

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

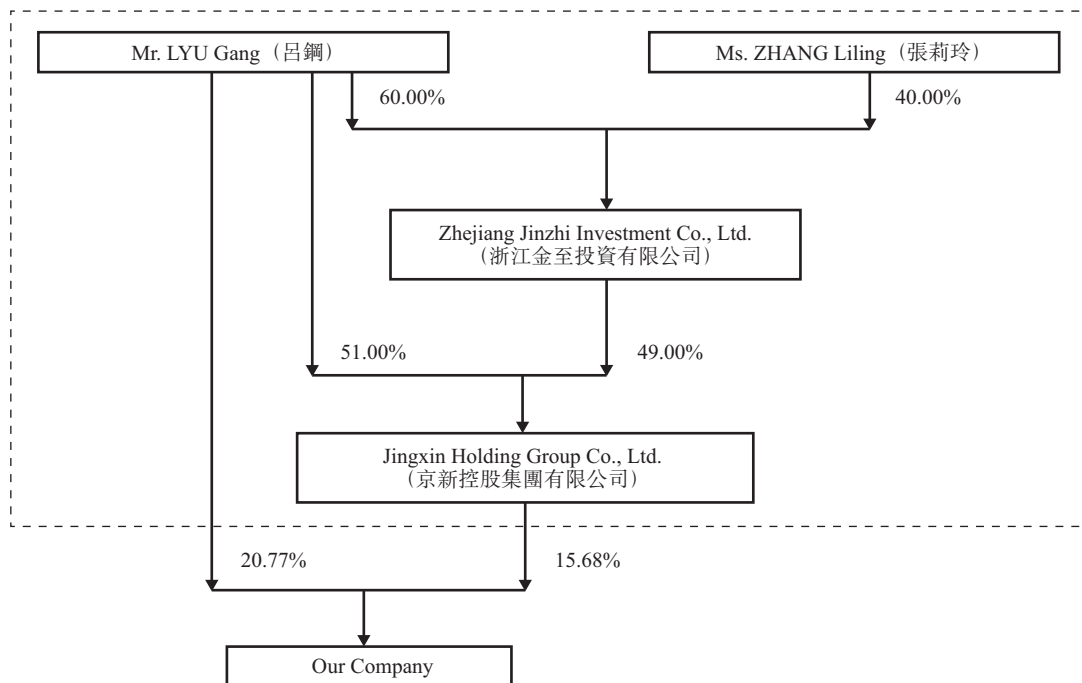
OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, our Company is controlled by a group of shareholders led by Mr. LYU Gang, our executive Director, chairperson of the Board and the general manager of our Company.

More specifically, our Company is directly held as to approximately 20.77% directly by Mr. LYU Gang and 15.68% by Jingxin Holding. Jingxin Holding is owned as to 51.00% by Mr. LYU Gang and 49.00% by Jinzhi Investment. Jinzhi Investment is owned as to 60.00% by Mr. LYU Gang and 40.00% by Ms. ZHANG Liling, the spouse of Mr. LYU Gang.

As such, Mr. LYU Gang, Ms. ZHANG Liling, Jingxin Holding and Jinzhi Investment are considered our Controlling Shareholders and controlled approximately 36.44% of our total issued share capital as of the Latest Practicable Date. The following chart demonstrates the shareholding structure of the Controlling Shareholding in our Company as of the Latest Practicable Date.

Our Controlling Shareholders



Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised and that no changes are made to the issued share capital of the Company since the Latest Practicable Date up to the [REDACTED]), our Controlling Shareholders will, directly and indirectly, continue to control in aggregate approximately [REDACTED]% of our total issued share capital.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

NON-COMPETITION AND CLEAR DELINEATION OF BUSINESS

Our Business

We are an innovation-driven pharmaceutical group, with a strategic focus on two core disease areas: (i) central nervous system (“CNS”) disorders, and (ii) cardiovascular and cerebrovascular diseases.

The Business of Our Controlling Shareholders

Jingxin Holding is an investment holding company established under the laws of the PRC on January 27, 2010. Jinzhi Investment is an investment holding company established under the laws of the PRC on February 11, 2010. Apart from business of our Company, our group of Controlling Shareholders also controls companies which engage in, among others, property lease, packaging and printing, pharmaceutical auxiliary materials, veterinary medicine, agriculture, and trading.

In light of the above, our Directors are of the view that there is a clear delineation between the businesses operated by our Controlling Shareholders and our Group.

INTERESTS OF THE CONTROLLING SHAREHOLDERS IN OTHER COMPETING BUSINESSES

Our Controlling Shareholders and Directors confirmed that, they did not have any interest in other business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business, which would require disclosure under Rule 8.10 of the Listing Rules.

NON-COMPETE UNDERTAKINGS

For the purpose of the listing of our A Shares on the Shenzhen Stock Exchange in 2004, Mr. LYU Gang provided a non-competition undertaking on February 23, 2003, whereby Mr. LYU Gang undertook that during the existence of the Company, he will not (i) engage in any business activities outside the Company that are of the same type as those within its scope of operations, and (ii) will not engage in any business that competes with the Company.

Zhejiang Yuanjin Investment Co., Ltd. (浙江元金投資有限公司), the predecessor of Jingxin Holding, one of our Controlling Shareholders, provided a non-competition undertaking on February 17, 2011, whereby Jingxin Holding and its subsidiaries undertook that it will not directly or indirectly participate in any business that competes with the Company in any manner in future. If Jingxin Holding and its subsidiaries encounter any business opportunities that may compete with the Company, Jingxin Holding shall immediately notify the Company and grant the Company the right of first refusal for such business opportunities or the acquisition of relevant businesses and assets, in order to ensure that the interests of all shareholders of the Company are not harmed.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are able to carry on our business independently from our Controlling Shareholders and their respective close associates upon completion of the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Management independence

Our business is managed and conducted by our Board and senior management. Upon the [REDACTED], our Board will consist of ten Directors, including six executive Directors and four independent non-executive Directors. Mr. LYU Gang has at all times devoted sufficient time and attention to the performance of his duties as a Director and has consistently complied with the relevant provisions of laws, regulations and the Articles of Association. In performing his duties as Director, he has been and will continue to be supported by the Group’s independent directors and senior management team. The operations of the senior management and the Board ensure a balance of power and authority. For further details, please see the section headed “Directors and Senior Management” in this document.

Although Mr. LYU Gang is part of the group of Controlling Shareholders, we consider that the Board and senior management, excluding Ms. LYU Jiaqi who is the daughter of Mr. LYU Gang, will function independently from the Controlling Shareholders for the following reasons:

- (i) Mr. WANG Nengneng, Mr. HONG Yunfei, Mr. LI Bixiang, Mr. XU Xiaojun and the four independent non-executive Directors (who in aggregate represent a majority of the Board), along with Ms. CHEN Meili, Mr. LIU Sheng and Mr. WANG Junmin (which represent half of the senior management), have no other relationship with the Controlling Shareholders and their respective close associates. They have substantial experience in the industry as further described in the section headed “Directors and Senior Management”, which will enable them to discharge their duties independently from the Controlling Shareholders;
- (ii) each of our Director is aware of his/her fiduciary duties as a director which require, among other things, that he/she acts for the benefit and in the interest of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interests;
- (iii) we have appointed four independent non-executive Directors, comprising more than one-third of the total members of our Board, who have sufficient knowledge, experience and competence with a view to bring independent judgement to the decision-making process of our Board;
- (iv) we have adopted a series of corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders which would support our independent management. For further details, please see the paragraph headed “Corporate governance measures” in this section; and
- (v) where a Board meeting or Shareholders’ meeting is held to consider a proposed transaction in which our Directors or Controlling Shareholders or any of their respective close associates have a material interest, the relevant Directors or our Controlling Shareholders and their respective close associates shall abstain from voting on the relevant resolutions and shall not be counted towards the quorum for the voting.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from the Controlling Shareholders and their respective close associates upon the [REDACTED].

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Operational Independence

We do not rely on our Controlling Shareholders and their respective close associates for our daily operations. We have our own departments specializing in various aspects in relation to our business development, including but not limited to procurement, human resources, administration, internal audit and research and development, which have been in operation and are expected to continue to operate separately and independently from our Controlling Shareholders and their respective close associates. In addition, we have our own headcount of employees for our operations and management for human resources.

We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our businesses. We have independent access to suppliers and customers and an independent management team to handle our day-to-day operations. We also have sufficient capital, facilities, equipment and employees, administrative and corporate governance structure to operate the business independently. We are also in possession of all relevant licenses, certificates, facilities, intellectual property rights and approvals and permits from the relevant regulatory authorities necessary to carry on and operate our principal businesses and we have sufficient operational capacity in terms of capital and employees to operate independently. Based on the above, our Directors believe that we are able to operate independently from the Controlling Shareholders and their close associates.

Financial Independence

Our Group has an independent financial system. We make financial decisions according to our own business needs and neither our Controlling Shareholders nor their close associates intervene with our use of funds. We have opened accounts with banks independently and do not share any bank account with our Controlling Shareholders or their close associates. We have made tax filings and paid tax independently from our Controlling Shareholders and their close associates pursuant to applicable laws and regulations. We have established an independent finance department as well as implemented sound and independent audit, accounting and financial management systems. We have adequate internal resources and credit profile to support our daily operations. As of the date of this document, we did not have any outstanding loans or non-trade balances granted, guaranteed or pledged by any our Controlling Shareholders to us. Based on the above, our Directors believe that we are able to maintain financial independence from the Controlling Shareholders and their close associates.

CORPORATE GOVERNANCE MEASURES

Our Company and Directors are committed to upholding and implementing the highest standards of corporate governance and recognize the importance of protecting the rights and interests of all Shareholders, including the rights and interests of our minority Shareholders. Our Company will comply with the provisions of the Corporate Governance Code in Appendix C1 to the Listing Rules (the “**Corporate Governance Code**”), which sets out principles of good corporate governance.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors recognize the importance of implementing good corporate governance and effective internal control measures in protection of our Shareholders’ interests. We would adopt the following measures to safeguard good corporate governance standards and to avoid potential conflict of interests between our Group and our Controlling Shareholders and their respective close associates:

- (i) a Director with material interests shall make full disclosure in respect of any matters that conflict or potentially conflict with our interests (including transactions in which a Director has an interest in a company that will enter into an agreement with our Group) and absent himself/herself from the board meetings on matters in which such Director or any of his/her close associates have a material interest;
- (ii) our Board will consist of a balanced composition of executive directors and not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgement in its decision-making process and provide independent advice to our Shareholders. We believe that our independent non-executive Directors, individually and together, possess the requisite knowledge and experience, and they are free of any business and/or other relationship which could interfere in any material manner with the exercise of their independent judgement. They are committed to providing an impartial and external opinion to protect the interests of our public Shareholders. For further details on our independent non-executive Directors, please see the section headed “Directors and Senior Management — Independent non-executive Directors” in this document;
- (iii) as part of our preparation for the [REDACTED], we have amended our Articles of Association to comply with the Listing Rules which will become effective upon the [REDACTED]. In particular, our Articles of Association provide that, a Director shall abstain from voting on any resolution approving any contract, transaction or arrangement in which such Director or any of his/her close associates has a material interest nor shall such Director be counted in the quorum present at the Board meeting;
- (iv) where a Shareholders’ meeting is to be held for considering proposed transactions in which our Controlling Shareholders or any of their respective close associates has a material interest, our Controlling Shareholders will not vote on the resolutions and shall not be counted in the quorum in the voting;
- (v) we have established the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy and ESG Committee to assess, control and ensure that our Board is appropriately advised as to matters relating to, among other things, our relationship with our external auditors and internal audit function, the remuneration and appraisal of our Directors and our senior management, and the composition of our Board. Our Audit Committee comprises independent non-executive Directors and each of our Remuneration and Appraisal Committee and Nomination Committee comprises a majority of independent non-executive Directors. In addition, the chairperson of each of our Audit Committee, Nomination Committee and Remuneration and Appraisal Committee is an independent non-executive Director. For details of our committees and their composition, please see the section headed “Directors and Senior Management — Board Committees” in this document;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (vi) we have established internal control mechanisms to identify connected transactions. Upon the [REDACTED], if our Group enters into connected transactions with our Controlling Shareholders and their respective close associates, we will comply with the applicable Listing Rules; as required by the Listing Rules, our independent non-executive Directors will review, on an annual basis, whether there is any conflict of interests between our Group and the Controlling Shareholders (the “**Annual Review**”) and provide impartial and professional advice to protect the interests of our minority Shareholders. Where our Directors reasonably request the advice of independent professionals, such as financial advisors, for this purpose, the appointment of such independent professionals will be made at our Company’s expenses;
- (vii) each of our Controlling Shareholders agrees to provide all information reasonably requested by the independent non-executive Directors for the Annual Review, including all relevant financial, operational and market information; and
- (viii) where our Directors reasonably request the advice of independent professionals, such as financial advisors, the appointment of such independent professionals will be made at our Company’s expenses.

We have appointed Rainbow Capital (HK) Limited as our compliance advisor, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to Directors’ duties and corporate governance.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders and/or their respective close associates, and to protect minority Shareholders’ interests after the [REDACTED].