
RELATIONSHIP WITH THE CONTROLLING SHAREHOLDER

OVERVIEW

As at the Latest Practicable Date, CNNC directly holds 44.47% of our share capital, and indirectly holds 53.97% of our share capital through its controlled entities, i.e., CIAE, NPIC, CNNC Fund, 404 Company and Baoyuan Investment. CIAE and NPIC are public institutes directly controlled and managed by CNNC. CNNC Fund is a company controlled by CNNC. 404 Company is an indirectly wholly-owned subsidiary of CNNC, and Baoyuan Investment is a directly wholly-owned subsidiary of CNNC. Following completion of the Global Offering, CNNC will directly and through the above controlled entities indirectly hold approximately 73.83% of our total enlarged issued share capital in aggregate (assuming no exercise of the Over-allotment Option) and will continue to be our controlling shareholder.

DELINEATION OF BUSINESS AND COMPETITION

Our Principal Business

Our Group is primarily engaged in the research, development, manufacturing and sale of diagnostic and therapeutic radiopharmaceuticals and radioactive source products for medical and industrial applications. We also provide irradiation services for sterilization purpose and EPC services for the design, manufacturing and installation of gamma ray irradiation facilities. In addition, we provide independent clinical laboratory services to hospitals and other medical institutions. For details of the Group's business, please refer to the section headed "Business".

CNNC's Principal Business

CNNC was established on June 29, 1999 as an enterprise owned by the whole people, with a registered capital of RMB19,987,380,000. CNNC (for the description in this sub-section, excluding the Group) is principally engaged in scientific research and development, construction and production operations in nuclear power, nuclear power generation, nuclear fuel, natural uranium, nuclear environmental protection, non-nuclear civilian products, new energy sources, etc. As of December 31, 2017, the total assets of CNNC was approximately RMB517,776.1 million.

CNNC's interests in certain Excluded Entities

As of the Latest Practicable Date, CNNC was entitled to exercise, or control the exercise of, 10% or more of the voting power at the general meeting of the following entities carrying out business which competes, or is likely to compete, directly or indirectly with our principal businesses (the "Excluded Entities")

No.	Name of the Excluded Entities	Equity interest held by CNNC(as of December 31, 2017)	Principal business	Excluded business	Reason for exclusion
1	CIRP	Not applicable, CIRP is a public institute directly controlled and managed by CNNC	Research, development and application in aspects of radiation protection, nuclear emergency and safety, radiological medicine and environmental medicine, nuclear environmental science, radioactive waste management and nuclear facility decommissioning, irradiation technology, environmental protection technology, nuclear electronic information technology, biological material technology, diagnosis and treatment of occupational disease and also provides technical support to national	Irradiation services	The excluded business involves non-operating state-owned assets, which is impractical to be isolated

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No.	Name of the Excluded Entities	Equity interest held by CNNC(as of December 31, 2017)	Principal business	Excluded business	Reason for exclusion
			functional departments with respect to radiation protection and nuclear safety.		
2	CIAE	Not applicable, CIAE is a public institute directly controlled and managed by CNNC	Nuclear physics research, reactor engineering research and design, radiochemical research, fast reactor research and design, isotope research, nuclear technology application and research, radiation safety research	Radioactive sources and reactor irradiation services	The excluded business involves non-operating state-owned assets, which is impractical to be isolated
3	NPIC	Not applicable, NPIC is a public institute directly controlled and managed by CNNC	Nuclear power engineering design, integrated equipment supply of nuclear steam supply system, reactor operation and applied research, reactor engineering experimental research, nuclear fuel and materials research, isotope production and nuclear technology services and applications	Isotope reactor irradiation services and sales of radioactive-source-based instruments	The excluded business involves non-operating state-owned assets, which is impractical to be isolated
4	404 Company	100%	Nuclear research and production, uranium conversion, reprocessing of spent fuel, decommission of nuclear facilities and radioactive waste treatment and disposal	Radioactive sources and recycling of radioactive sources	404 Company is mainly engaged in the scientific research and production in the military industry, and the excluded business is not the principal business of 404 Company and is impractical to be isolated
5	CNEIC	100%	Import and export trade of uranium products, nuclear fuel cycling equipment and nuclear power technologies and equipment	Import agency services for radioactive isotopes, radioactive therapeutic apparatus	CNEIC is an integrated platform for the import and export of nuclear power equipment of CNNC, the excluded business is not the principle business of CNEIC and is impractical to be isolated
6	Yunke Pharm	47.89%	Technical research of radiopharmaceuticals, product development, production and sales, technical consultancy and technical services	Iodine-125 sealed source and Yunke injection	The controlling shareholder of Yunke Pharm is a listed company which is an Independent Third Party. CNNC has no control over its decision-making process

CIRP

CIRP is a public institute directly controlled and managed by CNNC. CIRP is primarily engaged in the research, development and application in aspects of radiation protection, nuclear emergency and safety, radiological medicine and environmental medicine, nuclear environmental science, radioactive waste management and nuclear facility decommissioning, irradiation technology, environmental protection technology, nuclear electronic information technology, biological material technology, diagnosis and treatment of occupational disease and also provides technical support to national functional departments with respect to radiation protection and nuclear safety. As of December 31, 2017, the total assets of CIRP were approximately RMB1,063.04 million.

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Prior to the Listing of the Company, CIRP was engaged in certain irradiation service business similar to that of the Group. Based on the following reasons, the Directors of the Company consider that there is no substantial competition between the Group and CIRP in this regard:

- CIRP's irradiation service business was much smaller in scale as compared to that of the Group. For each of the three years ended December 31, 2015, 2016 and 2017, the revenue and gross profit CIRP derived from irradiation service business accounted for not more than 1.05% and 0.48% of those of the Group, respectively.
- Irradiation service business was not and will not become CIRP's core business or business development focus in the future. For each of the three years ended December 31, 2015, 2016 and 2017, irradiation service business accounted for not more than 0.13% and 0.30% of CIRP's revenue and gross profit, respectively.

On August 12, 2016, the Company entered into a non-competition and strategic cooperation agreement (the "**CIRP's Non-competition Undertaking**") with CIRP, pursuant to which (i) the Company will provide CIRP with fund for its high-end irradiation research and development. The amount of the fund will be determined in accordance with the specific filing reports of the scientific research projects which CIRP submits to the Company on an annual basis; (ii) CIRP will discontinue its external irradiation business, and can only use its related irradiation facilities for internal scientific research for CIRP and its member units. CIRP's Non-competition Undertaking will be valid from the Listing Date until the earlier of: (i) the delisting of the H shares of the Company; (ii) termination of the agreement as agreed by the parties due to material changes in the conditions and circumstances for performance of the agreement; or (iii) any party being unable to perform the agreement due to bankruptcy by court orders, force majeure, etc. For details of the fund provided by the Company to CIRP for high-end irradiation research and development, please refer to the paragraph headed "Connected Transactions — Non-exempted Transactions — Products and Services Supply Framework Agreement".

After the Listing, according to CIRP's Non-competition Undertaking, CIRP could only provide irradiation services and the relevant research services for its internal use purpose. As a result, the target customers of CIRP will be clearly delineated from the Group's target customers. Based on the above, the Directors of the Company consider there is no substantial competition between CIRP and the Group in this regard.

CIAE

CIAE is a public institute directly controlled and managed by CNNC. CIAE is primarily engaged in nuclear physics research, reactor engineering research and design, radiochemical research, fast reactor research and design, isotope research, nuclear technology application and research, radiation safety research. As of December 31, 2017, the total assets of CIAE were approximately RMB13,311.01 million.

Prior to the Listing of the Company, CIAE was engaged in the business of radioactive sources and reactor irradiation services which were similar to those carried out by the Group. Based on the following reasons, the Directors of the Company consider that there is no substantial competition between the Group and CIAE in this regard:

- CIAE's business of radioactive sources and reactor irradiation services were much smaller in scale as compared to that of the Group. For each of the three years ended December 31,

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2015, 2016 and 2017, the revenue and gross profit CIAE derived from radioactive sources and reactor irradiation services accounted for not more than 1.98% and 0.81% of those of the Group.

- Radioactive sources and reactor irradiation services were not and will not become CIAE's core business or business development focus in future. For each of the three years ended December 31, 2015, 2016 and 2017, CIAE's radioactive sources and reactor irradiation services accounted for no more than 2.54% of its total revenue.

On August 1, 2016, the Company entered into a non-competition and exclusive sales cooperation agreement (the "**CIAE's Non-competition Undertaking**") with CIAE in respect of radioactive sources, isotope and irradiation business, pursuant to which (i) the Company will be an exclusive sales agent of the standard radioactive sources produced by CIAE; (ii) the Company may consider acquiring a controlling stake in Beijing Leike Mechatronic Engineering Technology Co., Ltd., ("**Leike**") a subsidiary of CIAE, from CIAE at a market price as and when appropriate, and will be an exclusive sales agent of the non-destructive testing radioactive sources produced by Leike before the completion of such acquisition; and (iii) CIAE will no longer provide Independent Third Parties with isotope reactor irradiation services that are the same as those to be provided to the Company. The CIAE's Non-competition Undertaking will be effective from the Listing Date until the earlier of: (i) the delisting of H shares of the Company; (ii) termination of the agreement as agreed by the parties due to material changes in conditions and circumstances for performance of the agreement; or (iii) any party being unable to perform the agreement due to bankruptcy by court orders, force majeure, etc.

Pursuant to CIAE's Non-competition Undertaking, on August 30, 2016, the Company and CIAE entered into an exclusive sales agreement in respect of the standard radioactive sources and non-destructive testing radioactive sources. Under the exclusive sales agreement, the Company is a distributor rather than an agent of the standard radioactive sources and non-destructive testing radioactive sources produced by CIAE and/or its associates. There's no agency fee arrangement between the Company and CIAE. With respect to standard radioactive sources, the Company itself doesn't produce, and is the exclusive distributor of, the standard radioactive sources produced by CIAE. With regard to the non-destructive testing radioactive sources, both the Company and Leike produce non-destructive testing radioactive sources. Before our acquisition of Leike, the Company will coordinate with CIAE with respect to the production volume of non-destructive testing radioactive sources based on the market demand in each year. Particularly, the Company will firstly estimate the market demand and allocate the production plan to each of the Company and Leike. As the Company will have the right to decide the general production plan of radioactive sources between the Company and CIAE and/or its associates upon the Listing, through such arrangement the Company is able to ensure that there will not be any substantial competition between the Group and CIAE and/or its associates in respect of radioactive sources, and that the transactions under the Exclusive Sales Agreement for Radioactive Resources are in the interests of the Company and the Shareholders as whole. For details of such exclusive sales agreement, please refer to the paragraph headed "Connected Transactions — Non-exempt Continuing Connected Transactions — Exclusive Sales Agreement for Radioactive Sources".

Since CIAE will cease to conduct the above-mentioned businesses in the market after the Listing, there will be no substantial competition between CIAE and the Group in this regard.

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NPIC

NPIC is a public institute directly controlled and managed by CNNC. NPIC is primarily engaged in nuclear power engineering design, integrated equipment supply of nuclear steam supply system, reactor operation and applied research, reactor engineering experimental research, nuclear fuel and materials research, isotope production and nuclear technology services and applications. As of December 31, 2017, the total assets of NPIC was approximately RMB15,746.11 million.

Prior to the Listing of the Company, NPIC was engaged in the businesses of isotope reactor irradiation services and sales of radioactive-source-based instruments, which were similar to those carried out by the Group. Based on the following reasons, the Directors of the Company consider that there is no substantial competition between the Group and NPIC in this regard:

- NPIC's radioactive sources and sales of radioactive-source-based instruments business were much smaller in scale as compared to that of the Group. For each of the three years ended December 31, 2015, 2016 and 2017, the revenue and gross profit NPIC derived from the businesses of isotope reactor irradiation services and sales of radioactive-source-based instruments accounted for not more than 0.34% and 0.19% of those of the Group.
- Radioactive sources and sales of radioactive-source-based instruments businesses were not and will not become NPIC's core business or business development focus in the future. For each of the three years ended December 31, 2015, 2016 and 2017, radioactive sources and sales of radioactive-source-based instruments businesses accounted for no more than 0.24% and 0.70% of NPIC's revenue and gross profit, respectively.

On August 5, 2016, the Company entered into a non-competition and exclusive sales agency agreement (the "**NPIC's Non-competition Undertaking**") with NPIC, which provided that:

(i) Isotope reactor irradiation services

NPIC will no longer provide third parties with isotope reactor irradiation services which are the same as those provided to the Company; and

(ii) Radioactive-source-based instruments

NPIC will be an exclusive sales agent of the radioactive-source-based instruments imported by our Company to the extent that they compete with the radioactive-source-based instruments produced by NPIC. The Company will no longer sell radioactive-source-based instruments within the above scope in the domestic market. Pursuant to the NPIC's Non-competition Undertaking, the Company has entered into a product and service supply framework agreement with CNNC in respect of the supply of radioactive-source-based instruments to CNNC and its associates (including NPIC). For details of the product and service supply framework agreement, please refer to the paragraph headed "Connected Transactions — Non-exempt Continuing Connected Transactions — Products and Services Supply Framework Agreement".

NPIC's Non-competition Undertaking will be effective from the Listing Date until the earlier of: (i) the delisting of the H Shares of the Company; (ii) termination of the agreement as agreed by the parties due to material changes in conditions and circumstances for performance of the agreement; or (iii) any party being unable to perform the agreement due to bankruptcy, by court orders, force majeure, etc.

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Based on the above, our Directors are of the view that NPIC and the Group have no substantial competition in this regard.

404 Company

404 Company was established on May 24, 1986 in PRC. As at the Latest Practicable Date, China Nuclear Fuel Corporation (中國核燃料有限公司), a wholly-owned subsidiary of CNNC, held 100% equity interests in 404 Company. 404 Company is primarily engaged in nuclear research and production, uranium conversion, reprocessing of spent fuel, decommission of nuclear facilities and radioactive waste treatment and disposal. As of December 31, 2017, the total assets of 404 Company were approximately RMB17,197.13 million.

Prior to the Listing of the Company, 404 Company was engaged in the businesses of radioactive sources and recycling of radioactive sources, which are similar to those carried out by the Group. Based on the following reasons, the Directors of the Company consider that there is no substantial competition between the Group and 404 Company in this regard:

- 404 Company's radioactive sources and recycling of radioactive sources business were much smaller in scale as compared to that of the Group. For each of the three years ended December 31, 2015, 2016 and 2017, the revenue and gross profit 404 Company derived from the above excluded businesses accounted for no more than 0.04% and 0.01% of those of the Group.
- Radioactive sources and recycling of radioactive sources business were not and will not become 404 Company's core business or business development focus in future. 404 Company recorded a loss for the year ended December 31, 2015, and suspended its operation in the year of 2016, for the radioactive sources and recycling of radioactive sources business. For the year ended December 31, 2017, 404 Company's radioactive sources and recycling of radioactive sources business only accounted less than 0.01% of its revenue.

On August 18, 2016, the Company entered into a non-competition and exclusive sales cooperation agreement (the “**404 Company's Non-competition Undertaking**”) with 404 Company, pursuant to which, the Company will be an exclusive sales agent of (i) radioactive source produced by 404 Company; and (ii) the radioactive sources produced through the recycling of waste radioactive sources by 404 Company, which are the same as those of the Company. 404 Company's Non-competition Undertaking will be effective from the Listing Date until the earlier of: (i) the delisting of the H shares of the Company; (ii) termination of the agreement as agreed by the parties due to material changes in conditions and circumstances for performance of the agreement; or (iii) any party being unable to perform the agreement due to bankruptcy by court orders, force majeure, etc.

Based on the above, there will be no substantial competition between 404 Company and the Group in this regard after the Listing.

CNEIC

CNEIC was established in the PRC on January 15, 1982. CNEIC is primarily engaged in the import and export trade of uranium products, nuclear fuel cycling equipment and nuclear power technologies and equipment and other business. As of December 31, 2017, the total assets of CNEIC were approximately RMB52,755.73 million.

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Prior to the Listing, CNEIC was engaged in the businesses of import agency services for radioactive isotopes and radioactive therapeutic apparatus, which were similar to those of the Group. Based on the following reasons, the Directors of the Company consider that there is no substantial competition between the Group and CNEIC in this regard:

- CNEIC's import agency services for radioactive isotopes and radioactive therapeutic apparatus business were much smaller in scale as compared to that of the Group. For each of the three years ended December 31, 2015, 2016 and 2017, the revenue and gross profit CNEIC derived from such businesses accounted for not more than 0.05% and 0.07% of those of the Group.
- Import agency services for radioactive isotopes and radioactive therapeutic apparatus business was not and will not become CNEIC's core business or business development focus in future. For each of the three years ended December 31, 2015, 2016 and 2017, such business carried out by CNEIC accounted for no more than 0.005% and 0.08% of its revenue and gross profit, respectively.

On August 18, 2016, the Company entered into a non-competition agreement (the “**CNEIC's Non-competition Undertaking**”) with CNEIC, pursuant to which CNEIC and its subsidiaries will no longer engage or participate in the business that directly or indirectly compete with our Group's businesses of radioactive isotopes and products and radioactive therapeutic apparatus import agency. The CNEIC's Non-competition Undertaking will be effective from August 18, 2016 until the any of the following events occurs: (i) CNNC ceases to be the controlling shareholder of the Company; or (ii) the delisting of H shares of the Company (except for the temporary suspension of trading). As CNEIC will no longer engage in the above business, it therefore would not compete with the Group in this regard after the Listing.

Yunke Pharm

Yunke Pharm was incorporated as a limited liability company on July 5, 2001. As at December 31, 2017, CNNC held 47.89% equity interests in Yunke Pharm through NPIC, and Yantai Dongcheng Pharmaceutical Group Co., Ltd (the “**Dongcheng Pharmaceutical**”) held the remaining 52.11% equity interests in Yunke Pharm. Dongcheng Pharmaceutical is a joint stock limited company listed on the Shenzhen Stock Exchange (stock code: 002675) and is an Independent Third Party. According to the 2016 annual report of Dongcheng Pharmaceutical which was prepared in accordance with the PRC GAAP, as of December 31, 2017, the total assets, revenue, profit and net profit of Yunke Pharm were approximately RMB652.8 million, RMB320.3 million, RMB168.1 million and RMB141.0 million, respectively.

Yunke Pharm's main business includes the production and sale of in vivo radioactive medicines (small volume injections, freeze-dried powder injections and in vivo implants), in vitro radioactive diagnostic reagents. Yunke Pharm's main products include injections for rheumatoid arthritis and other autoimmune and orthopedic diseases and iodine 125 sealed sources (the “**Yunke's Excluded Business**”). HTA, a subsidiary of the Group, is also developing drugs for the treatment of autoimmune and orthopedic diseases such as rheumatoid arthritis, and producing and selling iodine 125 sealed sources. However, the Directors are of the view that the competition between Yunke Pharm and the Group is limited.

- a) For each of the three years ended December 31, 2015, 2016 and 2017, HTA's business which is similar to Yunke's Excluded Business accounted for no more than 4.11% and 0.55% of the revenue and gross profit of the Group.

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- b) Since Yunke Pharm is a subsidiary of Dongcheng Pharmaceutical, an A-share listed company, Yunke Pharm's operation and investment decisions are made by its directors and senior management team. The existing board of directors of Yunke Pharm comprises of seven directors, three of whom are appointed by NPIC. As of the Latest Practicable Date, there is no overlapping director between the Company and Yunke Pharm. NPIC has established an information Chinese wall system in respect of the information relating to the competing business between Yunke Pharm and us to ensure that the directors, supervisors and senior management appointed by NPIC in Yunke Pharm on the one hand, and in our Group on the other hand will neither exchange the information on such competing businesses or any potential competing business between Yunke Pharm and us in the future, nor to use the relevant information to make such commercial decisions detrimental to the business operation of the Group. During the period of the Company's H Shares are listed on the Stock Exchange, NPIC will ensure that the directors, supervisors and senior management appointed by it in Yunke Pharm on the one hand, and in our Group on the other hand, be independent from each other and do not overlap. Moreover, according to the Company Law of the PRC, a director of a company incorporated in the PRC shall act in the best interests of the company's shareholders in respect of the affairs of that company and shall not take any action solely for the purpose of guaranteeing the interests of the shareholders who nominated him.
- c) Directors of Yunke Pharm shall also comply with the relevant requirements of the stock exchanges, including the equal treatment of the relevant shareholders and the independent operation of a PRC listed group, and shall seek the independent shareholders' approval for certain matters, in particular the connected transactions in which the shareholders have a significant interest, including determining whether to inject any business into the Company and whether to compete with the Group. Therefore, it is not feasible to obtain any commitment from CNNC or NPIC to inject Yunke Pharm's business into our Group or any non-competition commitment from Yunke Pharm. In this regard, the non-competition undertaking of CNNC does not cover Yunke Pharm.

Production and Sale of Isotope Raw Materials

Each of CIAE, NPIC and 404 Company is capable of producing isotope raw materials by using its respective nuclear reactors and other facilities. However, as of the Latest Practicable Date, none of CIAE, NPIC and 404 Company produces or plans to produce isotope raw materials. To avoid the potential competition between us and CIAE, NPIC and 404 Company, each of CIAE, NPIC and 404 Company has undertaken to us that if it starts to produce isotope raw materials, the Company will be the exclusive sales agent for such isotope raw materials. The Company will fully comply with the relevant requirements of the Listing Rules (including but not limited to Chapter 14A of the Listing Rules) when it enters into transactions with CIAE, NPIC and/or 404 Company.

Save as disclosed above, neither our controlling shareholder nor any of our Directors was, as of the Latest Practicable Date, interested in any business which competes or is likely to compete, directly or indirectly, with the Group's principal business and would otherwise require disclosure under Rule 8.10 of the Listing Rules.

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NON-COMPETITION UNDERTAKING

To avoid the potential competition between CNNC and the Group, CNNC issued a non-competition undertaking (the “**Non-competition Undertaking**”) to our Company on June 16, 2018, pursuant to which CNNC shall not, and shall procure that its associates (excluding the Group and Yunke Pharm) not to, engage in any business which, directly or indirectly, competes with the business of the Company, including nuclear medicine products and application service, radioactive source products and application service, irradiation and irradiation facilities related services, independent clinical laboratory services, etc. (the “**Restricted Business**”) within the period during which (i) the H Shares of our Company are listed on the Stock Exchange (including the circumstances under which trading of our H Shares is suspended in accordance with the Listing Rules), and (ii) CNNC and its associates (excluding the Group and Yunke Pharm) may, individually or collectively, exercise or control the exercise of not less than 30% of the voting rights or are deemed as the controlling shareholders of the Group.

The above Non-competition Undertaking does not apply in the following circumstances:

- (i) CNNC having interests in any member of our Group; or
- (ii) CNNC having interests in a company other than our Group, provided that:
 - (a) any business (or its related assets) carried out or engaged by such company accounts for less than 10% of the Group’s consolidated income and consolidated assets as shown in the most recent audited accounts of the Group;
 - (b) CNNC and its associates (excluding the Group) have no right to appoint majority of the directors of such company. In addition, there must be at least one shareholder of such company holding more interest than the total interest held by CNNC and its associates, or the company is controlled by a third party; and
 - (c) CNNC and its associates (excluding the Group) have not controlled the board of directors of the company.
- (iii) To the extent that CNNC and/or its associates do not control Yunke Pharm, CNNC and/or its associates directly or indirectly holding the equity interests of Yunke Pharm.

Option for New Business Opportunities

CNNC has undertaken in the Non-competition Undertaking that if CNNC and its associates (excluding the Group) become aware of, have received notice about, are recommended or provided with new business opportunities which will directly or indirectly compete with the Restricted Business, including but not limited to the opportunities which are the same as or similar to the Restricted Business (the “**New Business Opportunities**”), CNNC shall refer or recommend, and shall procure its associates (excluding the Group) to refer or recommend the New Business Opportunities to our Group subject to relevant laws, requirements or contractual arrangements with third parties in accordance with the following:

- (i) CNNC shall provide our Group with a written notice which includes all reasonable and necessary information known to CNNC and/or its associates (excluding the Group) (including but not limited to the nature of the New Business Opportunities and necessary information relating to the cost of the relevant investment or acquisition, if any) for our Group to consider (a) whether the New Business Opportunities constitute competition or

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potential competition to the Restricted Business; and (b) whether engaging in such New Business Opportunities would be in the best interests of our Group (the “**Offer Notice**”); and

- (ii) the Group shall respond to CNNC and/or its associates (excluding the Group) within 30 days upon receipt of the Offer Notice. If our Group fails to reply to CNNC and/or its associates (excluding the Group) within the above period, it shall be deemed to have abandoned the New Business Opportunities. If our Group determines to take up the New Business Opportunities, CNNC and/or its associates (excluding the Group) would be obligated to offer such New Business Opportunities to our Group.

Pre-emptive Right

CNNC has undertaken that if CNNC and/or its associates (excluding the Group) intend to transfer, sell, lease or grant license to a third party any businesses engaged in by CNNC and/or its associates which competes or may compete with the Restricted Business or any other businesses which would cause direct or indirect competition with the Restricted Business, it shall offer our Group such opportunity with a pre-emptive right on equal terms subject to the relevant laws, regulations and contractual arrangements with third parties in accordance with the followings:

- (i) CNNC and/or its associates (excluding the Group) shall provide the Company with written notice no later than the time of any such disposal (the “**Disposal Notice**”). For the avoidance of doubt, CNNC and/or its associates (excluding the Group) are entitled to provide information and/or a Disposal Notice relating to such disposal to any third parties at the same time as or after providing the Disposal Notice to the Company;
- (ii) the Company shall reply to CNNC and/or its associates (excluding the Group) in writing by whichever is the later of the 30th day after receipt of the Disposal Notice or the expiration of the period offered to third parties for them to reply, before exercising the pre-emptive right;
- (iii) if the Company intends to exercise such pre-emptive right, the terms shall be determined with reference to fair market price; and
- (iv) CNNC and/or its associates (excluding the Group) shall not dispose of such businesses and interests to any third parties unless (a) the Company declines to purchase such businesses and interests in writing; (b) the notice of exercising such pre-emptive right has not been received by CNNC and/or its associates (excluding the Group) from the Company by whichever is the later of the 30th day after receipt of the Disposal Notice and the expiration of the period offered to third parties for them to reply; or (c) the Company fails to offer CNNC and/or its associates (excluding the Group) the same or more favorable terms of acquisition than those offered by any third parties to CNNC and/or its associates. For the avoidance of doubts, under such circumstances if CNNC and/or its associates have been in legal proceedings with third parties for disposal of such businesses and interests, the Company shall not exercise the Option for Purchase.

For the avoidance of doubts, the terms of disposal offered by CNNC and/or its associates (excluding the Group) to any third parties shall not be more favorable than those to be offered to the Company.

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Option for Purchase

To the extent that no relevant laws and regulations are breached and agreements with third parties are complied with, the Company is entitled to acquire any businesses operated by CNNC and/or its associates (excluding the Group) which compete or may compete with the Restricted Business or have the option to acquire any businesses or any interests engaged by CNNC and/or its associates (excluding the Group) through the New Business Opportunities (the “**Option for Purchase**”). The Company is entitled to exercise the Option for Purchase at any time, and CNNC and/or its associates (excluding the Group) shall offer the Option for Purchase to the Company on the condition that the commercial terms of a proposed acquisition shall be arrived at solely by a committee consisting of our independent non-executive Directors after consulting the views of independent experts. Furthermore, such commercial terms shall in line with the normal commercial practice of the Company, and is fair, reasonable and in the interests of the Company as a whole through the negotiation with CNNC and its associates (excluding the Group).

However, if a third party has pre-emptive rights in accordance with applicable laws and regulations and/or a prior legally binding document (including but not limited to articles of association and/or shareholders’ agreements), the Company’s Option for Purchase shall be subject to such third-party rights. In such case, CNNC and/or its associates (excluding the Group) will use their best efforts to persuade the third party to waive its pre-emptive rights.

CNNC’s Further Undertakings

CNNC has further undertaken that, subject to relevant laws, regulations or contractual arrangements with third parties:

- (i) at the request of the Company, it shall provide, and shall procure its associates (excluding the Group) to provide, any necessary information for the implementation of the Non-competition Undertaking;
- (ii) it shall allow the authorized representatives or auditors of the Company to have reasonable access to the financial and corporate information necessary for its transactions with third parties, which would assist the Company to evaluate whether CNNC and/or its associates have complied with the Non-competition Undertaking; and
- (iii) within 15 days of receipt of the written request from the Company, which is made in accordance with relevant regulatory requirements, it shall provide necessary confirmation in writing to the Company as to the performance of the Non-competition Undertaking by CNNC and its associates (excluding the Group) as well as the consent to allow such confirmation to be included in the Company’s annual reports.

Corporate Measures in Relation to the Implementation of the Non-competition Undertaking

Our Company will also adopt the following procedures to ensure that the undertakings under the Non-competition Undertaking are observed:

- (i) *Review by independent non-executive Directors* — our independent non-executive Directors will be responsible for reviewing New Business Opportunities, pre-emptive right and Option for Purchase granted by CNNC, and for deciding whether or not to take up business opportunities as referred to in the Offer Notice, Disposal Notice and/or the Option for Purchase. In deciding whether to take up such business opportunities, our

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independent non-executive Directors will consider various factors, including the due diligence to be conducted towards the target businesses, the purchase prices, the benefits that it will bring to our Group, as well as whether we have adequate management and resources to manage and operate the business operations of such businesses.

- (ii) *Increased transparency* — CNNC has undertaken that it will provide all information necessary for the exercise of the options for New Business Opportunities, pre-emptive right and Option for Purchase. We will provide our independent non-executive Directors with the Offer Notice or Disposal Notice (as the case may be) on the New Business Opportunity or pre-emptive rights referred to us by CNNC within seven days of receipt, and our independent non-executive Directors may propose the exercise of the Option for Purchase at any time.
- (iii) *Public disclosure of decisions* — our Company will disclose decisions on matters reviewed by our independent non-executive Directors related to the exercise or non-exercise of options for New Business Opportunities, the pre-emptive rights and the Option for Purchase either in our annual reports, or by way of announcements to the public. Our independent non-executive Directors will report in our annual reports (a) their findings on the compliance by CNNC with the Non-competition Undertaking and (b) any decision made pursuant to the Options for New Business Opportunities, the pre-emptive right and the Option for Purchase granted to the Company, and the basis of such decision.
- (iv) *Consultancy Committee* — In order to assist the Company's Independent Non-executive Directors to better supervise the implementation of the Non-competition Undertaking, the Company also plans to establish a consultancy committee comprised of external experts to advise and train the Independent Non-executive Directors regarding technical matters. For details, please refer to the paragraph headed "Directors, Supervisors and Senior Management — Additional Corporate Measures to assist Independent Non-executive Directors" of this prospectus.

Termination of the Non-competition Undertaking

The Non-competition Undertaking will become effective upon the Listing. It will be terminated upon the earlier of the followings:

- (i) CNNC and its associates (excluding the Group) individually or collectively exercise or control the exercise of less than 30% of the voting rights in the Company's general meetings, or are no longer deemed as the controlling shareholders of the Group according to relevant listing rules, security transaction laws or other related laws; or
- (ii) our H Shares ceasing to be listed on the Stock Exchange (except in the circumstances under which our H Shares are temporarily suspended from the Listing in accordance with the Listing Rules).

In light of the above, our Directors are of the view that our Company has taken all appropriate and practicable measures to ensure the compliance of CNNC with its obligations under the Non-competition Undertaking.

INDEPENDENCE FROM CNNC

Taking into consideration the following factors, our Directors believe that we can conduct our business independently from CNNC and its close associates after the Global Offering.

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Management Independence

Our Board of Directors consists of nine Directors (including three executive Directors, three non-executive Directors and three independent non-executive Directors). Among the nine Directors, only three non-executive Directors have taken management positions in CNNC and its close associates.

<u>Name</u>	<u>Position in the Company</u>	<u>Position in CNNC and its close associates (excluding the Group) as of the Latest Practicable Date</u>
Meng Yanbin	Executive Director, Chairman of the Board	No
Wu Jian	Executive Director	No
Du Jin	Executive Director	No
Zhou Liulai	Non-executive Director	Secretary of the Party Committee and Deputy Dean of CIAE
Luo Qi	Non-executive Director	Dean of the NPIC
Wang Guoguang	Non-executive Director	Director of the general office of CNNC
Guo Qingliang	Independent non-executive Director	No
Meng Yan	Independent non-executive Director	No
Hui Wan Fai	Independent non-executive Director	No

Save as disclosed above, none of our Directors or senior management held any position in CNNC or its close associates. The Company and CNNC and its close associates are managed by separate management teams. Hence, we have the sufficient management team members who do not hold any position in CNNC or its close associates, and are independent and have the adequate relevant experience to ensure the normal operation of the day-to-day business and management of the Company.

Our Directors believe that the Company can manage its business independently from CNNC and its close associates after the Listing for the following reasons:

- Our management reports to the executive Directors and the executive Directors report to the Board in according to our internal reporting process. The Board generally supervises and monitors the performance of the management team through periodic reports submitted by the executive Directors, regular meetings and interim meetings of the Board, and reviews and approves the major matters beyond the management's authority;
- None of our Directors or senior management holds any equity interest in CNNC or its close associates;
- Our Directors are well aware of their fiduciary duties which, among other things, require them to act in the best interests of the Company and the Shareholders as a whole; and
- In the event of any conflict of interest or potential conflict of interest in relation to the transactions between the Company and CNNC or its close associates, the interested Directors shall abstain from voting on the resolutions to approve the aforesaid matters, and shall not be counted into the quorum or participate in the discussion (except for being specially invited to be present by non-interested Directors), therefore the Director holding other positions in CNNC and/or its close associates will not affect the independence of his/her directorship in our Company or the independence of the Board.

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Based on the above, our Directors consider that our management can operate our business independently from CNNC and/or its close associates.

Operational Independence

The Company has sufficient funds, properties, equipment, technologies and human resource to independently operate its own businesses and has the qualifications necessary for engaging in the principal businesses of the Group. The Company is independent of CNNC and its close associates and has its own tangible assets and intangible assets as well as registered trademarks (other than certain trademarks licensed by CNNC), permits, goodwill, brands, know-how and other intangible assets, which enables the Company to operate its businesses independently from CNNC and its close associates. We have established a nationwide product sales network with experienced management team and excellent professional technicians, all of which are independent of CNNC. Currently, we make operational decisions independently of CNNC and its close associates. We have our own organizational structure with self-governing departments, each with specific areas of responsibility.

We also maintain a set of comprehensive internal control procedures to facilitate the effective operation of our business. We carried out business with our customers and suppliers independently. We have independent human resources management. We have obtained relevant licenses, approvals and permits from the relevant regulatory authorities that are important to our business in China.

Due to the features and characteristics of our businesses, we entered into certain connected transactions with CNNC and/or its associates in respect of some of our business segments. For details of these connected transactions, please refer to the section headed “Connected Transactions” of this prospectus.

1. Trademark License

The Company is licensed by CNNC to use certain trademarks owned by CNNC on royalty-free basis, which is a common practice among state-owned enterprises. We also owned certain registered trademarks for our key products which we consider to be material to our business. For details, please see “Statutory and General Information” of this prospectus.

2. Custodian Service

The Company provides custodian service to Dalian Institute of Applied Technology (the “Custodian Target Company”) on behalf of CNNC to avoid potential competition between the Group and the Custodian Target Company in respect of irradiation services. The Company provides such custodian service and receives annual custodian service fee based on the actual administrative cost incurred by the Company from the Custodian Target Company and so does not rely on CNNC in this regard.

3. Property & Equipment Leasing and Related Services

- (i) office buildings, land and office facilities

We leased from CNNC and/or its associate a small amount of office buildings, land and office facilities for administrative purpose. We believe there are sufficient substitute suppliers for such office buildings, land and office facilities who are Independent Third Parties on the market.

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(ii) production plants, facilities and equipment

We leased (i) certain production plants for our business operations, including the production of technetium-99m labeled injections, fluorine-18-FDG injections, iodine-125 sealed source, etc; (ii) production facilities owned by CNNC and/or its associates to treat and dispose of the radioactive wastes generated during our production of radioactive products; and (iii) certain production equipment (mainly high-power accelerator) to produce fluorine-18-FDG injections from CNNC and/or its associates.

Due to the industry features, CNNC (including its associates, as the case may be) is the only entity approved by the relevant PRC authorities to establish and construct the relevant production plants, facilities and equipment which can satisfy our Group's demand for the said production, processing and waste treatment and disposal. In view of CNNC's dominant market position, it is unlikely for our Company to break off reliance on CNNC in this respect at the current stage. However, the Group has commenced building production, research and development bases for imaging diagnostic and therapeutic radiopharmaceuticals in Chengdu, Sichuan province, which are expected to be completed in 2019, and plans to commence building of Xianghe, Hebei province in late 2018. Once put into use, the Group will relocate the production of most of the radiopharmaceuticals to Chengdu and Xianghe and use the production plants, facilities and equipment in Chengdu and Xianghe for the above-mentioned production, processing and waste treatment and disposal. As such, the level of reliance on the plants, facilities and equipment of CNNC and/or its associates will decrease in the future.

(iii) Services relating to common areas and facilities

CNNC and/or its associates also provided the Group's employees with certain services relating to common areas and facilities. The Company believes that such services do not and will not affect the Group's operational independence.

4. Products and Services Supply

The Group sells radioactive source products, radioactive instruments and pharmaceuticals to CNNC and/or its associates as well as Independent Third Parties in its ordinary course of business. The revenue generated from selling radioactive source products, radioactive instruments and pharmaceuticals to CNNC and/or its associates accounted for approximately 3.3%, 2.3% and 2.0% of the Group's total revenue for each of the three years ended December 31, 2015, 2016 and 2017, respectively. Therefore, the Company believes these connected transactions will not affect the Group's operational independence in material aspects.

5. Products and Services Purchase

We purchased the follow products and services from CNNC and its associates:

- (i) raw and auxiliary materials, production equipment and other products; (ii) transportation containers (including the related design and manufacturing services); (iii) technical testing and irradiation services;

The purchase amount of the above products and services from CNNC and/or its associates accounted for approximately 5.90%, 6.27% and 7.52% of our Group's total purchase amount for each of the three years ended December 31, 2015, 2016 and 2017, respectively. We also purchased such raw

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and auxiliary materials, transportation containers and technical testing and irradiation services from other suppliers who are Independent Third Parties on the market.

(iv) encapsulation and processing services of cobalt-60 radioactive sources

Due to the radioactive feature of cobalt-60 radioactive sources, CNNC (including its associates, as the case may be) is the only entity in China licensed by the PRC environmental protection authorities to carry out encapsulation and processing services of cobalt-60 radioactive sources. However, our revenue generated from cobalt-60 source only accounted for approximately 2.90% of our total revenue for each of the three years ended December 31, 2015, 2016 and 2017 on average. In light of the above, it is unlikely for our Group to break off the reliance on CNNC in terms of encapsulation and processing services of cobalt-60 radioactive sources and the risk of reliance is not specific to the Company. However, given the small amount of revenues generated from this business area during the Track Record Period, the Company believes that the reliance on CNNC in terms of encapsulation and processing services of cobalt-60 radioactive sources is not so excessive as to affect the Company's capability of maintaining its revenue in the future.

(v) scientific research services related to high-end irradiation research and development

The Company entered into a non-competition undertaking (the "**CIRP Non-competition Undertaking**") with CIRP to avoid competition between the Group and CNNC and/or its associates in respect of irradiation services. Pursuant to the CIRP Non-competition Undertaking, CIRP shall provide scientific research services related to high-end irradiation research and development to the Company. For details, please refer to "Relationship with the Controlling Shareholder – Delineation of Business and Competition – CIRP".

6. Exclusive Sales of Radioactive Sources

Both the Group and CIAE own the capacity to produce radioactive sources. In order to avoid competition between the Group and CIAE, the Company and CIAE entered into a non-competition undertaking (the "**CIAE Non-competition Undertaking**") pursuant to which the Company shall be the exclusive sales agent for the radioactive sources produced by CIAE. For details, please refer to "Relationship with the Controlling Shareholder – Delineation of Business and Competition – CIAE". As mentioned above, we also sell radioactive source products produced by ourselves to CNNC and/or its associates as well as Independent Third Parties in our ordinary course of business. As disclosed in the paragraph headed "Connected Transactions – Non-exempt Continuing Connected Transactions – 5. Cobalt-60 Radioactive Sources Supply and Related Services Framework Agreement", we expect that the amount of this transaction will not be significant in the future.

7. Transactions with connected subsidiaries

The Company also entered into several types of connected transactions with its connected subsidiaries, CNNC Tongxing and Headway. Given that the Company controls the majority shareholding interests in these two subsidiaries, the Board believes that these connected transactions will not affect the Group's operational independence in material aspects.

Our Directors believe that taking into account our stable relationship with CNNC and its close associates and their experience, market position, familiarity with our business demand and service quality, such transactions are entered into through arm's length negotiation on normal commercial terms in the ordinary business course of the Company and are fair, reasonable and in the interest of the Shareholders as a whole.

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The Company has adopted a series of corporate governance measures, such as the rules of procedure for general meetings, the rules of procedures for board meetings and the rules for connected transactions.

Based on the above, our Directors believe that from the perspective of business operation, the Company is independent of CNNC and its close associates and our continuing business relationship with CNNC and its close associates is in our best interest and will be implemented on ordinary commercial terms under the principle of fairness.

Financial Independence

We have sufficient capital and bank credit to operate our business independently, and have sufficient internal resources to support our day-to-day operations. We have access to independent third party financial institutions and are not required to rely on any guarantee or mortgage from CNNC or its close associates to obtain the relevant financing.

We have an independent finance department comprising of our own staff, and have established a sound independent audit system, a standard financial and accounting system and a complete financial management system. We can make financial decisions independently, and CNNC and/or its close associates will not interfere with the utilization of our funds. We have opened basic accounts with banks and we do not share any bank account with CNNC or its close associates. We carry out tax registration procedures and pay tax independently in accordance with applicable Chinese tax laws and regulations. We have not paid any tax in conjunction with CNNC or its close associates.

In addition, we have been receiving financial services from CNNC and its associates, including (i) deposits and related services; (ii) entrusted loans, settlement and foreign exchange settlement and sales, etc.; and (iii) financing leasing services in connection with the assets involved in the operation of the Group (For details, please see the paragraph headed “Connected Transactions — Financial Services Framework Agreement”), which will continue to be provided by CNNC and/or its associates to the Group upon the Listing. The Group’s financial services provided by CNNC and its associates are favorable to the Group and the financial services arrangements within Chinese state-owned enterprises group are common in the PRC. Our Directors consider the financial services arrangements are reasonable and are in the interests of the Company and the Shareholders as a whole. The Group is able to choose deposits service and other financial services provided by other commercial banks and financial services institutions, even if the arrangements with CNNC and its associates are terminated.

As at the Latest Practicable Date, save as disclosed in the paragraph headed “Connected Transaction — Exempt Continuing Connected Transaction — 3. Guarantee Agreement for Loan Facilities granted to Headway” of this prospectus, the Group did not have any outstanding loans from CNNC or its close associates, and CNNC or its close associates did not provide any guarantee to us. We have fully settled all non-trade payments payable to CNNC and its associates before the Listing. As at the Latest Practicable Date, the Group has obtained RMB200 million of bank loan from China Development Bank, an Independent Third Party from us.

Based on the above, our Directors believe that the Company can be financially independent from CNNC and its close associates at the time of the Listing.

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LATEST DEVELOPMENT OF CNNC

As of the Latest Practicable Date, CNNC is planning to merge with China Nuclear Engineering & Construction Group Corporation Limited (中國核工業建設集團有限公司) (the “CNEC”) by absorption, upon the completion of which, CNEC will become a wholly-owned subsidiary of CNNC and a connected person of the Company. We expect that such merge by absorption is unlikely to complete before, or immediately after, the completion of the Global Offering.

CNEC is mainly engaged in engineering and construction of nuclear power plants, industrial and civil engineering, industrial and civil engineering and clean-energy businesses. To the best knowledge and information of the Directors, as of the Latest Practicable Date CNEC is an Independent Third Party and not involved in any business which competes or is likely to compete, either directly or indirectly, with our Group’s principal business. The Company will fully comply with the relevant requirements of the Listing Rules (including but not limited to Chapter 14A of the Listing Rules) when CNEC becomes a connected person of the Company.

During the Track Record Period and up to now, to the best knowledge of the Directors, the Group sold non-destructive testing radioactive sources to CNEC and procured construction and engineering services from CNEC. The amounts of the transactions involved in the sales of non-destructive testing radioactive source were RMB 725,791.30, RMB 336,749.65 and RMB 1,469,692.46 for the three years of 2015, 2016 and 2017, respectively. The amounts of the transactions involved in the purchase of engineering services from CNEC were RMB 22,800, RMB 2,289,929.19 and RMB 120,900.86 for the three years of 2015, 2016 and 2017, respectively.