
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

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Mr. YOUNG, Mr. AN and Ms. LI, as the Concerted Group, have, since 1 January 2002, directly and indirectly controlled more than 50.0% voting rights in aggregate in GZ Consun. The Concerted Group will be beneficially interested in approximately 47.8% of our entire issued share capital after the completion of the Reorganisation, Global Offering and Capitalisation Issue (taking into no account of any Shares that may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme). The Concerted Group is considered to act as a group of Controlling Shareholders. For details, please refer to the section headed “HISTORY, REORGANISATION AND CORPORATE STRUCTURE – OUR CORPORATE HISTORY UP TO THE REORGANISATION – Concerted Group of Controlling Shareholders” in this prospectus.

Upon Listing, each of Mr. YOUNG, Mr. AN, Ms. LI, Guidoz, Central Success and Double Grace will be a Controlling Shareholder under the Listing Rules.

Apart from our Group, our Controlling Shareholders and their respective associates hold interest and position in certain companies which are engaged in businesses not in competition with the businesses of our Group. As we are principally engaged in the research, manufacturing and sale of modern Chinese medicines and medical contrast medium, our Directors are of the view that there are clear delineations between our principal businesses and the businesses owned by our Controlling Shareholders and their respective associates.

None of our Controlling Shareholders, their respective associates or our Directors is engaged in any business which competes or is likely to compete, either directly or indirectly, with the business of our Group. To ensure that competition will not exist in the future, our Controlling Shareholders have entered into the Deed of Non-Competition with us to the effect that each of them will not, and will procure each of their respective associates not to, directly or indirectly participate in, or hold any right or interest or otherwise be involved in, any business which may be in competition with our businesses.

NON-COMPETITION UNDERTAKINGS

Each of our Controlling Shareholders (collectively, the “**Non-Competing Covenantors**”) has entered into a deed of non-competition (“**Deed of Non-Competition**”) in favor of our Company, pursuant to which the Non-Competing Covenantors have irrevocably and severally (but not jointly and severally) undertaken to our Company (for itself and for the benefit of each of the members of our Group) that with effect from the date of Listing and for as long as our Shares remain so listed on the Stock Exchange and our Controlling Shareholders are individually or collectively with any of his/its associates interested directly or indirectly in not less than 30.0% of the issued ordinary share capital of our Company (the “**Restricted Period**”), the Non-Competing Covenantors or their respective associates shall not, (i) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business (whether as owner, director, operator, licensor, licensee, partner, shareholder, joint venturer, employee, consultant or otherwise) in competition with or likely to be in competition with the existing business carried on by our Group (the “**Restricted Business**”); and (ii) directly or indirectly take any action which constitutes an interference with or a disruption of the Restricted Business including, but not limited to, (a) solicitation of any existing or then existing employees of our Group for employment by them or their associates (excluding our Group); (b) solicitation of any current or then current customers and/or suppliers and/or former customers and/or suppliers of our Group for the preceding 6 months at the relevant time away from our Group; and (c) without the consent from our Company, making use of any information pertaining to the business of our Group which may have come to their knowledge in their capacity as Substantial Shareholders for the purpose of engaging, investing or participating in any Restricted Business .

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Each of the Non-Competing Covenantors severally (but not jointly and severally) undertakes to our Company (for itself and for the benefit of each of the members of our Group) that, in respect of any order or any part of it undertaken or proposed to be undertaken by him/her or his/her associates for the Restricted Business, it shall and shall procure that his/her associates shall, unconditionally use reasonable endeavours to procure that such customer(s) to appoint or contract directly with any member of our Group for the Restricted Business under the relevant order.

The aforesaid undertaking does not apply with respect to the holding of or being interested in, directly or indirectly, any shares in any company which conducts or is engaged in, directly or indirectly, any Restricted Business, provided that:

- (a) such shares are listed on a recognised stock exchange;
- (b) the total number of such shares held by any of the Non-Competing Covenantors and/or their respective associates does not amount to more than 5.0% of the issued shares of that class of such company in question; and
- (c) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10.0% of that company's consolidated turnover or consolidated assets (individually or collectively with their respective associates) as shown in that company's latest audited accounts.

The Non-Competing Covenantors have further undertaken to procure that, during the Restricted Period, any business investment or other commercial opportunity relating to the Restricted Business (the "**New Opportunity**") identified by or offered to the Non-Competing Covenantors and/or any of their associates (other than members of our Group) (the "**Offeror**") is first referred to us in the following manner:

- (a) the Non-Competing Covenantors are required to, and shall procure their associates (other than members of our Group) to, refer, or procure the referral of, the New Opportunity to us, and shall give written notice to us of any New Opportunity containing all information reasonably necessary for us to consider whether (i) the New Opportunity would constitute competition with our core business and/or any other new business which our Group may undertake at the relevant time, and (ii) it is in the interest of our Group to pursue the New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the "**Offer Notice**"); and
- (b) the Offeror will be entitled to pursue the New Opportunity only if (i) the Offeror has received a written notice from us declining the New Opportunity and confirming that the New Opportunity would not constitute competition with our core business, or (ii) the Offeror has not received the notice from us within 10 Business Days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunity pursued by the Offeror, the Offeror will refer to the New Opportunity as so revised to us in the manner as set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from a committee of our Board consisting of Directors who do not have a material interest in the matter as to whether (a) such New Opportunity would constitute competition with our core business, and (b) it is in the interest of our Company and our Shareholders as a whole to pursue the New Opportunity.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Each of the Non-Competing Covenantors jointly and severally undertakes to indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Company or any other member of our Group arising out of or in connection with any breach of its undertakings and/or obligations under the Deed of Non-Competition, including any costs and expenses incurred as a result of such breach provided that such indemnity shall be without prejudice to any other rights and remedies our Company is entitled to in relation to any such breach, including specific performance, and all such other things and remedies are hereby expressly reserved by our Company.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from competing business and to safeguard the interests of our Shareholders:

- (1) our independent non-executive Directors will review, on an annual basis, the Deed of Non-Competition to ensure compliance with the non-compete undertaking by our Controlling Shareholders;
- (2) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (3) our Company will disclose decision and its basis on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-Competition in the annual reports of our Company; and
- (4) our Controlling Shareholders will provide confirmation on compliance pursuant to their undertaking under the Deed of Non-Competition in the annual report of our Company.

INDEPENDENCE OF MANAGEMENT, FINANCING AND OPERATION

Having considered the following factors, our Directors are satisfied that our Group will be able to be operationally and financially independent from our Controlling Shareholders and their associates:

Non-competition – although there are certain businesses owned by our Controlling Shareholders as mentioned above in this section, none of our Controlling Shareholders or their respective associates has any interest in a business which competes or is likely to compete, either directly or indirectly, with our Group's business. In addition, each of our Controlling Shareholders has given a non-competition undertaking in favor of us. For details, please refer to the paragraph headed "NON-COMPETITION UNDERTAKINGS" in this section.

Management independence – Our Board comprises three executive Directors, three non-executive Directors and three independent non-executive Directors. Despite the interest of our Controlling Shareholders in certain businesses outside our Group, we consider that our Board will function independently from our Controlling Shareholders because:

- (a) each Director is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions; and
- (c) our Board comprises nine Directors and three of them are independent non-executive Directors, which represents one-third of the members of the Board. This is in line with the Listing Rules.

Financial independence – Our Group has an independent financial system and makes financial decisions according to its own business needs. As of 31 December 2010, 2011 and 2012 and 30 June 2013, amounts due to Cannopus, a company controlled by Mr. YOUNG, one of our Controlling Shareholders, amounted to RMB2.8 million, RMB96.0 million, RMB96.0 million and RMB85.9 million, respectively primarily representing the dividends payable to Cannopus. Such amounts are non-trade in nature, unsecured, interest free and have no fixed terms of repayment, and will be settled by our internal resources before Listing. Our cash and cash equivalents as of 30 June 2013 amounted to approximately RMB200.9 million. Our Directors consider that the settlement of such amounts will not materially and adversely affect our operation and financial condition. For further details, please refer to the section headed “FINANCIAL INFORMATION – RELATED PARTY TRANSACTIONS” of this prospectus. As at 31 December 2012, GZ Consun provided a financial guarantee in favor of Central Success, one of our Controlling Shareholders, in connection with a banking facility which was secured by pledged deposits and bills receivable of GZ Consun of RMB76,470,000 and RMB63,351,000, respectively. The financial guarantee provided by GZ Consun to Central Success was released in March 2013. For further details, please refer to note 25(b) to our consolidated financial statements included in Appendix I to this prospectus. In the circumstances, we believe we are capable of obtaining financing from third parties without reliance on our Controlling Shareholders.

Operational independence – Our Group has an independent work force to carry out our operation and has not shared its operation team with our Controlling Shareholders’ businesses outside our Group. Although during the Track Record Period, there have been certain transactions between us and our related parties, details of which are set out in note 25 in the Accountant’s Report, our Directors have confirmed that these related party transactions were conducted on fair and reasonable normal commercial terms. None of the historical related party transactions with the Connected Persons are expected to continue after the Listing.

CONNECTED TRANSACTIONS

We have not entered into any transactions with our Connected Persons which will continue following the Listing and which will constitute non-exempt continuing connected transactions within the meaning of the Listing Rules.