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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)

**TERM SHEET —
INTRODUCTION OF A STRATEGIC INVESTOR IN THE GROUP'S
CHAIN OF SPORTS AND HEALTH CLUBS**

The Company is pleased to announce that on 20 July 2015, Mega Fitness, a non wholly-owned subsidiary of the Company, Golden Oasis, Gold Swing and China Everbright Fund entered into the non-legally binding Term Sheet in relation to the investment of up to HK\$16.5 million in acquiring not more than 15% equity interest in the Mega Fitness Group by China Everbright Fund. China Everbright Fund is a sports and cultural fund managed by China Everbright.

The Company wishes to emphasize that the Term Sheet is non-legally binding in nature and is subject to the entering into of a formal investment agreement. As at the date of this announcement, no formal investment agreement in relation to the Possible Strategic Investment has been entered into by the Group. If the Possible Strategic Investment is materialized, it may constitute a notifiable transaction for the Company under the Listing Rules and further announcement(s) will be made by the Company in compliance with the Listing Rules as and when appropriate.

Shareholders and potential investors of the Company should be aware that details and terms of the Possible Strategic Investment are subject to commercial negotiation between the parties to the Term Sheet and the entering into of a formal investment agreement. As the Possible Strategic Investment may or may not proceed, shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

THE TERM SHEET

The key terms of the Term Sheet are summarized as follows:

Date:

20 July 2015

Parties:

- (i) Mega Fitness;
- (ii) Golden Oasis;
- (iii) Gold Swing; and
- (ii) China Everbright Fund.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of China Everbright Fund and its beneficiary owners is a third party independent of the Company and its connected persons (as defined under the Listing Rules).

Major terms of the Term Sheet

Structure of the Possible Strategic Investment

Pursuant to the Term Sheet, China Everbright Fund will invest in up to 15% equity interest of Mega Fitness or its subsidiaries (the "**Megafit PRC Subsidiaries**") for an amount of up to HK\$16.5 million. Mega Fitness, together with its subsidiaries, are principally engaged in the investment and management of a chain of sports and healthcare clubs under the brand name of "Megafit" in the PRC. If China Everbright Fund eventually invests in Mega Fitness, the Possible Strategic Investment may involve (i) the issue of new shares by Mega Fitness and/or (ii) the disposal of part of the shares held by Gold Swing. On the other hand, if China Everbright Fund eventually invests in the Megafit PRC Subsidiaries, the Possible Strategic Investment will involve the increase of registered capital of such Megafit PRC Subsidiaries.

The Term Sheet is non-legally binding in nature and the Possible Strategic Investment is subject to the entering into of a formal investment agreement, which is subject to, among other things, the satisfaction of the due diligence to be conducted by China Everbright Fund, and the obtaining of the final approval for the investment by China Everbright Fund.

Profit guarantee

Under the Term Sheet, Mega Fitness has undertaken to China Everbright Fund, among others, that:

- (i) during the financial years ending 31 March 2017 and 2018, the Mega Fitness Group will record a net profit of not less than HK\$8 million (the "**2017 Guaranteed Profit**") and HK\$12 million (the "**2018 Guaranteed Profit**"), respectively;

- (ii) in the event that the aggregate of the actual profit for the financial year ending 31 March 2017 (the “**2017 Actual Profit**”) and the actual profit for the financial year ending 31 March 2018 (the “**2018 Actual Profit**”) is less than HK\$20 million, China Everbright Fund shall have the right to request cash compensation to be made by Golden Oasis and Gold Swing; and
- (iii) in the event that the aggregate of the 2017 Actual Profit and the 2018 Actual Profit is less than HK\$20 million, but if (i) the market capitalization of the Mega Fitness Group based on the then offer price upon the Qualified IPO (as defined below) is more than 250% of the post-money valuation upon completion of the Possible Strategic Investment; and (ii) the proceeds to be obtained by China Everbright Fund upon its disposal of part of its interest in the Mega Fitness Group at Qualified IPO is more than its investment amount, the 2017 Guaranteed Profit and the 2018 Guaranteed Profit are deemed to be satisfied.

Redemption mechanism

It is targeted that the Mega Fitness Group will, by 31 December 2018, have its shares offered and listed on the stock markets in Hong Kong or the PRC, as agreed by China Everbright Fund (the “**Qualified IPO**”). However, in the event that:

- (i) the 2017 Guaranteed Profit and the 2018 Guaranteed Profit have been satisfied, but the Mega Fitness Group is unable to complete the Qualified IPO by 31 December 2018; or
- (ii) if, prior to 31 December 2018, the directors appointed by China Everbright Fund support the listing of the Mega Fitness Group and the Mega Fitness Group basically satisfies the quantitative requirements for a Qualified IPO, but the listing proposal is voted against by the board of directors, meeting of shareholders or general meeting of shareholders of Mega Fitness Group or any of them disagrees with the transfer of shares by China Everbright Fund to any third party other than the shareholders of the Mega Fitness Group,

China Everbright Fund shall have the right to request Golden Oasis and Gold Swing to redeem China Everbright Fund’s equity interest in the Mega Fitness Group based on the investment amount plus interest at 10% per annum.

Undertakings given by China Everbright Fund

China Everbright Fund has undertaken to Mega Fitness that it shall assist the Mega Fitness Group in (i) obtaining the relevant government licenses and approvals underlying the investment and business opportunities relating to sports and physical fitness; (ii) obtaining the relevant government licenses for establishment of national physical trainer centres; (iii) the establishment of strategic cooperation/alliance with the sports and related government authorities e.g. State General Administration of Sports (國家體育總局) in areas relating to sports rehabilitation; and (iv) leveraging on its banking network, bundling the banking services for the sports and healthcare clubs of Mega Fitness Group.

REASONS FOR AND BENEFIT OF THE POSSIBLE STRATEGIC INVESTMENT

The Group is principally engaged in and invests in healthcare and well-being business, including the operation of a chain of sports and healthcare clubhouses under the brandname of “Megafit” in the PRC, a chain of medical centres specializing in the diagnosis and treatment of tumors in the PRC and a 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, a company listed on the Growth Enterprise Market of the Stock Exchange, engaged in, the manufacture, research and development, distribution of consumer cosmetic, health related and pharmaceutical products in the PRC and Hong Kong.

China Everbright Fund is a specialized industrial fund specializing in sports and culture investment and managed by China Everbright, a state-owned fund manager under the China Everbright Group. The Company considers that the Possible Strategic Investment will not only provide additional working capital for the Mega Fitness Group for business development, but will also allow the Group to leverage on the business network of China Everbright to explore further business and cooperation opportunities which will benefit the development of the Mega Fitness Group and the Group.

The Company wishes to emphasize that the Term Sheet is non-legally binding in nature and is subject to the entering into of a formal investment agreement. As at the date of this announcement, no formal investment agreement in relation to the Possible Strategic Investment has been entered into by the Group. If the Possible Strategic Investment is materialized, it may constitute a notifiable transaction for the Company under the Listing Rules and further announcement(s) will be made by the Company in compliance with the Listing Rules as and when appropriate.

Shareholders and potential investors of the Company should be aware that details and terms of the Possible Strategic Investment are subject to commercial negotiation between the parties to the Term Sheet and the entering into of a formal investment agreement. As the Possible Strategic Investment may or may not proceed, shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings ascribed to them respectively:

“China Everbright”	光大利得資產管理(上海)有限公司 (China Everbright Li De Asset Management (Shanghai) Company Limited*)
“China Everbright Fund”	上海光大體育文化投資合夥企業(有限合夥)公司 (Shanghai Everbright Sports and Culture Investment Partnership (Limited Partnership) Limited*), a sports and cultural fund managed by China Everbright
“Company”	China Wah Yan Healthcare Limited, a company incorporated in Hong Kong with limited liability whose issued shares are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“Gold Swing”	Gold Swing Enterprise Ltd., a company incorporated in the British Virgin Island with limited liability and holding 45% equity interest in Mega Fitness
“Golden Oasis”	Golden Oasis Health Limited, a company incorporated in the British Virgin Island with limited liability and holding 55% equity interest in Mega Fitness and a non-wholly owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mega Fitness”	Mega Fitness (Shanghai) Investments Limited, a non wholly-owned subsidiary of the Company which principally engaged in the investment and management of the chain of sports and healthcare clubs under the brand name of “Megafit” in the PRC
“Mega Fitness Group”	Mega Fitness and its subsidiaries (including the Megafit PRC Subsidiaries)
“Possible Strategic Investment”	the possible investment by China Everbright Fund in relation to the investment of up to HK\$16.5 million in acquiring not more than 15% equity interest in the Mega Fitness Group pursuant to the terms and conditions of the Term Sheet
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes The Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Term Sheet”	the term sheet entered into between Mega Fitness, Golden Oasis, Gold Swing and China Everbright Fund in respect of the Possible Strategic Investment
“HK\$”	Hong Kong dollars, the lawful currency of The Hong Kong Special Administrative Region of the PRC
“%”	per cent

The English name of the Chinese entity marked with “” is translation of its Chinese name and is included in this announcement for identification purpose only, and should not be regarded as its official English translation. In the event of any inconsistency, the Chinese name prevails.*

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

Hong Kong, 20 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.