

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Our Company is a joint-stock limited company listed on the Shenzhen Stock Exchange. As of the Latest Practicable Date, Leren Technology, Feilaishi and Jintiantu held approximately 38.01%, 3.23% and 32.72% of the issued Shares, respectively. Immediately following the completion of the [REDACTED], Leren Technology, Feilaishi and Jintiantu will hold approximately [REDACTED]%, [REDACTED]% and [REDACTED]% of the issued Shares (assuming the [REDACTED] is not exercised), respectively.

Leren Technology and Feilaishi are investment holding companies. Jintiantu is an investment holding fund primarily focusing on trade and investments. Leren Technology is owned by Mr. Li and Ms. Li as to 99.00% and 1.00%, respectively. Feilaishi is wholly owned by Mr. Li. Jintiantu is owned by Ms. Li as to 99.00% as a general partner and by Mr. Li as to 1.00% as a limited partner. Ms. Li is the spouse of Mr. Li. As such, Leren Technology, Feilaishi, Jintiantu, Mr. Li and Ms. Li constitute a group of controlling shareholders of the Company and will continue to hold a controlling interest in our Company upon completion of the [REDACTED].

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

The Directors consider that our Group is capable of carrying on its business independently of our Controlling Shareholders and their associates for the reasons set out below.

Management Independence

Our Board consists of five executive Directors and three independent non-executive Directors. Our Supervisory Committee consists of three members and our senior management team comprises of four members. The table below sets out the overlapping positions of our Directors, Supervisors and senior management team and in our Controlling Shareholders.

<u>Director/Supervisor/Senior Management</u>	<u>Position in the Company</u>	<u>Position in our Controlling Shareholders and/or its subsidiaries</u>
Mr. Li	Chairman of the Board and Executive Director	Executive director of Leren Technology Executive director of Feilaishi Director of LuckyKind Holdings Limited and Flystone Holdings Limited ⁽¹⁾
Ms. Li	Executive Director and deputy general manager	Managing Partner of Jintiantu Director of KingField Holdings Limited ⁽²⁾

Notes:

- (1) LuckyKind Holdings Limited and Flystone Holdings Limited are wholly-owned subsidiaries of Leren Technology and Feilaishi, respectively. Both LuckyKind Holdings Limited and Flystone Holdings Limited are primarily engaged in the business of investment.
- (2) KingField Holdings Limited is a wholly-owned subsidiary of Jintiantu. KingField Holdings Limited is primarily engaged in the business of investment.

Details of the background of Mr. Li and Ms. Li are set out in the section headed “Directors, Supervisors and Senior Management” in this document.

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Notwithstanding the overlapping roles of our Directors described above, our Directors are of the view that our Company will function independently from our Controlling Shareholders for the following reasons:

- (i) a majority of Directors are independent of our Controlling Shareholders and decisions of the Board require the approval of a majority vote from the Board. Therefore, the Board is not under significant influence of our Controlling Shareholders and can manage the operation of our Company independently of our Controlling Shareholders;
- (ii) according to the Articles of Association, with respect to any matters of conflict or potential conflict of interest which involve a transaction between our Company and another company or entity to which a Director holds office, such Director shall abstain from voting and shall be excluded from the quorum;
- (iii) we have appointed three independent non-executive Directors, comprising more than one-third of the total members of our Board, who have sufficient knowledge, experience and competence to provide a balance of the number of potentially interested and independent Directors with a view to promote the interests of our Company and the Shareholders as a whole; and
- (iv) each of our Directors is aware of his fiduciary duties and responsibilities under the Hong Kong Listing Rules as a director, which require that he acts in the best interest of our Company.

Based on the above, we believe that our Board is able to manage the Company independently from our Controlling Shareholders.

Operational Independence

We have established our own organizational structure, and each department is assigned to specific areas of responsibilities. We have independent access to suppliers and customers. We are also in possession of all relevant assets, licenses, trademarks and other intellectual property necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently.

Our Directors are of the view that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after the [REDACTED].

Financial Independence

Our Group has an independent financial system. We make financial decisions according to our own business needs and our Controlling Shareholders does not intervene with our use of funds. We have opened basic accounts with banks independently and do not share any bank account with our Controlling Shareholders. We have made tax filings and paid tax independently of our Controlling Shareholders 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 a strong credit profile to support our daily operation.

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In April 2019, we issued a corporate bond in an aggregate principal amount of RMB700 million with an interest rate of 5.5% per annum (the “**Bond**”). Out of the net proceeds from the Bond issuance, approximately RMB400 million was used to pay the outstanding cash consideration for the acquisition of Topknow, and approximately RMB300 million was used for general working capital purposes, including the purchase of raw materials for production of our finished dose pharmaceutical and API products, payment of staff remuneration and maintenance and upgrade of our facilities. The Bond will mature in April 2024. In connection with the Bond issuance, Shenzhen Gaoxintou Group Co., Ltd. (深圳市高新投集團有限公司) (“**Shenzhen Gaoxintou**”), a financing and guarantee service provider and an Independent Third Party, guaranteed our repayment obligations under the Bond. In return, Mr. Li, our Controlling Shareholder, provided a counter-guarantee to Shenzhen Gaoxintou of such obligations (the “**Counter-Guarantee**”). The Counter-Guarantee period is for a period of two years from the date when Shenzhen Gaoxintou’s repayment obligations expire under its guarantee agreement.

With respect to the Counter-Guarantee, our Directors are of the view that the Group is in a position to obtain replacement financing from independent third parties without guarantee provided by our Controlling Shareholders. This is demonstrated by the following:

- In addition to the Bond, we also issued a tranche of corporate bonds in 2019 which were not guaranteed for an aggregate principal amount of RMB430 million at an interest rate of 6.5% per annum with a duration of three years.
- We have, as of the Latest Practicable Date, total unutilized credit facilities of RMB3.6 billion that have been obtained without any financial assistance from the Controlling Shareholders for general corporate and working capital purposes.

Accordingly, our Directors are of the view that (a) the Company has demonstrated its ability to obtain independent financing without financial support from its Controlling Shareholders and (b) the Group has sufficient liquid assets on hand to meet its financial needs.

We believe that premature release of the Counter-Guarantee given by our Controlling Shareholder is not in the best interests of our Company and its Shareholders. If the Counter-Guarantee was to be terminated prematurely, Shenzhen Gaoxintou would either terminate the guarantee it had granted, or impose additional costs on the Company to continue guaranteeing the Bond. A termination of the guarantee from Shenzhen Gaoxintou would trigger early repayment of the Bond. In that case, the bondholders can require the Group to repay all the outstanding principal and interest. In either scenario, the Group may be required to pay penalties and incur additional costs.

Save as disclosed above, as of the Latest Practicable Date, there was no outstanding loan extended by our Controlling Shareholders or their close associates to us and there is no guarantee provided for our benefit by our Controlling Shareholders or any of their close associates.

Based on the above, our Directors are of the view that there is no financial dependence by us on our Controlling Shareholders or any of their close associates.

COMPETITION

Leren Technology and Feilaishi are investment holding companies. Jintiantu is an investment holding fund primarily focusing on trade and investments. As of the Latest Practicable Date, neither our Controlling Shareholders and their respective close associates nor any of our Directors is interested in any business, other than our Group, which competes or is likely to compete, either directly or

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indirectly, with our Group's business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

In order to avoid any potential competition between our Controlling Shareholders and us, our Controlling Shareholders have provided a non-competition undertaking in favor of our Company on April 23, 2010 (the "**Non-competition Undertaking**"). In the Non-competition Undertaking, our Controlling Shareholders confirmed that as of the date of undertaking, neither itself nor any of its directly or indirectly controlled companies or entities engaged in any business or operation which was in substantive competition with the business of our Group. Each of our Controlling Shareholder has undertaken that:

- (i) for as long as it is a Controlling Shareholder of the Company, it will not engage (whether alone or in the form of joint venture or cooperation), in any manner, in any business which competes with the business of the Company nor will its current or future wholly owned subsidiaries, controlled subsidiaries or other entities controlled by it engage in any business which competes with the business of the Company; and
- (ii) if it fails to comply with the above non-competition undertaking, it agrees to indemnify the Company for all the losses the Company may suffer as a result of such non-compliance.

CORPORATE GOVERNANCE

Our Company will comply with the provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules, which sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders.

Our Directors recognize the importance of good corporate governance to protect the interests of our Shareholders. We would adopt the following corporate governance measures to manage potential conflict of interests between our Group and our Controlling Shareholders:

- (i) the Company has established internal control mechanisms to identify connected transactions. Upon **[REDACTED]**, if the Company enters into connected transactions with our Controlling Shareholders or its associates, the Company will comply with the applicable Hong Kong Listing Rules;
- (ii) where a Shareholders' meeting is to be held for considering proposed transactions in which our Controlling Shareholders or their associates have any material interest, our Controlling Shareholders shall not vote on the resolutions and shall not be counted in the quorum for the voting;
- (iii) our Board will consist of a balanced composition of executive and non-executive Directors, including not less than one-third of independent non-executive Directors to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, details of whom are set out in the section headed "Directors, Supervisors and Senior Management" individually and together possess the requisite knowledge and experience to perform their roles. They will review whether there is any conflict of interests between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interest of our minority Shareholders;

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- (iv) where the advice from an independent professional, such as that from a financial adviser, is reasonably requested by our Directors (including the independent non-executive Directors), the appointment of such an independent professional will be made at the Company's expenses; and
- (v) we have appointed Somerley Capital Limited as our compliance adviser, 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 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 to protect minority shareholders' rights after the [REDACTED].