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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)**

### **DISCLOSEABLE TRANSACTION AND CLARIFICATION ANNOUNCEMENT**

#### **THE S&P AGREEMENT**

The Directors are pleased to announce that on 22 March 2016, the Vendor, the Purchaser and the Guarantor entered into the S&P Agreement, pursuant to which the Vendor has agreed to dispose of and assign, and the Purchaser has agreed to acquire and accept the Sale Shares and the Sale Loan, respectively. The Target Group is principally engaged in the Tumour Medical Business and following Completion, the Target Company will cease to be a subsidiary of the Company.

#### **THE LISTING RULES IMPLICATION**

Since all of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transaction are greater than 5% but less than 25%, the Transaction will constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

#### **THE S&P AGREEMENT**

##### **Date**

22 March 2016

##### **Parties to the S&P Agreement**

- (i) the Purchaser, as the purchaser;
- (ii) the Vendor, as the vendor; and
- (iii) the Guarantor, as the guarantor.

The Purchaser is an investment holding company and, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Purchaser and its ultimate beneficial owner, are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

## **BACKGROUND OF THE ASSETS TO BE DISPOSED OF**

The Vendor has conditionally agreed to dispose of and assign, and the Purchaser has conditionally agreed to acquire and accept, the Sale Shares and the Sale Loan, respectively. The Target Company is an investment company and its principal asset is 45% equity interest in the Operating Group, which is engaged in the operation of medical centres specialising in the diagnosis and treatment of tumour in the PRC (the "Tumour Medical Business"). As at 31 December 2015, the Operating Group had net asset value of HK\$77.0 million and recorded (i) consolidated profit before and after tax of HK\$57.2 million and HK\$54.9 million for the year ended 31 December 2014, respectively, and (ii) consolidated loss before and after tax of HK\$55.5 million and HK\$61.4 million for the year ended 31 December 2015, respectively.

## **CONSIDERATION**

The consideration (the "Consideration") for the Sale Shares and the Sale Loan is HK\$34,000,000 and is payable in cash in the following manner:

- (i) HK\$10.2 million (the "First Payment") on the 120th day from Completion;
- (ii) HK\$10.2 million (the "Second Payment") on the 240th day from Completion;
- (iii) the remaining balance of HK\$13.6 million (the "Final Payment") on the 365th day from Completion.

If there is any penalty imposed by the supervising authorities and/or hospital/business partners of the Operating Group (i) between the date of Completion and the 120th Day from Completion; (ii) between the 121st day and 240th day from Completion; or (iii) between the 241st day and 365th day from Completion, on the Operating Group or any of the medical centres operated by it for events/facts occurred before Completion, the First Payment, the Second Payment and the Final Payment will be deducted by 45% of the penalties imposed. For avoidance of doubt, no Consideration will be paid by the Purchaser to the Vendor if the penalty imposed is greater than the Consideration, and there is no refund of any payments of the Consideration which have been made by the Purchaser to the Vendor even if a penalty is imposed after such payment(s) is/are made.

The Consideration, which was determined after arm's length negotiation between the Group and the Purchaser, is equivalent to the net liquid asset value of the Operating Group (comprising cash, receivables, deposits and liabilities) as at 31 December 2015.

The proceeds from the Transaction shall be used as working capital for the Group's principal businesses and appropriate acquisition/investment opportunities to be identified.

## **Conditions Precedent**

Completion is subject to the following conditions precedent being fulfilled or waived (as the case may be):

- (i) the Purchaser being fully or substantially satisfied with the results of the due diligence review to be conducted on the Target Group;
- (ii) all necessary consents, licences and approvals required to be obtained on the part of the Group in respect of the S&P Agreement and the transactions contemplated thereunder having been obtained;
- (iii) all necessary consents, licences and approvals required to be obtained on the part of the Purchaser in respect of the S&P Agreement and the transactions contemplated thereunder having been obtained;
- (iv) if necessary, approvals by government and regulatory authorities for the S&P Agreement and the transactions contemplated thereunder having been obtained; and
- (v) the warranties in respect of the Purchaser under the S&P Agreement remaining true and correct in all material respects.

The Purchaser may at its absolute discretion at any time on or before the Long Stop Date waive in writing any of the conditions (i) and (ii) (to the extent it is capable of being waived) and such waiver may be made subject to such terms and conditions as determined by the Purchaser. The Group may at its absolute discretion at any time on or before the Long Stop Date waive in writing any of the conditions (iii) and (v) (to the extent it is capable of being waived) and such waiver may be made subject to such terms and conditions as are determined by the Group. If the conditions set out above have not been satisfied on or before the Long Stop Date, the S&P Agreement shall cease and terminate and save for any antecedent breach, neither party shall have any obligations and liabilities towards each other.

## **Completion**

Completion shall take place within ten business days after the last outstanding condition precedent to the S&P Agreement having been fulfilled or waived (or such other date as agreed by the Group and the Purchaser in writing). Upon Completion, the Target Company will cease to be a subsidiary of the Company.

## **The Security Documents**

The Purchaser shall upon Completion execute (i) the Share Charge, pursuant to which the Purchaser shall charge the Sale Shares in favour of the Vendor as a security for its payment obligations under the S&P Agreement; and (ii) the Security Loan Assignment, pursuant to which the Purchaser shall assign in favour of the Vendor of the rights and benefits under the Sale Loan as a security for its payment obligations under the S&P Agreement. In the event that the Purchaser fails to perform its payment obligations under the S&P Agreement in accordance with its terms, the Vendor shall be entitled to enforce each of the Security Documents. The Security Documents shall be released upon full settlement of the Consideration by the Purchaser in accordance with the terms of the S&P Agreement.

## **FINANCIAL IMPACT OF THE TRANSACTION**

Following Completion, the Target Company will no longer be a subsidiary of the Company. Based on the initial Consideration of HK\$34 million, and taking into account of (i) the audited net asset value attributable to the Target Group of HK\$34.7 million as at 31 December 2015; (ii) the Sale Loan of HK\$60.9 million as at 31 December 2015; and (iii) the relevant credit balance of the cumulative exchange reserve of HK\$73.1 million as at 31 December 2015, the gain attributable to the Transaction is estimated to be approximately HK\$11.5 million.

## **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The Group is principally engaged in (i) the health management business (operation of a chain of sports and healthcare clubhouse under the brand name of “Megafit”); (ii) the medical and well-being business (the Tumour Medical Business and the operation of a chain of optical products and eye-care services retail shops under the brand name of “Hong Kong Optical” in Hong Kong); and (iii) the asset management business (investment in financial/fixed/distressed assets and loan financing).

As described in the Company’s past announcements and annual reports, the Tumour Medical Business has been operating under difficult and unfavourable regulatory environment. The Group was given to understand due to the fact that the Tumour Medical Business is carried out by a foreign-owned enterprise in the PRC, the business model of the Tumour Medical Business is not in compliance with the relevant requirements under the audit and rectification exercise promulgated by the Central Committee of the Military Commission of the PRC (details of which are described in the results announcement of the Company for the year ended 31 December 2015 dated 15 March 2016 (the “2015 Results Announcement”). The Group, in order to mitigate the related regulatory risk and adverse impact, has been taking steps to reduce its interest in such business line in the past years.

The Directors, having considered (i) the continuous non-compliance risk born by the Tumour Medical Business as detailed in the 2015 Results Announcement; (ii) the severe dampened working relationship between the Target Group and its hospital/business partners as a result of the regulatory pressure on the underlying cooperation arrangement (as evidenced by the halt of settlement of trade receivable by a hospital partner of a major medical centre of the Target Group in the second half of 2015); (iii) the substantial loss incurred by the Target Group for the year ended 31 December 2015; (iv) the dimmed business prospects and the expected continuous deterioration of the Tumour Medical Business due to the non-compliance matters as mentioned above; (v) the Transaction representing an opportunity for the Group to recover part of its past investment in the Tumour Medical Business and the proceeds from the Transaction providing additional working capital for the Group; (vi) the Group being able to focus its financial and managerial resources on business opportunities with a higher return but lower uncertainty and risk going forward; and (vii) the above-mentioned financial impact of the Transaction, are of the view that the terms of the S&P Agreement (including the Consideration) are fair and reasonable and of normal commercial terms and the entering into of the S&P Agreement is in the interest of the Company and its shareholders as a whole.

## **LISTING RULES IMPLICATION**

Since all of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Transaction are greater than 5% but less than 25%, the Transaction will constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. As such, the Directors are of the view that the Transaction does not constitute a “material disposal” under Note 1 to Rule 16.1 of the Code on Takeovers and Mergers.

## **CLARIFICATION**

Reference is made to the 2015 Results Announcement. The Company wishes to provide the following additional information relating to publication of financial statements required under section 436 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “Companies Ordinance”) as follows:

The financial information relating to the Company for the years ended 31 December 2014 and 2015 included in the 2015 Results Announcement is derived from but does not constitute the Company’s statutory annual consolidated financial statements for these two years.

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies of Hong Kong as required by Section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2015 to the Registrar of Companies of Hong Kong within the prescribed time limit.

The Company’s auditor has reported on the financial statements of the Group for both the years ended 31 December 2014 and 2015. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The above additional information does not affect the contents of the 2015 Results Announcement.

## **DEFINITION**

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

“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
“Completion”	completion of the S&P Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guarantor”	an individual who is the beneficial owner of the Purchaser

“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Long Stop Date”	any time at or before 5:00 p.m. on 30 April 2016 (or such later date as the Group and the Purchaser may agree in writing)
“Operating Company”	a company incorporated in the British Virgin Islands with limited liability and is owned as to 45% by the Target Company
“Operating Group”	the group of companies of the Operating Company which are engaged in the Tumour Medical Business
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, The Macau Special Administrative Region and Taiwan)
“Purchaser”	a company incorporated in the British Virgin Islands with limited liability
“Sale Loan”	the amount owed by the Target Group to the Group attributable to the Sales Shares from time to time and amounting to HK\$60.9 million as at 31 December 2015
“Sale Shares”	the entire issued shares of the Target Company
“Security Documents”	the Security Loan Assignment and the Share Charge
“Security Loan Assignment”	the loan assignment by way of security to be entered into by the Purchaser in favour of the Vendor as a security for its payment obligation under the S&P Agreement
“Share Charge”	the share charge to be entered into by the Purchaser in favour of the Vendor as a security for its payment obligation under the S&P Agreement
“S&P Agreement”	the sale and purchase agreement dated 22 March 2016 entered into between the Vendor and the Purchaser relating to the disposal of the Sale Shares and the assignment of the Sale Loan
“Target Company”	Yezhi Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Vendor
“Target Group”	the Target Company and the Operating Group
“Transaction”	the disposal of the Sale Shares and the assignment of the Sale Loan pursuant to the S&P Agreement

“Vendor” a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company

“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, 22 March 2016

*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.*