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China Wah Yan Healthcare Limited

中國華仁醫療有限公司

(Incorporated in the Hong Kong with limited liability)

(Stock Code: 648)

**FORMATION OF JOINT VENTURE —
FOR DEVELOPMENT OF A CHAIN OF
CHINESE MEDICINE THERAPY CENTRES
AND
CONNECTED TRANSACTION**

THE JV AGREEMENT

The Company is pleased to announce that on 14 July 2015, the Company entered into the JV Agreement with Dr. Chun, pursuant to which the Company and Dr. Chun have agreed to form the JV in which the Company will own as to 80% and Dr. Chun will own as to 20% of the issued share capital of the JV. The JV will be for the development of a chain of healthcare and therapy centres in Hong Kong and the PRC which integrates modern testing technology and traditional Chinese medicine methodology to provide comprehensive treatment to patients for health enhancement. Pursuant to the terms of the JV Agreement, the Company will contribute HK\$20 million to the capital of the JV and, has undertaken to, together with Mr. Chan, provide the Shareholder's Loans of up to HK\$100 million (on a pro rata basis pursuant to the terms of the Option Deed) to the JV. Dr. Chun, who is known as 「香港第一針」 (The Hong Kong No. 1 Master of Acupuncture), is a remarkable registered licensed Chinese medicine practitioner in Hong Kong and the PRC and will be responsible for establishing a management team comprising licensed Chinese medicine practitioners and other management personnel for the operation of the JV.

In addition, on 14 July 2015, the Option Holder (a company wholly-owned by Mr. Chan, a Director) and the Company also entered into the Option Deed, pursuant to which (i) the Option Holder has agreed to grant the Tranche One Put Option and the Tranche Two Put Options to the Company which entitle the Company the right to require the Option Holder to acquire the Tranche One Option Shares and the Tranche Two Option Shares (representing an aggregate of 38% of the total enlarged issued share capital of the JV immediately following completion of the JV Agreement) at the Tranche One Option Exercise Price and the Tranche Two Option Exercise Price, respectively, during the Tranche One Put Option Exercise Period and the Tranche Two Put Option Exercise Period, respectively; and (ii) the Company has agreed to grant the Tranche One Call Option and the Tranche Two Call Option to the Option Holder which entitle the Option Holder the right to require the Company to dispose of the Tranche One Option Shares and the Tranche Two Option Shares at the Tranche One Option Exercise Price and the Tranche Two Option Exercise Price, respectively, during the Tranche One Call Option Exercise Period and the Tranche Two Call Option Exercise Period, respectively. Following the exercise of the Put Option or the Call Option, the Option Holder will be obliged to provide financing to the JV with the Company on a pro rata basis.

IMPLICATION OF THE LISTING RULES

The JV Agreement

The applicable percentage ratios (as defined under the Listing Rules) in respect of the establishment of the JV under the JV Agreement are greater than 5% but less than 25%, the transactions contemplated under the JV Agreement will constitute a discloseable transaction of the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

The Option Deed

As the Option Holder is wholly-owned by Mr. Chan, a Director and a connected person of the Company, the granting of the Call Options by the Company to the Option Holder under the Option Deed constitutes a connected transaction under Chapter 14A of the Listing Rules. As the applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction contemplated under the Call Options are less than 25% and the maximum consideration payable by the Option Holder in connection with his exercise of the Call Options is less than HK\$10 million, the granting of the Call Options under the Option Deed to the Option Holder is subject to the reporting and announcement requirements and is exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE JV AGREEMENT

Date

14 July 2015

Parties to the JV Agreement

- (i) the Company; and
- (ii) Dr. Chun. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Dr. Chun is a third party independent of the Company and its connected persons (as defined under the Listing Rules).

Dr. Chun is a registered licensed Chinese medicine practitioner and has over 30 years of practice in Chinese medicine in Hong Kong and the PRC. Dr. Chun, who is known as 「香港第一針」 (The Hong Kong No. 1 Master of Acupuncture), is a remarkable Chinese medicine practitioner and is particularly renowned for his acupuncture practice. During the recent years, Dr. Chun has focused on the application of Chinese medicine in health improvement and treatment of osteoarthropathy (spinal diseases), ophthalmology (e.g. short/long/weak-sightedness, glaucoma, diabetic mellitus retinopathy (an eye disease resulting from diabetes) and myopia, etc.) and rare illness. Dr. Chun has been playing an active role in the Chinese medicine industry in Hong Kong and the PRC. He is the founder of the "International Association of Bian Stone Therapeutics of Chinese Medicine", a supervisor of The Association of Hong Kong Professional Registered Chinese Medicine, a consultant of The Cervical Spondylosis Professional Committee of the Chinese Association of Rehabilitation Medicine (中國康復醫學會頸椎病專業委員會) and a founding member of the Hong Kong Association for Integration of Chinese-Western Medicine.

Formation and purpose of the JV Company

Pursuant to the JV Agreement, the JV, an investment holding company which is currently wholly-owned by the Company, will issue new shares to both the Company and Dr. Chun such that following such allotment and issue of new shares, the Company and Dr. Chun will hold 80% and 20% of the enlarged issued share capital of the JV, respectively. It is intended that the JV will establish and develop a chain of healthcare and therapy centres in Hong Kong and the PRC which integrates modern testing technology and traditional Chinese medicine methodology to provide comprehensive treatment to patients for health enhancement. The healthcare and therapy centres to be developed by the JV will, on one hand, install its own modern testing equipment and engage the medical laboratory testing services and healthcare maintenance services in Hong Kong under a group to be acquired by the Rui Kang Group (as defined below) (as announced by Rui Kang (as defined below) on 28 May 2015) for precise diagnosis and monitoring, and, on the other hand, apply traditional Chinese medicine practice (such as acupuncture, chiropractic, meridian massage, herbal healthcare treatment or bone-setting) for purposes of (i) the diagnosis, treatment, prevention or alleviation of any disease or any symptom of a disease; (ii) the prescription of Chinese herbal medicines; and (iii) the regulation of the functional states of the human body.

The JV targets to establish a chain of about 200 Chinese medicine therapy centres by 2018 through both organic growth and mergers and acquisitions, covering various provinces/cities in the PRC and Hong Kong (including the Group's chain of sports and healthcare clubhouses

under the brand name of “Megafit” in the PRC (the “**Megafit Group**”). The JV will work with the Megafit Group to introduce clinical concept in sports and exercise through inclusion of various specific programs to achieve injury curing and body enhancement objectives (e.g. sport rehabilitation programs help recover the physical conditions of those who suffered from sport injury, strokes and accidents; core training programs help improve the stability of spine and reduce intervertebral pressure; and the functional programs help improve one’s control over the movement; and relief and treatment of spondylopathy in particular (a very common symptom to the white-collar people). The JV will also develop a co-operation program with the Group’s chain of optical products and eye-care services under the brand name “Hong Kong Optical” (“**Hong Kong Optical**”), which is also in the process of establishing all-in-one centres with an eye illness surgery operator where Hong Kong Optical is responsible for eye examination and sale of optical products, to utilise its customer database and the shop network of Hong Kong Optical for treatment of eye illness by the healthcare and therapy centres of the JV Company, especially for short/long/weak-sightedness, amblyopia and maculopathy.

Funding of the JV

The Company will contribute HK\$20 million (the “**Capital Contribution**”) to the capital of the JV and, has undertaken to, together with Mr. Chan, provide interest-free shareholder’s loans (the “**Shareholder’s Loans**”) of up to HK\$100 million (on a pro rata basis pursuant to the terms of the Option Deed) to the JV, depending on the progress of its development. The above-mentioned capital contribution of the Group to the JV was determined after arm’s length negotiation between the Group and Dr. Chun and has taken into the renowned reputation of Dr. Chun in the area of Chinese medicine as well as his future contribution (both his expertise and vision) to the continuous development of the JV.

It is contemplated that the Capital Contribution and the Shareholder’s Loans (on its part) will be funded by the Group’s internal resource.

Conditions precedent

Completion of the JV Agreement is subject to the following conditions precedent being fulfilled:

- (i) all necessary consents and approvals required to be obtained on the part of the Company and Dr. Chun in respect of the establishment of the JV and the transactions contemplated thereunder having been obtained (including the entering into of the relevant subscription agreements for the new shares and the service contracts); and
- (ii) the Company having procured the JV to issue the new shares of the JV to the Company and Dr. Chun, and the appointment of the directors appointed by the Company and Dr. Chun (as described below).

If the conditions set out above have not been satisfied on or before 4:00p.m. on 30 September 2015 or such other date as may be agreed between the Company and Dr. Chun (the “**Long Stop Date**”), the JV Agreement shall cease and terminate and save for any antecedent breach, neither party shall have any obligations and liabilities towards each other.

Completion

Completion of the JV Agreement shall take place when the above conditions precedent to the JV Agreement having been fulfilled. Following completion of the JV Agreement, the JV will become a non wholly-owned subsidiary of the Company and its results, assets and liabilities will be included in the consolidated financial statement of the Company.

Composition of the board of directors of the JV Company

The board of directors of the JV Company will initially comprise of 3 directors, two of whom (including the chairman) will be nominated by the Group and the remaining one will be nominated by Dr. Chun.

JV Option

Dr. Chun is granted an option (the “**JV Option**”), pursuant to which he has a right to require the Company to acquire from him all of his shares in the JV on (i) 31 December 2017 at a price per share calculated based on the higher of (A) 120% of the Capital Contribution and (B) the net asset value of the JV as at 31 December 2017; both divided by the number of outstanding shares in the JV; or (ii) 31 December 2018 at a price per share calculated based on the higher of (A) 130% of the Capital Contribution and (B) the net asset value of the JV as at 31 December 2018; both divided by the number of outstanding shares in the JV. The exercise of the JV Option is conditional upon and subject to compliance of the Company with the relevant requirements of the Listing Rules at the relevant time.

THE OPTION DEED

On 14 July 2015, the Option Holder and the Company also entered into the Option Deed and the major terms of which are summarised as follows.

Date

14 July 2015

Parties to the Option Deed

- (i) the Option Holder; and
- (ii) the Company

Subject matter of the Option Deed

The Put Option

Pursuant to the Option Deed, the Option Holder has agreed to grant to the Company, in each case, in consideration of HK\$1 paid by the Company:

- (i) the Tranche One Put Option pursuant to which if the amount of the Shareholder’s Loan provided by the Company to the JV at any time during the Tranche One Put Option Exercise Period is over HK\$52.5 million (i.e. 52.5% of the maximum amount of the shareholder’s loan undertaken to be provided by the Company under the JV Agreement), the Company has the right to require the Option Holder to acquire from it all of (and not

part of) the Tranche One Option Shares (representing 19% of the enlarged issued share capital of the JV immediately following completion of the JV Agreement) at the total consideration HK\$4.75 million (being 23.75% of the amount of the Capital Contribution, the “**Tranche One Option Exercise Price**”); and

- (ii) the Tranche Two Put Option pursuant to which if the amount of the Shareholder’s Loan provided by the Company to the JV at any time during the Tranche Two Put Option Exercise Period is over HK\$52.5 million, the Company has the right to require the Option Holder to acquire from it all of (and not part of) the Tranche Two Option Shares (representing 19% of the enlarged issued share capital of the JV immediately following completion of the JV Agreement) at the total consideration of HK\$4.75 million (the “**Tranche Two Option Exercise Price**”).

For avoidance of doubt, if the part of the Shareholder’s Loan provided by the Company to the JV has exceeded HK\$52.5 million during the period when the Tranche One Put Option Exercise Period and the Tranche Two Put Option Exercise Period overlap (i.e. the period between the date of completion of the Option Deed and up to 30 June 2019), the Company shall have the right to exercise both the Tranche One Put Option and the Tranche Two Put Option to require the Option Holder to acquire both the Tranche One Option Shares and the Tranche Two Option Shares at the aggregate consideration of HK\$9.5 million.

The Call Option

Pursuant to the Option Deed, the Company has agreed to grant the Option Holder, in each case, in consideration of HK\$1 paid by the Option Holder:

- (i) the Tranche One Call Option pursuant to which at any time during the Tranche One Call Option Exercise Period, the Option Holder has the right to require the Company to sell to it all of (and not part of) the Tranche One Option Shares at the Tranche One Option Exercise Price; and
- (ii) the Tranche Two Call Option pursuant to which at any time during the Tranche Two Call Option Exercise Period, the Option Holder has the right to require the Company to sell to it all of (and not part of) the Tranche Two Option Shares at the Tranche One Option Exercise Price.

Termination of the Options

The Tranche One Call Option shall be terminated immediately upon exercise of the Tranche One Put Option, and vice versa. The Tranche Two Call Option shall be terminated immediately upon exercise of the Tranche Two Put Option, and vice versa.

Conditions

The grant and exercise of the Options is conditional upon:

- (i) the Option Holder and the Company having obtained or satisfied any and all necessary relevant statutory and regulatory requirements, approvals and consents (including but not limited to those under the Listing Rules) in relation to the transactions contemplated under the Option Deed; and

(ii) completion of the JV Agreement in accordance with the terms thereof.

If the above condition is not fulfilled on or before 30 September 2015 or such other date as may be agreed between the Option Holder and the Company in writing, the Option Deed will lapse and become null and void and thereafter, the Option Holder and the Company shall be released from all obligations hereunder, save for the liabilities for any antecedent breaches hereof.

Undertaking to provide shareholder's loan to the JV

Pursuant to the Option Deed, the Option Holder has undertaken that it will take up the Company's obligation to provide the Shareholders' Loan in respect of the Tranche One Option Shares or the Tranche Two Option Shares, as the case may be (i.e. the Shareholders' Loan in an amount of up to HK\$23.75 million will be provided by the Option Holder after the exercise of the Tranche One Put Option/Tranche One Call Option and the Shareholders' Loan in an amount of up to HK\$23.75 million will be provided by the Option Holder after the exercise of the Tranche Two Put Option/Tranche Two Call Option). For avoidance of doubt, upon exercise of both of the Tranche One Put Option/Tranche One Call Option and the Tranche Two Put Option/Tranche Two Call Option, the Shareholders' Loan will be provided as to HK\$52.5 million and HK\$47.5 million by the Company and the Option Holder respectively.

REASONS FOR AND BENEFITS OF THE JV AGREEMENT AND THE OPTION DEED

The Group is principally engaged in and invests in healthcare and well-being business, including the operation of the Megafit Group's chain of sports and healthcare clubhouses under the brandname of "Megafit" in the PRC, a chain of medical centres specialising in the diagnosis and treatment of tumours in the PRC and the Hong Kong Optical's retail chain of optical products and eye-care services under the brand name "Hong Kong Optical" in Hong Kong, as well as investment and asset management business (such as investment in securities, fixed/capital assets and distressed assets, and loan financing business). The Group is also the single largest shareholder of Rui Kang Pharmaceutical Group Investments Limited ("**Rui Kang**"), a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8037), engaged in, the manufacture, research and development, distribution of consumer cosmetic, health related and pharmaceutical products in the PRC and Hong Kong.

It is the business goal of the Group to become an integrated healthcare and well-being group established on a healthcare and health management platform. During 2014 and early 2015, the Company has conducted a number of investments to implement its plan and lay a solid foundation towards its business goal, including the acquisition of the Megafit Group and Hong Kong Optical as well as its strategic investment in Rui Kang which has enabled the Group to become the single largest shareholder of and establish strategic cooperation relationship with Rui Kang. The establishment of the JV, not only represents a significant step to extend the Group's business into the establishment of a healthcare and health management platform that includes application of traditional Chinese medicine for promotion of the "Grand Health" concept, but also, as described above, enables the Group to introduce Chinese medicine treatment in its other lines of business to enhance the performance of those business lines. It is expected that the continuous development of the chain of Chinese medicine therapy and healthcare centres of the JV in Hong Kong and the PRC will complement and create synergy with the Group's existing healthcare and well-being business.

《中醫葯健康服務發展規劃(2015–2020)》 (“The Development Plan of Chinese Medicine Healthcare Services (2015–2020)”, or the “**Chinese Medicine Development Plan**”) issued by the State Council of the PRC in April 2015 has emphasized on the unique characteristics of Chinese medicine and its strength (particularly in the areas of health enhancement for illness prevention, health preservation and recovery) and directed to speedily develop Chinese medicine in the PRC. According to the Chinese Medicine Development Plan, it is targeted that by 2020, the PRC will establish a framework system of Chinese medicine healthcare services and speed up the development of the Chinese medicine industry targeting to have the Chinese medicine industry become one of the key economic development drivers. The Chinese Medicine Development Plan also encourages (i) the private sector to establish (a) chain/group of Chinese medicine healthcare centres operated/managed by renowned Chinese medicine practitioners and (b) Chinese medicine hospitals, care centres with special features/characteristics (such as elder care and rehabilitation centres specialising in Chinese medicine treatments, etc.); (ii) the insurance companies to develop medical insurance programs/offerings for Chinese medicine in the areas of health preservation, medical treatment and illness prevention; (iii) the promotion of the transformation of Chinese medicine from the traditional focus on disease treatments to health maintenance/preservation and injury recoveries; and (v) the provision of high-end Chinese medicine healthcare services and the relevant training and academic studies.

In general, under the Chinese Medicine Development Plan, the PRC government has encouraged a diversified development of Chinese medicine particularly by the private sector and the integration of the Chinese medicine industry with other industries to create synergy. As such, the Group is seeking opportunities to work with major insurance companies in Hong Kong and the PRC to develop medical insurance schemes for patients of the JV.

The Directors are of the view that the Put Options granted under the Option Deed will provide the Company with an opportunity to diversify the risk relating to its investment in the JV and mitigate the pressure on the Group’s working capital during the course of the development of the JV. In relation to the Call Options granted to the Option Holder, the Option Holder has confirmed that it intends to, following the acquisition of the Tranche One Option Shares and/or the Tranche Option Shares resulting from the exercise of the Put Options or the Call Options (as the case may be), grant options to those personnel who in the opinion of both the Option Holder and Dr. Chun, have made positive contribution to the success of the JV with a view to motivating and awarding such personnel.

Having considered the above, the Directors are of the view that the terms of the JV Agreement (including the Capital Contribution) and the Option Deeds are fair and reasonable and of normal commercial terms, and the entering into of the JV Agreement and the Option Deeds are in the interest of the Company and its shareholders as a whole.

IMPLICATION OF THE LISTING RULES

The JV Agreement

The applicable percentage ratios (as defined under the Listing Rules) in respect of the establishment of the JV under the JV Agreement are greater than 5% but less than 25%, the transactions contemplated under the JV Agreement will constitute a discloseable transaction and is subject to the reporting or announcement under Chapter 14 of the Listing Rules.

The Option Deed

As the Option Holder is wholly-owned by Mr, Chan, a Director and a connected person of the Company, the granting of the Call Options to the Option Holder by the Company and the granting of the Put Options by the Option Holder to the Company under the Option Deed constitute connected transactions under Chapter 14A of the Listing Rules. Furthermore, as the Company does not have the discretion to exercise the Call Options, pursuant to Rule 14A.61 of the Listing Rules, the grant of the Call Options is classified as if the Call Options have been exercised. As the applicable percentage ratios (as defined under the Listing Rules) in respect of the transaction contemplated under the Call Options are less than 25% and the total consideration is less than HK\$10 million, the granting of the Call Options under the Option Deed is subject to the reporting and announcement requirements only and is exempt from the circular and shareholders' approval requirements under Chapter 14A of the Listing Rules. As the Company has discretion to exercise the Put Options, the grant of the Put Options is classified based on the amount of the premium payable by the Company. As the applicable percentage ratios (as defined under the Listing Rules) in respect of the premium payable by the Company for the Put Options are less than 0.1%, the granting of the Put Options under the Option Deed is fully exempt from the reporting, announcement and shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITION

Unless the context otherwise requires, the following terms used in this announcement shall have the following meanings when used herein:

“Call Options”	collectively, the Tranche One Call Option and the Tranche Two Call Option
“Company”	China Wah Yan Healthcare Limited, a company incorporated in Hong Kong and the issued shares of which are listed on The Stock Exchange of Hong Kong Limited
“Director(s)”	the director(s) of the Company
“Dr. Chun”	Dr. Chun Hung
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“JV”	Wisdom Eighteen Limited, a company incorporated in the British Virgin Island which is wholly-owned by the Company as at the date of this announcement, which following completion of the JV Agreement, will be owned as to 80% and 20% by the Company and Dr. Chun, respectively
“JV Agreement”	the joint venture agreement dated 14 July 2015 entered into between China Wah Yan and Dr. Chun relating to the establishment of the JV
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chan”	Mr. Chan Ka Chung, an executive Director

“Option Holder”	Crystal Ball Ventures Limited, a company with limited liability incorporated in the Samoa, a company wholly-owned by Mr. Chan
“Options”	the Call Options and the Put Options
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, The Macau Special Administrative Region and Taiwan)
“Put Options”	collectively, the Tranche One Put Option and the Tranche Two Put Option
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tranche One Call Option”	the call option which gives the rights to the Option Holder to require China Wah Yan to dispose of the Tranche One Option Shares (in whole but not in part) during the Tranche One Call Option Exercise Period
“Tranche One Call Option Exercise Period”	the three-year period commencing from 1 July 2016 to 30 June 2019
“Tranche One Option Shares”	the 19 shares of the JV held by the Company following completion of the JV Agreement
“Tranche One Put Option”	the put option which gives the rights to the Company to require the Option Holder to acquire the Tranche One Option Shares during the Tranche One Put Option Exercise Period
“Tranche One Put Option Exercise Period”	the period commencing from the date of completion of the Option Deed to 30 June 2019
“Tranche Two Call Option”	the call option which gives the rights to the Option Holder to require the Company to dispose of the Tranche Two Option Shares during the Tranche Two Call Option Exercise Period
“Tranche Two Call Option Exercise Period”	the three-year period commencing from 1 July 2017 to 30 June 2020
“Tranche Two Option Shares”	the 19 shares of the JV held by the Company following completion of the JV Agreement
“Tranche Two Put Option”	the put options which gives the rights to the Company to require the Option Holder to acquire the Tranche Two Option Shares (in whole but not in part) during the Tranche Two Put Option Exercise Period

“Tranche Two Put Option Exercise Period” the period commencing from the date of completion of the Option Deed to 30 June 2020

“HK\$” Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region of the PRC

By Order of the Board of
China Wah Yan Healthcare Limited
Chan Ka Chung
Chairman

Hong Kong, 14 July 2015

As at the date of this announcement, the board of Directors comprises three executive Directors, namely Mr. Chan Ka Chung, Mr. Cheung Wai Kwan and Mr. Wang Jianguo; and four independent non-executive Directors, namely, Mr. Chan Yee Ping, Michael, Mr. Lam Chun Ho, Ms. Hu Xuezhen and Ms. Wu Yan.