2,000, RMB0.2 million and RMB1.7 million as of the same dates, respectively. We recognized impairment losses with respect to our contract assets of nil, RMB2,000, RMB0.1 million, nil and RMB1.6 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively. If any of our customers’ cash flow, working capital, financial condition or results of operations deteriorates, it may be unable, or it may otherwise be unwilling, to pay trade receivables owed to us promptly or at all. Any substantial default or delay of a customer’s payment obligations may materially and adversely affect our business, financial conditions and results of operations.

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## RISK FACTORS

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**We may incur impairment losses with respect to our intangible assets and goodwill in the future, which may materially and adversely affect our business, financial condition and results of operations.**

Our intangible assets, primarily comprising technology and customer relationships, were RMB4.8 million, RMB61.0 million, RMB50.6 million and RMB57.0 million as of December 31, 2020, 2021 and 2022 and June 30, 2023, respectively. Our goodwill, which primarily related to our acquisition of Payload & Linker Business in 2021, amounted to RMB215.2 million, RMB215.2 million and RMB215.2 million as of December 31, 2021 and 2022 and June 30, 2023, respectively. During the Track Record Period, we did not recognize impairment losses with respect to our intangible assets or goodwill. We cannot assure you that we will not recognize such impairment losses in the future. Impairment losses could arise from various factors such as a decrease in the future utility of our technology assets due to industry advancements that render them obsolete or less useful. Changes in market conditions could also erode the value attributed to customer relationships. Moreover, an economic downturn affecting our sectors could necessitate a re-evaluation of the carrying value of both our intangible assets and goodwill. Should any such impairments be recognized, our business, financial condition and results of operations could be materially and adversely affected.

**We recorded net current liabilities during the Track Record Period, and if we continue to incur net current liabilities in the future, we may be exposed to liquidity risks.**

We recorded net current liabilities of RMB608.2 million as of December 31, 2021, primarily due to the consideration payable to a related party for transfer of XDC Wuxi and consideration payable for acquisition of Payload & Linker Business. See “Financial Information — Liquidity and Capital Resources.” We cannot assure you that we will not incur net current liabilities in the future. A net current liabilities position can expose us to the risk of shortfalls in liquidity, in which case our ability to raise funds and declare and pay dividends will be materially and adversely affected.

**The discontinuation of any of research and other grants or preferential tax treatment currently available to us could adversely affect our financial position, results of operations, cash flows and prospects.**

During the Track Record Period, we have benefited from research and other grants. In 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, we recorded research and other grants under other income of RMB39.6 million, RMB0.9 million, RMB15.8 million, RMB15.3 million and RMB31.3 million, respectively. We also enjoyed preferential tax treatment during the Track Record Period. See “Financial Information — Key Components of Our Results of Operations — Other Income” and “Financial Information — Key Components of Our Results of Operations — Income Tax Expense” for more details. Our eligibility to receive these financial incentives requires that we continue to meet the specified qualifications. Subject to applicable PRC laws and regulations, tax incentive schemes of the PRC are determined at the discretion of the central government or relevant local government authorities, which could determine to eliminate or reduce the financial incentives, generally with prospective effect. There can be no assurance that we will be able to obtain similar preferential tax treatment or financial incentives on recurring basis, or at all, in the future. Since our receipt of the financial incentives may be subject to periodic time lags and varied practices across different governmental departments, as long as we continue to receive these financial incentives, our net income in a particular period may be higher or lower relative to other periods depending on the potential changes in these financial incentives in addition to any business or operational factors that we may otherwise experience. The discontinuation of financial incentives currently available to us could have a material adverse effect on our financial condition, results of operations, cash flows and prospects.

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**We may not be able to fulfill our obligations in respect of contract liabilities, which may have a material adverse effect on our results of operations and financial condition.**

As of December 31, 2020, 2021 and 2022 and June 30, 2023, our contract liabilities, primarily comprising deposits paid by customers, was RMB0.2 million, RMB10.0 million, RMB151.5 million and RMB232.4 million, respectively. See “Financial Information — Discussion of Major Balance Sheet Items — Contract Liabilities.” If we fail to fulfill our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the deposits we have received, which may adversely affect our cash flow and liquidity condition. In addition, it may adversely affect our relationship with such customers, which may also affect our reputation and results of operations in the future.

**We may undertake acquisitions or joint ventures that may have a material adverse effect on our ability to manage our business and may not be successful.**

To pursue our growth strategy, we may acquire new technologies, businesses or services or enter into strategic alliances with third parties. We may not be able to identify attractive targets, and we have limited experience in acquisitions. In addition, we may not be able to successfully acquire the targets identified despite spending significant amount of time and resources on pursuing such acquisition. Furthermore, integration of an acquired company, its intellectual property or technology into our own operations is a complex, time-consuming and expensive process. The successful integration of an acquisition may require, among other things, that we integrate and retain key management, sales and other personnel, integrate the acquired technologies or services into our integrated services from both an engineering and a sales and marketing perspective, integrate and support preexisting supplier, distribution and customer relationships, coordinate research and development efforts, and consolidate duplicate facilities and functions.

The geographic distance between companies, the complexity of the technologies and operations being integrated and the disparate corporate cultures may altogether increase the difficulties of integrating an acquired company or technology. In addition, it is common in our industry for competitors to attract customers and recruit key employees away from companies during the integration phase of an acquisition.

Our available cash and stock may be used for our future acquisitions, which will possibly result in significant acquisition-related charges to earnings and dilution to our shareholders. Future acquisitions will likely present challenges and could require that our management develop expertise in new areas, manage new business relationships and attract new types of customers. The diversion of our management’s attention and any difficulties encountered in these acquisitions could have an adverse effect on our ability to effectively manage our own business. These acquisitions and equity investments may also expose us to other potential risks, including loss of the invested amounts, inability to earn an adequate return, unforeseen liabilities, diversion of resources from our existing businesses and potential harm to relationships with employees or customers.

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## RISK FACTORS

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**We have granted, and may continue to grant, share options and other types of awards under our share incentive plans, which may result in increased share-based payment expenses. Those share-based awards may also adversely impact our results of operations and be dilutive to your shareholding.**

We adopted the 2021 [REDACTED] Share Option Scheme and the 2023 [REDACTED] Share Option Scheme to enhance our ability to attract and retain exceptionally qualified individuals and to encourage them to acquire a proprietary interest in the growth and performance of us. See “Appendix IV — Statutory and General Information — E. [REDACTED] Share Option Schemes.” We incurred share-based compensation expenses of RMB6.5 million, RMB22.2 million, RMB38.6 million, RMB10.6 million and RMB31.8 million in 2020, 2021, 2022 and the six months ended June 30, 2022 and 2023, respectively.

Similar to other biotech companies, we believe share-based awards as part of an overall compensation package are important to attracting and retaining key personnel and employees, and we plan to continue to grant share-based compensation to employees in the future. As a result, our share-based payment expenses may increase, which may have an adverse effect on our results of operations and financial condition and dilute your shareholding.

**We have limited insurance coverage, and any claims beyond our insurance coverage may result in us incurring substantial costs and a diversion of resources.**

We maintain property insurance policies, employer’s liability insurance and product liability and professional errors and omissions insurance, among our other insurance coverage. We do not maintain key-man life insurance for any members of our senior management or other key personnel or business disruption insurance. See “Business — Insurance” for details. Our insurance coverage may be insufficient to cover any claim for product liability, damage to our facilities, plant and equipment or employee injuries. In particular, we may face product liability risks if the ADCs and other bioconjugates we help develop or manufacture are subject to product liability claims. Our liability is not always capped under our service agreements, and in certain cases, the product liability cap is not applicable for claims relating to personal injuries or death. Any liability or damage to, or caused by, our facilities or our personnel beyond our insurance coverage may result in us incurring substantial costs and a diversion of resources.

**We may become subject to legal proceedings and claims during the ordinary course of our business.**

We may become, from time to time, subject to legal proceedings and claims that arise in the ordinary course of business or pursuant to governmental or regulatory enforcement activity. Actions brought against us, with or without merit, may result in administrative measures, settlements, injunctions, fines, penalties, negative publicity, or other results that could have material adverse effect on our reputation, business, financial condition, results of operations, and prospects. Even if we are successful in defending ourselves against these actions, we may incur significant costs and divert management’s attention and resources in such defense. Furthermore, any litigations, legal disputes, claims or administrative proceedings which are initially not of material importance may escalate and become important to us due to a variety of factors, such as the facts and circumstances of the cases, the likelihood of loss, the monetary amount at stake and the parties involved. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any claims, damages or losses which would have a material adverse effect on our financial position or results of operations as whole. As of the Latest Practicable Date, no material litigation, arbitration or administrative proceedings had been threatened against us.

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## RISK FACTORS

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Our insurance might not cover claims brought against us, or might not provide sufficient payments to cover all of the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. In particular, any claim could result in unanticipated liability to us if the claim is outside the scope of the indemnification arrangement we have with our customers, our customers do not abide by the indemnification arrangement as required, or the liability exceeds the amount of any applicable indemnification limits or available insurance coverage. A claim brought against us that is uninsured or underinsured could result in unanticipated costs and could have a material adverse effect on our financial condition, results of operations or reputation.

**We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.**

We may need additional capital, aimed to expand our capacity, develop new services and remain competitive. We expect to meet such capital commitments by using cash from operations and [REDACTED] to be received from the [REDACTED]. However, financing may be limited in amounts or on terms acceptable to us. Our ability to obtain additional capital is subject to a variety of uncertainties, including our future financial condition, results of operations and cash flows, general market conditions for capital-raising activities within the industry, global political conditions, economic and other conditions in China, the United States or globally. The sale of additional equity or equity-linked securities could lead to dilution to the shares held by our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants restricting our operations or our ability to pay dividends, which may adversely impact our business, financial conditions and results of operations.

**Any failure of our information systems, such as from data corruption, cyber-based attacks or network security breaches, could have a material adverse effect on our business and results of operations.**

We rely on a variety of information technology and automated operating systems to manage or support our operations, including protecting our customers' intellectual property. The proper functioning of these systems is critical to the efficient operation and management of our business. In addition, these systems may require modifications or upgrades as a result of technological changes or growth in our business. These changes may be costly and disruptive to our operations and could impose substantial demands on management time. Our systems and those of third-party providers may be vulnerable to damage or disruption caused by circumstances beyond our control, such as catastrophic events, power outages, natural disasters, computer system or network failures, viruses or malware, physical or electronic break-ins, unauthorized access, cyber-attacks and thefts. We cannot assure you that the measures and steps we take to secure our systems and electronic information are adequate. Any significant disruption to our systems could result in unauthorized disclosure of confidential information and adversely affect our business and operating results.

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## RISK FACTORS

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**An occurrence of a natural disaster, widespread health epidemic or other outbreaks, such as the COVID-19 pandemic, could have a material adverse effect on our business, results of operations and financial condition.**

Our business could be materially and adversely affected by natural disasters and extreme weather conditions, such as snowstorms, earthquakes, fires or floods, the outbreak of a widespread health epidemic, such as the COVID-19 pandemic, or other events, such as wars, acts of terrorism, environmental accidents, power shortage or communication interruptions. The occurrence of such a disaster or prolonged outbreak of contagious diseases or other adverse public health issues could materially disrupt our business and operations. For example, a series of precautionary and control measures have been implemented worldwide to contain the virus since the COVID-19 outbreak. Our Directors confirmed that, up to the Latest Practicable Date, the COVID-19 outbreak had not had a material adverse effect on our business, results of operations and financial condition. Any future impact caused by the COVID-19 pandemic will depend on its subsequent development. We cannot be entirely certain as to when the COVID-19 pandemic will be fully contained, and its impact will be completely alleviated. There remain significant uncertainties surrounding the COVID-19 outbreak and its further development as a global pandemic, considering the severe global situation and occasional regional resurgence of COVID-19 cases. We are closely monitoring the development of the COVID-19 pandemic and continually evaluating any potential impact on our business operations.

We are also vulnerable to natural disasters and other force majeure events. Fire, floods, typhoons, earthquakes, power shortages, telecommunications failures, wars, riots, terrorist attacks or similar events could adversely affect our ability to conduct our business. Our business could also be adversely affected by the effects of Ebola virus diseases, H1N1 flu, H7N9 flu, avian flu, Severe Acute Respiratory Syndrome (SARS), or other epidemics. The occurrence of any of the foregoing events may, among others, disrupt our R&D and manufacturing activities and affect the business environment and sentiment, all of which may have a material and adverse effect on our business, results of operations, financial condition and prospects.

**Fluctuations in exchange rates may result in foreign exchange losses and adversely impact our profitability.**

We develop and maintain a global customer base and transact business with global suppliers and partners. Fluctuations in exchange rates between the Renminbi and the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the global geopolitical and economic conditions and the foreign exchange policies. Our foreign currency exposure is mainly with respect to U.S. dollars. During the Track Record Period, a majority of our revenue was generated from sales denominated in U.S. dollars. However, a majority of our cost of services and operating costs and expenses are denominated in Renminbi, and our financial information is presented in Renminbi. As a result, when the Renminbi appreciates against the U.S. dollar, our margins are pressured, and we may not be able to price our service contracts or work orders, in particular those with our U.S. customers, in currencies other than the U.S. dollar. We incurred net foreign exchange losses of RMB2.7 million, RMB1.0 million and RMB1.4 million in 2020, 2021 and the six months ended June 30, 2023, respectively, and net foreign exchange gain of RMB46.3 million and RMB25.5 million in 2022 and the six months ended June 30, 2022, respectively. During the Track Record Period, we utilized derivative contracts to hedge against our exposure to currency risk. The availability and effectiveness of these hedges may be limited, and we may not be able to successfully hedge our exposure at all.



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## RISK FACTORS

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### **Changes in geopolitical relationships, international trade policies and other tensions may impact our business operations.**

During the Track Record Period, we generated a substantial portion of our revenue from customers in foreign countries and regions, in particular the United States. Our business is therefore subject to constantly changing international economic, regulatory, social and global political conditions, and local conditions in those foreign countries and regions. As a result, China's relationships with those foreign countries and regions may affect the demand for our services and our ability to serve foreign customers. There can be no assurance that such customers will not alter their perception of us or their preferences as a result of adverse changes to the relationships between China and the relevant foreign countries or regions. Any tensions and concerns between China and the relevant foreign countries or regions may cause a decline in the demand for our services and adversely affect our business, financial condition, results of operations, cash flows and prospects.

In recent years, as trade frictions increase between the United States and China, concerns exist among PRC enterprises transacting with United States companies that a possible trade war between the two countries could have possible impact on their business. Elevated tensions between the two countries have been driven by a range of factors, including global pandemic, legislative actions, economic sanctions, and executive orders. These developments have led to restrictions on various transactions and investments involving Chinese enterprises. Rising tensions could reduce levels of trades, investments, technological exchanges and other economic activities between the two major economies, which would have a material adverse effect on global economic conditions and the stability of global financial markets. A trade friction between global large trade partners could also threaten the ongoing global economic development and the increasing cross-border transactions trend. A deterioration in Sino-US relationship could negatively impact the global economic development and the cross-border transactions between China and the United States. Given that a substantial number of our customers are pharmaceutical and biotechnology companies in the United States, the demands of our services are significantly influenced by United States government's attitude toward Chinese services providers in pharmaceutical and biotechnology industries. We cannot assure you that we will not be negatively influenced by the increasing trade frictions between the United States and China as well as by adverse changes in United States laws and regulations toward diplomatic relations. As a result, our business, financial condition, results of operations and business prospects could be materially and adversely affected.

### **We are required to make adequate contributions to social insurance and housing provident fund for our employees under the PRC regulations.**

Pursuant to the relevant PRC laws and regulations, employers are obligated to contribute to the social insurance and housing provident funds for their employees. If any of the relevant social insurance authorities is of the view that the social insurance contributions we made for our employees do not comply with the requirements under the relevant PRC laws and regulations, it may order us to pay the outstanding balance within a prescribed time period plus a late fee of 0.05% of the total outstanding balance per day. If we fail to do so within the prescribed period as requested by the relevant social insurance authorities, we may be subject to a fine ranging between one to three times of the total outstanding balance. In addition, if any of the relevant housing provident fund authorities is of the view that our contributions to the housing provident fund do not satisfy the requirements under the relevant PRC laws and regulations, it may order us to pay the outstanding balance within a prescribed period. If we fail to do so within the prescribed period, the relevant housing provident fund authority may apply to a PRC court for an order of mandatory payment.

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As of the Latest Practicable Date, no material administrative action, fine or penalty had been imposed by relevant regulatory authorities with respect to our social insurance or housing provident fund contributions. In addition, we did not receive any notice from judicial or administrative authorities on any claim from our current and former employees regarding any inadequate contributions.

During the Track Record Period, we engaged third-party human resource agencies to make social insurance and housing provident fund contributions for certain employees. As of the Latest Practicable Date, the practice had not been explicitly prohibited by PRC laws and regulations, and we had not received any administrative penalty from the regulatory authorities for such practice. As of the Latest Practicable Date, we had not been subject to any labor dispute relating to such arrangements. However, as the labor-related laws and regulations and their interpretation and implementation continue to evolve, we cannot assure you that our arrangements with third-party agencies are and will at all times be deemed to be in full compliance with relevant laws and regulations, which may subject us to labor disputes or government investigations. In addition, if these agencies fail to fulfill their obligations to make the social insurance and housing provident fund contributions for the relevant employees, we may be subject to additional contribution obligations, late payment fees and/or penalties imposed by relevant regulatory authorities for failing to discharge our obligations as an employer or be ordered to rectify. The occurrence of any of the foregoing could adversely affect our business, results of operations and financial condition.

**Failure to comply with PRC property laws and relevant regulations may affect our business, results of operations and financial condition.**

We lease certain properties from third parties to be used mainly as office, factories and R&D premises. As of the Latest Practicable Date, three of our leased properties had title defects that may affect our ability to continue to use them normally in the future. The existence of title defects is mainly due to the following reasons: (1) the lessors of two leased properties are different from the real estate owners of such leased properties, and (2) the intended purposes contained in the property ownership certificates of one property is inconsistent with the actual use of property. The relevant lease agreements may be deemed invalid or we may face challenges from the property owners or other third parties regarding our right to lease the premises. Furthermore, if the landlords fail to perform its obligations under the lease agreements between the landlords and us due to any reason, including but not limited to its own non-compliance with relevant laws and regulations, government demolition or any other unforeseeable events, we may be unable to continue using such properties. As of the Latest Practicable Date, we are not aware of any challenges being made by a third party or government authority on the titles of any of these leased properties that might affect our current occupation. Although we do not expect to become subject to any fines or penalties if any of these leases are terminated as a result of challenges by third parties or government authorities for any of these title defects, we may be forced to relocate the affected offices, factories and R&D premises and incur additional expenses accordingly. If we fail to find suitable replacement sites in a timely manner or on terms commercially acceptable to us, our business and results of operations could be materially and adversely affected.

Under the applicable PRC laws and regulations, the parties to a lease are required to register and file such lease with the relevant government authorities. As of the Latest Practicable Date, certain lease agreements of our leased properties had not been registered or filed, and we had not obtained registration certificate for one lease agreement. While the lack of registration will not affect the validity of the leases under PRC laws and regulations, we may be ordered by the relevant government authorities to register the relevant leases within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease.

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## RISK FACTORS

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### **There may be difficulty in protecting your interest under the law of Cayman Islands.**

Our corporate affairs are governed by our Memorandum of Association, Articles of Association, the Cayman Companies Act, and the common law of the Cayman Islands. Your rights, as a Shareholder, to take action against the Directors, the rights of minority Shareholders to institute actions and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. There may be difficulty in protecting your interest under the law of Cayman Islands.

### **Inflation could affect our profitability and growth.**

The governments of the jurisdictions where we operate have implemented various policies and may continue to implement various policies from time to time to reduce inflation, including imposing various corrective measures designed to regulate the availability of credit or regulate growth. High inflation in the future may cause the governments of the jurisdictions where we operate to regulate credit and/or price of commodities, or to take other similar actions. Any action on the part of such governments that seeks to regulate credit and/or price of commodities may affect our business operations, causing impact on our profitability and growth.

## **RISKS RELATING TO OUR RELATIONSHIP WITH REMAINING WXB GROUP AND WXAT GROUP**

### **If we are no longer able to benefit from our cooperation with the Remaining WXB Group and the WXAT Group, our business may be adversely affected.**

We have benefited from during the Track Record Period, and expect to continue to benefit from, our cooperation with the Remaining WXB Group and the WXAT Group for various forms, such as discovery and development, manufacturing and quality testing services in relation to antibodies, payload-linkers, raw material procurement services, project management services and overseas technical support services. In 2020, 2021 and 2022, the amount of non-exempt continuing connected transactions with the Remaining WXB Group was RMB51.5 million, RMB253.3 million and RMB794.8 million, respectively, and the amount of non-exempt continuing connected transactions with the WXAT Group was nil, RMB23.3 million and RMB137.8 million in the same periods, respectively. See “Connected Transactions — Non-exempt Continuing Connected Transactions.” If the Remaining WXB Group and the WXAT Group fail to continue their cooperation with us, provide support to us, or conducts business in an unacceptable manner or takes other actions that are detrimental to our interests, we may have to renegotiate with them for the cooperation or support or attempt to approach other business partners as replacements, which may be expensive, time-consuming and disruptive to our operations. If we are unable to maintain our relationship with the Remaining WXB Group or the WXAT Group, our business and operations could be severely disrupted, which could materially and adversely affect our results of operations and financial condition.

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## RISK FACTORS

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**The Remaining WXB Group and the WXAT Group may exert substantial influence over our operations and may not act in the best interests of the independent Shareholders.**

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and without taking into account of any exercise of the share options granted under the [REDACTED] Share Option Schemes, WuXi Biologics and STA Pharmaceutical will each control over 30% of the voting power of Shares in issue. See “History, Reorganization and Corporate Structure” for details. Therefore, the Remaining WXB Group and the WXAT Group will be able to exercise significant influence over matters requiring Shareholders’ approval, including the election of Directors and the approval of certain significant corporate transactions. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of the Company that would otherwise benefit the Shareholders. The interests of the Remaining WXB Group and the WXAT Group may not always coincide with our or your best interests. If the interests of the Remaining WXB Group and the WXAT Group conflict with our interests or those of the other Shareholders, or if the Remaining WXB Group and the WXAT Group choose to cause our business to pursue strategic objectives that conflict with our interests or those of the other Shareholders, we or those other Shareholders, including you, may be disadvantaged as a result.

**We may have conflict of interest with the Remaining WXB Group and the WXAT Group and, because of their ownership interest in our Company, we may not be able to resolve such potential conflicts on terms favorable to us.**

We may have conflict of interest with the Remaining WXB Group and the WXAT Group and, because of their ownership interest in our Company, we may not be able to resolve such conflict on terms favorable to us. Conflict of interest may arise between the Remaining WXB Group or the WXAT Group and us in a number of areas relating to our ongoing relationships, for example, for employee and talent recruitment. Although the Company will become a stand-alone public company, we expect to operate, for as long as WuXi Biologics and STA Pharmaceutical remain our Controlling Shareholders, as a subsidiary or an affiliate of our Controlling Shareholders. They may from time to time make strategic decisions that they believe are in the best interests of their business and shareholders as a whole. These decisions may be different from the decisions that we would have made on our own. Their decisions with respect to us or our business may be resolved in ways that favor themselves and therefore their Shareholders, which may not coincide with our interests and the interests of our other Shareholders. After we become a stand-alone public company, we will have an audit committee, consisting of independent non-executive Directors, to review and approve all proposed connected transactions as defined in the Listing Rules. However, we may not be able to resolve all potential conflicts, and even if we do so, the resolution may be less favorable to us than if we were dealing with a non-controlling shareholder. For further details as to how we address such conflicts, see “Relationship with our Controlling Shareholders.”

**Any negative development in the WXB Group’s market position and brand image may adversely affect the strength and integrity of our brand.**

We have benefited significantly and expect to continue to benefit significantly from the WXB Group’s strong brand recognition and broad customer base, which provide us credibility and a broad marketing reach. If the WXB Group loses its market position, the effectiveness of our marketing efforts through our association with the WXB Group may be materially and adversely affected. In addition, any negative publicity associated with the WXB Group or any negative development with respect to the WXB Group’s market position and brand image, it could have an adverse impact on our business, our marketing efforts, our relationships with strategic partners and users, our reputation and brand.

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## RISK FACTORS

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### RISKS RELATING TO CONDUCTING BUSINESS IN CHINA AND OTHER JURISDICTIONS WHERE WE OPERATE

**We may be subject to the approval, filing or other requirements of the CSRC or other PRC governmental authorities in connection with future capital raising activities, and, if required, we cannot predict whether we will be able to obtain such approval or complete such filing.**

On July 6, 2021, the General Office of the State Council, together with another regulatory authority, jointly promulgated the Opinions on Strictly Combating Illegal Securities Activities in Accordance with the Law (關於依法從嚴打擊證券違法活動的意見), which calls for, among others, enhanced administration and supervision of overseas-listed China-based companies, proposes to revise the relevant regulation governing the overseas issuance and [REDACTED] of shares by such companies, and clarifies the responsibilities of competent domestic industry regulators and government authorities.

On February 17, 2023, the China Securities Regulatory Commission (“CSRC”) released the Trial Administrative Measures of Overseas Securities [REDACTED] and [REDACTED] by Domestic Companies (境內企業境外發行證券和上市管理試行辦法) and five supporting guidelines (together, “**Trial Measures**”), which came into effect on March 31, 2023. Pursuant to the Trial Measures, domestic companies that seek to list overseas, both directly and indirectly, should fulfill the filing procedure and report relevant information to the CSRC. Specifically, following the principle of substance over form, if an issuer meets both of the following criteria, its overseas [REDACTED] and [REDACTED] will be deemed as an indirect [REDACTED] and [REDACTED] by a domestic enterprise: (1) any of the total assets, net assets, revenue or profits of the domestic operating entities of the issuer in the most recent accounting year accounts for more than 50% of the corresponding figure in the issuer’s audited consolidated financial statements for the same period; and (2) its major operational activities are carried out in China or its main places of business are located in China, or a majority of the senior management in charge of operation and management of the issuer are Chinese citizens or are domiciled in China. The filing is required to be conducted within three business days after the submission of the application for [REDACTED] and [REDACTED] overseas to the overseas regulators. The CSRC will review the filing application and may have queries and may consult with other relevant regulators. Filings granted by the CSRC will have a valid term of one year during which the issuer should complete the [REDACTED]. Further follow-up [REDACTED] after overseas [REDACTED] also require a filing within three business days after the completion of the [REDACTED], and the listed companies will need to report to the CSRC upon the occurrence and public disclosure of certain significant matters such as a change in control, penalty received from overseas securities regulators or relevant PRC regulators, a switch of [REDACTED] status and a termination of [REDACTED]. See “Regulatory Overview — Laws and Regulations of the PRC — Regulations on Overseas [REDACTED]” for details. If a domestic company fails to complete the filing procedure or conceals any material fact or falsifies any major content in its filing documents, such domestic company may be subject to administrative penalties, such as orders to rectify, warnings, fines, and its controlling shareholders, actual controllers, the person directly in charge and other directly liable persons may also be subject to administrative penalties, such as warnings and fines.

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## RISK FACTORS

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Our PRC Legal Advisor is of the view that this [REDACTED] shall be deemed as an indirect [REDACTED] and [REDACTED] by PRC domestic enterprise, and we are required to submit filings with the CSRC within three business days after we submit application for this [REDACTED]. We submitted the required filing documents with the CSRC on July 12, 2023. On October 19, 2023, the CSRC issued a notification on our completion of the PRC filing procedures for the [REDACTED] of our Shares on the Stock Exchange and the [REDACTED]. As advised by our PRC Legal Advisor, no other approvals from the CSRC are required to be obtained for the [REDACTED] of our Shares on the Stock Exchange. A rescission of any such approval or filing obtained by us would subject us to sanctions by the CSRC or other PRC regulatory authorities, and such failure may materially adversely affect our ability to finance the development of our business and, in turn, our business and financial condition. Furthermore, if the filing procedure with the CSRC under the Trial Measures is required for any future [REDACTED], [REDACTED] or any other capital raising activities, it is uncertain whether we could complete the filing procedure in relation to any further capital raising activities in a timely manner, or at all.

On February 24, 2023, the CSRC, the Ministry of Finance, the National Administration of State Secrets Protection, and the National Archives Administration of China published the revised Provisions on Strengthening the Confidentiality and Archives Administration of Overseas [REDACTED] and [REDACTED] by Domestic Companies (關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定) (“Archives Rules”) which came into effect on March 31, 2023. The Archives Rules require that, in relation to the overseas [REDACTED] and [REDACTED] activities of domestic enterprises, either in direct or indirect form, such domestic enterprises, as well as securities companies and securities service institutions providing relevant securities services, are required to strictly comply with relevant requirements on confidentiality and archives management, establish a sound confidentiality and archives system, and take necessary measures to implement their confidentiality and archives management responsibilities. According to the Archives Rules, during an [REDACTED] and [REDACTED], if a domestic company needs to provide or publicly disclose to securities companies, securities service providers and overseas regulators, any materials that contain relevant state secrets or that have an adverse impact on the national security or public interests, the domestic company should complete the relevant approval/filing and other regulatory procedures.

The CSRC or other PRC regulatory authorities may also take actions requiring us, or making it advisable for us, to halt this [REDACTED] or future [REDACTED] activities before settlement and delivery of the Shares [REDACTED] hereby. Consequently, if you engage in market trading or other activities in anticipation of and prior to settlement and delivery, you do so at the risk that settlement and delivery may not occur. In addition, if the CSRC or other regulatory authorities later promulgate new rules or explanations requiring that we obtain their approvals or accomplish the required filing or other regulatory procedures in addition to those prescribed under the Trial Measures for this [REDACTED] or future [REDACTED] activities, we may be unable to obtain a waiver of such approval requirements, if and when procedures are established to obtain such a waiver. Any such circumstances regarding such approval, filing or other requirements could materially and adversely affect our business, prospects, financial condition, reputation, and trading price of the Shares.

However, given that the Trial Measures and Archives Rules were recently promulgated, their interpretation, application, and enforcement are still evolving and we are closely monitoring how they will affect our operations and our future financing.

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## RISK FACTORS

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**Failure to comply with PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may subject our PRC resident beneficiaries to personal liability, may affect our ability to acquire PRC companies or to inject capital into our PRC subsidiaries, may affect the ability of our PRC subsidiaries to distribute profits to us or may otherwise materially and adversely affect us.**

Pursuant to the Circular on Issues concerning the Foreign Exchange Administration of the Overseas Investment and Financing and the Round-Tripping Investment Made by Domestic Residents through Special-Purpose Companies (關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知) (“**Circular 37**”), which was promulgated by the State Administration for Foreign Exchange of the PRC (中華人民共和國 外匯管理局) (“**SAFE**”) and became effective on July 4, 2014, (1) a PRC resident (including PRC institutions and individuals) must register with the local SAFE branch before he or she contributes assets or equity interests in an overseas special purpose vehicle (“**Overseas SPV**”) that is directly established or indirectly controlled by the PRC resident for the purpose of conducting investment or financing; and (2) following the initial registration, the PRC resident is also required to register with the local SAFE branch for any changes of the basic information in respect of the Overseas SPV, including, among other things, a change in the Overseas SPV’s PRC resident shareholder, name of the Overseas SPV, term of operation, or any substantial changes in respect of the Overseas SPV, including, among other things, any increase or reduction of the contributions by the PRC resident, share transfer or swap, and merger or division. Pursuant to the SAFE Circular on Further Simplification and Improvement in Foreign Exchange Administration Policies on Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) (“**Circular 13**”), which was promulgated on February 13, 2015 and amended on December 30, 2019, the aforesaid registration shall be directly reviewed and handled by qualified banks in accordance with the Circular 13, and SAFE and its branches shall perform indirect regulation over the foreign exchange registration via qualified banks.

We may not at all times be fully aware or informed of the identities of all our beneficiaries who are PRC residents, and may not always be able to compel our beneficiaries to comply with the requirements of the Circular 37. As a result, we cannot assure you that all of our beneficiaries who are PRC residents will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by the Circular 37 or other related regulations. Under the relevant rules, failure to comply with the registration procedures set forth in the Circular 37 may limit the foreign exchange activities of the relevant PRC enterprise and may also subject the relevant PRC resident to penalties under the PRC foreign exchange administration regulations.

**Any failure to comply with PRC regulations regarding our employee equity incentive plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.**

In February 2012, SAFE promulgated the Circular on Relevant Issues Concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plans of Overseas Publicly Listed Companies (關於境內個人參與境外上市公司股權激勵計劃外匯管理有關問題的通知) (“**SAFE Circular 7**”), replacing the previous rules issued by SAFE in March 2007. Under the SAFE Circular 7 and other relevant rules and regulations, PRC residents who participate in an equity incentive plan in an overseas publicly-listed company are required to register with SAFE or its local branches and complete certain other procedures. Participants of an equity incentive plan who are PRC residents must retain a qualified PRC agent, which could be a PRC subsidiary of the overseas publicly listed company or another qualified institution selected by the PRC subsidiary, to conduct the SAFE registration and other procedures with respect to the equity incentive plan on behalf of its participants. The participants must

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## RISK FACTORS

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also retain an overseas entrusted institution to handle matters in connection with their exercise of stock options, the purchase and sale of corresponding stocks or interests and fund transfers. In addition, the PRC agent is required to amend the SAFE registration with respect to the equity incentive plan if there is any material change to the equity incentive plan, the PRC agent or the overseas entrusted institution or other material changes. We and our PRC employees who have been granted share options will be subject to these regulations upon the completion of this [REDACTED]. Failure of our PRC share option holders to complete their SAFE registrations may subject these PRC residents to fines of up to RMB300,000 for entities and up to RMB50,000 for individuals, and legal sanctions and may also affect our ability to contribute additional capital to our PRC subsidiary, affect our PRC subsidiary’s ability to distribute dividends to us, or otherwise materially and adversely affect our business.

The SAT has also issued relevant rules and regulations concerning employee share incentives. Under these rules and regulations, our employees working in the PRC will be subject to PRC individual income tax upon exercise of the share options. Our PRC subsidiary has obligations to file documents with respect to the granted share options or restricted shares with relevant tax authorities and to withhold individual income taxes for their employees upon exercise of the share options or grant of the restricted shares. If our employees fail to pay or we fail to withhold their individual income taxes according to relevant rules and regulations, we may face sanctions imposed by the competent governmental authorities

**Any uncertainties embedded in the legal systems of certain jurisdictions where we operate could adversely affect our business, financial condition and results of operations and our investors could be affected as a result.**

The legal systems of the jurisdictions where we operate vary significantly. Some jurisdictions have a civil law system based on written statutes and others are largely based on common law. Unlike common law systems where the case laws have binding effects, prior court decisions under civil law systems may be cited for reference but have limited precedential value. We are based in China and our business in China are governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes. Since the late 1970s, the PRC government has promulgated laws and regulations dealing with economic matters, such as foreign investment, corporate organization and governance, commerce, taxation and trade, with a view towards developing a comprehensive system of commercial law. However, as the legal system in China continues to develop, and many of these laws and regulations are relatively new and continue to evolve, these laws and regulations may be subject to interpretation. As other civil law countries, there is a limited volume of published court decisions, which may be cited for reference but are not binding on subsequent cases and have limited precedential value unless the Supreme People’s Court otherwise provides. As these laws and regulations are continually evolving in response to changing economic and other conditions, we cannot foresee how these laws, rules and regulations will be interpreted and enforced, which may adversely affect the legal protections and remedies that are available to investors and us.



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**It may be difficult to effect service of process, enforce foreign judgments and arbitral awards against us or our Directors and senior management.**

We are incorporated in the Cayman Islands. A significant number of our operating subsidiaries are incorporated in China. In addition, most of our Directors and senior management reside in China. A substantial amount of our assets and some of the assets of our management are located in China. As a result, it may be difficult or impracticable for you to effect service of process within Hong Kong upon us or these persons, to bring an action in Hong Kong against us or these individuals. Moreover, China does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards.

On July 14, 2006, the Supreme People’s Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (“**2006 Arrangement**”), which became effective on August 1, 2008. Pursuant to such arrangement, a party with a final judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in China, and vice versa. However, it is subject to the parties in the dispute agreeing to enter into a choice of court agreement in writing under the 2006 Arrangement.

On January 18, 2019, the Supreme People’s Court of China and Hong Kong entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排) (“**2019 Arrangement**”), the commencement date of which shall be announced after the Supreme People’s Court promulgates judicial interpretations and relevant procedures are completed in Hong Kong. The 2019 Arrangement will supersede the 2006 Arrangement and afford greater clarity and certainty for reciprocal recognition and enforcement of judgments in civil and commercial matters. The 2006 Arrangement will remain applicable to a “choice of court agreement in writing” entered into before the 2019 Arrangement taking effect. However, outcomes of any applications to recognize and enforce such judgments and arbitral awards in China will be subject to the PRC courts further adjudication in accordance with PRC laws, including the PRC civil procedure law.

Furthermore, an original action may only be brought in China against us or our Directors and senior management if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law, we cannot assure you whether investors will be able to bring an original action in China in this manner.

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## RISK FACTORS

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**Laws and regulations over currency conversion and future fluctuation of Renminbi exchange rates could adversely affect our results of operations and financial condition, and may reduce the value of, and dividends payable on, our Shares in foreign currency terms.**

The PRC government imposes laws and regulations on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under our current corporate structure, our Company in the Cayman Islands relies on dividend payments from our PRC subsidiaries to fund any cash and financing requirements we may have. Under existing PRC foreign exchange regulations, payments of current account items, such as profit distributions and trade and service-related foreign exchange transactions, can be made in foreign currencies without the prior approval of SAFE, by complying with certain procedural requirements. Therefore, our PRC subsidiaries are able to pay dividends in foreign currencies to us without prior approval from SAFE, subject to the condition that the remittance of such dividends outside of the PRC complies with certain procedures under PRC foreign exchange regulations, such as the overseas investment registration by the beneficial owners of our Company who are PRC residents. However, approval from or registration with appropriate governmental authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses, such as the repayment of loans denominated in foreign currencies.

The PRC government may further regulate access to foreign currencies for current account transactions in the future. If the foreign exchange regulation system makes it difficult for us to obtain sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further regulating the remittance of Renminbi into or out of China.

The value of Renminbi against the Hong Kong dollar, the U.S. dollar and other currencies fluctuates, is subject to change resulting from the PRC government’s policies, and depends to a large extent on domestic and international economic and global political developments as well as supply and demand in the local market. It is difficult to predict how market forces or government policies may impact the exchange rate between the Renminbi and the Hong Kong dollar, the U.S. dollar or other currencies in the future.

The [REDACTED] from the [REDACTED] will be received in Hong Kong dollars. As a result, any appreciation of the Renminbi against the Hong Kong dollar may result in a decrease in the value of our [REDACTED] from the [REDACTED]. Conversely, any depreciation of the Renminbi may affect the value of, and any dividends payable on, the Shares in foreign currency terms. Further, we may not be able to find suitable instruments to reduce our foreign currency risk exposure at reasonable costs. All of these factors could adversely affect our business, results of operations and financial condition, and could reduce the value of, and dividends payable on, the Shares in foreign currency terms.

**We may be classified as a PRC resident enterprise for PRC enterprise income tax purposes under the EIT Law, and our income may be subject to PRC withholding tax under the EIT Law.**

Under the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) (“EIT Law”), an enterprise established outside of the PRC with a “de facto management body” within China is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules (“EIT Rules”) define the term “de facto management body” as the body that exercises full and substantial control over, and overall management of, the business, production,

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personnel, accounts and properties of an enterprise. On April 22, 2009, the State Administration of Taxation (國家稅務總局) (“SAT”) issued a circular, known as Circular 82, which was last amended on December 29, 2017. Circular 82 provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated offshore is located in China. Although this circular only applies to offshore enterprises controlled by PRC enterprises or PRC enterprise groups, not those with no single individual controller like us, the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” test should be applied in determining the tax resident status of all offshore enterprises. According to Circular 82, an offshore incorporated enterprise controlled by a PRC enterprise or a PRC enterprise group will be regarded as a PRC tax resident by virtue of having its “de facto management body” in China and will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (1) the primary location of the day-to-day operational management is in China; (2) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in China; (3) the enterprise’s primary assets, accounting books and records, company seal, and board and shareholder resolutions, are located or maintained in China; and (4) at least 50% of voting board members or senior executives habitually reside in China.

We believe none of our entities outside of China is a PRC resident enterprise for PRC tax purposes. However, the tax resident status of an enterprise is subject to determination by the PRC tax authorities and we cannot be certain on how the tax authorities will interpret the term “de facto management body”. As most of our management members are based in China, it remains unclear how the tax residency rule will apply to our case. If the PRC tax authorities determine that our Company or any of our subsidiaries outside of the PRC is a PRC resident enterprise for PRC enterprise income tax purposes, our Company or such subsidiary could be subject to PRC tax at a rate of 25% on its worldwide income, which could materially reduce our net profit. In addition, we will also be subject to PRC enterprise income tax reporting obligations. Furthermore, if the PRC tax authorities determine that we are a PRC resident enterprise for enterprise income tax purposes, gains realized on the sale or other disposition of our ordinary shares may be subject to PRC tax, at a rate of 10% in the case of non-PRC enterprises or 20% in the case of non-PRC individuals (in each case, subject to the provisions of any applicable tax treaty), if such gains are deemed to be from PRC sources. There is possibility that non-PRC shareholders of our Company would not be able to claim the benefits of any tax treaties between their country of tax residence and the PRC in the event that we are treated as a PRC resident enterprise. Any such tax may reduce the returns on your [REDACTED] in our Shares.

**Our potential growth through acquisitions in China is subject to the procedures established under China’s M&A rules, laws and certain other PRC regulations, which could make it more difficult for us to complete such acquisitions.**

On August 8, 2006, MOFCOM, State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), SAT, the State Administration for Industry and Commerce of the PRC (國家工商行政管理總局), the CSRC and SAFE jointly issued the Regulations for Mergers with and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者併購境內企業的規定) (“M&A Rules”), which was effective on September 8, 2006 and amended in June 2009. Merger and acquisition activities by foreign investors are subject to procedures and requirements under M&A Rules, laws and other regulations and rules concerning M&A, including requirements in some instances that MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, which could potentially require a foreign investor to spend more time navigating through the review process. In addition, the Provisions of the Ministry of Commerce

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on the Implementation of the Safety Review System for Merger and Acquisition of Domestic Enterprises by Foreign Investors (商務部實施外國投資者併購境內企業安全審查制度的規定) issued by MOFCOM that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise “national defense and security” concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise “national security” concerns are subject to strict review by MOFCOM, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. Moreover, the Anti-Monopoly Law promulgated by the Standing Committee of the National People’s Congress of China and effective in 2008, as most recently amended on June 24, 2022 and effective from August 1, 2022, requires that transactions which are deemed concentrations and involve parties with specified turnover thresholds must be cleared by the relevant anti-monopoly authority before they can be completed. It also requires business operators not to abuse data, algorithms, technology, capital advantages and platform rules to exclude or limit competition.

In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the abovementioned regulations and other relevant rules to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from MOFCOM or its local counterparts may affect our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

**PRC regulation of loans to and direct investments in PRC entities by offshore holding companies may make it difficult for us to [REDACTED] of the [REDACTED] to make loan or additional capital contributions to our PRC subsidiaries, which could materially and adversely affect our liquidity and our ability to fund and expand our business.**

We are an offshore holding company conducting our operations in China through our PRC subsidiaries. We may make loans to our PRC subsidiaries, subject to the administrative procedures and limitation of amount, or we may make additional capital contributions to our PRC subsidiaries in China.

Any funds we transfer to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, are subject to reporting with or approval by or registration with the relevant governmental authorities in China. According to the relevant PRC regulations on foreign-invested enterprises in China, capital contributions to our PRC subsidiaries are subject to the requirement of making necessary filings or reports in the Foreign Investment Comprehensive Management Information System, and registration with a local bank authorized by SAFE and also registration with the local branch of State Administration for Market Regulation. In addition, any foreign loan procured by our PRC subsidiaries is required to be registered with SAFE or its local branches. Also, any medium- or long-term loan exceeding one year to be provided by us must be recorded and registered by the National Development and Reform Committee. Our PRC subsidiaries which are foreign-invested enterprises cannot procure loans exceeding the statutory limits, which is either in the difference between the registered capital and the total investment amount of such foreign-invested enterprise or a multiple of the net assets of such foreign-invested enterprise in the previous year. Our PRC subsidiaries which are domestic enterprises cannot procure loans exceeding the multiples of the net assets of such enterprises in the previous year. We may not be able to complete such recording, filing or registrations on a timely basis, if at all, with respect to future capital contributions or foreign loans by us directly to our PRC subsidiaries. If we fail to complete such recording, filing or registrations, our ability to use the [REDACTED] of the [REDACTED] and to capitalize our PRC operations may be negatively affected, which could adversely affect our liquidity and our ability to fund and expand our business.

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SAFE issued the Circular on the Reform of the Management Method for the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知) (“**Circular 19**”) which took effect on June 1, 2015 and amended on December 30, 2019 and March 23, 2023. SAFE further issued the Circular of the State Administration of Foreign Exchange on Reform and Standardization of the Management Policy of the Settlement of Capital Projects (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (“**Circular 16**”), effective on June 9, 2016, which, among other things, amend certain provisions of Circular 19. The Circular 19 and the Circular 16 allow for the use of Renminbi converted from the foreign currency-denominated capital for equity investments in the PRC, provided that such usage shall fall into the scope of business of the foreign invested enterprise, which will be regarded as the reinvestment of foreign-invested enterprise. In addition, SAFE promulgated the Circular on Further Facilitating the Convenience of Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知) (“**SAFE Circular 28**”) on October 23, 2019, which took effect on the same day. SAFE Circular 28, subject to certain conditions, allows foreign-invested enterprises whose business scope does not include investment, or non-investment foreign-invested enterprises, to use their capital funds to make equity investments in China. As of the Latest Practicable Date, its interpretation and implementation in practice continue to evolve. Whether SAFE will permit such capital funds to be used for equity investments in the PRC is subject to SAFE’s case-by-case determination in practice. The Circular 19, the Circular 16 and SAFE Circular 28 may affect our ability to transfer to and use in China the [REDACTED] from the [REDACTED], which may adversely affect our business, results of operations and financial condition.

**Dividends payable by us to our foreign investors and gains on the sale of our Shares may become subject to withholding taxes under PRC tax laws.**

Under the PRC EIT Law and the EIT Rules, its implementation regulations, subject to any applicable tax treaty or similar arrangement between the PRC and your jurisdiction of residence that provides otherwise, we may be deemed as a PRC resident enterprise by the PRC tax authorities for tax purpose. PRC income tax at the rate of 10% is applicable to dividends payable by a PRC “resident enterprise” to investors that are “non-resident enterprises” (i.e., those enterprises that do not have an establishment or place of business in China, or those that have such an establishment or place of business but the relevant income of which is not effectively connected with the establishment or place of business) to the extent such dividends have their source within China. Similarly, any gain realized on the transfer of shares by such enterprises is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within China. If the dividends we pay to our shareholders are regarded as income derived from sources within China, we may be required to withhold a 10% PRC withholding tax for the dividends we pay to our investors who are non-PRC enterprise shareholders.

Under PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation rules, dividends from sources within China paid to foreign individual investors who are not PRC residents and gains from PRC sources realized by such investors on the transfer of share are generally subject to PRC income tax at a rate of 20% for individuals. Any PRC tax may be reduced or exempted under applicable tax treaties or similar arrangements.

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If we are treated as a PRC resident enterprise, dividends we pay with respect to our Shares, or the gain realized from the transfer of our Shares, may be treated as income derived from sources within China and as a result be subject to the PRC income taxes described above. See “— We may be classified as a PRC resident enterprise for PRC enterprise income tax purposes under the EIT Law, and our income may be subject to PRC withholding tax under the EIT Law.” However, shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties may apply to the PRC tax authorities to be recognized as eligible for such benefits in accordance with the Announcement of State Taxation Administration on Promulgation of the Administrative Measures on Non-resident Taxpayers Enjoying Treaty Benefits (國家稅務總局關於發佈《非居民納稅人享受協定待遇管理辦法》的公告), which was issued on October 14, 2019 and took effect on January 1, 2020. If determined to be ineligible for the applicable tax treaty benefits, gains obtained from sales of our Shares and dividends on our Shares paid to such Shareholders would be subject to higher PRC tax rates. In such cases, the value of your [REDACTED] in our Shares may be materially affected by the unfavorable tax treatment.

**The regulations over indirect transfers of PRC assets by the PRC tax authorities may have a negative impact on our business operations, our acquisition or restructuring strategy or the value of your [REDACTED] in us.**

Pursuant to the Notice on Strengthening the Administration on Enterprise Income Tax for Non-resident Enterprise Equity Transfer (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (“**SAT Circular 698**”) issued by the SAT in December 2009 with retroactive effect from January 1, 2008, where a non-resident enterprise transfers the equity interests of a PRC resident enterprise indirectly by disposition of the equity interests of an overseas non-public holding company (an “**Indirect Transfer**”), and such overseas holding company is located in a tax jurisdiction that (1) has an effective tax rate of less than 12.5% or (2) does not impose income tax on foreign income of its residents, the non-resident enterprise, being the transferor, must report such Indirect Transfer to the competent tax authority of the PRC resident enterprise. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%.

On February 3, 2015, the SAT issued a Public Notice Regarding Certain Corporate Income Tax Matters on Indirect Transfer of Properties by Non-Tax Resident Enterprises (關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (“**SAT Public Notice 7**”). SAT Public Notice 7 supersedes the rules with respect to the Indirect Transfer under SAT Circular 698, but does not touch upon the other provisions of SAT Circular 698. SAT Public Notice 7 has introduced a new tax regime that is significantly different from the previous one under SAT Circular 698. SAT Public Notice 7 extends its tax jurisdiction to not only Indirect Transfers set forth under SAT Circular 698 but also transactions involving transfer of other taxable assets through offshore transfer of a foreign intermediate holding company. In addition, SAT Public Notice 7 provides clearer criteria than SAT Circular 698 for assessment of reasonable commercial purposes and has introduced safe harbors for internal group restructurings and the purchase and sale of equity through a public securities market. SAT Public Notice 7 also brings challenges to both foreign transferor and transferee (or other person who is obligated to pay for the transfer) of taxable assets. Where a non-resident enterprise transfers taxable asset indirectly by disposing of the equity interests of an overseas holding company, which is an Indirect Transfer, the non-resident enterprise as either transferor or transferee, or the PRC entity that directly owns the taxable assets, may report such Indirect Transfer to the relevant tax authority. Using a “substance over form” principle, the PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of reducing, avoiding or deferring PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC enterprise income tax, and the transferee or other person who is obligated to pay

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for the transfer is obligated to withhold the applicable taxes, currently at a rate of 10% for the transfer of equity interests in a PRC resident enterprise. Both the transferor and the transferee may be subject to penalties under PRC tax laws if the transferee fails to withhold the taxes and the transferor fails to pay the taxes.

On October 17, 2017, SAT issued a Public Notice of SAT on Issues Concerning the Withholding of Non-resident Enterprise Income Tax at Source (關於非居民企業所得稅源泉扣繳有關問題的公告) (“**SAT Public Notice 37**”), which, among others, repeals the Circular 698 on December 1, 2017. SAT Public Notice 37 further details and clarifies the tax withholding methods in respect of income of non-resident enterprises under Circular 698, and certain rules stipulated in SAT Public Notice 7 are replaced by SAT Public Notice 37. Where the non-resident enterprise fails to declare the tax payable pursuant to Article 39 of the Enterprise Income Tax, the tax authority may order it to pay the tax due within required time limits, and the non-resident enterprise shall declare and pay the tax payable within such time limits specified by the tax authority; however, if the non-resident enterprise voluntarily declares and pays the tax payable before the tax authority orders it to do so within required time limits, it shall be deemed that such enterprise has paid the tax in time.

Different interpretations remain as to the application of SAT Public Notice 7 and SAT Public Notice 37. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with the PRC. Moreover, the relevant authority has not yet promulgated any formal provisions or made any formal declaration as to the process and format for reporting an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are no formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. SAT Public Notice 7 and SAT Public Notice 37 may be determined by the tax authorities to be applicable to previous investments by non-resident investors in our Company, if any of such transactions were determined by the tax authorities to lack reasonable commercial purpose. As a result, we and our existing non-resident investors may become at risk of being taxed under SAT Public Notice 7 and SAT Public Notice 37 and may be required to expend valuable resources to comply with SAT Public Notice 7 and SAT Public Notice 37 or to establish that we should not be taxed under SAT Public Notice 7 and SAT Public Notice 37, which may adversely affect our results of operations and financial condition or such non-resident investors’ investments in us. We may conduct acquisitions involving changes in corporate structures, and historically we surrendered Shares and reissued to our current shareholders. We cannot assure you that the PRC tax authorities will not, adjust any capital gains and impose tax return filing obligations on us or require us to provide assistance for the investigation of PRC tax authorities with respect thereto. Any PRC tax imposed on a transfer of our Shares or any adjustment of such gains would cause us to incur additional costs and may affect the value of your [REDACTED] in us.

### **RISKS RELATING TO THE [REDACTED]**

**There has been no prior public market for our Shares, and the liquidity and market price of our Shares may be volatile.**

Prior to the [REDACTED], there has been no public market for our Shares. The [REDACTED] range for our Shares was the result of negotiations between us and the [REDACTED], and the [REDACTED] may differ significantly from the market price for our Shares following the [REDACTED]. We have applied for [REDACTED] of, and permission to [REDACTED], our Shares on the Stock Exchange. A [REDACTED] on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our Shares will develop, or if it does develop, that it will be sustained

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following the [REDACTED] or that the market price of our Shares will not decline following the [REDACTED]. Furthermore, the market price and trading volume of our Shares may be volatile. The following factors may affect the trading volume and market price of our Shares:

- actual or anticipated fluctuations in our operating performance and revenue;
- news regarding recruitment or departure of key personnel by us or our competitors;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the operating and stock price performance of other companies and industries, and other events or factors beyond our control; and
- the release of lock-up or other transfer restrictions on our outstanding Shares or sales or perceived sales of Shares by us or other Shareholders.

Moreover, the capital market has from time to time experienced significant price and trading volume fluctuations that were unrelated or not directly related to the operating performance of the underlying companies in the market. These broad market and industry fluctuations may have a material and adverse effect on the market price and trading volume of our Shares.

### **An active and liquid [REDACTED] market for our Shares may not develop.**

Prior to the [REDACTED], our Shares were not traded on any other market. We cannot assure you that an active and liquid [REDACTED] market for our Shares will be developed or be maintained after the [REDACTED]. Liquid and active [REDACTED] markets usually result in less price volatility and more efficiency in carrying out investors’ purchase and sale orders. The market price of our Shares could vary significantly as a result of a number of factors, some of which are beyond our control. In the event of a drop in the market price of our Shares, you could lose a substantial part or all of your [REDACTED] in our Shares.

**Since there will be a gap of several days between [REDACTED] and [REDACTED] of our Shares, holders of our Shares are subject to the risk that the price of our Shares could fall during the period before [REDACTED] of our Shares begins.**

The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not commence [REDACTED] on the Stock Exchange until several Hong Kong business days after the [REDACTED]. As a result, [REDACTED] may not be able to [REDACTED] or otherwise [REDACTED] in our Shares during that period. Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before [REDACTED] begins, as a result of unfavorable market conditions or other adverse developments that could occur between the time of [REDACTED] and the time [REDACTED] begins.



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**Because the [REDACTED] price of our Shares is substantially higher than the consolidated net tangible assets book value per Share, purchasers of our Shares in the [REDACTED] may experience immediate dilution upon such purchases.**

As the [REDACTED] of our Shares is higher than the consolidated net tangible assets per Share immediately prior to the [REDACTED], purchasers of our Shares in the [REDACTED] will experience an immediate dilution in [REDACTED] adjusted consolidated net tangible assets. Our existing Shareholders will receive an increase in the [REDACTED] adjusted consolidated net tangible asset value per Share of their shares. In addition, holders of our Shares may experience further dilution of their interest if the [REDACTED] exercise the [REDACTED] or if we issue additional shares in the future to raise additional capital.

**Future sales or perceived sales of substantial amounts of our securities in the public market could have a material and adverse effect on the prevailing market price of our Shares and our ability to raise additional capital in the future, or may result in dilution of your shareholdings.**

Future sales of substantial amounts of our Shares or other securities relating to our Shares in the public market, or the issuance of new Shares or other securities relating to our Shares, or the perception that such sales or issuances may occur could all cause a decline in the market price of our Shares. Future sales, or perceived sales, of substantial amounts of our securities or other securities relating to our Shares, including part of any future [REDACTED], could also materially and adversely affect the prevailing market price of our Shares and our ability to raise capital in the future at a time and at a price which we deem appropriate.

**We may not be able to pay any dividends on our Shares.**

We cannot guarantee when and in what form dividends will be paid on our Shares following the [REDACTED]. The declaration of dividends is proposed by the Board and is based on, and limited by, various factors, including without limitation, our business and financial performance, capital and regulatory requirements, and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our Shareholders in the future, even if our financial statements indicate that our operations have been profitable. For details, see “Financial Information — Dividend.”

**If securities or industry analysts do not publish research reports about our business, or if they adversely change their recommendations regarding our Shares, the market price and trading volume of our Shares may decline.**

The trading market of our Shares may be influenced by research reports that industry or securities analysts publish about us or our business. If one or more analysts who cover us downgrade our Shares or publish negative opinions about us, the market price of our Shares would likely decline regardless of the accuracy of the information. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume of our Shares to decline.

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## RISK FACTORS

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**Forward-looking statements contained in this document are subject to risks and uncertainties.**

This document contains forward-looking statements with respect to our business strategies, operating efficiencies, competitive positions, and growth opportunities for existing operations, plans and objectives of management, certain [REDACTED] information and other matters.

The words “anticipate,” “believe,” “could,” “potential,” “continue,” “expect,” “intend,” “may,” “plan,” “seek,” “will,” “would,” “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements, including, among others, those relating to our future business prospects, capital expenditure, cash flows, working capital, liquidity and capital resources are necessary estimates reflecting the best judgment of our Directors and management and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. As a result, these forward-looking statements should be considered in light of various important factors, including those set out in “Risk Factors” in this document. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.

**Certain facts, forecasts and statistics contained in this document are derived from various official or third-party sources and may not be accurate, reliable, complete or up to date.**

We have derived certain information and statistics in this document, particularly the section headed “Industry Overview,” the report prepared by Frost & Sullivan, which was commissioned by us, and from various official government publications and other publicly available publications provided by the PRC government, industry associations, independent research institutes and other third-party sources. The information from official government sources has not been independently verified by us, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], any of their respective directors and advisers, or any other persons or parties involved in the [REDACTED], and, therefore, we cannot assure you as to the accuracy and reliability of such information and statistics, which may not be consistent with other information compiled inside or outside the PRC. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable with statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such information or statistics.

**You should read the entire document carefully and should not rely on any information contained in press articles or other media regarding us and the [REDACTED].**

We strongly caution you not to rely on any information contained in press articles or other media regarding us and the [REDACTED]. Prior to the publication of this document, there may have been press and media coverage regarding us and the [REDACTED]. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorized the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and you should not rely on such information.