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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)**

### **PROFIT WARNING**

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the SFO.

The Board wishes to inform the shareholders of the Company and potential investors that the Company has received a notice from the business partner of the First Subject Medical Centre today, which (i) stated that payment for settlement of the Group's accounts receivable of the First Subject Medical Centre by the relevant hospital partner will be halted until certain non-compliance matters in respect of the business operation of the First Subject Medical Centre have been rectified, and (ii) warned that if the non-compliance matters remain unresolved, it would lead to the termination of the First Subject Medical Centre's operation. In addition, the management of the Group's medical network business line has also been advised by the business partner of the Second Subject Medical Centre that certain non-compliance matters of the Second Subject Medical Centre must be rectified without any further delay in order to comply with the timetable and the relevant rules and regulations recently implemented by the supervisory authorities of the hospital partner of the Second Subject Medical Centre internally.

Based on the unaudited financial information of the Group and other information currently available as at the date of this announcement, the Group's accounts receivable in respect of its medical centre network business line amounted to RMB33 million as at 30 June 2015 and, if similar actions are imposed by other hospital partners of the Group regarding settlement of the Group's accounts receivables, the Group may incur a significant impairment loss on its accounts receivables or, if the Group's medical centres are to be terminated, the Group may incur a significant loss on all of its assets attributable to its medical network business line (including plant and equipment and other intangible assets). In the event if impairment provision is to be made on all of the Group's accounts receivables attributable to its medical network business line, it would result in the Group having recorded a loss in its consolidated financial statements for the six months ended 30 June 2015 as compared to the profit recorded by the Group for the six months ended 30 June 2014.

**Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.**

This announcement is made by China Wah Yan Healthcare Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”).

The board (the “**Board**”) of the directors of the Company wishes to inform the shareholders of the Company and potential investors that the Company has received a notice from the business partner of a major medical centre (the “**First Subject Medical Centre**”) of the Group today, which (i) stated that payment for settlement of the Group’s accounts receivables of the First Subject Medical Centre by the relevant hospital partner will be halted until certain non-compliance matters (as detailed below) in respect of the business operation of the First Subject Medical Centre have been rectified, and (ii) warned that if the non-compliance matters remain unresolved, it would lead to the termination of the First Subject Medical Centre’s operation. The Group is in the course of negotiating with its relevant business partner regarding matters stipulated in the notice including the requirement for Anping Medical (as defined below) converting into a domestic company within one month and is assessing whether and if so, the amount of impairment provision required to be made on the accounts receivables. In addition, the management of the Group’s medical network business line has also been advised by the business partner of another medical centre (the “**Second Subject Medical Centre**”) of the Group that certain non-compliance matters of the Second Subject Medical Centre must be rectified without any further delay in order to comply with the timetable and the relevant rules and regulations recently implemented by the supervisory authorities of the hospital partner of the Second Subject Medical Centre internally.

Based on the unaudited financial information of the Group and other information currently available as at the date of this announcement, the Group’s accounts receivable in respect of its medical centre network business line amounted to approximately Renminbi (“**RMB**”) 33 million (of which over RMB13 million was attributable to the First Subject Medical Centre) as at 30 June 2015 and, if similar actions are imposed by other hospital partners of the Group regarding the settlement of the Group’s accounts receivables, the Group may incur a significant impairment loss on its account receivables, or if the Group’s medical centres are to be terminated, the Group may incur a significant loss on all of its assets attributable to its medical network business line (including plant and equipment and other intangible assets). In the event if impairment provision is to be made on all of the Group’s accounts receivables attributable to its medical network business line, it would result in the Group having recorded a loss in its consolidated financial statements for the six months ended 30 June 2015 as compared to the profit recorded by the Group for the six months ended 30 June 2014.

The Group’s income from its medical centre network business line specializing in the diagnosis and treatment of tumours in The People’s Republic of China (the “**PRC**”) is mainly derived from the leasing of medical equipment and provision of consultancy services. The medical centres of the Group are established with its hospital and/or business partners through arrangement such that (i) the Group’s hospital partners provide premises for the underlying medical centres; (ii) the Group provides medical equipment to these medical centres through

long term leasing arrangement; and (iii) the Group and/or its business partners provide management services to these medical centres. The Group's medical network business is carried out by Anping Medical Treatment Technology (Wuhu) Co., Limited ("**Anping Medical**"), an indirect non wholly-owned subsidiary of the Company.

As described in the Company's annual reports for the years ended 31 December, 2012, 2013 and 2014, the operating environment of the Group's medical network business line has been difficult and challenging due to the ever tightening regulatory environment. In 2013, the National Health and Family Commission of the PRC launched an exercise (the "**NHFC Reporting and Rectification Exercise**") to strengthen the management of the PRC's hospitals and rectify their non-compliance operations, including the rental/contract out arrangement of medical departments. Under the NHFC Reporting and Rectification Exercise, there had been internal exercises conducted by the PRC hospitals to internally review and report their non-compliance operations (including the rental/contracting out arrangements of medical department) to their supervisory authorities. Given that the Group's leasing of medical equipment and provision of consultancy services are made to its medical centres which are located in the premises of the Group's hospital partner, such business model of the Group's is subject to challenges as to whether the substance of such arrangement with the hospital/business partners is "renting/contracting out" of medical departments of the hospitals. In April 2015, the Central Committee of the Military Commission of the PRC promulgated to conduct a national-wide audit exercise (the "**CCMC Audit and Rectification Exercise**") by supervisory authorities to focus on the compliance/non-compliance of operations carried out by the PRC military hospitals. Under the CCMC Audit and Rectification Exercise, operations involving provision of services for consideration will be assessed and if such operations involve foreign entities/investments, they will be forced to cease operations. Since all of the existing Group's medical centres are located in the PRC military hospitals, the Group's leasing of medical equipment and provision of consultancy services under above-mentioned arrangement is in substance provided by the Group (a foreign entity) to the relevant PRC military hospitals despite the arrangements with the Group's hospital partners are made through its PRC incorporated business partners. As such, the Group's above-mentioned business/hospital partners have taken actions including holding up payment for the services rendered by the Group pending the Group's rectification of such non-compliance matters. Since all of the other existing medical centres of the Group have been operating under similar arrangements as mentioned above, the Board anticipates that similar or even more radical actions (including termination of the operation of the Group's other medical centres) will be imposed by other hospital/business partners of the Group.

In view of the unfavourable regulatory environment, the Company has, since 2013, been looking for opportunities to reduce its business risks in association with the medical network business and reliance on such business segment including disposal part or all of its equity interest in its medical network business line. The Company is contemplating to dispose of all of its remaining 45% equity interest in such business segment to a PRC purchaser (who, together with other shareholders of its medical network business line, to the understanding of the Group, intend to restructure Anping Medical into a domestically owned entity after completion of the purchase) in the soonest possible time such that Anping Medical can be converted into a domestic company to avoid any potential legal consequence for both Anping Medical and the Group.

Nevertheless, the Board, after taking into account (i) the 8-month results contribution by the chain of sports and healthcare centres in the PRC under the brand name of “Megafit” for the year ending 31 December 2015 (which was acquired by the Group in April 2015 and recorded a turnover of HK\$106.7 million for the financial year ended 31 March 2014); (ii) the full-year results contribution by the Group’s chain of eye-care and optical products shops under the brand name of “Hong Kong Optical” to the Group for the year ending 31 December 2015 (which was acquired by the Group in November 2014 and recorded a turnover of HK\$27 million for the financial year ended 28 February 2015); and (iii) the declining full-year performance for the year ending 31 December 2015 of the Group’s medical network business line (which recorded a turnover of HK\$83 million for the year ended 31 December 2014) after disposal of the Group’s interest in certain radiosurgery systems located in its medical centres in September 2014, considers that the financial performance of the Group’s medical network business line attributable to the Group will account for a much lesser weight in the Group’s overall financial results for the year ending 31 December 2015 when compared with the previous years, and anticipates that in the event actions which are similar to or more radical than those imposed on the First Subject Medical Centre will be taken by the Group’s other hospital partners, the Group’s other business lines under its healthcare business segment will still be able to substantially contribute to the financial performance of the Group way forward.

The Company is still in the process of preparing and finalising the Group’s results for the six months ended 30 June 2015. The information contained in this announcement is only based on the Company’s preliminary review of the unaudited financial information of the Group available as at the date of this announcement, which has not been audited or reviewed by the Company’s auditors and may be subject to adjustments. It is expected that the interim results announcement for the six months ended 30 June 2015 will be published by the end of August 2015 in accordance with the Listing Rules. Shareholders of the Company and potential investors are advised to read carefully the interim results announcement of the Company for the six months ended 30 June 2015 when it is published.

**Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.**

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

Hong Kong, 22 July 2015

*As at the date of this announcement, the Board 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.*