
CONNECTED TRANSACTIONS

We have entered into certain agreements with our connected persons, the details of which are set out below. Upon Listing, the transactions contemplated under such agreements will constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

OUR CONNECTED PERSONS

The table below sets forth certain parties who will become our connected persons upon Listing and the nature of their relationship with our Group:

Connected person	Connected relationship
Mr. Ren	an executive Director, the chief executive officer and a substantial Shareholder of our Company
Simcare Jiangsu	a company held as to (i) 78.4% by Nanjing Huasheng (a company ultimately wholly owned by Mr. Ren), and (ii) 19.6% by Nanjing Xianyi Venture Capital Center (Limited Partnership) (南京先益創業投資中心(有限合夥)) (the general partner and the limited partner of which are Nanjing Huasheng and Mr. Ren Weidong, respectively), and hence an associate of Mr. Ren
Jiangsu Simcere Diagnostics	a company held as to 64.29% and 8.93% by Nanjing Qiyi Technology Co., Ltd. (南京麒翼科技有限公司) and Nanjing Xianqi Enterprise Management Consulting Partnership (Limited Partnership) (南京先麒企業管理諮詢合夥企業(有限合夥)), respectively, both of which are in turn wholly owned by Mr. Ren Yong (a substantial Shareholder of our Company) and his spouse, and hence an associate of Mr. Ren Yong
Shanghai Youxu	a subsidiary of Jiangsu Simcere Diagnostics
Nanjing BioSciKin Technology	a subsidiary of SGG which is in turn wholly owned by Mr. Ren through EGG, and hence an associate of Mr. Ren
Nanjing Medway	a subsidiary of Nanjing BioSciKin Technology
Yoai Technology	a company ultimately wholly owned by Mr. Ren Yong and his spouse, and hence an associate of Mr. Ren Yong
BioSciKin Innovative Pharmaceutical	a subsidiary of Nanjing BioSciKin Technology
Nanjing Huasheng	a company ultimately wholly owned by Mr. Ren, and hence an associate of Mr. Ren

CONNECTED TRANSACTIONS

Connected person	Connected relationship
Ms. Wang Xi (王熙)	the spouse of Mr. Ren, and hence an associate of Mr. Ren
Beijing Sanroad	a subsidiary of Nanjing BioSciKin Technology

SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

Nature of transactions	Applicable Listing Rules	Waiver sought
Fully-exempt Continuing Connected Transactions		
1. Simcare Trademark Licensing Agreement	14A.76(1)(a)	N/A
2. Simcere Diagnostics Trademark Licensing Agreement	14A.76(1)(a)	N/A
3. Shanghai Youxu Property Lease Agreement	14A.76(1)(a)	N/A
4. Simcare Procurement Framework Agreement	14A.76(1)(a)	N/A
5. Simcere Diagnostics Sample Services Agreement	14A.76(1)(a)	N/A
6. Medway Media Cooperation Framework Agreement	14A.76(1)(a)	N/A
7. Yoai Technology Procurement Agreement	14A.76(1)(a)	N/A
8. Utility Charge Agreement	14A.98	N/A
9. Guarantees provided by Mr. Ren and his close associates	14A.90	N/A
Partially-exempt Continuing Connected Transactions		
10. Property Lease and Comprehensive Services Framework Agreement	14A.76(2)(a)	Announcement requirement
11. Simcare Sales and Distribution Framework Agreement	14A.76(2)(a)	Announcement requirement
12. Sanroad Promotion Services Framework Agreement	14A.76(2)(a)	Announcement requirement
Non-exempt Continuing Connected Transactions		
13. Contractual Arrangements	14A.35-36 14A.49 14A.52-59 14A.76 14A.105	Announcement, circular, independent shareholders' approval, annual caps and terms of agreements not exceeding three years

CONNECTED TRANSACTIONS

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(A) De Minimis Transactions

The following transactions have been and will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms or better, and our Directors expect that each of the applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of each of the following transactions is expected to be, on an annual basis, less than 0.1%. Therefore, these following transactions will be fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

If any of the annual transaction amounts or applicable percentage ratios (other than the profit ratio) under the Listing Rules in respect of each of the following transactions is expected to exceed the applicable de minimis thresholds stipulated in Rule 14A.76(1) of the Listing Rules, we will comply with all applicable requirements under Chapter 14A of the Listing Rules.

1. *Simcare Trademark Licensing Agreement*

On September 28, 2018, Hainan Simcere (a subsidiary of our Company) and Simcare Jiangsu entered into a trademark licensing agreement (the “**Simcare Trademark Licensing Agreement**”), pursuant to which Simcare Jiangsu agreed to grant a license to Hainan Simcere on a royalty-free basis to use Class 5 of the trademark “再康” owned by Simcare Jiangsu (the “**Simcare Trademark**”) solely on Simcare Compound Zinc Gluconate and Ibuprofen Granules (再康複方鋅布顆粒) (“**Simcare Compound Granules**”). We use the Simcare Trademark during the process of manufacturing and marketing Simcare Compound Granules, and then grant a national exclusive distributorship to Jiangsu Simcare Pharmaceutical, a subsidiary of Simcare Jiangsu, for sales of such product. See “– Partially-exempt Continuing Connected Transactions – Simcare Sales and Distribution Framework Agreement” for details of such product distribution transaction.

The term of the Simcare Trademark Licensing Agreement commenced from October 8, 2018 and will expire on January 6, 2027. As the Simcare Trademark was licensed to us on a royalty-free basis, the royalty fee paid by us to Simcare Jiangsu under the Simcare Trademark Licensing Agreement during the Track Record Period was nil.

As required by Rule 14A.52 of the Listing Rules, the period for the agreement for a continuing connected transaction must not exceed three years, except where the nature of the transaction requires the agreement to be of a duration longer than three years. We have been using the Simcare Trademark for the manufacturing and marketing of Simcare Compound Granules during the Track Record Period, and entering into the Simcare Trademark Licensing Agreement for a period of more than three years enables us to promote stability and continuity in our operations with respect to such product. Based on the above, our Directors are of the view that entering into the Simcare Trademark Licensing Agreement for a period of more than

CONNECTED TRANSACTIONS

three years will avoid any unnecessary business interruption and is in line with normal business practice which is beneficial to our Company and our Shareholders as a whole. The Joint Sponsors agree with our Directors' view and concur that the term of the Simcare Trademark Licensing Agreement for more than three years is in line with normal business practice.

2. *Simcere Diagnostics Trademark Licensing Agreement*

On March 19, 2019, Jiangsu Simcere (a subsidiary of our Company) and Jiangsu Simcere Diagnostics entered into a trademark licensing agreement (the “**Simcere Diagnostics Trademark Licensing Agreement**”), pursuant to which Jiangsu Simcere agreed to grant a license to Jiangsu Simcere Diagnostics to use certain trademarks owned by Jiangsu Simcere, including “先聲診斷” and “Simcere Diagnostics” (the “**Simcere Diagnostics Trademarks**”). The royalty fees payable by Jiangsu Simcere Diagnostics shall include relevant registration fees, licensing filings fees and other trademark maintenance fees incurred by Jiangsu Simcere on a cost basis.

The term of the Simcere Diagnostics Trademark Licensing Agreement commenced from March 19, 2019 and will expire on January 20, 2028. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the royalty fee paid by Jiangsu Simcere Diagnostics to us under the Simcere Diagnostics Trademark Licensing Agreement was nil, nil, RMB1,500 and nil, respectively.

As required by Rule 14A.52 of the Listing Rules, the period for the agreement for a continuing connected transaction must not exceed three years, except where the nature of the transaction requires the agreement to be of a duration longer than three years. Jiangsu Simcere Diagnostics has been using the Simcere Diagnostics Trademarks for its daily operation during the Track Record Period. Pursuant to the Simcere Diagnostics Trademark Licensing Agreement, Jiangsu Simcere shall have sole discretion to terminate the agreement and the licensing arrangement therein at any time without any liability. Our Directors are of the view that, considering the termination clause and the nature of the Simcere Diagnostics Trademark Licensing Agreement, entering into the Simcere Diagnostics Trademark Licensing Agreement for a period of more than three years is in line with normal business practice. The Joint Sponsors agree with our Directors' view and concur that the term of the Simcere Diagnostics Trademark Licensing Agreement for more than three years is in line with normal business practice.

3. *Shanghai Youxu Property Lease Agreement*

On January 1, 2020, Simcere Shanghai Pharmaceutical (a subsidiary of our Company) and Shanghai Youxu entered into a property lease agreement (the “**Shanghai Youxu Property Lease Agreement**”), pursuant to which Simcere Shanghai Pharmaceutical agreed to lease a property owned by it located at No. 1, Lane 118, Furonghua Road, Pudong New District, Shanghai, the PRC with a gross floor area of approximately 38 sq.m. to Shanghai Youxu for office use. Shanghai Youxu shall pay Simcere Shanghai Pharmaceutical a rent of RMB2.5/sq.m./day.

CONNECTED TRANSACTIONS

The terms of the Shanghai Youxu Property Lease Agreement were agreed upon on normal commercial terms after arm's length negotiations between the parties thereto. Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has confirmed that the rents payable by Shanghai Youxu to us under the Shanghai Youxu Property Lease Agreement are fair and reasonable and reflect the market rates for similar premises in the vicinity of the relevant property.

The Shanghai Youxu Property Lease Agreement is for a term of two years commencing from January 1, 2020. As such property lease was effective from January 1, 2020, the amount of rent paid by Shanghai Youxu to us under the Shanghai Youxu Property Lease Agreement for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was nil, nil, nil and approximately RMB8,143, respectively.

4. *Simcare Procurement Framework Agreement*

Simcare Group, as a pharmacy operation group, holds a number of lower level sub-distributorships for a wide range of products under various brands. During the Track Record Period, we purchased various pharmaceuticals and healthcare products from Simcare Group for further distribution and consumption purpose. In anticipation of the Listing, on October 8, 2020, our Company and Simcare Jiangsu, for themselves and on behalf of their respective subsidiaries, entered into a procurement framework agreement (the “**Simcare Procurement Framework Agreement**”), pursuant to which Simcare Group agreed to sell certain products to our Group for our on-selling and consumption purpose at the prevailing market price and on terms no less favorable to our Group than those offered to the other customers of Simcare Group.

The Simcare Procurement Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the total amount paid by our Group to Simcare Group for the procurement of relevant pharmaceuticals and healthcare products (excluding JianPiBaZhenGao (健脾八珍糕), a product we have ceased to purchase from Simcare Group since September 2020) was approximately RMB1.1 million, RMB1.9 million, RMB2.5 million and RMB1.5 million, respectively.

5. *Sincere Diagnostics Sample Services Agreement*

Our in-house sales and marketing team closely interacts with KOLs as well as healthcare professionals at our target hospitals and other medical institutions in various comprehensive academic marketing activities. Leveraging our marketing capabilities, on January 1, 2019, Jiangsu Sincere and Jiangsu Sincere Diagnostics entered into a comprehensive services agreement (the “**Sincere Diagnostics Sample Services Agreement**”), pursuant to which Jiangsu Sincere agreed to provide certain comprehensive services to Jiangsu Sincere

CONNECTED TRANSACTIONS

Diagnostics, which mainly include delivering the medical diagnosis samples between the designated medical institutions and Jiangsu Simcere Diagnostics. We charge Jiangsu Simcere Diagnostics a fixed service fee of RMB100 for each sample we delivered.

The Simcere Diagnostics Sample Services Agreement is for a term of two years commencing from January 1, 2019. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the amount of service fees paid by Jiangsu Simcere Diagnostics to us under the Simcere Diagnostics Sample Services Agreement was nil, nil, approximately RMB438,679 and RMB202,965, respectively.

6. Medway Media Cooperation Framework Agreement

On July 1, 2017, Jiangsu Simcere (a subsidiary of our Group) and Nanjing Medway entered into a media cooperation framework agreement (the “**Medway Media Cooperation Framework Agreement**”), pursuant to which Nanjing Medway agreed to provide us with certain media promotion services which include, among others, filming and editing the training courses, media supporting services with respect to network broadcast and online meetings, filming the promotion and other videos, and other media promotion services at a prevailing market price.

The Medway Media Cooperation Framework Agreement is for a term of five years commencing from July 1, 2017 and expiring on June 30, 2022. Accordingly, the remaining term of this Medway Media Cooperation Framework Agreement is less than three years. For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the amount of service fees paid by us to Nanjing Medway under the Medway Media Cooperation Framework Agreement was approximately RMB100,000, nil, RMB1,075,050 and RMB74,989, respectively.

7. Yoai Technology Procurement Agreement

Yoai Technology, as a member of Yoai Group, primarily engages in the development, manufacturing and marketing of personal hygiene products. On March 12, 2020, Jiangsu Simcere (a subsidiary of our Group) and Yoai Technology entered into a procurement agreement (“**Yoai Technology Procurement Agreement**”), pursuant to which Jiangsu Simcere agreed to purchase disposable masks from Yoai Technology for consumption purpose at a prevailing market price of similar products.

The Yoai Technology Procurement Agreement is for a term commencing from March 12, 2020 and expiring on December 31, 2020. The total transaction amount of the aforesaid procurement during the Track Record Period was nil.

(B) Sharing of Administrative Services

8. *Utility Charge Agreement*

Both BioSciKin Innovative Pharmaceutical and Sincere Biological Pharmaceutical own certain properties located at Huakang Road, Pukou Gaoxin District, Nanjing, Jiangsu, the PRC. Due to the design of municipal supporting facilities, BioSciKin Innovative Pharmaceutical has no independent water and electricity meters and has shared such facilities with Sincere Biological Pharmaceutical (a subsidiary of our Company) since January 2020. On June 9, 2020, Sincere Biological Pharmaceutical and BioSciKin Innovative Pharmaceutical entered into a utility charge agreement (the “**Utility Charge Agreement**”), pursuant to which Sincere Biological Pharmaceutical agreed to make payment for the utilities expense incurred by BioSciKin Innovative Pharmaceutical and charge BioSciKin Innovative Pharmaceutical such fees on a cost basis.

The Utility Charge Agreement is for a term of three years commencing from June 9, 2020. The total transaction amount of the aforesaid charge for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was nil, nil, nil and approximately RMB105,107, respectively.

The transactions contemplated under the Utility Charge Agreement constitute the sharing of administrative services on a cost basis under Rule 14A.98 of the Listing Rules, and the costs are identifiable and can be allocated to the parties on a fair and equitable basis. Therefore, such transactions will be fully exempt from the reporting, annual review, announcement, circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

(C) Financial Assistance

9. *Guarantees provided by Mr. Ren and his close associates*

Mr. Ren and his certain close associates (namely Nanjing BioSciKin Technology, Nanjing Huasheng and Ms. Wang Xi) have provided Connected Guarantees in favor of our Group in respect of certain financing arrangements entered into by our Group. We have no current plan to release the outstanding Connected Guarantees prior to the Listing as our Directors believe that the Connected Guarantees are in the best interests of our Group and Shareholders as a whole. For more details of the Connected Guarantees as well as the reasons for and benefits of the Connected Guarantees, see “Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Financial Independence.”

The Connected Guarantees provided by Mr. Ren and his close associates in favor of our Group constitute financial assistance received by our Group from our connected persons under Rule 14A.90 of the Listing Rules, which are on normal commercial terms or better to our Group, and no security over our assets has been granted to Mr. Ren or his close associates in respect of the provision of the Connected Guarantees. Therefore, the Connected Guarantees

CONNECTED TRANSACTIONS

provided by Mr. Ren and his close associates in favor of our Group will be fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions have been and will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms or better, and our Directors expect that the highest applicable percentage ratio (other than the profit ratio) under the Listing Rules in respect of each of these transactions is expected to be, on an annual basis, more than 0.1% but less than 5%. Therefore, such transactions will constitute continuing connected transactions of our Company upon Listing subject to the reporting, annual review and announcement requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

10. Property Lease and Comprehensive Services Framework Agreement

On October 8, 2020, our Company and Nanjing BioSciKin Technology, for themselves and on behalf of their respective subsidiaries, entered into a property lease and comprehensive services framework agreement (the “**Property Lease and Comprehensive Services Framework Agreement**”), pursuant to which Nanjing BioSciKin Technology agreed to (i) lease certain properties owned by it or its subsidiaries located at No. 699-18, Xuanwu Avenue, Xuanwu District, Nanjing, the PRC (the “**BioSciKin Innovation Park**”) to our Group for office, laboratory and staff dormitory use and provide related property management services; and (ii) provide us with certain general supporting services within the BioSciKin Innovation Park, which include, among others, utilities and network support, conference supporting services, staff canteen services, accommodation services and other logistics services.

Separate underlying agreements will be entered into between the parties to set out the specific terms and conditions within the parameters provided under the Property Lease and Comprehensive Services Framework Agreement, which shall include (i) the property rents and relevant property management fees, payment methods and other usage fees in respect of the relevant leased property; and (ii) the category and scope of service, service requirements, service fee, relevant calculation basis and payment methods in respect of the general supporting services.

The Property Lease and Comprehensive Services Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

CONNECTED TRANSACTIONS

Reasons for and benefits of the transactions

Nanjing BioSciKin Technology and its subsidiaries own and manage the properties in the BioSciKin Innovation Park. Historically our Group had leased and used certain properties in the BioSciKin Innovation Park as our headquarters for offices, laboratories and staff dormitories use, and Nanjing BioSciKin Technology and its subsidiaries had provided us with general supporting services. As of the Latest Practicable Date, the properties we leased from Nanjing BioSciKin Technology and its subsidiaries included properties with a total gross floor area of 33,984 sq.m. and 175 units with a gross floor area ranging from 15 to 150 sq.m. each.

In view that (i) we have leased certain properties in the BioSciKin Innovation Park as our headquarters during the Track Record Period and we have invested in decoration for these properties we leased which is tailor-made for our Group's specific use, (ii) acquiring the general supporting services within the BioSciKin Innovation Park is more efficient and practicable for our Group as compared to soliciting the same from outside third party providers, and (iii) relocation to other premises will cause unnecessary disruptions to our business and additional costs and expenses, the continuation of these lease and the relevant supporting services is convenient and cost-effective for our Group and is in line with our Group's business needs and economic interests. Therefore, our Directors are of the view that it is in the interest of our Group and our Shareholders as a whole to enter into the Property Lease and Comprehensive Services Framework Agreement and continue the current arrangement with Nanjing BioSciKin Technology and its subsidiaries in relation to the property lease and relevant property management and general supporting services.

Pricing policy

Pursuant to the Property Lease and Comprehensive Services Framework Agreement:

- with respect to the property lease and property management services, we shall pay Nanjing BioSciKin Technology and/or its subsidiaries rents, property management fees for the underlying leased properties. The rents and property management fees under the Property Lease and Comprehensive Services Framework Agreement are RMB2.2-3.0/sq.m./day and RMB6.0/sq.m./month, respectively, which are determined after arm's length negotiations between the parties thereto and shall be in line with or no more than the prevailing market rates for properties of comparable size and quality in the vicinity which are available to Independent Third Parties; and
- with respect to the general supporting services, we shall pay Nanjing BioSciKin Technology and/or its subsidiaries (where applicable) service fees, which are determined based on arm's length negotiations between the parties thereto with reference to (i) historical service fees; (ii) actual cost as to other charges relating to the leased properties, including utilities and network expenses; (iii) the actual administrative cost incurred by Nanjing BioSciKin Technology and/or its subsidiaries; and (iv) the comparable service fee rate charged by Nanjing BioSciKin Technology and/or its subsidiaries for such services provided for third parties.

CONNECTED TRANSACTIONS

The terms of the Property Lease and Comprehensive Services Framework Agreement were agreed upon on normal commercial terms after arm's length negotiations between the parties thereto. Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has confirmed that the rents and relevant services fees and charges payable by us to Nanjing BioSciKin Technology and/or its subsidiaries with respect to the property lease and property management services under the Property Lease and Comprehensive Services Framework Agreement are fair and reasonable and reflect the market rates for similar premises in the vicinity of the relevant property.

Our Group will solicit fee quotations from Nanjing BioSciKin Technology and its subsidiaries before any new agreement under the Property Lease and Comprehensive Services Framework Agreement is proposed to be entered into between the parties. Our Group will also inquire with two or more Independent Third Parties to provide quotations of similar comparable properties in the vicinity and/or comparable supporting services. Our Group will compare such information to decide whether the quotation offered by Nanjing BioSciKin Technology and its subsidiaries is no less favorable to our Group than those offered by Independent Third Parties and whether the terms are fair and reasonable.

Accounting implications of the Property Lease and Comprehensive Services Framework Agreement

In accordance with the HKFRSs applicable to our Group, the payments by our Group contemplated under the Property Lease and Comprehensive Services Framework Agreement comprise different components and hence different accounting treatments will be applied. The rent to be paid by our Group under the Property Lease and Comprehensive Services Framework Agreement is capital in nature and will be recognized, among others, as assets of our Group at the commencement date of the existing underlying lease agreements under the Property Lease and Comprehensive Services Framework Agreement.

Our Group has adopted all applicable new and revised HKFRSs, including HKFRS 16 Leases, which is mandatory for the financial period beginning on January 1, 2019, to the Track Record Period. Under HKFRS 16, our Group as the lessee shall recognize a lease as a right-of-use asset and a lease liability. The right-of-use asset represents its right to use the underlying leased asset over the lease term and the lease liability represents its obligation to make lease payments (i.e. the rents). The asset and the liability arising from the lease are initially measured on present value basis and calculated by discounting the lease payments over the lease term using the incremental borrowing rate as the discount rate. Under HKFRS 16, the Group shall recognize (i) depreciation charge over the life of the right-of-use asset, and (ii) interest expense is calculated based on lease liability balance using the effective interest rate method.

CONNECTED TRANSACTIONS

Historical transaction amounts

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, (i) the total amount of the rents and property management services fees in relation to the lease of properties paid by us to Nanjing BioSciKin Technology and its subsidiaries was approximately RMB11.2 million, RMB28.5 million, RMB47.8 million and RMB19.8 million, respectively; and (ii) the total amount of the general supporting fees paid by us to Nanjing BioSciKin Technology and its subsidiaries was approximately RMB9.3 million, RMB8.7 million, RMB11.2 million and RMB5.8 million, respectively.

Annual caps

The proposed annual caps for the transactions pursuant to the Property Lease and Comprehensive Services Framework Agreement for the three years ending December 31, 2020, 2021 and 2022 are set out below:

	Proposed annual caps for the years ended December 31,		
	2020	2021	2022
	<i>(RMB in thousands)</i>		
Rents and property management services fees	42,000	42,000	47,000
General supporting fees	13,000	14,000	17,000
Total	55,000	56,000	64,000

The proposed annual caps with respect to the rents and property management services fees are estimated primarily based on the following reasons and factors:

- the transaction amount as agreed under the existing property lease agreements. The existing leased properties included properties with a total gross floor area of 33,984 sq.m. and 175 units with a gross floor area ranging from 15 to 150 sq.m. each, which will expire on December 31, 2020 and are expected to be renewed annually thereafter at fix rate of annual rents and management services fees;
- considering an anticipated increase in our business scale and number of staff, the additional space that is expected to be leased from Nanjing BioSciKin Technology and its subsidiaries in 2022 for office, training centre and other use upon completion of the construction of relevant properties, the total gross floor area of which are estimated to be 13,889 sq.m.

CONNECTED TRANSACTIONS

The proposed annual caps with respect to the general supporting fees are estimated primarily based on the following reasons and factors:

- the historical transaction amounts;
- the estimated increase in demand for general supporting services within the BioSciKin Innovation Park as a result of the anticipated increase in our business scale and number of staff and taking into account the additional space that is expected to be leased in 2022; and
- the potential fluctuation of the prevailing market rate of comparable supporting services taking into account the potential fluctuation of the actual cost.

11. Simcare Sales and Distribution Framework Agreement

On October 8, 2020, our Company and Simcare Jiangsu, for themselves and on behalf of their respective subsidiaries, entered into a sales and distribution framework agreement (the “**Simcare Sales and Distribution Framework Agreement**”), pursuant to which Simcare Jiangsu agreed to purchase certain pharmaceuticals provided by us for retail sales and further distribution.

Separate underlying sales and distribution agreements will be entered into between the parties to set out the detailed terms, including the category of pharmaceuticals, designated distribution area, pricing terms, and method of payment, based on the principles and within the parameters provided under the Simcare Sales and Distribution Framework Agreement. The definitive terms of each of such underlying agreements will be determined on a case-by-case and a fair and reasonable basis after arm’s length negotiation between the parties.

The Simcare Sales and Distribution Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Reasons for and benefits of the transactions

Simcare Group (namely Simcare Jiangsu and its subsidiaries) primarily engages in the retail business of pharmaceutical products, medical devices and healthcare products through its self-owned pharmacies and online shops. As of the Latest Practicable Date, Simcare Group manages and operates approximately 360 pharmacies in various cities in the PRC and sells a wide range of products under various brands to end-users at its pharmacies and online shops.

CONNECTED TRANSACTIONS

We sell our products and third-party products directly to large-scale national or regional pharmacy chains in China. During the Track Record Period, Simcare Group, as a pharmacy operation group, was a customer of our Group' direct sales and purchased various pharmaceuticals (including, among others, Iremod, Endostar and Softan) from our Group for its retail sales. Also, we have granted a national exclusive distribution right to Jiangsu Simcare Pharmaceutical, a member of Simcare Group, to distribute Simcare Compound Granules, a product we manufacture in-house. The sales of pharmaceuticals to Simcare Group under the Simcare Sales and Distribution Framework Agreement is in the ordinary and usual course of our business, and the prices and terms offered by our Group to Simcare Group are no more favorable than those offered to other customers which are Independent Third Parties. Moreover, the established retail pharmacy chains of Simcare Group through its self-owned pharmacies increases the effectiveness of our sales and enable us to gain a stream of recurring revenue. Hence, we believe that our sales of pharmaceuticals to Simcare Group are profitable and are in the interests of our Group and the Shareholders as a whole.

Pricing policy

The price of the pharmaceuticals sold to Simcare Group (excluding those we sold to Simcare Group for its distribution as our national exclusive distributor) shall be fixed during the term of the separate underlying sales and distribution agreements under the Simcare Sales and Distribution Framework Agreement, which shall be determined with reference to (i) historical selling price; (ii) our production cost or purchase price of third-party pharmaceutical products, where applicable; (iii) the successful bid price of relevant pharmaceuticals in the centralized tender process held in the target market; and (iv) the prices which we offer to our other customers and distributors which are Independent Third Parties.

The price of the pharmaceuticals we sold to Simcare Group for its distribution as our national exclusive distributor (namely Simcare Compound Granules as of the Latest Practicable Date) shall be fixed during the term of the separate underlying sales and distribution agreements under the Simcare Sales and Distribution Framework Agreement, which shall be determined with reference to (i) historical selling prices; and (ii) our production cost taking into account an acceptable level of profit margin of both our Group and Simcare Group. Although we grant the exclusive distributorship at national level to Simcare Group, we believe that the terms we offer to Simcare Group are fair and reasonable and in the interest of our Company and our Shareholders as a whole on the basis that (i) Simcare Compound Granules is an OTC pharmaceutical, which makes it a suitable subject for sales under national exclusive distributorship model where our Group, as the manufacturer, is able to minimize our risk exposure for downstream sales; (ii) there are currently many substitutes of Simcare Compound Granules readily available in the market, therefore we believe that both manufacturers and distributors, including our Group and Simcare Group, have reasonable expectation on the level of profit margin for this type of pharmaceuticals during commercial negotiations of the relevant prices, and the profit margin that we charge from Simcare Group for Simcare Compound Granules has remained at a relatively defined and stable scale in order for us to earn a profit from our sales to Simcare Group and for the retail selling price of Simcare Compound Granules to stay competitive at the same time; (iii) as confirmed by Frost

CONNECTED TRANSACTIONS

& Sullivan, the above-mentioned pricing method, whereby our Group, as the manufacturer, grants a national exclusive distributorship to Simcare Group at a price which can cover our production cost with an acceptable level of profit margin based on commercial negotiations between the parties, is in line with usual market practice under such a national exclusive distributorship model; and (iv) despite the fact that our Group does not currently have other national exclusive distributors other than Simcare Group, the major terms and the cooperation mechanism as contemplated under the distribution agreement between us and Simcare Group for Simcare Compound Granules are consistent with those distribution agreements under which we act as the national exclusive distributor for products of other third party pharmaceutical companies.

In the event of a price change as a result of regulatory or policy changes during the term of such underlying agreement, we and the relevant members of Simcare Group will negotiate about price adjustments accordingly. Our independent non-executive Directors will regularly review and reassess the sales price of the pharmaceuticals sold to Simcare Group annually.

Historical transaction amounts

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the total amount of our sales of pharmaceuticals to Simcare Group was approximately RMB13.8 million, RMB8.3 million, RMB10.6 million and RMB9.1 million, respectively.

Annual caps

The proposed annual caps for the transactions pursuant to the Simcare Sales and Distribution Framework Agreement for the three years ending December 31, 2020, 2021 and 2022 are set out below:

Proposed annual caps for the years ended December 31,		
2020	2021	2022
(RMB in thousands)		
20,000	22,000	24,200

The proposed annual caps are estimated primarily based on the following reasons and factors:

- the historical transaction amounts, including the total amount of our sales of pharmaceuticals to Simcare Group for the six months ended June 30, 2020 of approximately RMB9.1 million; and
- a buffer of 10% to cater for potential increase in demand for the relevant pharmaceuticals in 2021 and 2022 as a result of the anticipated growing market demand and expansion of the retail network of Simcare Group.

12. Sanroad Promotion Services Framework Agreement

Principal terms

On October 8, 2020, Jiangsu Simcere and Beijing Sanroad entered into a promotion services framework agreement (the “**Sanroad Promotion Services Framework Agreement**”), pursuant to which Jiangsu Simcere agreed to (i) provide promotion services to Beijing Sanroad within the designated geographic areas in the PRC with respect to TB-PPD (purified protein derivative of tuberculin), and (ii) assist Beijing Sanroad in launching TB-PPD to the target market.

Separate underlying agreements will be entered between the parties annually to set out the details, including the category and scope of services, minimum promotion requirements, service fees, relevant calculation basis and method of payment, based on the principles and within the parameters provided under the Sanroad Promotion Services Framework Agreement. The definitive terms of each of such underlying agreements will be determined on a case-by-case and a fair and reasonable basis after arm’s length negotiation between the parties.

The Sanroad Promotion Services Framework Agreement is for an initial term commencing on the Listing Date and expiring on December 31, 2022 and is renewable for a term of three years upon mutual consent and subject to the requirements under the Listing Rules and other applicable laws and regulations.

Reasons for and benefits of the transactions

Beijing Sanroad primarily engages in (i) the development and manufacturing of diagnostic reagents, the key product of which is TB-PPD; and (ii) development of prophylactic vaccines. Beijing Sanroad is the exclusive provider of TB-PPD in the PRC.

TB-PPD is a reagent used in the testing and diagnosis of tuberculosis that has been included in the “Industry Standards of the People’s Republic of China – Tuberculosis Diagnosis (WS288-2017)” (《中華人民共和國行業標準 – 肺結核診斷 (WS288-2017)》) issued by the NHC. We had purchased TB-PPD from Beijing Sanroad since 2016 for further on-selling and distribution. With the implementation of the “dual invoicing system” across China, instead of sourcing such products from Beijing Sanroad and on-selling them to our customers, we started to provide promotion services to Beijing Sanroad with respect to TB-PPD through our in-house sales and marketing team in the second half of 2018. For more details about the “dual invoicing system,” see “Regulatory Overview – Major Regulatory Reforms in the Pharmaceutical Industry – Dual Invoicing System.” Our services provided to Beijing Sanroad under the Sanroad Promotion Services Framework Agreement are in the ordinary and usual course of our business, and the prices and terms offered by our Group to Beijing Sanroad are no more favorable than those offered to other customers which are Independent Third Parties. Hence, our promotion services provided to Beijing Sanroad are profitable and are in the interests of our Group and the Shareholders as a whole.

CONNECTED TRANSACTIONS

Pricing policy

The promotion fees payable by Beijing Sanroad to us are equal to, after deducting the tax incurred and other costs, our customers' total purchase volume in designated areas multiplied by the difference between (a) the target price, which is determined with reference to the bidding prices of TB-PPD in designated areas, and (b) the settlement price, which is agreed between Jiangsu Simcere and Beijing Sanroad after arm-length negotiations and determined with reference to (i) the historical settlement price; and (ii) the settlement price Beijing Sanroad offered to its third parties promoters. Our independent non-executive Directors will regularly review and reassess the pricing policy of the promotion services provided to Beijing Sanroad annually.

Historical transaction amounts

For the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, the total amount of the promotion services fees paid by Beijing Sanroad to our Group was nil, approximately RMB26.4 million, RMB42.5 million and RMB19.4 million, respectively.

Prior to the implementation of the "dual invoicing system," we historically purchased TB-PPD from Beijing Sanroad for further on-selling and distribution. For the years ended December 31, 2017, 2018 and 2019, the total amount of such procurement of TB-PPD paid by our Group to Beijing Sanroad was approximately RMB2.5 million, RMB0.8 million and nil, respectively.

Annual caps

The proposed annual caps for the transactions pursuant to the Sanroad Promotion Services Framework Agreement for the three years ending December 31, 2020, 2021 and 2022 are set out below:

Proposed annual caps for the years ended December 31,		
2020	2021	2022
<i>(RMB in thousands)</i>		
68,000	110,000	150,000

The proposed annual caps are estimated primarily based on the following reasons and factors:

- the historical transaction amounts;

CONNECTED TRANSACTIONS

- the estimated rapid increase in sales volume of TB-PPD given (i) the positive effects on demand of designated medical institutions for TB-PPD following the implementation of “China Tuberculosis Prevention Action Plan (2019-2022)” (《中國遏制結核病行動計劃(2019-2022)》) (the “**Tuberculosis Prevention Action Plan**”) collectively issued by eight governmental authorities (including NHC and MOF), which requires detection of patients to the maximum extent and enhancing symptom screening of the target population; (ii) the effects of our market development investment and promotion activities conducted in the previous three years to be reflected, and our enhanced promotion activities for TB-PPD at the target medical institutions since 2020 due to the implementation of the Tuberculosis Prevention Action Plan; and (iii) the expected rapid growth of the diagnosis market in China in the following three years.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

13. Contractual Arrangements

Background

As disclosed in “Contractual Arrangements,” due to regulatory restrictions on foreign ownership in Relevant Businesses in the PRC, we, as foreign investors, are prohibited from holding equity interest in our Consolidated Affiliated Entity, namely Shanghai Xianbo. As a result, our Group, through our wholly-owned subsidiary, Shanghai Xianjing, has entered into the Contractual Arrangements with Shanghai Xianbo and the Registered Shareholders such that we can conduct our Relevant Business indirectly in the PRC through Shanghai Xianbo while complying with the applicable PRC laws and regulations. The Contractual Arrangements enable our Group to, among others, (i) receive substantially all of the economic benefits from our Consolidated Affiliated Entity in consideration for the services provided by Shanghai Xianjing to our Consolidated Affiliated Entity; (ii) exercise effective control over our Consolidated Affiliated Entity; and (iii) hold an exclusive option to acquire all or part of the equity interest in and/or the assets of our Consolidated Affiliated Entity when and to the extent permitted by the PRC laws and regulations.

The Contractual Arrangements consist of a series of agreements. For further details, see “Contractual Arrangements.”

Listing Rules implications

The transactions contemplated under the Contractual Arrangements constitute continuing connected transactions of our Company under the Listing Rules upon Listing as a certain party to the Contractual Arrangements, namely Mr. Ren, one of the members of the Registered Shareholders, is a connected person of our Company.

CONNECTED TRANSACTIONS

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated thereunder are fundamental to the legal structure and business of our Group, that such transactions have been and will be entered into in the ordinary and usual course of business of our Group, are on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements and any new transactions, contracts and agreements related thereto or renewal of existing transactions, contracts and agreements to be entered into by, among others, our Consolidated Affiliated Entity and any member of our Group (the “**New Intergroup Agreements**”) technically constitute our continuing connected transactions under Chapter 14A of the Listing Rules after the Listing, our Directors consider that, given that our Group is placed in a special situation in relation to the connected transactions rules under the Contractual Arrangements, it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if such transactions are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the announcement, circular and independent Shareholders’ approval requirements.

WAIVER APPLICATIONS FOR PARTIALLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The transactions described under the sub-section headed “– Partially-exempt Continuing Connected Transactions” will constitute our continuing connected transactions which are subject to the reporting, annual review and announcement requirements, but will be exempt from the circular and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

In respect of the partially-exempt continuing connected transactions, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange has granted, a waiver from the strict compliance with the announcement requirements for the transactions described under the sub-section headed “– Partially-exempt Continuing Connected Transactions” subject to the condition that the annual caps stated above are not exceeded.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this prospectus, we will take immediate steps to ensure compliance with such new requirements within reasonable time.

CONNECTED TRANSACTIONS

WAIVER APPLICATIONS FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Contractual Arrangements

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

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

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

(b) No change without independent Shareholders' approval

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

(c) Economic benefits flexibility

The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by our Consolidated Affiliated Entity through (i) our Group's option (if and when so allowed under the applicable PRC laws) to acquire all or part of the equity interest of Shanghai Xianbo at the minimum amount of consideration permitted under the applicable PRC laws, (ii) the business structure under which the profit generated by our Consolidated Affiliated Entity is substantially retained by our Group, such that no annual cap shall be set on the amount of service fees payable to Shanghai Xianjing by our Consolidated Affiliated Entity under the Exclusive Business Cooperation Agreement, and (iii) our Group's right to control the management and operation of, as well as, in substance, all of the voting rights of our Consolidated Affiliated Entity.

CONNECTED TRANSACTIONS

(d) Renewal and reproduction

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

(e) Ongoing reporting and approvals

We will disclose details relating to the Contractual Arrangements on an on-going basis as follows:

- The Contractual Arrangements in place during each financial period will be disclosed in the annual reports and accounts of our Company in accordance with the relevant provisions of the Listing Rules.
- Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements, (ii) no dividends or other distributions have been made by our Consolidated Affiliated Entity to the holders of its equity interest which are not otherwise subsequently assigned or transferred to our Group, and (iii) any new contracts entered into, renewed or reproduced between our Group and our Consolidated Affiliated Entity during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous to our Shareholders, so far as our Group is concerned and in the interests of our Company and our Shareholders as a whole.
- Our Company's auditors will carry out review procedures annually on the transactions carried out pursuant to the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in

CONNECTED TRANSACTIONS

accordance with the relevant Contractual Arrangements, and that no dividends or other distributions have been made by our Consolidated Affiliated Entity to the holders of its equity interest which are not otherwise subsequently assigned or transferred to our Group.

- For the purposes of Chapter 14A of the Listing Rules, and in particular the definition of “connected person,” our Consolidated Affiliated Entity will be treated as our wholly-owned subsidiary, but at the same time, the directors, chief executives or substantial shareholders of our Consolidated Affiliated Entity and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, our Consolidated Affiliated Entity), and transactions between these connected persons and our Group (including, for this purpose, our Consolidated Affiliated Entity), other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.
- Our Consolidated Affiliated Entity will undertake that, for so long as the Shares are listed on the Stock Exchange, our Consolidated Affiliated Entity will provide the Group’s management and the Company’s reporting accountants’ full access to its relevant records for the purpose of their review of the continuing connected transactions.

In addition, we have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of (i) the announcement, circular and independent Shareholders’ approval in respect of the transactions contemplated under any New Intergroup Agreements (as defined above) pursuant to Rule 14A.105 of the Listing Rules, (ii) setting an annual cap for the transactions contemplated under any New Intergroup Agreements under Rule 14A.53 of the Listing Rules, and (iii) limiting the term of any New Intergroup Agreements to three years or less under Rule 14A.52 of the Listing Rules, for so long as our Shares are listed on the Stock Exchange. The waiver is subject to the conditions that the Contractual Arrangements subsist and that our Consolidated Affiliated Entity will continue to be treated as our subsidiary, but at the same time, the directors, chief executives or substantial shareholders of our Consolidated Affiliated Entity and their respective associates will be treated as connected persons of our Company (excluding, for this purpose, our Consolidated Affiliated Entity), and transactions between these connected persons and our Group (including, for this purpose, our Consolidated Affiliated Entity), other than those under the Contractual Arrangements and the New Intergroup Agreements, will be subject to requirements under Chapter 14A of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.

CONNECTED TRANSACTIONS

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions as set out above have been and will continue to be carried out in the ordinary and usual course of our business on normal commercial terms or better that are fair and reasonable and in the interests of our Company and our Shareholders as a whole, and that the proposed annual caps for these transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

Our Directors (including the independent non-executive Directors) are of the view that the Contractual Arrangements and the transactions contemplated therein have been and will be entered into in the ordinary and usual course of our business on normal commercial terms or better that are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Our Directors are of the view that with respect to the terms of the relevant agreements underlying the Contractual Arrangements, which are of a duration of longer than three years, it is a justifiable and normal business practice for the Contractual Arrangements of this type to be of such duration to ensure that (i) the financial and operational policies of our Consolidated Affiliated Entity can be effectively controlled by Shanghai Xianjing, (ii) Shanghai Xianjing can obtain the economic benefits derived from our Consolidated Affiliated Entity, and (iii) any possible leakages of assets and values of our Consolidated Affiliated Entity can be prevented, on an uninterrupted basis.

CONFIRMATION FROM THE JOINT SPONSORS

The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Company in relation to the above continuing connected transactions; (ii) obtained necessary representations and confirmations from the Company and the Directors; and (iii) participated in the due diligence and discussions with the management of our Group.

Based on the above, the Joint Sponsors are of the view that aforesaid continuing connected transactions have been and will be entered into in the ordinary and usual course of our business on normal commercial terms or better that are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and that the proposed annual caps (if any) for these transactions are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

With respect to the term of the relevant agreements underlying the Contractual Arrangements which is of a duration longer than three years, the Joint Sponsors are of the view that it is a justifiable and normal business practice to ensure that (i) the financials and operation of our Consolidated Affiliated Entity can be effectively controlled by Shanghai Xianjing, (ii) Shanghai Xianjing can obtain the economic benefits derived from our Consolidated Affiliated Entity, and (iii) any possible leakages of assets and values of our Consolidated Affiliated Entity can be prevented on an uninterrupted basis.