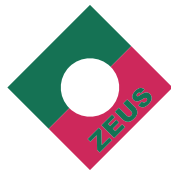


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Zhongzhi Pharmaceutical Holdings Limited

中智藥業控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3737)

VOLUNTARY ANNOUNCEMENT UPDATE IN CONTRACTUAL ARRANGEMENT

This announcement is made by Zhongzhi Pharmaceutical Holdings Limited (the “**Company**”, together with its subsidiaries as the “**Group**”) on a voluntary basis. The purpose of this announcement is to keep the shareholders of the Company (the “**Shareholders**”) and potential investors informed of the latest business development of the Group.

CONTRACTUAL ARRANGEMENT OF THE GROUP

Reference is made to the sections headed “History and Corporation Structure” and “Continuing Connected Transactions” in the prospectus of the Company dated 30 June 2015 (the “**Prospectus**”) in relation to, among other things, the series of contracts entered into on 31 August 2014 (and supplemented or amended on 31 August 2014) (the “**Existing Contractual Arrangements**”) by, among others, Zhongzhi Pharmaceutical Group Co., Ltd. (中山市中智藥業集團有限公司) (“**Zhongzhi Pharmaceutical**”), Zhongshan Zhongzhi Chinese Medicine Herb in Pieces Co., Ltd.* (中山市中智中藥飲片有限公司) (“**Zhongzhi Herb Pieces**”), and the then shareholders of Zhongzhi Herb Pieces (the “**Registered Shareholders**”). Unless otherwise defined herein, capitalise terms shall have the same meaning as those defined in the Prospectus.

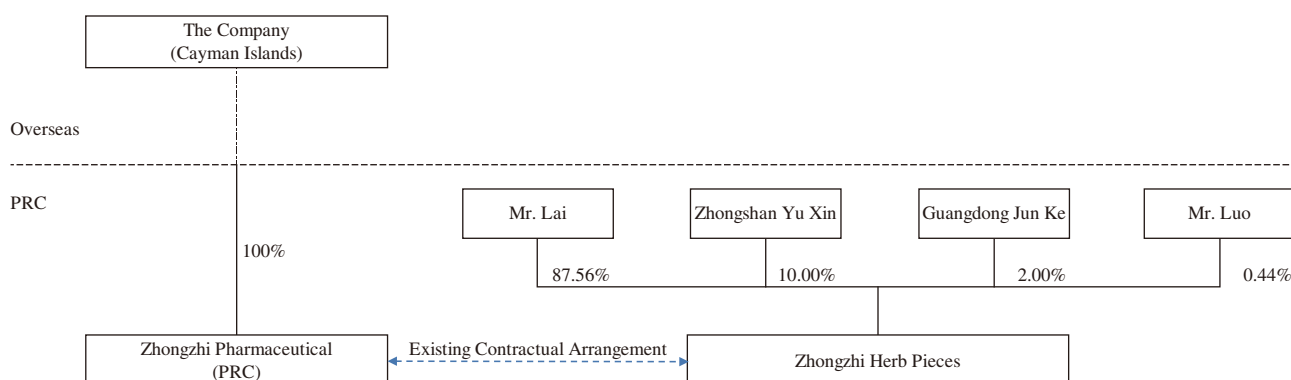
* For identification purposes only

Background of Zhongzhi Herb Pieces and the Existing Contractual Arrangement

Zhongzhi Herb Pieces is a major operating subsidiary of the Group, which is principally engaged in the production of traditional and modern decoction pieces in the PRC, of which the production techniques such as steaming, stir-frying, moxibustion and calcinations, are prohibited from foreign investment under the Foreign Investment Catalogue. As such, the Group is not allowed to hold any equity interest in Zhongzhi Herb Pieces under the applicable PRC laws and regulations.

As a result, the Existing Contractual Arrangements were entered into in order for our Group to manage the business of Zhongzhi Herb Pieces with all economic benefits derived from the business, financial and operating activities of Zhongzhi Herb Pieces transferred to Zhongzhi Pharmaceutical by means of service fees payable by Zhongzhi Herb Pieces to Zhongzhi Pharmaceutical. Details of the Existing Contractual Arrangements are set out in the section headed “Contractual Arrangements” in the Prospectus.

As disclosed in the Prospectus, the then shareholding structure of Zhongzhi Herb Pieces and the Existing Contractual Arrangement is extracted as follows:



Zhongzhi Herb Pieces was legally held by the Registered Shareholders, being Mr. Lai, Zhongshan Yu Xin, Guangdong Jun Ke and Mr. Luo. The shareholders of Zhongshan Yu Xin are Mr. Lai and 20 present/former employees of the Group.

Transfer of equity interest from Guangdong Jun Ke to Mr. Lai

On 20 April 2017, after arms-length negotiation between Guangdong Jun Ke and Mr. Lai and as agreed by Zhongzhi Pharmaceutical, the 2.00% equity interest of Zhongzhi Herb Pieces held by Guangdong Jun Ke was transferred to Mr. Lai (the “**Historical Transfer**”). Guangdong Jun Ke ceased to be a Registered Shareholder of Zhongzhi Herb Pieces thereafter. The consideration was settled by Mr. Lai’s own financial resources.

THE SUPPLEMENTAL AGREEMENT

As some of the registered shareholders of Zhongshan Yu Xin, being present/former employees of the Group, have left the Group or retired, the Group considers it is in its best interest to simplify the shareholding structure of Zhongzhi Herb Pieces to optimise the governance of Zhongzhi Herb Pieces.

As such, on 3 November 2022 (after trading hours), Zhongzhi Pharmaceutical entered into a supplemental agreement to the Existing Contractual Arrangements (the “**Supplemental Agreement**”) with Zhongzhi Herb Pieces, Mr. Lai and Guangdong Jun Ke, in order to (i) reflect the latest shareholding structure of Zhongzhi Herb Pieces upon completion of the proposed restructure; and (ii) confirm the terms and conditions of the Existing Contractual Arrangements as provided under the conditions of the IPO Wavier will continue to be complied by Mr. Lai.

The detailed terms of the Supplemental Agreement are summarised as follows:

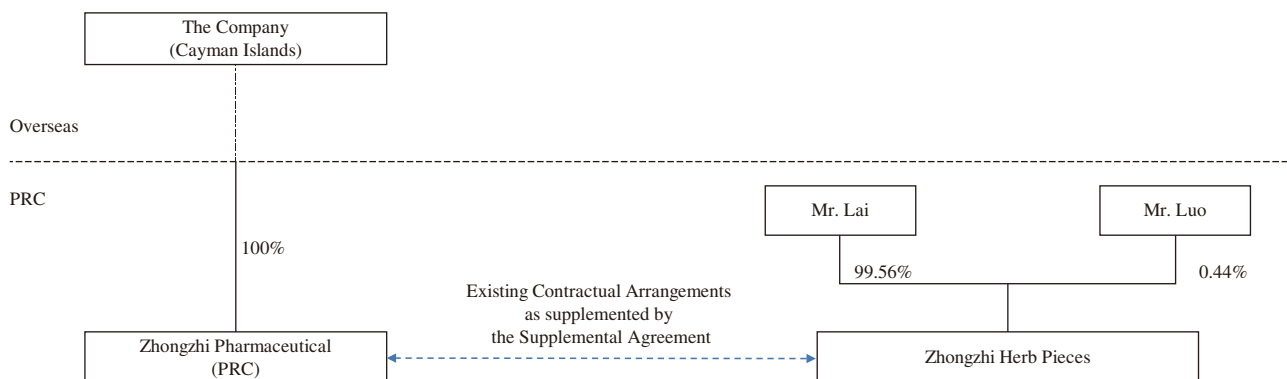
- Parties:
- (i) Zhongzhi Pharmaceutical;
 - (ii) Zhongzhi Herb Pieces;
 - (iii) Mr. Lai;
 - (iv) Zhongshan Yu Xin; and
 - (v) Guangdong Jun Ke
- Restructuring of Zhongzhi Herb Pieces:
- Zhongzhi Pharmaceutical agrees (i) the transfer of the 10.00% equity interest of Zhongzhi Herb Pieces held by Zhongshan Yu Xin (the “**Transfer**”); and (ii) the Historical Transfer (collectively, the “**Restructure**”).
- Mr. Lai and Zhongshan Yu Xin shall enter into a share transfer agreement for the Transfer. The consideration of the transfer will be determined at the lowest price and to the extent permitted by the applicable PRC laws and regulations, which will be settled using the Mr. Lai’s own financial resources. Upon the completion of the Restructure, Zhongzhi Herb Pieces is owned by Mr. Lai and Mr. Luo as to 99.56% and 0.44% respectively.

Undertaking: Mr. Lai undertakes he will continue to, and procure Zhongzhi Herb Pieces, comply with the obligations under the Existing Contractual Arrangements. Zhongzhi Herb Pieces also undertakes it will continue to comply with the obligations under the Existing Contractual Arrangements.

Confirmation: Zhongshan Yu Xin and Guangdong Jun Ke confirm they will no longer have any rights and obligations under the Existing Contractual Arrangements since the respective date of their cessation as a shareholder of Zhongzhi Herb Pieces.

Save for the above change in the registered shareholders of Zhongzhi Herb Pieces, the terms and conditions of the Existing Contractual Arrangements will remain unchanged, valid and in force upon the entering of the Supplemental Agreement.

Immediately upon completion of the Restructure, the shareholding structure of Zhongzhi Herb Pieces and the Existing Contractual Arrangement as supplemented by the Supplemental Agreement is set out as follows:



The Company’s view on the Supplemental Agreement

The Directors are of the view that, as the proposed Supplemental Agreement (i) confirms the Existing Contractual Arrangements on the same terms and conditions and as provided under the conditions of the IPO Wavier will continue to be complied by Mr. Lai; (ii) reflects the Group’s latest legal structure and business operations; and (iii) are on normal commercial terms, in the ordinary and usual course of the Group’s business and are fair and reasonable, and are in the interests of our Company and the Shareholders as a whole.

The Company has consulted its PRC legal adviser and the PRC legal adviser has confirmed that the Existing Contractual Arrangement as supplemented by the Supplemental Agreement would not be (i) deemed as concealing illegal intentions with a lawful form and void under the PRC contract law; and (ii) violating the current PRC law.

The Company has further discussed with its auditor and confirmed that, upon the signing of the Supplemental Agreement, the financial results of Zhongzhi Herb Pieces will continue to be consolidated into the financial statements of the Company as if it was wholly-owned subsidiary under the prevailing accounting principles.

LISTING RULES IMPLICATIONS

As disclosed in the Prospectus, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted 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 Existing 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 Existing Contractual Arrangements; and (iii) the requirement of limiting the term of the Existing Contractual Arrangements to three years or less, for so long as the Shares are listed on the Stock Exchange (the "**IPO Waiver**"), subject to the conditions that are further detailed in the section headed "Continuing Connected Transactions – Waiver Application" in the Prospectus.

Upon completion of the Restructure and the entering of the Supplemental Agreement, Mr. Lai, being the controlling shareholder of the Company, remains as the largest nominal shareholder of Zhongzhi Herb Pieces. Accordingly, the transactions contemplated under the Existing Contractual Arrangements as supplemented by the Supplemental Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Company has sought confirmation from the Stock Exchange, and the Stock Exchange has confirmed that the transactions contemplated under the Existing Contractual Arrangements as supplemented by the Supplemental Agreement would fall within the scope of the IPO Waiver.

By order of the Board
Zhongzhi Pharmaceutical Holdings Limited
Mr. Lai Zhi Tian
Chairman and Executive Director

Hong Kong, 3 November 2022

As at the date of this announcement, the Board comprises nine directors. The executive directors are Mr. Lai Zhi Tian, Mr. Lai Ying Feng, Mr. Lai Ying Sheng and Mr. Cao Xiao Jun. The non-executive directors are Ms. Jiang Li Xia and Mr. Peng Zhiyun. The independent non-executive directors are Mr. Ng Kwun Wan, Mr. Wong Kam Wah and Mr. Zhou Dai Han.