
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately upon completion of the Capitalisation Issue and the [REDACTED], Mr. Lai will through Crystal Talent hold approximately [REDACTED] and Mrs. Lai will through Cheer Lik hold approximately [REDACTED] of our Company’s entire issued share capital (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme). As Mrs. Lai is deemed to be interested in the shares of Crystal Talent under the SFO, Mr. Lai, Crystal Talent, Mrs. Lai and Cheer Lik are Controlling Shareholders who will together hold approximately [REDACTED] of our Company’s entire issued share capital immediately after the Capitalisation Issue and the [REDACTED] (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options that may be granted under the Share Option Scheme).

Our Controlling Shareholders have confirmed that none of them and their respective associates is interested in any business which competes or is likely to compete, directly or indirectly with the business of our Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The Directors consider that our Group is capable of carrying on its business independently from the Controlling Shareholders and their associates after [REDACTED] for the following reasons:

Management independence

Our management and operational decisions are made by our Board and senior management. Our Board comprises four executive Directors and three independent non-executive Directors. Although Mr. Lai and Mrs. Lai who are also the sole director of Crystal Talent and Cheer Lik respectively hold directorships in our Company, we consider that our Board and senior management will function independently from our Controlling Shareholders because:

- (a) each Director is aware of his/her fiduciary duties as a Director which require, among others, that he or she acts for the benefit and in the best interest of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interests;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group 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 shall not be counted in forming quorum. Our Group has also adopted certain corporate governance measures for conflict situation, details of which are set out in the paragraph headed “Corporate governance measures” in this section; and

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- (c) all our senior management members are independent from our Controlling Shareholders. They have substantial experience in the industry we are engaged in and have served our Group for a period of time during which they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders.

Operational independence

Our organisational structure is made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business.

Based on the above, our Directors are satisfied that we have been operating independently from the Controlling Shareholders during the Track Record Period and will continue to operate independently.

Financial independence

We have an independent financial system and make financial decisions according to our own business needs. As of the Latest Practicable Date, (i) we did not have any outstanding loans or borrowings from any of our Controlling Shareholders or any of their respective associates, save and except the actual amount of investment that Mr. Lai made to Zhongzhi Herb Pieces which shall be returned to Mr. Lai after Zhongzhi Pharmaceutical has exercised the option to purchase the equity interests in Zhongzhi Herb Pieces under the Call Option Agreement (for details please refer to the paragraph headed “Contractual Arrangements — Operation of the Contractual Arrangements — Call Option Agreement” in this [REDACTED]); and (ii) there was no bank borrowings for which any of the Controlling Shareholders has provided personal guarantee. Our Directors confirm that we will not rely on our Controlling Shareholders for financing after the [REDACTED] as we expect that our working capital will be funded by our operating income and bank borrowings.

NON-COMPETITION DEED

In order to avoid any future competition between our Group and the Controlling Shareholders, each of the Controlling Shareholders has under the Non-competition Deed undertaken and covenanted with our Company (for itself and as trustee for its subsidiaries) that for so long as he/she/it and/or his/her/its associates, directly or indirectly, whether individually or taken together, remain a Controlling Shareholder:

- (i) he/she/it will not, and will procure his/her/its associates not to (other than through our Group or in respect of each Controlling Shareholder (together with his/her/its associates), as a holder of not more than 5% of the issued shares or stock of any class or debentures of any company listed on any recognised stock exchange) directly or indirectly carry on, engage or otherwise be interested (in each case whether as shareholder, director, partner, agent, employee or otherwise and whether for profit, reward or otherwise) in any

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business which is or may be in competition with the business carried on by our Group from time to time (the “**Restricted Activity**”), except where our Company’s approval as mentioned in the paragraph below is obtained.

The Controlling Shareholders and their respective associates are entitled to engage or have an interest in any Restricted Activity if after offering the New Business Opportunities to our Company pursuant to (ii) below, our Company has confirmed in writing (the “**Approval Notice**”) that none of our Group members wishes to be engaged or interested in the relevant Restricted Activity and it has approved the relevant Controlling Shareholders and their respective associates to engage or have any interest in the Restricted Activity. When New Business Opportunities are referred to the Company, the independent non-executive Directors will consider such opportunity on various aspects including viability and profitability. Any Director who is interested in the relevant Restricted Activity shall not vote on relevant resolutions approving the Approval Notice;

- (ii) if any of the Controlling Shareholder and/or his/her/its associates decide to invest, be engaged, or participate in any Restricted Activity, whether directly or indirectly, in compliance with the Non-competition Deed, he/she/it will and/or will procure his/her/its associates (other than members of our Group) to disclose the terms of such investment, engagement or participation to our Company and the Directors as soon as practicable and use his/her/its best endeavors to procure that such investment, engagement or participation (the “**New Business Opportunities**”) is offered to our Company on terms no less favorable than the terms on which such investment, engagement or participation is offered to him/her/it and/or his/her/its associates;
- (iii) he/she/it will not, and will procure his/her/its associates not to, directly or indirectly, solicit, interfere with or entice away from any member of our Group, any natural person, legal entity, enterprise or otherwise who, to any of our Controlling Shareholder’s knowledge, as at the date of the Non-competition Deed, is or has been or will after the date of the Non-competition Deed be, a customer, supplier, distributor, sales or management, technical staff or an employee (of managerial grade or above) of any member of our Group; and
- (iv) he/she/it will not, and will procure his/her/its associates not to, exploit his/her/its knowledge or information obtained from our Group to compete, directly or indirectly, with the Restricted Activity.

The Non-competition Deed and the rights and obligations thereunder are conditional and will take effect immediately upon [REDACTED].

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The obligations of a Controlling Shareholder under the Non-competition Deed will remain in effect until:

- (a) the date on which the Shares cease to be listed on the Stock Exchange; or
- (b) the Controlling Shareholder and his/her/its associates, individually and/or collectively, cease to be deemed as a controlling shareholder of our Company (within the meaning defined in the Listing Rules from time to time); or
- (c) the Controlling Shareholder and his/her/its associates, individually and/or collectively beneficially own or are interested in the entire issued share capital of our Company,

whichever occurs first.

Nothing in the Non-competition Deed shall prevent the Controlling Shareholders or any of their associates from carrying on any business whatsoever other than the Restricted Activity.

CORPORATE GOVERNANCE MEASURES

The following corporate governance measures will be adopted to monitor the compliance of the Non-competition Deed:

- (a) Our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Non-competition Deed by the Controlling Shareholders and their respective associates on their existing or future competing businesses.
- (b) The Controlling Shareholders shall promptly provide all information necessary for the annual review by our Company’s independent non-executive Directors and the enforcement of the Non-competition Deed and provide to our Company a written confirmation relating to the compliance of the Non-competition Deed and make an annual declaration on compliance with the Non-competition Deed in the annual report of our Company.
- (c) Our Company shall disclose decisions on matters reviewed by its independent non-executive Directors relating to the compliance and enforcement of the undertakings provided by the Controlling Shareholders either through the corporate governance report as set out in the annual report of our Company, and/or by way of announcements to the public.

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- (d) Any New Business Opportunities under the Non-competition Deed and all other matters determined by the Board as having a potential conflict of interest with our Controlling Shareholders will be referred to the independent non-executive Directors for discussion and decision. When necessary, such independent non-executive Directors will engage an independent financial advisor to advise them on the relevant matters. In the event any New Business Opportunities presented by or otherwise arising in connection with any of our Controlling Shareholders are turned down by our Group according to the Non-competition Deed, our Company will disclose the decision, as well as the basis for such decision in the annual report or interim report of our Company. The annual report of our Company will include the views and decisions, with bases, of the independent non-executive Directors on whether to take up any New Business Opportunities under the Non-competition Deed or other matters having a potential conflict of interest with our Controlling Shareholders that have been referred to the independent non-executive Directors.
- (e) Further, if a Controlling Shareholder or a Director has a conflict of interest in a matter to be considered, he/she/it shall act in accordance with the requirements of the Listing Rules, regarding voting on such matter.
- (f) The compliance advisor of our Company shall provide our Company with professional advice on compliance of continuing obligations under the Listing Rules in accordance with the provisions of the compliance advisor agreement and the requirements of the Listing Rules.