
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Town Health International Holdings Company Limited** (the “**Company**”), you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agents through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company.

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TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED

康健國際控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 3886)

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
A MINORITY INTEREST IN A SUBSIDIARY**

Financial adviser to the Company



First Shanghai Capital Limited

**Independent financial adviser to
the Independent Board Committee and the Independent Shareholders**



A notice convening a special general meeting of the Company to be held at Shop 1A-1C, Level 1, Hilton Plaza Commercial Centre, 3-9 Shatin Centre Street, Shatin, New Territories, Hong Kong at 9:00 a.m. on Friday, 3 July 2009 is set out on pages 36 to 38 of this circular. A form of proxy for use at the special general meeting is enclosed with this circular.

Whether or not you are able to attend the special general meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

* *For identification purpose only*

15 June 2009

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	5
The Agreement	6
Shareholding structure of the Target Group	9
Information on the Group	11
Information on the Target Group	11
Reasons for and benefits of the Acquisition	12
Shareholding structure of the Company	12
Implications under the Listing Rules	13
Formation of the Independent Board Committee	13
Recommendation	13
The SGM	14
Additional information	14
Letter from the Independent Board Committee	15
Letter from VC Capital	16
Appendix – General information	32
Notice of special general meeting	36

DEFINITIONS

In this circular, the following expressions have the following meanings, unless the context otherwise requires:

“Acquisition”	the acquisition by the Purchaser of the Sale Shares beneficially and directly owned by the Vendor
“Agreement”	the conditional sale and purchase agreement dated 1 June 2009 entered into between, inter alia, the Purchaser and the Vendor in relation to the Acquisition
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of the Directors
“Broad Idea”	Broad Idea International Limited, a company incorporated in the BVI with limited liability and the immediate holding company holding approximately 28.32% of the entire issued share capital of the Company as at the Latest Practicable Date and is beneficially owned as to (i) 50.1% by Dr. Cho Kwai Chee, an executive Director and (ii) 49.9% by Dr. Choi Chee Ming <i>JP</i> , a non-executive Director
“business day(s)”	any day (other than a Saturday or Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	the British Virgin Islands
“Company”	Town Health International Holdings Company Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange (Stock Code: 3886) and owned as to approximately 28.32% by Broad Idea as at the Latest Practicable Date
“Completion”	completion of the Acquisition pursuant to the terms of the Agreement
“Completion Date”	the third business day after all the conditions have been fulfilled or waived (as the case may be) or such other date as the parties to the Agreement may mutually agree in writing on which Completion is to take place

DEFINITIONS

“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Acquisition in the amount of HK\$32 million
“Consideration Shares”	21,361,815 new Shares as may be issued by the Company to the Vendor for settlement of the Consideration in the amount of HK\$32 million
“Director(s)”	the director(s) of the Company
“FOCL”	First Oriental Cyclotron Limited, a company incorporated in Hong Kong with limited liability on 10 December 1999 and is a non-wholly owned subsidiary of FOMT
“FOMT”	First Oriental Medical Technology Limited (名華醫療科技有限公司), a company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of FOMT Group and the immediate holding company of FOCL
“FOMT Group”	First Oriental Medical Technology Group Limited (名華醫療科技集團有限公司*), a company incorporated in the BVI with limited liability and is the immediate holding company of FOMT and owned as to 51%, 22% and 27% by Health Walk, Kingdom Hill and Helix Overseas respectively
“Group”	the Company and its subsidiaries
“Health Walk” or “Purchaser”	Health Walk Limited, a company incorporated in the BVI with limited liability and is a wholly-owned subsidiary of the Company and the immediate holding company of FOMT Group as at the Latest Practicable Date
“Helix Overseas” or “Vendor”	Helix Overseas Holdings Limited (being the vendor of the Sale Shares), a company incorporated in the BVI with limited liability and is holding 27% interest in the issued share capital of the FOMT Group and beneficially and wholly-owned by Ms. Leung Yuet Kwan, Belinda
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Independent Board Committee”	the independent Board committee comprising all the independent non-executive Directors established for the purpose of advising the Independent Shareholders regarding the Agreement and the transactions contemplated thereunder, including the issue and allotment of the Consideration Shares
“Independent Shareholders”	Shareholders who have no interest in the Agreement and the transactions contemplated thereunder
“Issue Price”	the issue price of HK\$1.498 per Consideration Share fixed with reference to the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including 1 June 2009, being the date of the Agreement
“Kingdom Hill”	Kingdom Hill Limited, a company incorporated in the BVI with limited liability and is holding 22% interest in the issued share capital of the FOMT Group as at the Latest Practicable Date and beneficially and wholly-owned by Ms. Tsui Mai Ling, Margaret, the wife of a director (namely Dr. Yeung Wah Hin, Alex) of several member companies of the Target Group
“Latest Practicable Date”	9 June 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PET scan”	positron emission tomography scan, a highly specialised imaging technique that is sensitive in picking up active tumour tissue in cancer patients
“Sale Shares”	297 shares of US\$1.00 each in the share capital of FOMT Group, representing 27% of the entire issued share capital of FOMT Group, beneficially held by the Vendor
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	a special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Group”	FOMT Group and its subsidiaries
“Town Health (BVI)”	Town Health (BVI) Limited, a company incorporated in the BVI with limited liability and is the immediate holding company of Health Walk and a wholly-owned subsidiary of the Company
“VC Capital”	VC Capital Limited, a corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities registered under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Agreement
“HK\$” and “cents”	Hong Kong dollar(s) and cents, respectively, the lawful currency of Hong Kong
“US\$”	United States dollar(s), the lawful currency of the United States of America
“%”	per cent.

* For identification purpose only

LETTER FROM THE BOARD



TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED

康健國際控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 3886)

Executive Directors:

Miss Choi Ka Yee, Crystal (*Chairman*)
Dr. Cho Kwai Chee (*Chief Executive Officer*)
Dr. Hui Ka Wah, Ronnie *JP*

Non-executive Director:

Dr. Choi Chee Ming *JP*

Independent non-executive Directors:

Mr. Chan Kam Chiu
Mr. Wai Kwok Hung *JP*
Mr. Ho Kwok Wah, George

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

*Principal place of business and
head office in Hong Kong:*

Shop No. 37, Level 3
Hilton Plaza Commercial Centre
3-9 Shatin Centre Street
Shatin
New Territories
Hong Kong

15 June 2009

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF A MINORITY INTEREST IN A SUBSIDIARY

INTRODUCTION

The Board announced on 1 June 2009 that the Group, through Health Walk, entered into the Agreement to acquire the 27% interest in the issued share capital of FOMT Group from the Vendor at a consideration of HK\$32 million.

The main purpose of this circular is to provide you with further particulars of the above proposal and the notice of special general meeting.

* *For identification purpose only*

LETTER FROM THE BOARD

An independent board committee, comprising all the independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the Acquisition (including the issue and allotment of the Consideration Shares). VC Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition (including the issue and allotment of the Consideration Shares).

THE AGREEMENT

Date of the Agreement: 1 June 2009

Vendor of the Agreement: Helix Overseas, being a company wholly-owned by Ms. Leung Yuet Kwan, Belinda and a substantial shareholder of FOMT Group. In addition, Ms. Leung Yuet Kwan, Belinda is the wife of Mr. Ng Yau Sing who was one of the founders and has been a director of each of the member companies of the Target Group. Accordingly, the Vendor is a connected person of the Company under the Listing Rules.

Save as disclosed above, to the best knowledge, information and belief of the Directors having made all reasonable enquiries, there is no prior business or other relationship between the Vendor and its ultimate beneficial owner with the Company and its connected persons.

Purchaser of the Agreement: Health Walk, an indirect wholly-owned subsidiary of the Company

Assets to be acquired

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Shares, being the 297 ordinary shares in FOMT Group of US\$1 each which represent 27% of the entire issued share capital therein.

The original purchase cost paid by the Vendor for the acquisition of the 27% interest in the share capital of FOMT Group was approximately HK\$11.4 million.

FOMT Group is the ultimate holding company of the Target Group which is principally engaged in the production of radioactive isotopes used for medical diagnostic purposes. For further details of the Target Group, please refer to the section headed "Information on the Target Group" below. The Company, through Health Walk, is currently holding 51% interest in the issued share capital of FOMT Group. Upon Completion, the Group's interest in FOMT Group will increase to 78% and therefore FOMT Group will continue to be a non wholly-owned subsidiary of the Company.

LETTER FROM THE BOARD

Consideration

The Consideration for the Acquisition of HK\$32 million is determined after arm's length negotiations between the Purchaser and the Vendor with reference to the profitability and future business prospect of FOMT Group, which will be settled by issue and allotment of the Consideration Shares (i.e. 21,361,815 new Shares) by the Company to the Vendor or its nominee based on the Issue Price of HK\$1.498 per Consideration Share by taking the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including 1 June 2009, being the date of the Agreement.

The Consideration Shares, when issued and allotted, shall rank *pari passu* in all respects with the Shares in issue on the date of issue and allotment of the Consideration Shares including the right to receive all dividends, distributions and other payments made or to be made, the record dates for which fall on or after the date of such issue and allotment.

Based on the Issue Price, an aggregate of 21,361,815 new Shares would fall to be issued upon Completion, representing:

- (i) approximately 7.4% of the existing issued share capital of the Company; and
- (ii) approximately 6.9% of the total issued share capital of the Company as enlarged by the issue of the Consideration Shares.

The Issue Price of HK\$1.498 per Consideration Share represents:

- (i) a premium of approximately 2.6% over the closing price of HK\$1.46 per Share as quoted on the Stock Exchange on 1 June 2009, being the date of the Agreement;
- (ii) the equivalent to the average closing price of approximately HK\$1.498 per Share for the five consecutive trading days up to and including 1 June 2009;
- (iii) a discount of approximately 4.5% to the average closing price of approximately HK\$1.569 per Share for the ten consecutive trading days up to and including 1 June 2009;
- (iv) a premium of approximately 7.8% over the closing price of HK\$1.39 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (v) a discount of approximately 76.4% to the audited net asset value (including minority interests) per Share of approximately HK\$6.36 based on the audited consolidated net asset value of the Group of HK\$1,079,255,586 as at 31 March 2008 and a total of 169,679,157 Shares as at that date; and
- (vi) a discount of approximately 75.2% to the unaudited net asset value (including minority interests) per Share of approximately HK\$6.03 based on the unaudited consolidated net asset value of the Group of approximately HK\$1,067,507,000 as at 30 September 2008 and a total of 176,955,157 Shares as at that date.

The Issue Price was determined after arm's length negotiation between the Purchaser and the Vendor after taking into account the recent trading prices of the Shares, the unaudited consolidated net asset value of the Target Group as at 31 January 2009, and future business potential and profitability of FOMT Group. The Directors (including the independent non-executive Directors) consider that the Issue Price is fair and reasonable.

LETTER FROM THE BOARD

Application for listing

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The Board will seek approval from the Independent Shareholders at the SGM for the grant of a specific mandate for the issue of the Consideration Shares.

Conditions precedent to Completion

Completion of the Agreement is conditional upon fulfillment or waiver (as the case may be) of the following conditions:

- (i) the Agreement and the transactions contemplated in or incidental to the Agreement and the implementation thereof (including but not limited to the issue and allotment of the Consideration Shares in accordance with the terms thereof) having been approved by the Independent Shareholders at the SGM in accordance with the requirements of the Listing Rules, the bye-laws of the Company and the applicable laws and regulations;
- (ii) such other matters as required by the Listing Rules for consummation of the transactions contemplated in the Agreement having been approved by the Independent Shareholders at the SGM in accordance with the requirements of the Listing Rules, the bye-laws of the Company and the applicable laws and regulations;
- (iii) the Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in, the Consideration Shares on the Stock Exchange; and
- (iv) the warranties given by the Vendor as detailed in the Agreement remaining true and not misleading in all respects as at the Completion Date.

The Purchaser shall be entitled at any time by a notice in writing to the Vendor to waive condition (iv) above. If any condition is not fulfilled or waived on or before 31 July 2009 (or such other date as the parties to the Agreement may agree in writing), the rights and obligations of the parties under the Agreement shall lapse and be of no further force and effect, in which event the parties shall be released from all further obligations thereunder without any liability save to any antecedent breach.

Completion

Subject to fulfillment or waiver (as the case may be) of the conditions in full, Completion shall take place on the third business day thereafter or on such other date as the parties to the Agreement may mutually agree in writing.

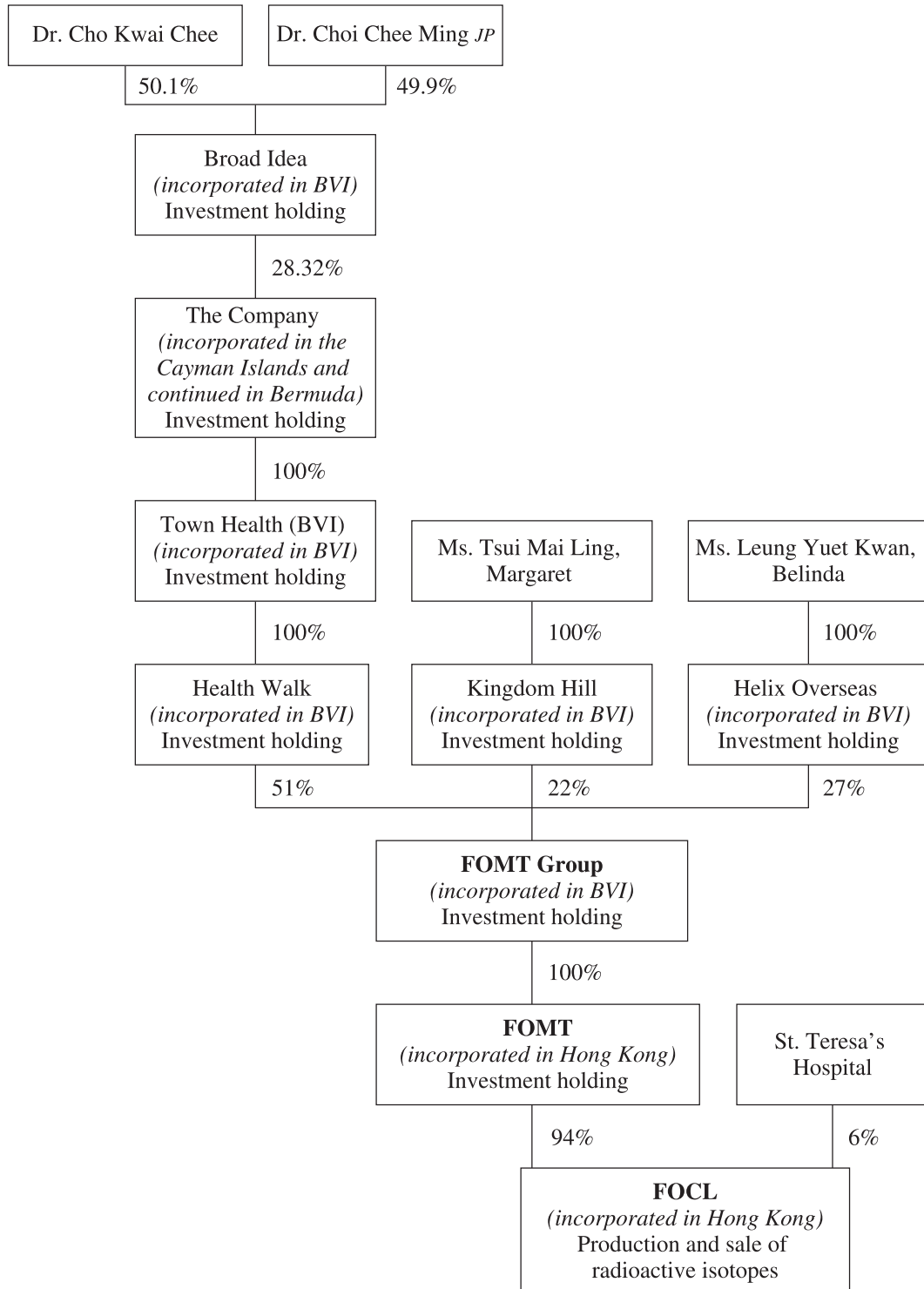
At Completion, the Group will issue and allot the Consideration Shares to the Vendor or its nominee for settlement of the Consideration.

No change will be made to the composition of the Board as a result of the Acquisition.

LETTER FROM THE BOARD

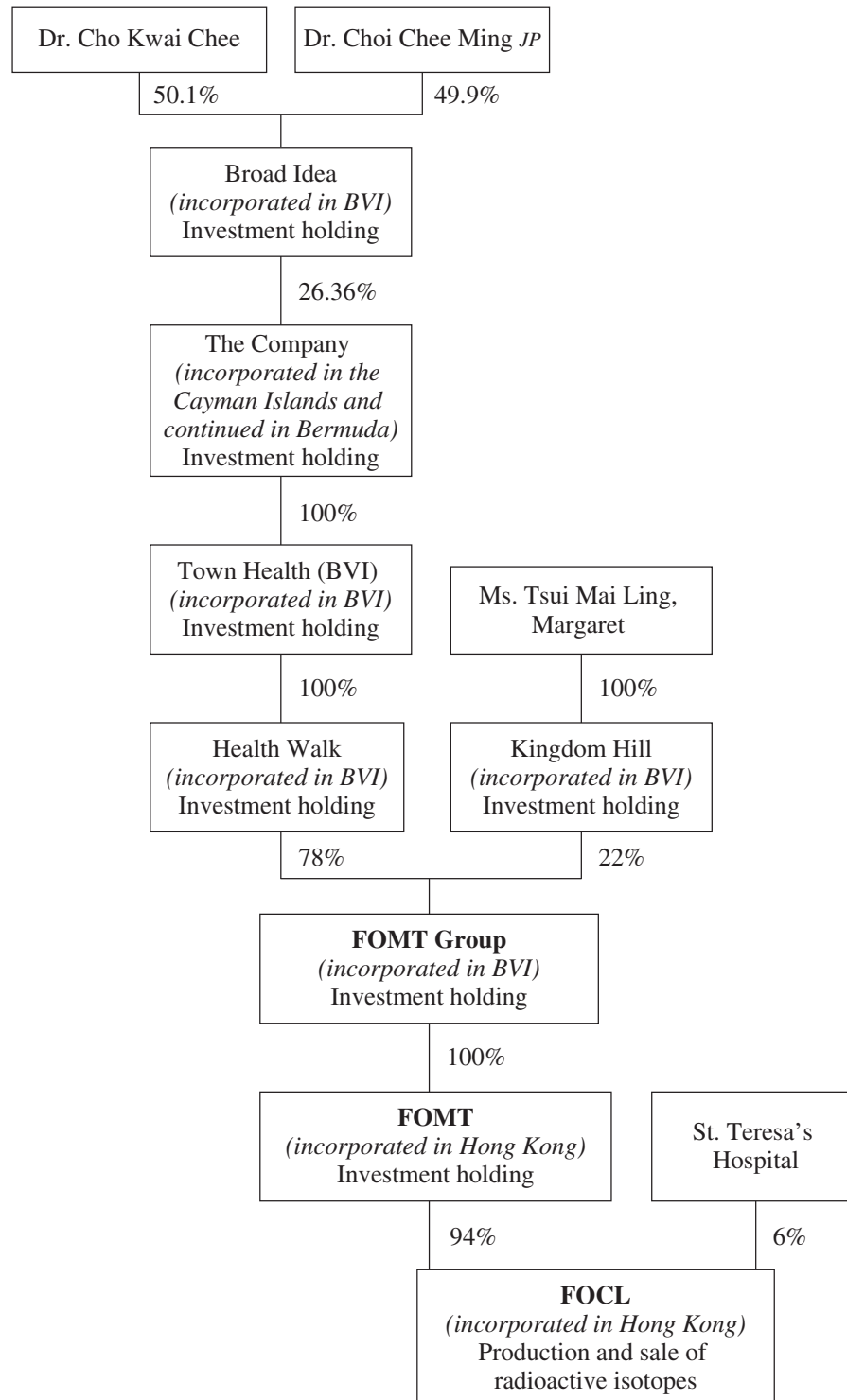
SHAREHOLDING STRUCTURE OF THE TARGET GROUP

Before Completion



LETTER FROM THE BOARD

After Completion



LETTER FROM THE BOARD

INFORMATION ON THE GROUP

The Group is a management service provider for private medical and dental practices and an integrated healthcare service provider for the general public in Hong Kong predominantly under its widely known brandname “Town Health Centre 康健醫務中心”. The Group’s business activities can be broadly categorised into the (i) provision of healthcare and dental services; and (ii) sale of healthcare and pharmaceutical products.

INFORMATION ON THE TARGET GROUP

Business of the Target Group

The subject of the Acquisition is the 27% interest in the issued share capital of FOMT Group. FOMT Group is currently owned as to 51%, 27% and 22% by Health Walk, Helix Overseas and Kingdom Hill, respectively.

The Target Group is principally engaged in the production of radioactive isotopes used for medical diagnostic purposes, which had been sold to the major hospitals and healthcare institutions in Hong Kong. Radioactive isotopes are used as tracers to identify abnormal bodily processes, because some natural elements tend to concentrate in certain parts of the body: iodine in the thyroid, phosphorus in the bones, potassium in the muscles. When a patient is injected with a radioactive element, a special camera (i.e. PET scan) can take pictures of the internal workings of the organ. With the availability of these radioactive isotopes, doctors will be able to diagnose cancer, heart diseases and neurological disorders.

Financial information on the Target Group

Set out below is a summary of the key financial data of the Target Group based on the unaudited consolidated accounts of the FOMT Group for the two years ended 31 March 2008 and the ten months ended 31 January 2009 which have been prepared in accordance with the generally accepted accounting principles in Hong Kong:

	For the year ended		For the
	31 March		ten months
	2007	2008	ended
	HK\$'000	HK\$'000	31 January
			2009
			HK\$'000
Revenue	15,885	21,001	20,303
Profit before tax	10,245	17,864	14,885
Profit after tax	8,441	15,332	12,401
Net asset value			
(including minority interest)	22,117	21,183	8,121

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

Upon Completion, the Group's controlling stake in FOMT Group will increase from 51% to 78%, the companies within the Target Group will continue to be subsidiaries of the Company and their financial results will continue to be consolidated, but to a greater extent from 51% to 78%, with those of the Group.

The Directors consider that by increasing the Group's controlling stake in FOMT Group, it will be able to exercise almost absolute (i.e. over 75%) control over the management, operating and financial policies of, and enjoy greater financial benefits from, the Target Group. As disclosed above, the Target Group has been operating profitably over the past two financial years ended 31 March 2008 and the ten months ended 31 January 2009. On this basis, the Directors (including the independent non-executive Directors) believe that the Acquisition provides the Group with a good opportunity to further enhance its earning capability and income stream in the foreseeable future and would have positive impact on the operating and financial performance of the Group.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (1) as at the Latest Practicable Date; and (2) immediately after issue and allotment of the Consideration Shares:

	As at the Latest Practicable Date		Immediately after issue and allotment of the Consideration Shares	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Broad Idea (<i>Note 1</i>)	81,488,523	28.32	81,488,523	26.36
The Vendor and its associates	100,000	0.03	21,461,815	6.94
			(<i>Note 2</i>)	
Public Shareholders	206,196,134	71.65	206,196,134	66.70
Total	<u>287,784,657</u>	<u>100.00</u>	<u>309,146,472</u>	<u>100.00</u>

Notes:

1. Broad Idea, a company incorporated in the BVI with limited liability and the immediate holding company holding approximately 28.32% of the entire issued share capital of the Company as at the Latest Practicable Date, is beneficially owned as to (i) 50.1% by Dr. Cho Kwai Chee, an executive Director and (ii) 49.9% by Dr. Choi Chee Ming *JP*, a non-executive Director.
2. These comprise the Consideration Shares to be issued and allotted to the Vendor or its nominee upon Completion and the 100,000 Shares currently held by Ms. Leung Yuet Kwan, Belinda, the sole shareholder of the Vendor.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

As the applicable percentage ratios exceed 5% but are less than 25%, the Acquisition constitutes a discloseable transaction for the Company pursuant to Chapter 14 of the Listing Rules and is subject to the announcement requirement under Chapter 14 of the Listing Rules. As (i) the Vendor is a substantial shareholder of a non-wholly owned subsidiary of the Company and (ii) the ultimate beneficial owner of the Vendor, Ms. Leung Yuet Kwan, Belinda, is the wife of Mr. Ng Yau Sing who was one of the founders and has been a director of each of the member companies of the Target Group, the Vendor is a connected person of the Company under the Listing Rules. The Acquisition therefore also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Completion is subject to, among other things, the approval by the Independent Shareholders at the SGM. The Vendor together with its associates, shall abstain from voting on the resolution to approve the Agreement and the transactions contemplated thereunder at the SGM. The voting will be taken by way of poll in accordance with the requirements of the Listing Rules. As at the Latest Practicable Date, the Vendor has no shareholdings in the Company; while its sole shareholder, Ms. Leung Yuet Kwan, Belinda, is currently holding 100,000 Shares and therefore will abstain from voting at the SGM.

FORMATION OF THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, has been formed to advise the Independent Shareholders as to whether the Agreement was entered into on normal commercial terms, and whether the terms of the Acquisition and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Your attention is drawn to the letter from the Independent Board Committee containing its advice set out on page 15 of this circular.

VC Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the Agreement was entered into on normal commercial terms, and whether the terms of the Acquisition and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares) are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from VC Capital is set out on pages 16 to 31 of this circular.

RECOMMENDATION

The Directors consider that the Agreement and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares) are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM.

LETTER FROM THE BOARD

The Independent Board Committee, having taken into account the advice from VC Capital, considers that the Agreement was entered into on normal commercial terms, and that the terms of the Acquisition and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee would recommend the Independent Shareholders to vote in favour of the ordinary resolution at the SGM to approve the Agreement and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares).

THE SGM

A notice convening the SGM to be held at Shop 1A-1C, Level 1, Hilton Plaza Commercial Centre, 3-9 Shatin Centre Street, Shatin, New Territories, Hong Kong at 9:00 a.m. on Friday, 3 July 2009 for the purpose of considering and, if thought fit, passing, with or without amendments, the ordinary resolution to approve the entering into of the Agreement and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares) is set out on pages 36 to 38 of this circular.

To the best knowledge and belief of the Directors, the Vendor has no shareholdings in the Company; while its sole shareholder, Ms. Leung Yuet Kwan, Belinda, is currently holding 100,000 Shares and therefore will abstain from voting at the SGM.

Pursuant to Rule 13.39(4) of the Listing Rules, the vote of the Independent Shareholders taken at the SGM to approve the entering into of the Agreement and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares), will be taken by poll, the results of which will be announced after the SGM.

A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend the SGM, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM or any adjournment thereof in person if you so wish.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information in respect of the Company set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Town Health International Holdings Company Limited
Cho Kwai Chee
Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED

康健國際控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 3886)

15 June 2009

To the Shareholders

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO THE ACQUISITION OF
A MINORITY INTEREST IN A SUBSIDIARY**

We refer to the circular of the Company dated 15 June 2009 (the “**Circular**”) to the Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as members of the Independent Board Committee to advise you on whether the Agreement was entered into on normal commercial terms, and whether the terms of the Acquisition and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Your attention is also drawn to the letter from the Board set out on pages 5 to 14 of the Circular and the additional information set out in the appendix of the Circular. Having considered the terms of the Acquisition and the transactions contemplated thereunder and the advice from VC Capital, we are of the opinion that the Agreement was entered into on normal commercial terms, and that the terms of the Acquisition and the transactions contemplated thereunder (including the issue and allotment of the Consideration Shares) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

Independent Board Committee

Chan Kam Chiu

Wai Kwok Hung JP

Ho Kwok Wah, George

Independent non-executive Directors

* *For identification purpose only*

LETTER FROM VC CAPITAL

The following is the text of a letter to the Independent Board Committee and the Independent Shareholders from VC Capital in respect of the terms of the Acquisition and the transactions contemplated thereunder (including the allotment and issue of the Consideration Shares) prepared for the purpose of incorporation in this circular.



15 June 2009

*To the Independent Board Committee and the Independent Shareholders
of Town Health International Holdings Company Limited*

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO THE ACQUISITION OF A MINORITY INTEREST IN A SUBSIDIARY

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board as contained in the circular of the Company dated 15 June 2009 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As (i) the Vendor is a substantial shareholder of a non-wholly owned subsidiary of the Company; and (ii) the ultimate beneficial owner of the Vendor, Ms. Leung Yuet Kwan, Belinda, is the wife of Mr. Ng Yau Sing who was one of the founders and has been a director of each of the member companies of the Target Group, the Vendor is a connected person of the Company under the Listing Rules. The Acquisition therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, completion of the Acquisition is subject to, among other things, the approval by the Independent Shareholders at the SGM. The Vendor together with its associates shall abstain from voting on the resolution to approve the Agreement and the transactions contemplated thereunder at the SGM. The voting will be taken by way of poll in accordance with the requirements of the Listing Rules. As at the Latest Practicable Date, the Vendor has no shareholdings in the Company; while its sole shareholder, Ms. Leung Yuet Kwan, Belinda, is currently holding 100,000 Shares and therefore will abstain from voting at the SGM.

LETTER FROM VC CAPITAL

The Independent Board Committee, comprising Mr. Chan Kam Chiu, Mr. Wai Kwok Hung *JP* and Mr. Ho Kwok Wah, George, being all the independent non-executive Directors, has been established to advise on the fairness and reasonableness of the terms of the Agreement so far as the Independent Shareholders are concerned and as to whether they are in the interests of the Company and the Shareholders as a whole.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to (i) whether the Acquisition is conducted in the usual and ordinary course of business of the Group; (ii) whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned; (iii) whether the terms of the Agreement are in the interests of the Company and the Shareholders as a whole; and (iv) how the Independent Shareholders should vote in respect of the resolution to approve the Agreement and the transactions contemplated thereunder at the SGM.

VC Capital Limited (“**VC Capital**”) is not associated with the Company and its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Acquisition. Apart from normal professional fees payable to us in connection with this engagement, no arrangement exists whereby VC Capital will receive any fees or benefits from the Company or its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied and the opinions expressed by the executive Directors and senior management of the Group. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were prepared or made and will continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations made to us by the executive Directors and senior management of the Group. We have also been advised by the executive Directors that no material facts have been omitted from the Circular and the information provided to us.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

All the executive Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

LETTER FROM VC CAPITAL

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Acquisition is conducted in the usual and ordinary course of business of the Group; whether the terms of the Agreement and the transactions contemplated thereunder are on normal commercial terms; whether they are fair and reasonable so far as the Independent Shareholders are concerned; and whether they are in the interests of the Company and the Shareholders as a whole, we have taken into account the following principal factors and reasons:

1. Background information and reasons for and benefits of the Acquisition

The Agreement was entered into between the Vendor and the Purchaser on 1 June 2009 in relation to the Acquisition at the Consideration of HK\$32 million, which will be settled by the allotment and issue of the Consideration Shares. Upon the Completion, the Group's controlling stake in Target Group will increase from 51% to 78%, where the companies within the Target Group will continue to be subsidiaries of the Company and their financial results will continue to be consolidated, but to a greater extent from 51% to 78%, with those of the Group.

The Group is a management service provider for private medical and dental practices and an integrated healthcare service provider for the general public in Hong Kong predominantly under its widely known brand name "Town Health Centre 康健醫務中心". The Group's business activities can be broadly categorised into (i) the provision of healthcare and dental services; and (ii) the sale of healthcare and pharmaceutical products.

As disclosed in the letter from the Board, the Directors consider that by increasing the Company's controlling stake in Target Group, they will be able to exercise almost absolute (i.e. over 75%) control over the management, operating and financial policies of the Target Group, as well as enjoy higher financial benefits from the Target Group.

Having considered that (i) one of the businesses of the Group is the sale of healthcare and pharmaceutical products and the Group has already had 51% interest in the Target Group prior to the Completion; (ii) the Target Group has been operating profitably over the past two financial years ended 31 March 2008 and for the ten months ended 31 January 2009; (iii) the Acquisition would bring to the Group much greater flexibility to implement its development strategy and corporate planning, in particular with respect to its product research and development; and (iv) the Acquisition would provide the Group with a good opportunity to further enhance its earning capabilities and income stream in the foreseeable future and would have a positive impact on the operation and financial performance of the Group, we consider that the Acquisition is in the usual and ordinary course of business of the Group and in the interests of the Company and the Shareholders as a whole in the long run.

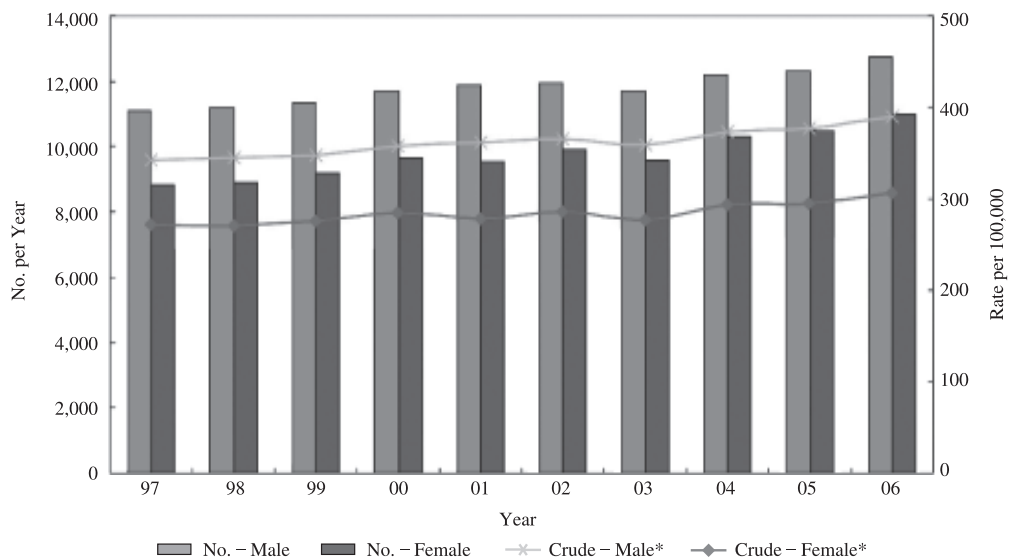
LETTER FROM VC CAPITAL

Future prospects and the use of radioactive isotopes in the industry

As mentioned in the letter from the Board, the radioactive isotopes can help doctors diagnose cancer, heart diseases and neurological disorders as radioactive isotopes can be used as tracers to identify abnormal bodily processes. According to the statistics conducted by the Department of Health of the Hong Kong government, malignant neoplasms (cancer) and heart diseases rank top among the ten leading causes of death in Hong Kong in 2006.

With reference to the latest cancer (all sites) statistics available at the website of the Hong Kong Cancer Registry, Hospital Authority (which was conducted in 2006 and as shown below), the number of cancer cases registered has been increasing steadily from 1997 to 2006. Such increase in the number of incidences can reasonably be regarded as an implication of an upward trend in the demand of radioactive isotopes as they are commonly used in diagnosis of cancer, heart diseases and neurological disorders.

Incidence Trend 1997-2006



Source: Hospital Authority: Hong Kong Cancer Registry web site

* The crude rate per 100,000 is calculated by dividing the total number of cases by the total number of population-at-risk and multiplying the result by 100,000

Given that the radioactive isotope products can only be sold locally because of the critical limitation in relation to the product life and the decay period of radioactive isotopes, imported radioactive isotopes from overseas suppliers is difficult. Therefore, it is difficult for competitors from overseas to compete with the Group. According to the information provided by the Company, the industry itself has a high entry-barrier in terms of capital and network as the business generally involves high technicality and expertise for monitoring operation and development, and requires certain licences for business set-up and continuous operation. New entrants would find it difficult to enter the industry.

LETTER FROM VC CAPITAL

According to information provided by the Company, the PET scan services have been introduced in Hong Kong for more than 10 years and have become more popular in the last few years. There are now approximately 10-20 hospitals/healthcare institutions offering PET scan services in Hong Kong. In light of (i) the under-served medical market in Hong Kong, especially for the diagnosis of cancerous diseases; and (ii) the increasing popularity of the PET scan services for diagnosis purposes, the Company believes that there are a lot of untapped business potentials for the radioactive isotopes in the industry and that the demand for radioactive isotopes is likely to experience a significant growth in the near future in view of the very few radioactive isotope producers and limited supply of radioactive isotopes.

Furthermore, people nowadays become more health-conscious and tend to do health checks regularly such that one can reasonably predict a potential growth in market demand for the relevant services and thus the consumption of the radioactive isotopes.

Business outlook of the Target Group

As mentioned in the letter from the Board, the radioactive isotopes are used for medical diagnostic purposes and are sold to the major hospitals and healthcare institutions in Hong Kong. According to the information provided by the Company, the Target Group is one of the few players in the market and has more than 10 years' experience since the introduction of PET scan services in Hong Kong. We have reviewed the list of clientele of the Target Group provided by the Company and realized that the Target Group has a well-established and loyal clientele with more than 2-year business relationship with each of its customers. We have also reviewed some of the contracts of the Target Group regarding the supply and purchase of the radioactive isotopes and we concur with the Directors that the Target Group has a positive business outlook in the near future as all the signed contracts cover a medium to long term of duration.

Furthermore, according to the executive Directors, PET scan is one of the technologies commonly used for medical diagnostic purposes and the executive Directors do not expect its clients adopting other scanning technology to replace the PET scanning technology as any replacement would incur a heavy replacement costs to them.

In light of (i) the relatively high entry barrier of the industry; (ii) the critical limitation in relation to the decay period of the radioactive isotopes, which makes it difficult for overseas suppliers to compete with the Target Group; (iii) the positive future prospects in the industry and potential increase in demand and consumption of radioactive isotopes resulting from the increasingly health-conscious population; (iv) the experience of the Target Group in the industry; and (v) the well-established and loyal clientele of the Target Group, we consider that the Acquisition is in the interests of the Company and the Shareholders as a whole.

LETTER FROM VC CAPITAL

2. Principal terms of the Agreement

On 1 June 2009, the Purchaser, an indirect wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor in relation to the Acquisition. The principal terms of the Agreement are set out below:

Assets to be acquired

The Sale Shares, being the 297 ordinary shares in FOMT Group of US\$1 each which represent 27% of the entire issued share capital therein.

Consideration

As disclosed in the letter from the Board, the Consideration for the Acquisition of HK\$32 million is determined after arm's length negotiations between the Purchaser and the Vendor with reference to the profitability and future business prospects of the Target Group, which will be settled by the allotment and issue of the Consideration Shares, (i.e. 21,361,815 new Shares), by the Company to the Vendor or its nominee based on the Issue Price of HK\$1.498 per Consideration Share by taking the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including 1 June 2009, being the date of the Agreement.

The Consideration Shares, when allotted and issued, shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to receive all dividends, distributions and other payments made or to be made, the record dates for which fall on or after the date of such allotment and issue.

As informed by the Directors, the Board had considered settling the Consideration by other alternatives such as debt financing, nevertheless, in view of the tightened lending policies as a result of the global credit crunch and financial crisis, debt financing would inevitably incur higher interest costs to the Group and may only be obtained after much scrutiny by and lengthy negotiation with financial institutions. As a result, we consider that it is reasonable for the Directors to settle the Consideration by the allotment and issue of the Consideration Shares, so as to provide flexibility to the Company and retain sufficient working capital for any future possible funding needs that may arise for appropriate business or investment opportunities or for its operations as and when required in a timely manner, without incurring any liabilities of the Company. As such, we are of the view that the settlement of the Consideration by the allotment and issue of the Consideration Shares is in the interests of the Company and the Shareholders as a whole.

LETTER FROM VC CAPITAL

Comparable analysis

In order to further assess whether the Consideration is fair and reasonable, we have performed a comparable analysis which summarises the price to earnings ratio (“P/E”) of companies listed on the Stock Exchange where the manufacture, development and/or sale of bio-chemical, medical and/or pharmaceutical products, equipment and/or services is/are the key contributor(s) generating more than 90% of the total segment revenue as disclosed in the latest published annual reports of such companies (the “Comparables”). Since we could not find any companies listed on the Stock Exchange involved in the identical business to the Target Group, we have chosen listed companies which are involved in similar industries with that of the Target Group, i.e. bio-chemical, medical and/or pharmaceutical industries, as our Comparables. We believe that the Comparables are good references for our assessment on the fairness and reasonableness of the Consideration. To the best of our knowledge and endeavor, we have found 42 companies which met the said criteria. Set out below are the extract of the Comparables of 29 companies with positive earnings per share as disclosed in their latest published annual reports:

Company (Stock code)	Business(es)	P/E (times) <i>(Note 1)</i>
Biosino Bio-Technology and Science Incorporation – H Shares (8247)	Manufactures, sells and distributes a variety of mono/double diagnostic reagent products; and pharmaceutical products	8.26
Bloomage BioTechnology Corporation Limited (963)	Production and sales of bio-chemical products	6.85
China Renji Medical Group Limited (648)	Medical network business which includes leasing of medical equipment and provision of consultancy services for the operation of the medical centres specializing in the diagnosis and treatment of tumours and/or cancer related diseases, by applying advanced radiotherapy technology, in various cities of China	0.16
Core Healthcare Investment Holdings Limited (8250)	Sales of diagnostic testing services and products, sales of health food and pharmaceutical products	0.54

LETTER FROM VC CAPITAL

Company (Stock code)	Business(es)	P/E (times) <i>(Note 1)</i>
Dawnrays Pharmaceutical (Holdings) Limited (2348)	Development, manufacture and sale of non-patented chemical medicines including cephalosporins in sterile bulk medicine and powder for injection forms, their intermediate pharmaceuticals and system specific medicines	5.30
Broad Intelligence International Pharmaceutical Holdings Limited (1149)	Manufacture, sale, research and development of injection solution pharmaceutical products under the Nan Shaolin brandname in the PRC	9.86
China Pharmaceutical Group Limited (1093)	Manufacture and sale of pharmaceutical products	7.34
Jiwa Bio-Pharm Holdings Limited (2327)	Research, development, manufacture & sale of pharmaceutical products, including new medicine and generic pharmaceutical products, and to a lesser extent, health-care products	6.64
Lee's Pharmaceutical Holdings Limited (8221)	Manufacture and sale of self-developed pharmaceutical products, trading of license-in pharmaceutical products	8.71
Lijun International Pharmaceutical (Holding) Co., Ltd. (2005)	Research, development, manufacture and sale of wide range of finished medicines and bulk pharmaceutical through a network independent retailers	9.83
Shandong Luoxin Pharmacy Stock Co., Ltd – H shares (8058)	Manufacturing and selling of pharmaceutical products	9.72

LETTER FROM VC CAPITAL

Company (Stock code)	Business(es)	P/E (times) <i>(Note 1)</i>
The United Laboratories International Holdings Limited (3933)	Manufacture and sale of antibiotics finished products and the bulk medicine and intermediate products used to produce them, cough syrup, anti-allergy medicine and capsule casings	9.22
Vital Pharmaceutical Holdings Limited (1164)	Research and development, selling and manufacturing of pharmaceutical products	4.64
Wing Shan International Limited (570)	Manufacture and sale of pharmaceutical products	28.57
Wuyi International Pharmaceutical Company Limited (1889)	Research and development, manufacturing and trading of pharmaceutical products	5.87
Jilin Province Huinan Changlong Bio-pharmacy Company Limited (8049)	Manufacture and distribution of biochemical medicines in the PRC	9.17
China Asean Resources Limited (8186)	Provision of medical equipment services and related accessories, the provision of medical research and development services and the sales of medical equipment in the PRC	4.07
Hua Han Bio-Pharmaceutical Holdings Limited (587)	Research, development, manufacture and sale of gynecological medicine and medicinal healthcare products for women	5.61
Uni-Bio Science Group Limited (690)	Bio-science related business (with focus on the research, development and commercialization of biopharmaceuticals through recombinant DNA and other technologies)	4.77

LETTER FROM VC CAPITAL

Company (Stock code)	Business(es)	P/E (times) <i>(Note 1)</i>
China Shineway Pharmaceutical Group Limited (2877)	Research and development, manufacture and trading of Chinese pharmaceutical products	11.23
Shandong Weigao Group Medical Polymer Company Limited (8199)	Production and sale of single use consumables such as infusion sets, syringes, blood transfusion sets and blood bags, orthopedic products, other products such as blood purification consumables medical equipment and medical PVC granules	30.94
Guangzhou Pharmaceutical Company Limited (874)	Manufacture and sales of Chinese Patent Medicine, wholesale, retail, import and export of western and Chinese pharmaceutical products and medical apparatus; research and development of natural medicine and biological medicine	12.24
Golden Meditech Company Limited (8180)	Manufacture and sale of autologous blood recovery machines and disposable blood processing chambers and related accessories, provision of examination, processing, separation and storage services for blood stem cells	0.03
Mingyuan Medicare Development Company Limited (233)	Manufacture and trading of protein chips and related equipments, provision of cervical cancer care and operation of Shanghai Woman and Child Healthcare Hospital of Hong-Kou District, Shanghai, the PRC	15.79
Shandong Xinhua Pharmaceutical Company Limited – H Shares (719)	Development, manufacture and sales of bulk pharmaceuticals, preparations (such as injections and tablets) and chemical products	24.12

LETTER FROM VC CAPITAL

Company (Stock code)	Business(es)	P/E (times) (Note 1)
Sino Biopharmaceutical Limited (1177)	Research and development, production and sale of a series of modernised Chinese medicines and chemical medicines	10.84 (Note 2)
Hong Kong Health Check And Laboratory Holdings Company Limited (397)	Provision of health check, advanced diagnostic imaging services, day care observation services and medical laboratory related services to the public	70.09
Asia Resources Holdings Limited (899)	Manufacture and sales of pharmaceutical products	9.29
Northeast Tiger Pharmaceutical Company Limited – H Shares (8197)	Development, manufacture and sale of medicine products in the PRC	15.35
Average		11.90
Median		9.17
Maximum		70.09
Minimum		0.03
The Acquisition		7.73

Source: the Stock Exchange

Notes:

1. The P/Es above are calculated as the closing prices of the shares of the aforesaid listed companies as quoted on the Stock Exchange or the Growth Enterprise Market of the Stock Exchange as at the date of the Agreement divided by their respective basic earnings per share as disclosed in the latest published annual reports of such listed companies.
2. The P/E is calculated as the adjusted closing price of the shares of such listed company as quoted on the Stock Exchange as at the date of the Agreement divided by its basic earnings per share as disclosed in its latest published annual report.

From the above table, we note that the average P/E as represented by the Comparables is approximately 11.90 times and the median P/E is approximately 9.17 times, with a range of approximately 0.03 times to 70.09 times.

LETTER FROM VC CAPITAL

Based on the unaudited net profit after tax of the Target Group for the year ended 31 March 2008 which was approximately HK\$15.33 million, the P/E of the Acquisition is approximately 7.73 times (being the Consideration divided by 27% of the unaudited net profit after tax of the Target Group for the year ended 31 March 2008), which falls within the P/E range of the Comparables.

With reference to the financial information of the Target Group as provided by the Company, the Target Group recorded an unaudited net profit after tax of approximately HK\$12.40 million for the ten months ended 31 January 2009, which reflects that the Target Group has a sound earning capability albeit the economic downturn.

After taking into account that (i) allotment and issue of the Consideration Shares can help maintain the liquidity position of the Group; (ii) the P/E of the Acquisition of approximately 7.73 times falls within the P/E range of the Comparables and is lower than the average P/E and median P/E of the Comparables; and (iii) the unaudited net profit after tax of approximately HK\$12.40 million for the ten months ended 31 January 2009 as recorded by the Target Group which reflects the earning capability of the Target Group albeit the economic downturn, we are of the view that the Consideration is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.

Issue price of the Consideration Shares

As disclosed in the letter from the Board, the issue price of HK\$1.498 per Consideration Share was determined after arm's length negotiation between the Purchaser and the Vendor after taking into account the average closing price of the Shares as quoted on the Stock Exchange for the five consecutive trading days up to and including 1 June 2009, being the date of the Agreement.

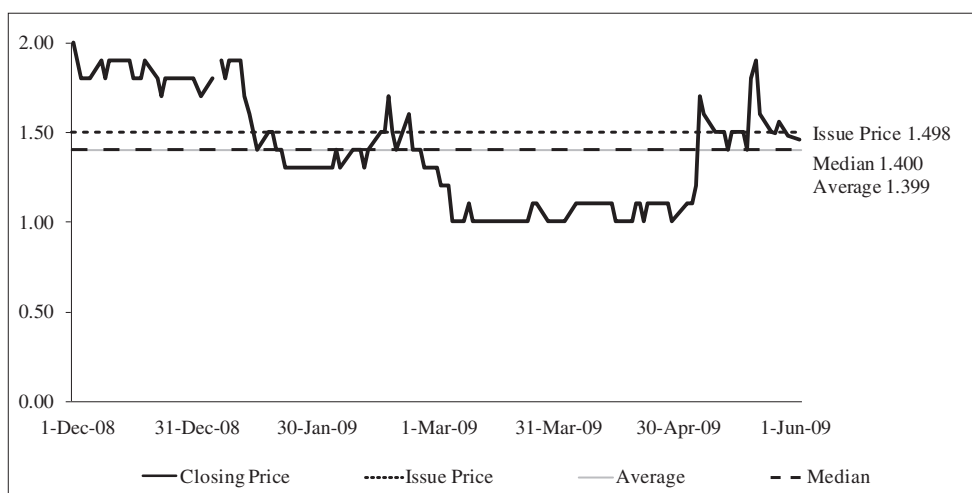
The Issue Price of HK\$1.498 per Consideration Share represents:

- (i) a premium of approximately 2.6% over the closing price of HK\$1.46 per Share as quoted on the Stock Exchange on 1 June 2009, being the date of the Agreement;
- (ii) the equivalent to the average closing price of approximately HK\$1.498 per Share for the five consecutive trading days up to and including 1 June 2009;
- (iii) a discount of approximately 4.5% to the average closing price of approximately HK\$1.569 per Share for the ten consecutive trading days up to and including 1 June 2009;
- (iv) a premium of approximately 7.8% over the closing price of HK\$1.39 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and

LETTER FROM VC CAPITAL

- (v) a discount of approximately 75.2% to the unaudited net asset value (including minority interests) per Share of approximately HK\$6.03 based on the unaudited consolidated net asset value of the Group of approximately HK\$1,067,507,000 as at 30 September 2008 and a total of 176,955,157 Shares as at that date.

We have reviewed the historical movement of the daily closing price of the Shares traded on the Stock Exchange in the past six months immediately preceding the date of the Agreement, being 1 December 2008, and up to and including 1 June 2009, being the date of the Agreement (the “**Review Period**”). The following diagram illustrates the share price movement of the Company:



We note from the above graph that the Issue Price is higher than the average and the median of the prices of the Shares during the Review Period. We also note that the Issue Price represents a discount to the unaudited net asset value (including minority interests) per Share of approximately HK\$6.03 based on the unaudited consolidated net asset value of the Group of approximately HK\$1,067,507,000 as at 30 September 2008 and a total of 176,955,157 Shares as at that date. We are of the view that the Issue Price is fair and reasonable for the reasons that (i) the Shares had been trading at a price level lower than the unaudited net asset value per Share of approximately HK\$6.03 during the Review Period, such that it does not warrant a good reference for us to compare the unaudited net asset value per Share with the Issue Price; and (ii) the Issue Price is higher than the average and median of the prices of the Shares during the Review Period.

3. Financial effects of the Acquisition on the Group

Earnings

As disclosed in the letter from the Board of the Circular, upon the Completion, the accounts of the Target Group will continue to be consolidated, but to a greater extent from 51% to 78%, with those of the Company. With reference to the unaudited financial information of the Target Group, the Target Group has been operating profitably over the

LETTER FROM VC CAPITAL

past two financial years ended 31 March 2008 and the ten months ended 31 January 2009. Therefore, the Acquisition is expected to enhance the income base and earning capabilities of the Group, subject to the actual operating performance of the Target Group in the future.

Net asset value

According to the latest published unaudited interim results of the Company for the six months ended 30 September 2008, the unaudited consolidated net assets value of the Group (including minority interests) was approximately HK\$1,067.51 million. Based on the total number of Shares in issue of approximately 287.78 million as at the Latest Practicable Date, the net asset value per Share as at the Latest Practicable Date was approximately HK\$3.71. Since the Consideration Shares will be issued at a discount to the Group's unaudited net asset value per Share of approximately HK\$6.03 as at 30 September 2008, the Completion will result in a reduction in the net asset value per Share.

Upon Completion, the accounts of the Target Group will continue to be consolidated, to a greater extent from 51% to 78%, with those of the Group. Given the positive future prospects of the Target Group, it is expected that the Group's earning capabilities will be enhanced in the future and its assets will thereby be increased, subject to the actual performance of the Target Group in the future.

Gearing

According to the latest published unaudited interim results of the Company for the six months ended 30 September 2008, the gearing ratio (defined as total bank borrowings of approximately HK\$153.53 million divided by total shareholders' equity (including minority interests) of approximately HK\$1,067.51 million) was approximately 14.38%. Upon the Completion, the net assets of the Group (including minority interests) would be increased by HK\$32 million after the allotment and issue of 21,361,815 Consideration Shares. Assuming the total bank borrowings of the Group remain unchanged at the Completion, the gearing ratio of the Group is expected to decrease as the net assets will increase upon the allotment and issue of the Consideration Shares.

Given that the Company will be able to (i) exercise almost absolute (i.e. over 75%) control over the management of the Target Group; (ii) enjoy more financial benefits from the Target Group; and (iii) obtain a higher net asset value and improve the gearing of the Group, as a result of the Acquisition, we concur with the Directors that the Acquisition is in the interest of the Company and the Shareholders as a whole.

LETTER FROM VC CAPITAL

4. Dilution of shareholding interest of the existing public Shareholders in the Company

The allotment and issue of the Consideration Shares will result in an immediate dilution in the shareholding interests of the Shareholders in the Company upon the Completion.

The following table sets out the shareholding structure of the Company (1) as at the Latest Practicable Date; and (2) immediately after the allotment and issue of the Consideration Shares:

	As at the Latest Practicable Date		Immediately after allotment and issue of the Consideration Shares	
	<i>No. of Shares</i>	<i>Approx. %</i>	<i>No. of Shares</i>	<i>Approx. %</i>
	Broad Idea (<i>Note 1</i>)	81,488,523	28.32	81,488,523
The Vendor and its associates	100,000	0.03	21,461,815	6.94
			<i>(Note 2)</i>	
Public Shareholders	<u>206,196,134</u>	<u>71.65</u>	<u>206,196,134</u>	<u>66.70</u>
Total	<u><u>287,784,657</u></u>	<u><u>100.00</u></u>	<u><u>309,146,472</u></u>	<u><u>100.00</u></u>

Notes:

- Broad Idea, a company incorporated in the BVI with limited liability and the immediate holding company holding approximately 28.32% of the entire issued share capital of the Company as at the Latest Practicable Date, is beneficially owned as to (i) 50.1% by Dr. Cho Kwai Chee, an executive Director and (ii) 49.9% by Dr. Choi Chee Ming *JP*, a non-executive Director.
- These comprise the Consideration Shares to be allotted and issued to the Vendor or its nominee upon Completion and 100,000 Shares currently held by Ms. Leung Yuet Kwan, Belinda, the sole shareholder of the Vendor.

The interests of the existing public Shareholders will be diluted from approximately 71.65% to approximately 66.70% immediately after the allotment and issue of the Consideration Shares. Nevertheless, in view of the fact that (i) the shareholding of the existing Shareholders (except the Vendor and its associates) will be diluted proportionately; (ii) the Shareholders could possibly benefit from the enhanced earning capabilities and broadened income base of the Group as a result of the Acquisition; and (iii) the payment of the Consideration by the allotment and issue of the Consideration Shares will retain sufficient and flexible working capital for the Group for any future funding needs and opportunities, we are of the view that the level of dilution on the shareholdings of the existing Shareholders is acceptable.

LETTER FROM VC CAPITAL

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we consider that the Acquisition is conducted in the usual and ordinary course of business of the Group; the terms of the Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the SGM to approve the Agreement and the transactions contemplated thereunder.

Yours faithfully
For and on behalf of
VC Capital Limited

Philip Chau
Managing Director

Keith Lou
Executive Director

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS**Directors' and chief executive's interests and short positions in shares, underlying shares and debentures of the Company or any of its associated corporations**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in the Listing Rules were as follows:

Long position*Directors' interests in the issued Shares*

Name of Director	Capacity	Number of Shares held	Approximate percentage of the total issued share capital of the Company
Dr. Cho Kwai Chee	Interest in controlled corporation (<i>Note</i>)	81,488,523	28.32%
Dr. Choi Chee Ming, <i>JP</i>	Interest in controlled corporation (<i>Note</i>)	81,488,523	28.32%

Note: These 81,488,523 Shares are held by Broad Idea which is owned as to 50.1% by Dr. Cho Kwai Chee and as to 49.9% by Dr. Choi Chee Ming *JP*. Accordingly, Dr. Cho Kwai Chee and Dr. Choi Chee Ming *JP* are both deemed to be interested in the 81,488,523 Shares held by Broad Idea under Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and chief executive were taken or deemed to have under the provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules.

Dr. Cho Kwai Chee (the Chief Executive Officer of the Company and an executive Director) and Dr. Choi Chee Ming *JP* (a non-executive Director) are also directors of Broad Idea, which has an interest in the Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

INTERESTS IN CONTRACTS AND ASSETS OF THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by, or leased to, any member of the Group or were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 March 2008, the date to which the latest published audited consolidated financial statements of the Group were made up.

None of the Directors are materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of them or any of their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

MATERIAL CHANGE

On 13 May 2009, the Company announced that based on a preliminary estimate, it is expected that the Group will record a significant loss for the year ended 31 March 2009 (“**FY 2008/09**”) as compared to a profit recorded for the last corresponding year. The Board believes that the principal causes of such expected significant loss are (1) the loss attributable to the holding by the Company’s subsidiaries and jointly-controlled entity of the convertible bonds issued by two companies listed on the Stock Exchange (being Hong Kong Health Check and Laboratory Holdings Company Limited (“**HK Health Check**”) (stock code: 397) and Core Healthcare Investment Holdings Limited (stock code: 8250), all of which have been redeemed in full during FY 2008/09; (2) the expected loss arising from the change in fair value of the employee share options granted by the Company and the options granted to Ping An Trust, in each case, which remained outstanding as at the year end date of FY 2008/09; (3) the impairment loss attributable to the Group’s investment in HK Health Check; (4) an impairment loss for goodwill arising from acquisitions of subsidiaries and associates in prior years; and (5) an impairment loss on available-for-sale investment and held for trading investment caused by the financial tsunami.

Save as disclosed above, as at the Latest Practicable Date, the Board confirmed that there was no material adverse change in the financial or trading position of the Group since 31 March 2008 (being the date to which the latest published audited consolidated accounts of the Group were made up).

EXPERT AND CONSENT

The following is the qualifications of the expert who has given opinion or advice which is contained in this circular:

Name	Qualifications
VC Capital	A corporation licensed to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities registered under the SFO

VC Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of the text of its letter and references to its name and its opinion or advice in the form and context in which they respectively appear.

As at the Latest Practicable Date, VC Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of VC Capital and its directors had any direct or indirect interest in any assets which had been acquired, disposed of by or leased to, or which were proposed to be acquired, disposed of by or leased to, any member of the Group since 31

March 2008, being the date to which the latest published audited consolidated financial statements of the Group were made up.

MISCELLANEOUS

- (a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is at Shop No. 37, Level 3, Hilton Plaza Commercial Centre, 3-9 Shatin Centre Street, Shatin, New Territories, Hong Kong.
- (c) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.
- (d) The company secretary of the Company is Mr. Wong Seung Ming who graduated from the City University of Hong Kong with a bachelor of Accountancy and is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during the normal business hours from 9:00 a.m. to 5:30 p.m. (save for Saturdays and public holidays) at the principal place of business of the Company at Shop No. 37, Level 3, Hilton Plaza Commercial Centre, 3-9 Shatin Centre Street, Shatin, New Territories, Hong Kong from the date of this circular and up to and including 30 June 2009:

- (i) the Agreement;
- (ii) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 15 of this circular;
- (iii) the letter of advice from VC Capital, the text of which is set out on pages 16 to 31 of this circular; and
- (iv) the written consent referred to in the paragraph headed "Expert and Consent" in this appendix.

NOTICE OF SPECIAL GENERAL MEETING



TOWN HEALTH INTERNATIONAL HOLDINGS COMPANY LIMITED

康健國際控股有限公司*

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 3886)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of Town Health International Holdings Company Limited (the “**Company**”) will be held at Shop 1A-1C, Level 1, Hilton Plaza Commercial Centre, 3-9 Shatin Centre Street, Shatin, New Territories, Hong Kong at 9:00 a.m. on Friday, 3 July 2009 for the purpose of considering and, if thought fit, with or without modifications, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the sale and purchase agreement dated 1 June 2009 (the “**Agreement**”) entered into between, inter alia, Health Walk Limited (the “**Purchaser**”, an indirect wholly-owned subsidiary of the Company) as purchaser and Helix Overseas Holdings Limited (the “**Vendor**”) as vendor in relation to the sale and purchase of the 27% of the entire issued share capital of First Oriental Medical Technology Group Limited (the “**FOMT Group**”) at a consideration of HK\$32 million by the issue and allotment of new shares of HK\$0.01 each (the “**Share(s)**”) in the Company at the issue price of HK\$1.498 per Share to the Vendor or its nominee as at the completion of the Agreement, and the transactions contemplated thereunder, be and are hereby approved, confirmed and ratified;
- (b) the issue and allotment of an aggregate of 21,361,815 new Shares to the Vendor or its nominee credited as fully paid (which shall rank *pari passu* in all respects with the existing Shares then in issue at the date of allotment of such new consideration Shares) in satisfaction of the consideration payable under and pursuant to the Agreement be and is hereby approved, and any one of the directors of the Company be and is hereby authorised to issue and allot such consideration Shares to the Vendor or its nominee pursuant to the terms of the Agreement; and

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- (c) any one of the directors of the Company be and is hereby authorised to do all such acts and things and execute all such documents which he/she may, in his/her absolute discretion, consider necessary, desirable or expedient to implement and/or give effect to the Agreement and the transaction contemplated thereunder.”

By order of the Board
Town Health International Holdings Company Limited
Cho Kwai Chee
Executive Director

Hong Kong, 15 June 2009

Registered office:

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

*Head office and principal place
of business in Hong Kong:*

Shop No. 37, Level 3
Hilton Plaza Commercial Centre
3-9 Shatin Centre Street
Shatin
New Territories
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more than one proxy to attend and, subject to the provisions of the bye-laws of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. Whether or not you intend to attend the Meeting in person, you are encouraged to complete and return the form of proxy in accordance with the instructions printed thereon. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.
3. In order to be valid, the form of proxy, together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

NOTICE OF SPECIAL GENERAL MEETING

4. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.
5. As required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above resolution will be decided by way of a poll.

As at the date hereof, the executive directors of the Company are Miss Choi Ka Yee, Crystal, Dr. Cho Kwai Chee and Dr. Hui Ka Wah, Ronnie JP; the non-executive director of the Company is Dr. Choi Chee Ming JP; and the independent non-executive directors of the Company are Mr. Chan Kam Chiu, Mr. Wai Kwok Hung JP and Mr. Ho Kwok Wah, George.