
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, SPHL and Artking directly held approximately 51% and 25.88% of the total issued share capital of our Company, respectively. The shareholding structure of each of SPHL and Artking is as follows:

- Artking is directly held by our Ultimate Controlling Shareholders as to approximately 86.93%;
- SPHL is directly held by Sincere Investments and Artking as to approximately 66.67% and 15.84%, respectively, and Sincere Investments is wholly owned by Sincere Holding, which is in turn directly held by Artking, EGG and FFI as to approximately 55.45%, 17.05% and 15.79%, respectively;
- EGG and FFI also directly held approximately 4.78% and 5.16% of the total issued share capital of our Company, respectively; and
- EGG is wholly owned by Mr. Ren, and FFI is directly held by EGG as to approximately 76.06%.

As our Ultimate Controlling Shareholders hold their interests in our Company through SPHL, Artking, FFI, Sincere Holding and Sincere Investments, each being a special purpose vehicle, our Ultimate Controlling Shareholders (namely EGG, P&H Holdings, Right Wealth, Mr. Ren, Mr. Ren Yong, Ms. Li Shimeng, Mr. Ren Weidong, Ms. Ren Zhen and Ms. Peng Suqin), together with SPHL, Artking, FFI, Sincere Holding and Sincere Investments, will constitute a group of controlling shareholders of our Company for the purpose of the Listing Rules. The other shareholders of each of SPHL, Artking, FFI and Sincere Holding are either employee incentive platforms beneficially held by certain scheme participants, or minority shareholders which are independent of and not associated with our Ultimate Controlling Shareholders, therefore, these shareholders shall not be regarded as part of the group of controlling shareholders of our Company for the purpose of the Listing Rules.

As of the Latest Practicable Date, our Ultimate Controlling Shareholders, directly and indirectly through SPHL, Artking, FFI, Sincere Holding and Sincere Investments, collectively held and were entitled to exercise the voting rights attaching to approximately 86.82% of the total issued share capital of our Company. Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), our Ultimate Controlling Shareholders, directly and indirectly through SPHL, Artking, FFI, Sincere Holding and Sincere Investments, will be collectively entitled to exercise the voting rights attaching to approximately 78.13% of the enlarged total issued share capital of our Company. Therefore, our Ultimate Controlling Shareholders, together with SPHL, Artking, FFI, Sincere Holding and Sincere Investments, will continue to be our Controlling Shareholders after the Listing.

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DELINEATION OF BUSINESS

Our Controlling Shareholders have confirmed that, as of the Latest Practicable Date, save as disclosed in this prospectus, none of them is interested in any business, other than our business, which competes or is likely to compete, either directly or indirectly, with our business, which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

Simcare Group

Simcare Jiangsu (together with its subsidiaries, “**Simcare Group**”), a company established in the PRC on August 3, 2001, is 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 (iii) 2% by Mr. Yang Xiaohua (楊孝華), an Independent Third Party.

Our Directors are of the view that there is clear delineation and no material competition between the business operated by Simcare Group and our Group for the following reasons:

- (a) ***No competition with respect to the principal business.*** Simcare Group, as a pharmacy operation group, primarily engages in retail business of pharmaceutical products, medical devices and healthcare products and other products through approximately 360 pharmacies operated and/or owned by it in various cities in the PRC and its online shops. In contrast, our Group primarily engages in the development, manufacturing, marketing and promotion of pharmaceuticals and does not carry out any retail business. As such, the principal business activities of Simcare Group and our Group are fundamentally different from each other, and there is no competition between Simcare Group and our Group with respect to the retail business.
- (b) ***No material business competition with respect to wholesale business.*** Simcare Group also sells pharmaceutical and healthcare products as distributor on a limited scale. Although both Simcare Group and our Group sell pharmaceutical products at a wholesale level, our Directors are of the view that there is clear delineation and no material competition in this regard for the following reasons:
 - (i) ***Different business model.*** The business model of the pharmaceutical wholesale of Simcare Group and our Group is fundamentally different from each other on the following basis:
 - ***Different product portfolio.*** Among our pharmaceutical products sold to distributors and pharmacy chains, the substantial majority are prescription pharmaceuticals. In contrast, Simcare Group primarily wholesales OTC and healthcare products to its wholesale customers, and

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only wholesales prescription pharmaceuticals on a limited scale. Therefore, the product portfolios under the wholesale business of each of Simcare Group and our Group are fundamentally different from each other.

- *Different direct customer structure.* We sell our pharmaceutical products and third-party pharmaceutical products at a wholesale level through the following two channels: (i) primarily through distributors, where such distributors are our direct customers and further distribute pharmaceutical products to hospitals, other medical institutions and pharmacies; and (ii) to a much lesser extent, through direct sales to pharmacy chains. Our revenue generated from sales to distributors and sales to pharmacy chains represented approximately 90.8% and 9.2% for the year ended December 31, 2019, and 86.8% and 13.2% for the six months ended June 30, 2020, of the total revenue generated from our pharmaceutical sales, respectively. In comparison, substantially all direct customers under the wholesale business of Simcare Group are retail pharmacies, including the pharmacies operated by itself. Therefore, the direct customer structures of the wholesale business of each of Simcare Group and our Group are fundamentally different from each other.
- *Different supplier structure and distributorship level.* Among our pharmaceutical sales to distributors, a substantial majority consists of (i) sales of our in-house manufactured pharmaceutical products to third-party national distributors, and (ii) sales of third-party pharmaceutical products procured from other pharmaceutical companies where we serve as the national distributor on an exclusive basis. In contrast, the products under the wholesale business of Simcare Group are all procured from other pharmaceutical companies and pharmaceutical distributors. Simcare Group primarily serves as the lower level sub-distributor during the process of its wholesale business, except for only two national exclusive distributorships for (i) JianPiBaZhenGao (健脾八珍糕), the distributorship of which expired on August 31, 2020 and Simcare Group will refer the commercial opportunity of acquiring such distributorship to us; and (ii) Simcare Compound Granules, the distributorship of which is granted by our Group, the details of which are set forth in “Connected Transactions – Partially-exempt Continuing Connected Transactions – 11. Simcare Sales and Distribution Framework Agreement.” Therefore, the primary distributorship level with respect to the wholesale business of each of Simcare Group and our Group are fundamentally different from each other. To enhance the business delineation, our Controlling Shareholders have entered into the Deed of Non-competition, pursuant to

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which the Covenantors will procure Simcare Group to refer any commercial opportunities regarding any new national exclusive distributorship to us. See “– Non-competition Undertaking” below for further information.

- (ii) **Minimal operation scale.** According to the financial statements of Simcare Group, (i) the total revenue generated from its wholesale business for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was RMB40.24 million, RMB49.74 million, RMB46.48 million and RMB22.14 million, respectively, representing approximately 1.05%, 1.15%, 0.97% and 1.23% of the total revenue generated from our pharmaceutical sales for the same periods, respectively; and (ii) the total gross profit generated from its wholesale business for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020 was RMB9.68 million, RMB10.35 million, RMB10.30 million and RMB4.91 million, respectively, representing approximately 0.30%, 0.28%, 0.25% and 0.33% of the total gross profit generated from our pharmaceutical sales for the same periods, respectively. Therefore, the business scale of the pharmaceutical wholesale operated by Simcare Group is immaterial as compared to that of our Group.

Based on the above and given the Deed of Non-competition in place, our Directors are of the view that there is no material business competition between Simcare Group and our Group.

Other Healthcare Related Businesses

As of the Latest Practicable Date, other than the interests in our Group and Simcare Group, our Controlling Shareholders and their close associates were also interested in certain other healthcare related businesses (the “**Other Healthcare Related Businesses**”), details of which are set out below:

Name of company	Interests held by our Controlling Shareholders	Business description
Nanjing BioSciKin Technology (together with its subsidiaries (excluding Beijing Sanroad), “ BioSciKin Group ”)	100% indirectly owned by EGG	BioSciKin Group primarily engages in (i) property lease and management with respect to certain properties owned by it at the BioSciKin Innovation Park in Nanjing; and (ii) making investments in certain non-pharmaceutical companies.

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Name of company	Interests held by our Controlling Shareholders	Business description
Beijing Sanroad	95.73% indirectly owned by EGG	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.
Jiangsu Sincere Diagnostics (together with its subsidiaries, “ Sincere Diagnostics Group ”)	89.29% collectively and ultimately held by Mr. Ren, his spouse, Mr. Ren Yong and Ms. Li Shimeng	Sincere Diagnostics Group primarily engages in (i) provision of molecular diagnostic technology services; and (ii) manufacturing and marketing of medical devices.
Xiangxiang Wuxian (together with its subsidiary Yoai Technology, “ Yoai Group ”)	100% owned by Mr. Ren Yong and Ms. Li Shimeng	Yoai Group primarily engages in development, manufacturing and marketing of personal hygiene products.

As described above, each of the Other Healthcare Related Businesses is fundamentally different in nature from the principal business of our Group. Given the clear business delineation between our Group on the one hand and the Other Healthcare Related Businesses on the other hand, as well as the Deed of Non-competition in place, our Directors are of the view that there is no business competition between our Group and the Other Healthcare Related Businesses.

Due to the different business nature and in order to allow us to focus on our core business, we excluded from our Group, and currently do not have any intention to inject into our Group in the future, each of the Simcare Group and the Other Healthcare Related Businesses.

NON-COMPETITION UNDERTAKING

Each of our Controlling Shareholders (collectively, the “**Covenantors**” and each, a “**Covenantor**”) entered into a deed of non-competition (the “**Deed of Non-competition**”) in favor of our Company on October 8, 2020, pursuant to which each of the Covenantors has, among other things, irrevocably and unconditionally undertaken, jointly and severally, to our Company that, at any time during the Relevant Period (as defined below), the Covenantor shall not, and shall procure that his/her/its close associates (other than members of our Group) will not, directly or indirectly, carry on, engage in, invest in, participate in, attempt to participate in, render any services to, provide any financial support to or otherwise be involved in or interested in, whether alone or jointly with another person and whether directly or indirectly or on behalf of or to assist or act in concert with any other person, any business or investment

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activities in the PRC, Hong Kong and other territories where our Company carries out business which is the same as, similar to or in competition with the business carried on or contemplated to be carried on by any member of our Group from time to time (the “**Restricted Business**”).

The above restrictions do not prohibit any of the Covenantors and his/her/its close associates (excluding members of our Group) from:

- (a) holding any securities of any companies which conducts or is engaged in any Restricted Business through their interest in our Group from time to time;
- (b) through acquiring or holding any investment or interest in units or shares of any company, investment trust, joint venture, partnership or other entity in whatever form which engages in any Restricted Business where such investment or interest does not exceed 10% of the issued shares of such entity provided that (i) such investment or interest does not grant any of the Covenantors and their respective close associates any right to control the composition of the board of directors or managers of such entity, (ii) none of the Covenantors or their respective close associates control the board of directors or managers of such entity, and (iii) such investment or interest does not grant any of the Covenantors and their respective close associates any right to participate directly or indirectly in such entity; or
- (c) participating in any New Business Opportunities (as defined below) if our Group has declined the New Business Opportunities or no written notice has been received from our Group of our decision to pursue or decline the New Business Opportunity upon expiration of the Offer Notice Period that we shall be deemed to have declined the New Business Opportunity as set out below.

Each of the Covenantors has also undertaken to refer, or to procure the referral of, any investment or commercial opportunities relating to any Restricted Business (“**New Business Opportunities**” and each, a “**New Business Opportunity**”) to us (for ourselves and as trustee for the benefit of each of our subsidiaries from time to time) in the following manner:

- (a) As soon as he/she/it becomes aware of any New Business Opportunity, give written notice (the “**Offer Notice**”) to us identifying the target company (if relevant) and the nature of the New Business Opportunity, detailing all information available to him/her/it for us to consider whether to pursue such New Business Opportunity (including details of any investment or acquisition costs and the contact details of the third parties offering, proposing or presenting the New Business Opportunity to him/her/it).
- (b) Our Company shall, as soon as practicable and in any case within 30 Business Days from the receipt of the Offer Notice (the “**Offer Notice Period**”) notify the relevant Covenantor in writing of its intention to pursue or decline the New Business Opportunity. During the Offer Notice Period, our Company may negotiate with the

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third party offering him/her/it, proposing or presenting the New Business Opportunity and the relevant Covenantor shall use his/her/its best endeavors to assist us in obtaining such New Business Opportunity on the same or more favorable terms.

- (c) Our Company is required to seek approval from our independent non-executive Directors who do not have a material interest in the matter for consideration as to whether to pursue or decline the New Business Opportunity, and that the appointment of an independent financial advisor to advise on the terms of the transaction in the subject matter of such New Business Opportunity may be required.
- (d) The relevant Covenantor may, at his/her/its absolute discretion, consider extending the Offer Notice Period as appropriate.
- (e) The relevant Covenantor shall be entitled to but shall not be obliged to carry on, engage, invest, participate or be interested (economically or otherwise) in the New Business Opportunity (whether individually or jointly with another person and whether directly or indirectly or on behalf of or to assist any other person) on the same, or less favorable, terms and conditions in all material respects as set out in the Offer Notice if:
 - (i) he/she/it has received a written notice from us declining the New Business Opportunity; or
 - (ii) he/she/it has not received any written notice from us of our intention to pursue or decline the New Business Opportunity within 30 Business Days from our receipt of the Offer Notice, or if he/she/it has extended the Offer Notice Period, within such other period as agreed by him/her/it, in which case our Company shall be deemed to have declined the New Business Opportunity.
- (f) If there is a change in the nature or proposal of the New Business Opportunity pursued by the relevant Covenantor, he/she/it shall refer the New Business Opportunity as revised and shall provide to us details of all available information for us to consider whether to pursue the New Business Opportunity as revised.

When considering whether or not to pursue any New Business Opportunities, our independent non-executive Directors will form their views based on a range of factors, including but not limited to, the estimated profitability, investment value and permits and approval requirements. The Covenantors, for themselves and on behalf of their close associates (except any members of our Group), have also acknowledged that our Company may be required by the relevant laws, regulations and rules and regulatory bodies to disclose, from time to time, information on the New Business Opportunities, including but not limited to disclosure in announcements to the public or annual reports of our Company our decisions to pursue or decline the New Business Opportunities, and have agreed to disclose to the extent necessary to comply with any such requirements.

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Under the Deed of Non-competition, each of the Covenantors has further irrevocably and unconditionally undertaken jointly and severally, to us the following:

- (a) the Covenantors shall provide, and shall procure their close associates (other than members of our Group) to provide, during the Relevant Period (as defined below), where necessary and at least on an annual basis, all information necessary for the review by our independent non-executive Directors, subject to any relevant laws, rules and regulations or any contractual obligations, to enable them to review the Covenantors' and their close associates' (other than members of our Group) compliance with the Deed of Non-competition, and to enable the independent non-executive Directors to enforce the Deed of Non-competition;
- (b) without prejudicing the generality of paragraph (a) above, the Covenantors shall provide to us with an annual declaration for inclusion in our annual report, in respect of their compliance with the terms of the Deed of Non-competition;
- (c) the Covenantors have agreed and authorized us to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition, either through our annual reports or by way of announcements to the public; and
- (d) each of the Covenantors agrees to indemnify us from and against any and all losses, damages, claims, liabilities, costs and expenses (including legal costs and expenses) where we may suffer or incur as a result of any failure to comply with the terms of the Deed of Non-competition by the Covenantors or any of their respective close associates.

Our Company will disclose the decisions with basis on matters reviewed by our independent non-executive Directors relating to the compliance with and enforcement of the Deed of Non-competition either in the annual report of our Company or by way of announcements to the public.

For the purposes of the above, the “**Relevant Period**” means the period commencing from the Listing Date and shall expire on the earlier of (i) the date when the Covenantors and, as the case may be, any of their close associates, cease to hold, or otherwise control or be interested in, beneficially in aggregate whether directly or indirectly, 30% or more (or such other percentage of shareholding as stipulated in the Listing Rules to constitute a controlling shareholder) of the issued share capital of our Company; or (ii) the date on which the Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares).

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INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that we are capable of carrying out our business independently of our Controlling Shareholders and their respective close associates after the Listing.

Operational Independence

We engage in our operations independently and make and implement our operational decisions independently. We do not share operation team, facilities and equipment with our Controlling Shareholders and their respective associates. We are in possession of all relevant licenses, approvals and permits from the relevant regulatory authorities that are necessary to carry out and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently. Our Group has established our own organizational structure with independent departments, and each department is assigned to specific areas of responsibilities. Our operating functions, such as cash and accounting management, invoices and bills, operate independently of our Controlling Shareholders and their respective close associates. We have independent access to and a large and diversified base of suppliers and customers and are not dependent on our Controlling Shareholders and their respective close associates with respect to supplies for our business operations. We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business.

During the Track Record Period, our Group conducted certain transactions with our Controlling Shareholders' close associates on a recurring basis which are expected to continue after the Listing and will constitute continuing connected transactions of our Company under the Listing Rules. In particular, as of the Latest Practicable Date, we leased properties with a total gross floor area of 33,984 sq.m. and 175 units and received property management and general supporting services from certain close associates of our Controlling Shareholders. See "Connected Transactions – Partially-exempt Continuing Connected Transactions – 10. Property Lease and Comprehensive Services Framework Agreement" for further details. Such leased properties accounted for a limited proportion of the total properties we owned or leased. As of the Latest Practicable Date, the total GFA of our owned and leased properties were approximately 180,448 sq.m. As our Group has been using such properties and services historically, we believe that compared to relocating to alternative properties, it is in the interest of our Group in terms of cost, time, efficiency and operational stability to continue such lease and service arrangement. Meanwhile, we believe that even if the above agreements are terminated, we would be able to find suitable alternatives from our owned properties or lessors who are Independent Third Parties in the locality without undue delay or inconvenience incurred to the operation of our business. Accordingly, our Directors are of the view that such arrangement does not have any material adverse impact on our operational independence from our Controlling Shareholders. In addition, all such connected transactions are conducted after arm's length negotiation and are on normal commercial terms, which do not indicate any undue reliance by our Group on our Controlling Shareholders and are beneficial to our Group and our Shareholders as a whole. For further details, see "Connected Transactions."

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Based on the above, our Directors are of the view that we are able to operate independently from our Controlling Shareholders and their respective close associates.

Management Independence

Our business is managed and conducted by our Board and senior management. Our Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors, among whom Mr. Ren, the chairman of the Board, an executive Director and the chief executive officer of our Company, is a member of our Controlling Shareholders. For further details, see “Directors and Senior Management.”

Save as disclosed below, none of our Directors or members of our senior management serves as director or member of senior management in our Controlling Shareholders and their close associates (other than members of our Group):

Name	Position in our Company	Major positions held in our Controlling Shareholders and their close associates (other than members of our Group)	
		Name of company	Position
Mr. Ren	Chairman of the Board, executive Director and chief executive officer	Artking ⁽¹⁾	director
		SGG ⁽¹⁾	director
		Nanjing BioSciKin Technology ⁽¹⁾	chairman and director
		Hainan BioSciKin ⁽¹⁾	chairman and director
		BioSciKin Medical ⁽²⁾	chairman and director
		Nanjing BioSciKin Pharmaceutical ⁽²⁾	director
		BioSciKin Innovative Pharmaceutical ⁽²⁾	director
		Nanjing BioSciKin Innovative Medical Technology Co., Ltd. (南京百家匯創新醫療科技有限公司) ⁽¹⁾	director
		Nanjing Bangyi Technology Development Co., Ltd. (南京邦益科技發展有限公司) ⁽¹⁾	director
		Beijing Jinyicheng Enterprise Management Consulting Co., Ltd. (北京錦益誠企業管理諮詢有限公司) ⁽¹⁾	director
		Beijing Lingsheng Yizhuo Enterprise Management Consulting Co., Ltd. (北京瓴盛益卓企業管理諮詢有限公司) ⁽¹⁾	director
		Beijing Xingao Jiabin Enterprise Management Consulting Co., Ltd. (北京信高佳錦企業管理諮詢有限公司) ⁽¹⁾	director
		Next Good ⁽¹⁾	director
		Promise Good ⁽¹⁾	director
		Hong Kong Wisdom Industrial Development Co., Limited ⁽¹⁾	director

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Major positions held in our Controlling Shareholders and their close associates (other than members of our Group)

Name	Position in our Company	Name of company	Position
		Nanjing Xingao Enterprise Management Consulting Partnership (Limited Partnership) (南京信高企業管理諮詢合夥企業(有限合夥)) ⁽¹⁾	managing partner (執行事務合夥人)
		Nanjing Yizhuo Enterprise Management Consulting Partnership (Limited Partnership) (南京益卓企業管理諮詢合夥企業(有限合夥)) ⁽¹⁾	managing partner (執行事務合夥人)
		Nanjing Chengkuo Enterprise Management Consulting Partnership (Limited Partnership) (南京誠闊企業管理諮詢合夥企業(有限合夥)) ⁽¹⁾	managing partner (執行事務合夥人)
		Nanjing Jiajin Enterprise Management Consulting Partnership (Limited Partnership) (南京佳錦企業管理諮詢合夥企業(有限合夥)) ⁽¹⁾	managing partner (執行事務合夥人)
		Nanjing Lingsheng Enterprise Management Consulting Partnership (Limited Partnership) (南京瓊盛企業管理諮詢合夥企業(有限合夥)) ⁽¹⁾	managing partner (執行事務合夥人)
		Nanjing Jinyi Enterprise Management Consulting Partnership (Limited Partnership) (南京錦益企業管理諮詢合夥企業(有限合夥)) ⁽¹⁾	managing partner (執行事務合夥人)
Mr. Wan Yushan	Executive Director and chief financial officer	FFI ⁽¹⁾	director
Mr. Zhao John Huan	Non-executive Director	Simcere Holding ⁽¹⁾	director
Mr. Qian Haibo	Vice president	Hainan BioSciKin ⁽¹⁾	director

Notes:

- (1) As confirmed by Mr. Ren, Mr. Wan Yushan, Mr. Zhao John Huan and Mr. Qian Haibo (as the case may be), these companies had not engaged in any actual business operation or commercial activities as of the Latest Practicable Date.
- (2) As confirmed by Mr. Ren, the directorship that he held at each of BioSciKin Medical, Nanjing BioSciKin Pharmaceutical, and BioSciKin Innovative Pharmaceutical is non-executive nature and he has not and will not be involved in their day-to-day management.

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Our Directors are of the view that our Board and senior management team are able to manage our business independently from our Controlling Shareholders and their close associates for the following reasons:

- (a) as confirmed by Mr. Ren, Mr. Wan Yushan, Mr. Zhao John Huan and Mr. Qian Haibo (as the case may be), none of the aforementioned companies (except for BioSciKin Medical, Nanjing BioSciKin Pharmaceutical and BioSciKin Innovative Pharmaceutical) had engaged in any actual business operation or commercial activities as of the Latest Practicable Date. In the event that any of these companies plan to commence any actual business operation or commercial activities, Mr. Ren will take all actions necessary to ensure his roles in such companies being non-executive in nature. In addition, as confirmed by Mr. Ren, he merely plays non-executive roles in each of BioSciKin Medical, Nanjing BioSciKin Pharmaceutical, and BioSciKin Innovative Pharmaceutical and has not been and will not be involved in their day-to-day management. Mr. Ren's primary responsibilities in such three companies are providing strategic advice and making recommendations on their corporate operation. Therefore, all of Mr. Ren, Mr. Wan Yushan, Mr. Zhao John Huan and Mr. Qian Haibo will have sufficient time and resources to serve on our Board and/or as senior management members, and their officeholding in the aforementioned entities will not affect their discharge of their duties and responsibilities to our Group;
- (b) pursuant to the Articles of Association of our Company, in the event that a Director or his close associate has any material interest in a contract or arrangement to be entered into with our Group, the interested Director(s) shall abstain from voting on any Board resolutions approving any contract, arrangement or any other proposal and shall not be counted in the quorum present at the relevant Board meeting;
- (c) we have appointed three independent non-executive Directors (accounting for more than one-third of our Board) to balance the number of potentially interested Directors with a view to promote the interests of our Company and the Shareholders as a whole. The independent non-executive Directors will be entitled to engage professional advisers at our cost for advice on matters relating to any potential conflict of interest arising out of any transaction to be entered into between our Company and another company or entity to which a Director or senior management member holds office. We believe our independent non-executive Directors have the depth and breadth of experience which will enable them to bring sound, independent and impartial judgment to the decision-making process of our Board;
- (d) each of our Directors is aware of his fiduciary duties as a Director, which require, among other things, that he acts for the benefit and in the interests of our Company and the Shareholders as a whole, and do not allow any conflict between his duties as a Director and his personal interests; and

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- (e) we have adopted corporate governance measures to manage conflicts of interest, if any, between our Group and our Controlling Shareholders and their respective close associates which would support our independent management. See “– Corporate Governance Measures” below for further information.

Based on the above, our Directors are satisfied that the Board as a whole, together with our senior management team, is able to perform their roles in our Company in managing our business independently.

Financial Independence

We have established a finance department which operates entirely independently of the Controlling Shareholders with a team of independent financial staff. In addition, our Company has established a sound and independent financial system and makes financial decisions according to our Company’s business needs, which are independent of our Controlling Shareholders.

Immediately following the Listing, we expect to retain certain credit facilities or borrowings (the “**Guaranteed Facilities**”) which are secured by guarantees provided by Mr. Ren and his close associates (the “**Connected Guarantees**”), details of which are set out below:

<u>Lender</u>	<u>Type of financing</u>	<u>Effective date</u>	<u>Maturity date</u>	<u>Annual interest rate</u>	<u>Balance as of June 30, 2020</u>	<u>Nature of financial assistance</u>
China Merchants Bank, Nanjing Branch	Credit facilities	April 28, 2019	April 27, 2022	4.27%- 4.28%	RMB600 million	Guarantee provided by Mr. Ren and Nanjing BioSciKin Technology, and share pledge provided by Nanjing Huasheng ⁽¹⁾
CDB Development Fund	Borrowing ⁽²⁾	October 21, 2015	March 20, 2019 – October 22, 2025	1.2% ⁽³⁾	RMB72.5 million	Guarantee provided by Mr. Ren and his spouse, Ms. Wang Xi
Total					RMB672.5 million	

Notes:

- (1) Both Nanjing BioSciKin Technology and Nanjing Huasheng are ultimately wholly owned by Mr. Ren.

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- (2) The investment of CDB Development Fund in Hainan Simcere is recognized as a borrowing of our Group with the attributable equity interest of Hainan Simcere held by our Group as to 100%. On March 20, 2019 and March 20, 2020, we paid RMB14 million and RMB14 million to CDB Development Fund, which is recognized as the repayment of the borrowing, for the repurchase of 1.54% and 1.54% of the equity interest in Hainan Simcere held by CDB Development Fund, respectively. The outstanding amount to be repurchased as of the Latest Practicable Date is equal to RMB72.5 million which shall be repaid in five installments according to the relevant maturity dates. For further details of CDB Development Fund's investment in Hainan Simcere, see "History, Reorganization and Corporate Structure."
- (3) Assuming an annual interest rate of 4.9%, which was the benchmark interest rate for loans with maturity period over five years released by the PBOC in October 2015, as a result of such borrowing, our finance costs would have increased hypothetically by RMB3.7 million, RMB3.7 million, RMB3.3 million and RMB1.5 million for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively, representing approximately 6%, 8%, 3% and 2% of our finance costs for the same periods, respectively. Our Directors are of the view that such pro forma finance costs would not have any material impact on our financial performance during the Track Record Period.

We believe that the premature release of the Connected Guarantees or refinancing the Guaranteed Facilities would not be in the best interests of our Company and our Shareholders based on the following reasons:

- (a) the commercial terms of the borrowing we obtained from CDB Development Fund are very favorable to our Group with an annual interest rate at only 1.2%. If we terminate the Connected Guarantees for such borrowing or refinance all or part of such borrowing prematurely, we would incur unnecessary additional costs, expenses and time in doing so, and the terms of any new financing we may obtain may not be as favorable as the borrowing we obtained from CDB Development Fund as mentioned above; and
- (b) the Connected Guarantees cannot be released without the prior approval of the decision-making institution of the relevant lender of the Guaranteed Facilities, the process of which is usually cumbersome and time-consuming. We believe that the early release of the Connected Guarantees under these Guaranteed Facilities would be highly difficult and commercially not feasible. Given the insignificant impact of the Guaranteed Facilities on our Group's overall financing capabilities as illustrated below, it would be unduly burdensome for our Group to expend disproportionate resources to attempt to terminate the Connected Guarantees prior to the relevant due dates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders' guarantees arose in the context of common industry practice with respect to bank facilities provided to a private company group in the PRC. Based on the following circumstances and measures taken by our Group, we believe that the continuation of the Connected Guarantees after the Listing will not affect our ability to operate independently from our Controlling Shareholders and their respective close associates from financial perspectives:

- (a) the Guaranteed Facilities do not account for a significant portion of our total borrowings. As of June 30, 2020, the aggregate balance of the Guaranteed Facilities was RMB672.5 million, representing approximately 17.99% of our Company's total borrowings;
- (b) we have a robust financial position with our cash and cash equivalents amounting to approximately RMB595.9 million for the six months ended and as of June 30, 2020. We believe that we have sufficient working capital to independently settle the amount of the Guaranteed Facilities without obtaining financial assistance from our Controlling Shareholders or their close associates;
- (c) we have a strong track record of obtaining independent financing and we have secured additional financing channels without security or guarantee by our Controlling Shareholders or their respective close associates. From January to June 2020, we obtained additional bank facilities in an aggregate amount of RMB910 million from several commercial banks on normal commercial terms without any security or guarantee from any of our Controlling Shareholders or their close associates. As of June 30, 2020, our independent bank facilities, including credit financing, loans and bank acceptance bills, was in an aggregate amount of approximately RMB3,795.0 million, among which an aggregate amount of approximately RMB1,942.7 million (including certain unutilized facilities amounting to approximately RMB1,094.7 million conditionally granted upon the pledge of deposits or bank acceptance bills) had not been utilized as of June 30, 2020. We believe that key financial institutions in China, where the operations of our Company are mainly carried out, recognize the stand-alone credit of our Company and are willing to grant credit lines without financial assistance from our Controlling Shareholders or their close associates following the Listing.

Save as disclosed herein, as of the Latest Practicable Date, there were no other outstanding loans, advances or non-trade balances due to or from our Controlling Shareholders or their respective close associates, nor were there any other outstanding pledges or guarantees provided for our benefit by our Controlling Shareholders or their respective close associates. Based on the above, our Directors are satisfied that we are able to maintain financial independence from our Controlling Shareholders and their respective close associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CORPORATE GOVERNANCE MEASURES

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

- (a) where a Shareholders' meeting is held for considering any proposed transaction in which any of the Controlling Shareholders has a material interest, the Controlling Shareholder(s) shall abstain from voting on the resolutions and shall not be counted in the quorum for the voting;
- (b) where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the resolutions and shall not be counted in the quorum for the voting;
- (c) any transaction between (or proposed to be made between) our Group and the connected persons shall comply with the relevant requirements of Chapter 14A of the Listing Rules, including the announcement, annual reporting and independent shareholders' approval requirements (if applicable) under the Listing Rules;
- (d) our independent non-executive Directors are independent of our Controlling Shareholders and are appointed in accordance with the requirements under the Listing Rules to ensure that decisions of the Board are made only after due consideration of independent and impartial opinions;
- (e) our independent non-executive Directors will review, on an annual basis, whether there are any conflicts of interest between our Group and our Controlling Shareholders and provide impartial and professional advice to protect the interests of our other Shareholders;
- (f) our Company has appointed China Galaxy International Securities (Hong Kong) Co., Limited as our compliance advisor, which will provide advice and guidance to our Group in respect of compliance with the applicable laws and Listing Rules including various requirements relating to Directors' duties and corporate governance; and
- (g) we have established Audit Committee, Remuneration and Appraisal Committee and Nomination Committee with written terms of reference in compliance with the Listing Rules and the Code of Corporate Governance and Corporate Governance Report in Appendix 14 to the Listing Rules. The majority of the members of the aforementioned committees are independent non-executive Directors.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders and/or Directors to protect the minority Shareholders' rights after Listing.