

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

THE CONTROLLING SHAREHOLDERS

Town Health Pharmaceutical, which is wholly owned by Town Health (BVI), will be interested in 31.20% of the issued share capital of our Company upon completion of the Placing. Town Health International in turn holds the entire issued share capital of Town Health (BVI). Town Health International, Town Health (BVI) and Town Health Pharmaceutical will be our Controlling Shareholders upon Listing.

Town Health International (together with its subsidiaries, the “**Town Health Group**”) is a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, whose shares are listed on the Main Board of the Stock Exchange. It is an investment holding company. The Town Health Group has core businesses in both the medical and non-medical sectors in Hong Kong. In the medical sector, the Town Health Group is principally engaged in operating a number of medical and dental clinics in Hong Kong which provide consultation and healthcare services. The Town Health Group also sells hearing aid devices and its own brand of health supplements (known as “th’s life”) in its clinics in Hong Kong. Such supplements include fish oil omega-3, bilberry extract, glucosamine sulfate and chondroitin plus. The Town Health Group neither distributes nor intends to distribute health supplements in the PRC. Further, the Town Health Group produces and sells fluorodeoxyglucose, which is a radiopharmaceutical used in the medical imaging modality positron emission tomography in the form of injection without any therapeutic effect, in Hong Kong. The Town Health Group does not sell or distribute pharmaceutical products in the PRC. In the non-medical sector, the Town Health Group is principally engaged in securities and property investments in Hong Kong. In view of the above, our Directors consider that the businesses of the Town Health Group are clearly different from the business of distribution of pharmaceutical products of our Group in the PRC.

The Town Health Group has interests in a number of associated companies in which it holds 20% to 50% interests other than our Group (“**associated companies**”). As at the Latest Practicable Date, Best Pharmaceutical Limited (“**Best Pharmaceutical**”, together with its subsidiaries, the “**Best Pharmaceutical Group**”), a company incorporated in the BVI, was held indirectly by Town Health International as to 48% of its issued share capital. The Best Pharmaceutical Group has no operating business other than investment holding in Longlife Group Holdings Limited (“**Longlife**”) whose shares are listed on GEM. As at the Latest Practicable Date, Best Pharmaceutical held approximately 14.63% of the issued share capital of Longlife. The principal activities of Longlife and its subsidiaries (collectively, the “**Longlife Group**”) are manufacture, research and development, sale and distribution of consumer cosmetic, health related and over-the-counter products, diagnostic reagents for diagnostic test (which are without any therapeutical effect), health supplement wine, dental materials and equipment in the PRC and Hong Kong, and trading of securities in Hong Kong. Although Best Pharmaceutical was the single largest shareholder of Longlife as at the Latest Practicable Date, Best Pharmaceutical does not have any board seats nor have any right to appoint director in Longlife and Best Pharmaceutical does not have control over Longlife. As abovementioned, Longlife is a company whose shares are listed on GEM. Longlife has also confirmed that all the products that the Longlife Group manufactures, sells and distributes do not overlap nor have similar therapeutic effect with our products. In view of the above, our Directors are of the view that the existing products of the Longlife Group are not in competition with the pharmaceutical products distributed by our Group.

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Apart from our Group and the Best Pharmaceutical Group, the Town Health Group is also interested in other associated companies. Such companies include companies principally engaged in operation of medical clinics in Hong Kong and the PRC, operation of health check and medical diagnostic centres, provision of medical diagnostic services, operation of a hair transplant centre and property investments, which are clearly different from our distribution business.

In view of the above, our Controlling Shareholders and Directors are of the view that save as disclosed in this section above, none of them nor any of their respective associates is in competition with our Group. To the best of the Directors' knowledge having made all reasonable enquiries, none of the other Shareholders and senior management of our Group has any business competing with our Group.

Furthermore, our Controlling Shareholders have provided a non-competition undertaking to our Group. If any potential competition arises between our Group and the Controlling Shareholders in the future, the Controlling Shareholders will act in accordance with the terms and provisions under the non-competition undertaking. In addition, each of our Group and the Town Health Group will make its own decision independently from each other.

Non-Competition Undertaking by the Controlling Shareholders

For the purpose of the Placing, each of the Controlling Shareholders (collectively, the “**Covenantors**”) has entered into the Non-Competition Deed in favour of our Company (for its own and for and on behalf of all members of our Group), pursuant to which each of the Covenantors, irrevocably and unconditionally, undertakes and covenants with our Company that with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and it, individually or collectively with any other Covenantor(s), is, directly or indirectly, interested in 30% or more of the Shares in issue, or is otherwise regarded as a controlling shareholder (as defined under the GEM Listing Rules) of our Company, each of the Covenantors shall not, and shall procure that none of its Controlled Companies (as defined below) shall:

- (a) directly or indirectly (other than through our Group) engage or hold any interest in any business in the PRC in competition with our Group's business of distribution of pharmaceutical products in the PRC (the “**Restricted Business**”) except for the interests in which the Covenantors and/or their associates (other than our Group) may have from time to time in the future but will not have control over the same; and
- (b) take any action to solicit our Group's customers, suppliers or staff.

For the purpose of this section, a “**Controlled Company**” means a company or entity (other than a company within our Group) in which a Covenantor is, or with any other Covenantors together are, directly or indirectly interested, so as to exercise more than 50% of the voting power at general meetings, or to control the composition of a majority of the board of its directors or its decision making body and “**control**” shall be construed accordingly.

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In addition, each of the Covenantors irrevocably and unconditionally undertakes that if any new business opportunity relating to the Restricted Business (“**Business Opportunity**”) is made available to it or its Controlled Companies by any third party and is not originated, initiated or developed by any Covenantor and/or its Controlled Companies of their own accord, it shall direct, or procure the relevant Controlled Company to direct, such Business Opportunity to our Company together with such reasonably required information to enable our Company to evaluate the merits of the Business Opportunity. The relevant Covenantor shall provide, or procure the relevant Controlled Company to provide, our Company with all such assistance to secure the Business Opportunity as our Company or the relevant member of our Group may reasonably require.

None of the Covenantors and their relevant Controlled Companies shall pursue such Business Opportunity unless our Company decides not to pursue such Business Opportunity. Any decision of our Company as to whether to pursue the Business Opportunity shall have to be approved by our independent non-executive Directors and our Corporate Governance Committee, respectively. For the avoidance of doubt, our Company shall not be required to pay any fees to any of the Covenantors and/or their relevant Controlled Companies in relation to the direction of any Business Opportunity.

Each of the Covenantors further, irrevocably and unconditionally, undertakes that it will provide to our Company all information necessary for the enforcement of the above non-competition undertakings.

Each of the Covenantors also represents and warrants that neither it nor any of its Controlled Companies is currently carrying on or engaging in, directly or indirectly, any business that competes or may compete with our Group.

The Non-Competition Deed also provides that:

- (i) the Covenantors shall provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Non-Competition Deed;
- (ii) the Covenantors shall provide an annual confirmation to our Company confirming that each of the Covenantors and its respective Controlled Companies have not breached the terms of the undertakings contained in the Non-Competition Deed;
- (iii) the Covenantors shall abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests in relation to the Restricted Business and the Business Opportunity; and
- (iv) the Covenantors shall procure the Director(s) in common with any of the Covenantors or their Controlled Companies not to vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal if there is any actual or potential conflict of interests in relation to the Restricted Business and the Business Opportunity.

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The Non-Competition Deed will cease to have effect on a Covenantor on the earliest of the date on which such Covenantor, individually or collectively with any other Covenantor(s), ceases to be interested, directly or indirectly, in 30% or more of the Shares in issue, or otherwise ceases to be regarded as a Controlling Shareholder or the Shares cease to be listed on the Stock Exchange.

Corporate Governance Measures

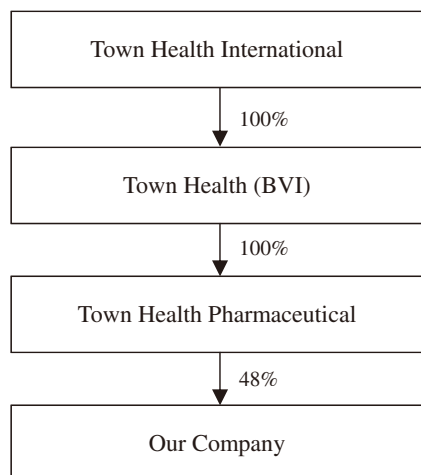
Our Company will adopt the following corporate governance measures to avoid potential conflict of interests between the Controlling Shareholders and our Group to safeguard the interests of our Shareholders:

- (a) we have appointed three independent non-executive Directors in our Board to ensure the effective exercise of independent judgment on its decision-making process and provide independent advice to the Shareholders. Our independent non-executive Directors will review, at least on an annual basis, the compliance with the Non-Competition Deed by the Covenantors and their respective Controlled Companies. As and when appropriate, our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the undertakings under the Non-Competition Deed (for example, the exercise of first rights of refusal) either through our annual report, or by way of announcements to the public;
- (b) our independent non-executive Directors and our Corporate Governance Committee (excluding the Director(s) who is/are interested in the Restricted Business and the Director(s) in common with any of the Covenantors or their Controlled Companies) shall separately decide whether to pursue the Business Opportunity directed to our Company by the Covenantors or their Controlled Companies;
- (c) except as permitted under the Bye-laws, any Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested;
- (d) the Covenantors will abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests in relation to the Restricted Business and the Business Opportunity; and
- (e) our Director(s) in common with any of the Covenantors or their Controlled Companies will not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal if there is any actual or potential conflict of interests in relation to the Restricted Business and the Business Opportunity.

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INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

The principal business of each of the Controlling Shareholders is investment holding. The shareholding relationship between our Company, Town Health International, Town Health (BVI) and Town Health Pharmaceutical as at the Latest Practicable Date is summarised below:-



Further, as at the Latest Practicable Date, 2,000,000, 1,500,000 and 2,800,000 share options granted by Town Health International, one of the Controlling Shareholders, to Mr. Lee, Mr. Zhou and Mr. Dai, respectively, pursuant to the share option scheme adopted by Town Health International on 16 September 2008 remained outstanding, and none of these share options have been exercised.

Our Directors do not expect that there will be any transactions between our Group and the Controlling Shareholders or their respective associates upon the Listing. If there is any transaction between our Group and the Controlling Shareholders or their respective associates after the Listing, we shall comply with the applicable requirements under the GEM Listing Rules.

Having considered the matters described above and the following factors, our Group believes that it is capable of carrying on its business independently from the Controlling Shareholders and their respective associates upon completion of the Placing.

Management Independence

Our Group has its own management team with substantial experience and expertise in pharmaceutical industry in the PRC. All essential administration and daily operations of our Group had been and will continue to be independently carried out by our Group without any support from the Controlling Shareholders.

Our Board comprises 7 Directors, of which 3 are independent non-executive Directors who have extensive experience in different areas or professions and are appointed pursuant to the requirements under the GEM Listing Rules to ensure that the decisions of our Board are made only after due consideration of independent and impartial opinions.

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As disclosed in the sub-section headed “Directors, Senior Management and Staff – Board of Directors – Executive Directors” in this prospectus, Mr. Lee, one of our executive Directors, is an executive director of Town Health International since October 2009 and he also holds other directorships and positions in subsidiaries and associated company of Town Health International. Mr. Lee is primarily responsible for the legal and regulatory compliance matters of the Company. Mr. Lee has confirmed to our Group that he intends to dedicate at least 50% of his working time to our Group’s affairs after Listing. Our Group and Mr. Lee consider that such time allocation by Mr. Lee is appropriate.

Save for Mr. Lee holding directorships and positions in Town Health International and certain of its subsidiaries and associated company, none of the members of our Board hold any directorship or position in the Controlling Shareholders, and there is no overlapping of senior management as disclosed in the sub-section headed “Directors, Senior Management and Staff–Senior Management” in this prospectus between our Group and the Controlling Shareholders.

Our Directors believe that the presence of Directors from different backgrounds provides a balance of opinions. Further, our Board acts collectively by majority decisions in accordance with the Bye-laws and the applicable laws, and no single Director is supposed to have any decision-making unless authorised by our Board. In addition, the presence of our independent non-executive Directors provides checks and balances over our Board’s decision-making on significant transactions. Our Company will also adopt corporate governance measures to avoid potential conflict of interests between the Controlling Shareholders and our Group. For further details, please refer to the above sub-section headed “The Controlling Shareholders – Corporate Governance Measures”.

We have established a corporate governance committee, an audit committee, a remuneration committee and a nomination committee of our Board to recognise the importance of good corporate governance. For further details, please refer to the sub-section headed “Directors, Senior Management and Staff – Corporate Governance” in this prospectus.

In light of the above, our Directors consider that we are capable of managing our business and operations independently from the Controlling Shareholders and we do not need to rely on any management support from the Controlling Shareholders.

Operational Independence

Although the Controlling Shareholders will retain 31.20% interests in our Company immediately after the Listing, our Board has full rights to make all decisions on, and to carry out, our Group’s business operations independently. Our Group has established its own organisational structure comprising individual departments, each with specific areas of responsibilities. Our Group has also established various internal control procedures to facilitate the effective operation of its businesses.

Our Group operates independently from the Controlling Shareholders and their respective associates as our Group has established its business independent of the Controlling Shareholders. We do not rely on the Controlling Shareholders to establish or maintain our business relationships with new or existing customers or suppliers. We liaise, negotiate and enter into contracts with our customers and suppliers independently, without the assistance or involvement of the Controlling Shareholders.

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In light of the above, our Directors consider that we can manage our business and operations independently from the Controlling Shareholders and we do not need to rely on any management support from the Controlling Shareholders.

Financial Independence

We have our own accounting and finance department and independent financial system and make financial decisions according to our Group's own business need.

As at the Latest Practicable Date, our Group was not indebted to the Controlling Shareholders. Our Directors do not expect our Group to be financially dependent on the Controlling Shareholders after the Listing and are of the view that after the Listing, our Group is capable of obtaining financing from external sources and there will be no financial dependence on the Controlling Shareholders.