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## CONTINUING CONNECTED TRANSACTION

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### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into certain transactions with parties who are connected persons during the Track Record Period and are expected to continue after the Listing, which will constitute continuing connected transactions and are not exempted from all reporting, announcement and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules upon Listing.

#### Contractual Arrangements

As disclosed in the "Contractual Arrangements" section in this prospectus, the principal business of Zhongzhi Herb Pieces is the production of decoction pieces which is a prohibited category for foreign investors to conduct business through directly-held equity interests under the relevant PRC laws and regulations, and therefore we cannot own any equity interest in Zhongzhi Herb Pieces. As a result, Zhongzhi Pharmaceutical, a wholly foreign owned enterprise, has entered into a series of contracts narrowly tailored to provide Zhongzhi Pharmaceutical with control over Zhongzhi Herb Pieces and grant Zhongzhi Pharmaceutical the right to purchase the equity interests of Zhongzhi Herb Pieces when and to the extent permitted by the PRC laws and regulations. Under the Contractual Arrangements, Zhongzhi Pharmaceutical supervises and controls the business operations of Zhongzhi Herb Pieces and obtain all economic benefits derived by Zhongzhi Herb Pieces.

The Contractual Arrangements consist of five contracts: (i) Operation Services Agreement; (ii) Call Option Agreement; (iii) Equity Pledge Agreement; (iv) Power of Attorney; and (v) Exclusive Intellectual Property Purchase Agreement. For details of these contracts, please refer to the "Contractual Arrangements" section in this prospectus. Our PRC Legal Advisors have advised that the Contractual Arrangements as a whole and each of the contracts comprising the Contractual Arrangements are legal, valid and binding on the parties and are enforceable under the applicable PRC laws and regulations.

#### Relevant Connected Persons under the Contractual Arrangements

The table below sets forth the connected persons of our Company involved in the Contractual Arrangements and the nature of their connection with our Group:

<b>Name</b>	<b>Connected relationship</b>
Mr. Lai	Mr. Lai is a Controlling Shareholder and our Director and therefore is a connected person of our Company pursuant to Rule 14A.07(1) of the Listing Rules.
Ms. Mou Mr. Cao	Ms. Mou and Mr. Cao are our Directors and therefore are connected persons of our Company pursuant to Rule 14A.07(1) of the Listing Rules.

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<b>Name</b>	<b>Connected relationship</b>
Zhongzhi Herb Pieces	Zhongzhi Herb Pieces is owned as to 87.56% by Mr. Lai and is therefore an associate of Mr. Lai and hence a connected person of our Company pursuant to 14A.07(4) of the Listing Rules.

### **Our Directors' view**

Our Directors, including our independent non-executive Directors, are of the view that (i) the Contractual Arrangements are fundamental to our Group's legal structure and business operations; and (ii) the Contractual Arrangements are on normal commercial terms, in the ordinary and usual course of our Group's business and are fair and reasonable, and are in the interests of our Company and our Shareholders as a whole.

Our Directors believe that our Group's structure whereby the financial results of Zhongzhi Herb Pieces is consolidated into our Group's financial results as if it was our Group's wholly owned subsidiary, and all economic benefits of its business flow to our Group, places our Group in a special position in relation to the continuing connected transactions. Accordingly, notwithstanding that the transactions contemplated under the Contractual Arrangements technically constitute continuing connected transactions for the purposes of Chapter 14A of the Listing Rules, our Directors consider that it would be unduly burdensome and impracticable, and would add unnecessary administrative costs to our Company if the continuing connected transactions under the Contractual Arrangements are subject to strict compliance with the requirements set out under Chapter 14A of the Listing Rules, including, among others, the requirement for publishing an announcement and obtaining approval of the independent Shareholders.

In addition, given that the Contractual Arrangements were entered into prior to the Listing and the adoption of Contractual Arrangements and the key terms thereof have been disclosed in this prospectus, potential investors of our Company will participate in the Global Offering based on such disclosure. Our Directors consider that strict compliance with the announcement and the independent Shareholders' approval requirements in respect thereof immediately after Listing would be unnecessary and add to extra administrative costs to our Company.

Furthermore, to ensure sound and effective operation of our Group after the adoption of the Contractual Arrangements, the management of our Group plans to take the following measures:

- (a) as part of the internal control measures, major issues arising from implementation and performance of the Contractual Arrangements will be reviewed by the Board on a regular basis which will be no less frequent than on a quarterly basis. Our Board will determine, as part of its periodic review process, whether legal advisors and/or other professionals will need to be retained to assist our Group to deal with specific issues arising from the Contractual Arrangements;

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- (b) matters relating to compliance and regulatory enquiries from governmental authorities (if any) will be discussed at such regular meetings which will be no less frequent than on a quarterly basis;
- (c) the relevant business units and operation divisions of our Group will report regularly, which will be no less frequent than on a monthly basis, to the senior management of our Company on the compliance and performance conditions under the Contractual Arrangements and other related matters; and
- (d) our Company shall comply with the conditions prescribed under the waiver given by the Stock Exchange in connection with the continuing connected transactions contemplated under the Contractual Arrangements.

### **Waiver Application**

Pursuant to Rule 14A.105 of the Listing Rules, our Company has applied to the Stock Exchange, and the Stock Exchange has agreed to grant a waiver from strict compliance with (i) announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the transactions under the Contractual Arrangements; (ii) the requirement of setting a maximum aggregate annual value (i.e. an annual cap) for the fees payable to our Group under the Contractual Arrangements; and (iii) the requirement of limiting the term of the Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange, subject to the following conditions:

- (a) *No change without independent non-executive Directors' approval:* No change to the terms of the Contractual Arrangements will be made without the approval of the independent non-executive Directors.
- (b) *No change without independent Shareholders' approval:* No change to the terms of the Contractual Arrangements will be made without the approval of our Company's independent Shareholders. Once independent Shareholders' approval of any change has been obtained, no further announcement or approval of the independent Shareholders, will be required under Chapter 14A of the Listing Rules unless and until further changes are proposed. The periodic reporting requirement regarding the Contractual Arrangements in the annual reports of our Company (as set out in paragraph (e) below) will however continue to be applicable.
- (c) *Economic benefits and flexibility:* The Contractual Arrangements shall continue to enable our Group to receive the economic benefits derived by Zhongzhi Herb Pieces through: (i) our Group's option (if and when so allowed under the applicable PRC laws) to purchase, all or part of the entire equity interests in Zhongzhi Herb Pieces at the lowest price as permitted by the applicable PRC laws and regulations; (ii) the business structure under

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which the profits generated by Zhongzhi Herb Pieces are retained by our Group; and (iii) our Group's absolute right to control the management and operation of, as well as, in substance, all of the voting rights of Zhongzhi Herb Pieces.

- (d) *Renewal*: Upon the request by Zhongzhi Pharmaceutical, the Contractual Arrangements shall be unconditionally renewed at the request of Zhongzhi Pharmaceutical for ten years and for an indefinite number of successive ten years thereafter.
- (e) *Ongoing reporting and approvals*: our Group will disclose details relating to the Contractual Arrangements on an ongoing basis as follows:
- The Contractual Arrangements in place during each financial period will be disclosed in our Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules.
  - Our independent non-executive Directors will review the Contractual Arrangements annually and confirm in our Company's annual report and accounts for the relevant year that: (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Contractual Arrangements so that the profits after tax generated by Zhongzhi Herb Pieces have been mainly retained by Zhongzhi Pharmaceutical; (ii) no dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group; and (iii) any new contracts entered into, renewed or reproduced between our Group and Zhongzhi Herb Pieces during the relevant financial period under paragraph (d) above are fair and reasonable, or advantageous, so far as our Group is concerned and in the interests of our Shareholders as a whole.
  - Our Company's auditors will carry out procedures annually on the transactions under the Contractual Arrangements and will provide a letter to our Directors with a copy to the Stock Exchange confirming that the transactions have received the approval of our Directors, have been entered into in accordance with the relevant Contractual Arrangements and no dividends or other distributions have been made by Zhongzhi Herb Pieces to the holders of its equity interests which are not otherwise subsequently assigned or transferred to our Group.
  - For the purposes of Chapter 14A of the Listing Rules, Zhongzhi Herb Pieces will be treated as our Company's wholly owned subsidiary, and its directors, chief executive or substantial shareholders and their respective associates (as defined in the Listing Rules) will be treated as connected persons of our Company and transactions between these connected persons and our Group, other than those under the Contractual Arrangements, will be subject to requirements under Chapter 14A of the Listing Rules.

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- Zhongzhi Herb Pieces undertakes that, for so long as the Shares are listed on the Stock Exchange, Zhongzhi Herb Pieces will provide our Group's management and our Company's auditors with full access to its relevant records for the purpose of procedures to be carried out by our Company's auditors on the connected transactions.

### **Sole Sponsor's View**

The Sole Sponsor is of the view that the terms of the contracts constituting the Contractual Arrangements and the transactions contemplated thereunder are fundamental to our Group's legal structure and business operations and that the Contractual Arrangements have been entered into in our ordinary and usual course of business, on normal commercial terms and are fair and reasonable so far as our Group is concerned and are in the interests of our Shareholders as a whole. With respect to the terms of the contracts constituting the Contractual Arrangements, it is a justifiable and normal business practice to ensure that (i) the financial and operational results of Zhongzhi Herb Pieces can be effectively controlled by our Group; (ii) Zhongshan Pharmaceutical can obtain all economic benefits derived from Zhongzhi Herb Pieces; and (iii) any possible disposal of assets of Zhongzhi Herb Pieces to its shareholders can be prevented, on an uninterrupted basis.