
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders include Mr. Jin, Ms. Chen (Mr. Jin's spouse), Mr. Jin Dongkun (Mr. Jin's brother), Ms. Hao Ruihua (Mr. Jin's mother) and Mr. Jin Guisheng (Mr. Jin's father), and holding entities owned and controlled by them, including Asia Health, Global Health Century, Pacific Health Century and Atlantic Health Century. Upon the completion of the Reorganisation of Offshore Holding Structure and immediately following the completion of the Global Offering, the Controlling Shareholders will together own 995,040,000 Shares, representing 49.75% of the issued and outstanding share capital of our Company. Please see *"History and Reorganisation"* for further details regarding the shareholding structure of our Company.

NON-INCLUSION OF THE RELATED COMPANIES AND RELEVANT TRADEMARKS

We have been procuring some products with exclusive distribution rights from certain companies controlled by relatives of the Controlling Shareholders (the **"Related Companies"**). Please see *"Connected Transactions"* for details. The Related Companies are connected to us solely because they are majority-controlled by certain distant relatives of the Controlling Shareholders. The Controlling Shareholders do not have any interest, whether by agreement or otherwise, in the Related Companies. Further, none of the Group's directors or senior management has been involved in the business of the Related Companies. Whilst we focus on retail and distribution of pharmaceutical products, the Related Companies focus on manufacturing of pharmaceutical products. The Related Companies have been conducting business with many customers independent of the Group. The businesses of the Related Companies and the Group are clearly delineated and operated by two different groups of management independent from each other.

We have also been using certain trademarks licensed by the Related Companies on our Licensed Products. Please see *"Connected Transactions"* for details. These trademarks are owned by the Related Companies through acquisition of such trademarks from Independent Third Parties or by self-establishment. Please see *"Business – Other Aspects of Our Business – Our Intellectual Properties – Licensing agreements for our Licensed Brands"* for details. Chengde Yushi, holder of the "Yu Shi" (御室) trademark, was previously owned as to 95% by Ms. Chen. As Ms. Chen intended to keep her primary focus on the business of retail and distribution of pharmaceutical products of the Group, she disposed of all the equity interest she held in Chengde Yushi. None of the Controlling Shareholders previously owned these trademarks.

As the Controlling Shareholders do not have control of the Related Companies or own the relevant trademarks associated with the Licensed Products, they have not been included in our Group.

The Controlling Shareholders have also confirmed that they are not interested in any business apart from the Company's business, which competes or is likely to compete, either directly or indirectly, with the Company's business.

POTENTIAL COMPETITION WITH THE RELATED COMPANIES

Apart from manufacturing and distributing the licensed products, the Related Companies also manufacture and distribute other products, which are distributed to other customers apart from us. Pursuant to our agreements with the Related Companies, we are entitled to have the priority to select their products. To ensure exclusivity, the Related Companies are not allowed to distribute the products if such products are selected by us. The Directors believe that through such mechanism, the products distributed by the Related Companies will not compete with those distributed by the Group.

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The Group and the Related Companies are operating in two separate industries which are clearly delineated from each other. Whilst the Group is engaged in the business of retail and distribution of pharmaceutical products, the Related Companies are engaged in the business of manufacturing of pharmaceutical products. The Group's customer base has a substantial portion of end users whilst most of the Related Companies' customers are distributors. The business of the Group and the Related Companies are thus delineated from each other in terms of industry sector, product mix and customer base.

In addition, the Controlling Shareholders do not have control of the Related Companies. The Related Companies are operated independently from us. In light of the above, the Directors are of the view that the business of the Related Companies does not compete with the business of the Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS AND THEIR ASSOCIATES

Our Board is satisfied that our Company is capable of carrying on its business independently from our Controlling Shareholders and their respective associates after the Listing in view of the following factors:

Management independence

The Company has a Board and senior management that function independently from our Controlling Shareholders and their associates. We have eight Directors on our Board, comprising five executive Directors and three independent non-executive Directors. Please see *"Directors and Senior Management"* for further details of our Board and senior management.

While three of our executive Directors, Mr. Jin, Ms. Chen and Mr. Jin Dongkun, are our Controlling Shareholders, the other two executive Directors are not related to our Controlling Shareholders. In addition, the three independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions.

Each of our Directors is aware of his or her fiduciary duties as a director of a listed company in Hong Kong which require that, among other things, he or she acts in the best interests of our Group and he or she avoids any conflict between his or her duties as a Director and his or her personal interests. As stipulated under the Articles of Association, any Director who has a material interest in the subject matter being proposed to the Board shall not be entitled to vote nor be counted in the quorum on any such resolution of the Board.

Operational independence

During the Track Record Period, our Group was operationally independent from our Controlling Shareholders and their associates. Save for the related party transactions disclosed under note 31 to the Accountant's Report set out in Appendix I to this prospectus and the connected transactions disclosed under *"Connected Transactions"*, there have been no other business dealings between our Group and our Controlling Shareholders and their associates. Such connected transactions mainly include purchase of some products with exclusive distribution rights from certain Related Companies and use of certain trademarks licensed by the Related Companies on our Licensed Products. Our Directors and the Sole Sponsor have confirmed that these continuing connected transactions are entered into in the ordinary and usual course of our business, on normal commercial terms and at arm's length.

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Although the Related Companies are our connected persons, they are connected solely because they are majority-controlled by certain distant relatives of the Controlling Shareholders. The Controlling Shareholders do not have control of the Related Companies. The Group and the Related Companies are operated independently from each other.

We have direct and independent access to suppliers and customers and do not rely on the Controlling Shareholders or their associates to establish or maintain our business relationship with new or existing customers and suppliers. While procuring from the Related Companies, we have also been procuring from Independent Third Parties since the commencement of our operations and have not experienced significant difficulties in maintaining reliable sources of supplies. We believe that alternative suppliers or alternative products are readily available for substantially all of the products we sell, and the loss of any one supplier would not have a material effect on our operations. We have established our own set of organisational structure made up of individual departments, each with specific areas of responsibilities. We have also established a set of internal controls to facilitate the effective operation of our business. Save as disclosed in *“Business – Other Aspects of Our Business – Legal and compliance matters”*, we have obtained all the licences, approvals and permits from appropriate regulatory authorities that are material for our business operations. Our Directors, including our independent non-executive Directors, believe that our Group is operationally independent from our Controlling Shareholders.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group’s own business needs. Our Directors confirmed that as at the Latest Practicable Date, there were no outstanding loans or guarantees provided by the Controlling Shareholders to our Group. We believe we are capable of obtaining financing from Independent Third Parties after the Listing, if necessary.

DEED OF NON-COMPETITION

The Controlling Shareholders executed the Deed of Non-competition in our favour on 18 November 2013, pursuant to which each of them has undertaken to:

- not, and procure that their respective subsidiaries or parties controlled by them either solely or jointly with another Controlling Shareholder or any other party (**“Affiliates”**) will not, either on their own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, be interested or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise) in any business which directly or indirectly competes or may compete with the Core Businesses (as defined below);
- notify our Company in writing of any business opportunity which directly or indirectly competes or may compete with the Core Businesses (which shall include all relevant information and documents possessed by any of them) (**“New Business Opportunity”**), if any of them becomes aware of such business opportunity; and
- use its best endeavours to procure that the New Business Opportunity is first offered to our Company on terms and conditions that are fair and reasonable.

For the purpose of the Deed of Non-competition, **“Core Businesses”** shall include the pharmaceutical retail and distribution businesses in the PRC and Hong Kong.

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Each of the Controlling Shareholders has also unconditionally and irrevocably granted to us the following options and pre-emptive rights:

- options to purchase on the basis of valuations conducted by an independent qualified valuer jointly appointed by the relevant Controlling Shareholder and us, subject to any relevant laws and applicable listing rules and existing third party pre-emptive rights:
 - any interest in the relevant Controlling Shareholder's business, including any business of its Affiliates, which directly or indirectly competes or is likely to compete with the Core Businesses; and
 - any interest in any business of the relevant Controlling Shareholder or its Affiliates resulting from a New Business Opportunity which had been offered to us, but has not been taken by us, and has been retained by it or its Affiliates; and
- pre-emptive rights to purchase on fair and reasonable terms any new or existing business of the relevant Controlling Shareholder, or any of its Affiliates that directly or indirectly competes, or may compete with the Core Businesses, subject to any relevant laws and applicable listing rules and existing third party pre-emptive rights.

The Deed of Non-competition does not restrict each of the Controlling Shareholders and their respective Affiliates to:

- hold, directly or indirectly, securities of any company listed on the Stock Exchange or another recognised stock exchange which is primarily engaged in any Core Business provided that the interests of the relevant Controlling Shareholder and its Affiliates, in each case, in such company represents in aggregate not more than 5% of the total issued share capital of such company and that the relevant Controlling Shareholder and its Affiliates, in each case, individually or together, are not in control of the board of directors of such company;
- hold shares and other securities in us and our subsidiaries; and/or
- hold shares and other securities in any company listed on the Stock Exchange or another stock exchange whose primary business is not the Core Businesses.

Furthermore, each of the Controlling Shareholders has undertaken to us to provide an annual confirmation to us and our independent non-executive Directors regarding their compliance and the compliance of their Affiliates (as relevant) with the Deed of Non-competition.

We will disclose the review by our independent non-executive Directors of the compliance, and enforcement of, the Deed of Non-competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules. In the event any New Business Opportunities presented by or otherwise arising in connection with any of the Controlling Shareholders are turned down by us according to the Deed of Non-competition, we will disclose the decision, as well as the basis for such decision in our annual report or interim report.

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The Deed of Non-competition will take effect on the Listing Date and will remain in full force until terminated upon the occurrence of any of the following events:

- i. with regard to each Controlling Shareholder, the date on which such Controlling Shareholder and/or their Affiliates cease to be a Controlling Shareholder of us within the meaning of the Listing Rules. For the avoidance of doubt, the Deed of Non-competition will remain in full force in respect of the remaining Controlling Shareholder(s);
- ii. the date on which our Shares cease to be listed on the Stock Exchange; and
- iii. the date on which our Company ceases to engage in the Core Businesses.

CORPORATE GOVERNANCE

Our Board will consist of not less than three independent non-executive Directors and at least one-third of our Board will be independent non-executive Directors. This will help ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. We will ensure that our independent non-executive Directors are of sufficient calibre, knowledge and experience, have no connections or relationship with us or our connected persons and will carry weight in our decision-making process.

We have adopted the following decision-making procedures for matters or transactions with potential conflicts of interest between us, on the one hand, and our Controlling Shareholders and their associates, on the other hand:

- *The Articles of Association require the Directors to declare material interests.* The Articles of Association provide that if a Director is in any way interested in a contract, transaction or arrangement with the Company (including one that is proposed), the Director shall declare the nature of such interest at the earliest opportunity at which it is practicable for him or her to do so.
- *The Articles of Association require that the Directors with material interests shall not vote nor be counted in quorum.* Subject to certain exceptions, the Articles of Association provide that a Director shall not vote (nor shall he or she be counted in the quorum) on any resolution of our Board approving any contract, arrangement or proposal in which he or she, or any of his or her associates, is, to his or her knowledge, materially interested. If he or she votes, his or her vote will not be counted (nor will he or she be counted in the quorum for that resolution). The Articles of Association require a Director to excuse himself or herself from voting in the event the Director has any conflicts of interest.
- *Audit, nomination and remuneration committees.* We have established an audit committee, a nomination committee and a remuneration committee to assess and control, and ensure our Board is appropriately advised as to, matters relating to (among other things) our relationship with our external auditors and our internal audit function, the remuneration of the Directors and our senior management, and the composition of the Board. Our audit committee comprises independent non-executive Directors and each of our nomination committee and remuneration committee comprises a majority of independent non-executive Directors. Moreover, the chairman of each of our audit and remuneration committees is an independent non-executive Director. Please see “*Directors and Senior Management – Board Committees*” for further details regarding the committees and their composition.

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- *Appointment of compliance advisor.* We have entered into an agreement with a compliance advisor, Guotai Junan Capital Limited, to provide us with professional advice and guidance in respect of compliance with the Listing Rules and relevant applicable laws.

In additions, the following measures will be adopted by us in respect of the enforceability of the Deed of Non-competition:

- *Compliance with Deed of Non-competition.* The independent non-executive Directors will review, on an annual basis, the Controlling Shareholders' compliance with the Deed of Non-competition and we will disclose the results of such review and the enforcement of (if any) the Deed of Non-competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules. Our Controlling Shareholders have undertaken to us that they will provide all information necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition. Our Controlling Shareholders have further undertaken to us that each of them will make an annual confirmation as to compliance with the Deed of Non-competition in our annual report.
- *New business opportunities.* Any New Business Opportunities under the Deed of Non-Competition and all other matters determined by our Board as having a potential conflict of interest with the Controlling Shareholders will be referred to our independent non-executive Directors for discussion and decision. When necessary, these Directors will engage an independent financial advisor to advise them on these matters. In the event any New Business Opportunities presented by or otherwise arising in connection with any of the Controlling Shareholders are turned down by us according to the Deed of Non-competition, we will disclose the decision, as well as the basis for such decision in our annual report or interim report.
- *Disclosure of new opportunities.* Our annual report will include the views and decisions, with bases, of our independent non-executive Directors on whether to take up any new opportunities under the Deed of Non-competition or other matters having a potential conflict of interest with the Controlling Shareholders that have been referred to the independent non-executive Directors.

Moreover, any transaction that is proposed between us and any of our Controlling Shareholders will be required to comply with the then requirements of the Listing Rules, including, where applicable, the announcement, reporting and/or independent shareholders' approval requirements.

Based on the above, our Board is satisfied that there are sufficient and effective preventive measures to manage conflicts of interest and our Board is able to operate independently of the Controlling Shareholders.