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)

2015 INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of China Wah Yan Healthcare Limited (the "**Company**") would like to present the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2015, which have been reviewed by the audit committee of the Company, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended 30 June	
		2015	2014
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Turnover	3	**57,922**	51,121
Cost of services and goods sold		**(32,899)**	(10,921)
Gross profit		**25,023**	40,200
Other gains and losses		**1,315**	2,567
Distribution costs		**(4,179)**	—
Administrative expenses		**(48,992)**	(19,945)
Net gain arising from change in fair value of financial assets at fair value through profit or loss		**23,682**	—
Gain arising from change in fair value of investment properties		**1,692**	—
Impairment loss on trade receivables		**(17,528)**	—
Share of results of associates		**—**	(540)
Share of results of a joint venture		**6,983**	—
Finance costs		**(8,624)**	(3,101)
(Loss)/profit before taxation		**(20,628)**	19,181
Income tax	4	**(3,334)**	(276)
(Loss)/profit for the period	5	**(23,962)**	18,905

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

		Six months ended 30 June	
		2015	2014
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
(Loss)/profit for the period		**(23,962)**	18,905
Other comprehensive income/(loss) for the period			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**3,961**	(5,727)
Loss on revaluation of available-for-sale financial assets		**(11,859)**	—
Other comprehensive loss for the period, net of tax		**(7,898)**	(5,727)
Total comprehensive (loss)/income for the period		**(31,860)**	13,178
(Loss)/profit for the period attributable to:			
Owners of the Company		**(14,872)**	8,370
Non-controlling interests		**(9,090)**	10,535
		(23,962)	18,905
Total comprehensive (loss)/income for the period attributable to:			
Owners of the Company		**(23,528)**	3,383
Non-controlling interests		**(8,332)**	9,795
		(31,860)	13,178
(Loss)/earnings per share attributable to owners of the Company *(HK cents)* (Restated)	7		
— Basic		**(1.10)**	1.06
— Diluted		**(1.10)**	0.97

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As at 30 June 2015** *HK$'000* **(Unaudited)**	As at 31 December 2014 *HK$'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	8	**46,925**	26,409
Land use right	8	**3,783**	3,799
Investment properties		**192,160**	44,850
Goodwill		**62,411**	5,043
Other intangible assets	8	**4,780**	5,422
Available-for-sale financial assets	9	**287,731**	264,602
Long-term prepayments and deposits		**99,462**	109,098
		697,252	459,223
Current assets			
Land use right		**89**	88
Inventories		**10,163**	6,222
Trade receivables	10	**29,534**	41,593
Other receivables, prepayments and deposits		**168,676**	133,498
Available-for-sale financial assets	9	**67,805**	34,806
Financial assets at fair value through profit or loss		**74,389**	38,033
Amount due from a joint venture		**—**	11,957
Cash and bank balances		**79,115**	178,069
		429,771	444,266

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	As at 30 June 2015 HK$'000 (Unaudited)	As at 31 December 2014 HK$'000 (Audited)
Current liabilities			
Trade and other payables	11	**48,050**	45,095
Receipt in advance		**85,860**	—
Amounts due to directors		**2,623**	528
Amounts due to non-controlling shareholders		**13,200**	4,500
Tax payable		**15,963**	12,547
Borrowings		**63,246**	109,704
Convertible bonds		**—**	43,227
		228,942	215,601
Net current assets		**200,829**	228,665
Total assets less current liabilities		**898,081**	687,888
Non-current liabilities			
Borrowings		**66,423**	68,764
Convertible notes		**1,962**	1,937
Bonds payable		**29,018**	20,018
Promissory note		**—**	9,922
Amount due to a non-controlling shareholder		**7,000**	—
Deferred tax liabilities		**6**	30
		104,409	100,671
Net assets		**793,672**	587,217
CAPITAL AND RESERVES			
Share capital	12	**2,709,983**	2,464,228
Reserves		**(2,016,456)**	(2,011,775)
Equity attributable to owners of the Company		**693,527**	452,453
Non-controlling interests		**100,145**	134,764
Total equity		**793,672**	587,217

Notes:

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2015 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of Appendix 16 to the Rules (the "Listing Rules") Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). They have been prepared under the historical cost convention, except for certain properties and financial instruments, which are carried at fair values. The unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated. The condensed consolidated interim financial statements are unaudited but have been reviewed by the audit committee of the Company.

The financial information relating to the financial year ended 31 December 2014 that is included in this interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2014 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditors have reported on the above-mentioned financial statements. The auditors' report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance (or under their equivalent requirements found in section 141 of the predecessor Companies Ordinance (Cap. 32)).

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group and of the Company:

- HKAS 19 (2011) (Amendments) Defined Benefit Plans: Employee Contributions
- Annual Improvements to HKFRSs 2010–2012 Cycle
- Annual Improvements to HKFRSs 2011–2013 Cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods that have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. TURNOVER AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided.

Specifically, the Group's reportable and operating segments are as follows:

(i)	Healthcare and well-being business	—	chain of sports and healthcare clubhouses in the People's Republic of China (the "PRC");
		—	chain of medical centres specialising in the diagnosis and treatment of tumours in the PRC;
		—	chain of optical products and eye-care services retail shops in Hong Kong
(ii)	Asset management	—	investment in financial/fixed/distressed assets and loan financing

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the six months ended 30 June 2015 (Unaudited)

	Healthcare and well-being business *HK$'000*	**Asset management** *HK$'000*	**Consolidated** *HK$'000*
Segment revenue			
External sales	**57,922**	**—**	**57,922**
Segment revenue	**57,922**	**—**	**57,922**
Segment results	**(16,542)**	**32,224**	**15,682**
Reconciliation:			
Other gains and losses			**1,315**
Central administration costs			**(29,001)**
Finance costs			**(8,624)**
Loss before taxation			**(20,628)**
Income tax			**(3,334)**
Loss for the period			**(23,962)**

For the six months ended 30 June 2014 (Unaudited)

	Healthcare and well-being business *HK$'000*	Consolidated *HK$'000*
Segment revenue		
External sales	51,121	51,121
Segment revenue	51,121	51,121
Segment results	30,518	30,518
Reconciliation:		
Other gains and losses		1,263
Central administration costs		(8,959)
Share of results of associates		(540)
Finance costs		(3,101)
Profit before taxation		19,181
Income tax		(276)
Profit for the period		18,905

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

30 June 2015 (Unaudited)

	Healthcare and well-being business ***HK$'000***	**Asset management** ***HK$'000***	**Total** ***HK$'000***
Segment assets	**717,432**	**356,150**	**1,073,582**
Unallocated			**53,441**
Consolidated assets			**1,127,023**
Segment liabilities	**158,557**	**13,495**	**172,052**
Unallocated			**161,299**
Consolidated liabilities			**333,351**

31 December 2014 (Audited)

	Healthcare and well-being business *HK$'000*	Asset management *HK$'000*	Total *HK$'000*
Segment assets	605,126	117,689	722,815
Unallocated			180,674
Consolidated assets			903,489
Segment liabilities	20,988	57,926	78,914
Unallocated			237,358
Consolidated liabilities			316,272

Geographical information

The Group operates in Hong Kong and the PRC.

The Group's revenue from external customers by location of operations are detailed below:

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PRC	**43,879**	51,121
Hong Kong	**14,043**	—
	57,922	51,121

4. INCOME TAX

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
PRC Enterprise income tax	**3,387**	297
Deferred taxation	**(53)**	(21)
Tax charge for the period	**3,334**	276

No Hong Kong profits tax has been provided as the Group did not have assessable profit arising in Hong Kong for both periods. Taxes on profit assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof. The applicable PRC Enterprise income tax rate is 25% for both periods.

5. LOSS/(PROFIT) FOR THE PERIOD

Loss/(profit) for the period has been arrived at after charging/(crediting):

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment	**2,183**	4,437
Depreciation of jointly-controlled assets	**—**	111
Amortisation of land use right	**45**	44
Amortisation of other intangible assets included in cost of services	**680**	818
Total depreciation and amortisation	**2,908**	5,410
Cost of inventories recognised as expenses	**6,664**	—
Unrealised gain arising from change in fair value of financial assets at fair value through profit or loss	**(9,805)**	—
Gain arising from change in fair value of investment properties	**(1,692)**	—
Realised gain arising from change in fair value of financial assets at fair value through profit or loss	**(13,877)**	—
Impairment loss on trade receivables	**17,528**	—
Share of results of associates	**—**	540
Share of results of a joint venture	**(6,983)**	—
Interest on:		
— Loans from a former intermediate holding company and a former fellow subsidiary		
— wholly repayable within five years	**—**	1,133
— not wholly repayable within five years	**836**	—
— Bank loans	**962**	—
— Loans from financial institutions	**3,279**	—
— Promissory note	**62**	1,849
— Bonds payable	**665**	43
— Convertible notes	**125**	76
— Convertible bonds	**2,672**	—
— Others	**23**	—
Total finance costs	**8,624**	3,101
Employee benefit expenses, including directors' emoluments:		
— Salaries and other benefits	**9,506**	8,694
— Equity-settled share-based payments	**15,148**	—
Net exchange (gain)/loss	**(918)**	3,038

6. DIVIDENDS

The Board did not recommend the payment of any dividends for the six months ended 30 June 2015 and 2014.

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

(Loss)/Earnings

	Six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/profit for the purpose of basic (loss)/earnings per share	**(14,872)**	8,370
Effect of dilutive potential ordinary shares:		
Interests on convertible notes	**—**	76
(Loss)/profit for the purpose of diluted (loss)/earnings per share	**(14,872)**	8,446

Number of shares

	Six months ended 30 June	
	2015	2014
	'000	*'000*
	(Unaudited)	(Unaudited)
		(Restated)
Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share *(Note (a))*	**1,357,734**	791,057
Effect of dilutive potential ordinary shares:		
— Share options *(Notes (b) and (c))*	**—**	—
— Guaranteed convertible note *(Notes (c))*	**—**	—
— Warrants *(Note (b))*	**—**	78,842
— Convertible notes *(Notes (b) and (c))*	**—**	—
Weighted average number of ordinary shares for the purpore of diluted (loss)/earnings per share	**1,357,734**	869,899

Notes:

(a) The number of ordinary shares adopted in the calculation of the basic and diluted loss per share for the six months ended 30 June 2015 has been adjusted to reflect the impact of issue of shares pursuant to shares placing and exercise of conversion right of convertible bonds during the period. The number of ordinary shares for the six months ended 30 June 2014 has also been restated to reflect the impact of rights issue completed on 10 October 2014 on a retrospective basis.

(b) The effects of the outstanding convertible notes, outstanding share options and outstanding unlisted warrants were not included in the calculation of diluted loss per share for the six months ended 30 June 2015 as they have an anti-dilutive effect on the basic loss per share of the Company during the period.

(c) The effects of the guaranteed convertible note, share options and convertible notes were not included in the calculation of diluted earnings per share for the six months ended 30 June 2014 because they have an anti-dilutive effect on the basic earnings per share of the Company during the period.

8. PROPERTY, PLANT AND EQUIPMENT, LAND USE RIGHT AND OTHER INTANGIBLE ASSETS

The total cost of additions to the property, plant and equipment of the Group during the six months ended 30 June 2015 was HK$3.4 million (six months ended 30 June 2014: HK$1.0 million).

There was no addition to the land use right of the Group during the six months ended 30 June 2015 and 2014.

There was no addition to the other intangible assets of the Group during the six months ended 30 June 2015 and 2014.

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	As at 30 June 2015	As at 31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Available-for-sale financial assets comprise:		
Listed investments — Equity securities listed in Hong Kong *(Note)*	**88,946**	34,806
Unlisted investments, at cost	**266,590**	264,602
	355,536	299,408
Analysed for reporting purposes as:		
Current assets	**67,805**	34,806
Non-current assets	**287,731**	264,602
	355,536	299,408

Note:

The balance represented:

— *The investment cost of listed securities (mainly comprising shares of IR Resources Limited, a company listed on the Growth Enterprise Market of the Stock Exchange) which were acquired by the Group as distressed assets under the asset management business of the Group; and*

— *The fair value of shares of Rui Kang Pharmaceutical Group Investments Limited, a company listed on the Growth Enterprise Market of the Stock Exchange, held by the Group.*

10. TRADE RECEIVABLES

	As at 30 June 2015	As at 31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**47,062**	41,593
Less: impairment loss	**(17,528)**	—
Trade receivables (net)	**29,534**	41,593

The Group generally allows a credit period ranging from 30 to 180 days (2014: 180 days) to its trade customers. The following is an ageing analysis of trade receivables by due date as at the end of reporting period which are neither individually nor collectively considered to be impaired:

	As at 30 June 2015 *HK$'000* **(Unaudited)**	As at 31 December 2014 *HK$'000* (Audited)
0–180 days	**7,848**	24,838
181–270 days	**14,076**	9,212
271–365 days	**7,610**	7,543
	29,534	41,593

11. TRADE AND OTHER PAYABLES

	As at 30 June 2015 *HK$'000* **(Unaudited)**	As at 31 December 2014 *HK$'000* (Audited)
Trade payables	**7,500**	5,189
Provision for clawback of fund performance fee	**8,915**	8,915
Amounts due to former directors of a subsidiary	**—**	2,257
Provision for long service payment	**537**	537
Other payables	**28,818**	28,197
Amounts due to related companies of subsidiaries	**2,280**	—
	48,050	45,095

The following is an analysis of trade payables by age based on invoice date.

	As at 30 June 2015 *HK$'000* **(Unaudited)**	As at 31 December 2014 *HK$'000* (Audited)
Within 30 days	**6,789**	3,027
31–60 days	**203**	674
61–90 days	**59**	413
Over 90 days	**449**	1,075
	7,500	5,189

12. SHARE CAPITAL

	Number of shares *'000*	Amount *HK$'000*
Issued and fully paid:		
At 1 January 2015 (audited)	1,117,133	2,464,228
Issue of shares pursuant to placing *(note (a))*	223,427	42,451
Share placement expenses	—	(1,281)
Issue of shares pursuant to conversion of convertible bonds *(note (b))*	473,709	86,689
Issue of shares pursuant to placing *(note (c))*	362,854	121,556
Share placement expenses	—	(3,660)
At 30 June 2015 (unaudited)	**2,177,123**	**2,709,983**

Notes:

(a) The Company allotted and issued 223,426,687 new shares on 10 April 2015 pursuant to the placing the new shares under general mandate.

(b) The Company allotted and issued 473,708,851 new shares on 21 May 2015 pursuant to the conversion of the convertible bonds.

(c) The Company allotted and issued 362,853,795 new shares on 15 June 2015 pursuant to the placing the new shares under general mandate.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF THE INTERIM RESULTS

Overview

The Group is principally engaged in the (i) healthcare and well-being business, including the operation of a chain of sports and healthcare clubhouses under the brand name of "**Megafit**" (the "**Sports and Healthcare Business**") in the People's Republic of China (the "**PRC**"), a chain of medical centres (the "**Tumours Medical Business**") specialising in the diagnosis and treatment of tumours in the PRC and a chain of optical products and eye-care services retail shops (the "**Eye-care Business**") under the brand name of "**Hong Kong Optical**" in Hong Kong, as well as (ii) asset management business (including investment in financial/fixed/distressed assets and loan financing). 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 of Hong Kong Limited (the "**Stock Exchange**") and engaged in the manufacture, research and development, and distribution of consumer cosmetic, health related and pharmaceutical products in the PRC and Hong Kong.

Turnover

For the six months ended 30 June 2015, the Group's turnover increased by 13.3% from the same period in previous year to HK$57.9 million (six months ended 30 June 2014: HK$51.1 million), comprising (i) HK$20.0 million from the Tumours Medical Business; (ii) HK$23.9 million from the Sports and Healthcare Business; and (iii) HK$14.0 million from the Eye-care Business. As mentioned in the Company's annual report for the year ended 31 December 2014, the operation of the Group's certain medical centres had been ceased during 2014 as a result of the Group's disposal of its interest in certain radiosurgery equipment in 2014 and the receipt of termination notices in 2013. As such, the turnover of the Tumours Medical Business (leasing of medical equipment and provision of consultancy services) was substantially decreased by more than 60% from HK$51.1 million for the six months ended 30 June 2014 to HK$20.0 million for the six months ended 30 June 2015.

Nevertheless, the impact of decrease in turnover from the Tumours Medical Business was largely offset by the turnover of the Sports and Healthcare Business and the Eye-care Business following completion of acquisitions of such businesses in April 2015 and November 2014 respectively. Given the ever tightening regulatory environment for the Tumours Medical Business in the PRC, the Tumours Medical Business is expected to continue to be of much less significance in the Group's business composition going forward.

Gross profit

For the six months ended 30 June 2015, the Group recorded gross profit of HK$25.0 million (six months ended 30 June 2014: HK$40.2 million) and a gross profit margin of 43.2% (six months ended 30 June 2014: 78.6%). The decrease in the gross profit was mainly attributable to the significant decrease in turnover of the Tumours Medical Business and the decrease in the gross profit margin was resulted from the increase in revenue from the Sports and Healthcare Business and the Eye-care Business which have lower gross profit margins than the Tumours Medical Business. It is expected that the gross profit margin of the Group will tend to stabilize over time after the change in the business composition of the Group's healthcare and well-being business segment becomes steady.

Impairment loss on trade receivables

As described in the announcement of the Company dated 22 July 2015 (the "**Profit Warning Announcement**"), the Company has received a notice from the business partner of one of the Group's major medical centres (the "**First Subject Medical Centre**") which stated that payment for settlement of the Group's trade receivables of the First Subject Medical Centre by the relevant hospital partner would be halted until the non-compliance matters (as detailed below) relating to the business operation of the First Subject Medical Centre are rectified. The said notice has also warned that if such non-compliance maters remain unresolved, operation of the First Subject Medical Centre may be forced to terminate. In addition, the business partner of another medical centre (the "**Second Subject Medical Centre**") has also advised that the non-compliance matters of the Second Subject Medical Centre must be rectified without further delay. The Company is given to understand that the non-compliance matters refer to the involvement of the Group's principal operating subsidiary of the Tumours Medical Business, namely, Anping Medical Treatment Technology (Wuhu) Co., Ltd ("**Anping Medical**"), as a majority foreign controlled enterprise, in the operation of the First Subject Medical Centre and the Second Subject Medical Centre located in the PRC military hospitals (details of which are described in the paragraph "Business Review" below). Since these non-compliance matters are related to the business models of the First Subject Medical Centre and the Second Subject Medical Centre and similar arrangements have been adopted by the other medical centres of the Group, the Board anticipates that similar or even more radical actions may be imposed by other hospital/business partners of the Group. Given the uncertainty in the settlement of its trade receivables from its medical centres, an impairment loss of HK$17.5 million has been made to the Group's trade receivables as at 30 June 2015 after assessment on the recoverable amount of the trade receivables of its medical centres.

Loss for the period

The Group recorded consolidated net loss of HK$24.0 million for the six months ended 30 June 2015 (six month ended 30 June 2014: profit of HK$18.9 million) despite the Group's incremental gain on asset management business of HK$32.4 million during the six months ended 30 June 2015. The loss was mainly attributable to the decrease in the gross profit, increase in administrative, financing and employee related expenses resulting from expansion of the Group's business portfolio and the granting of the share options under the Company's share option scheme, the aforesaid impairment loss on the trade receivables, the commission expenses paid to the placing agents for the fund raising activities carried out by the Group during the period.

During the six months ended 30 June 2015, the Company recorded a loss attributable to the owners of the Company of HK$14.9 million (six months ended 30 June 2014: a profit of HK$8.4 million). Basic and diluted loss per share for the six months ended 30 June 2015 were approximately HK$1.10 cents (six months ended 30 June 2014: basic earnings per share of HK$1.06 cents) and HK$1.10 cents (six months ended 30 June 2014: diluted earnings per share of HK$0.97 cents), respectively.

BUSINESS REVIEW

Healthcare and well-being business segment

During the six months ended 30 June 2015, the Group's income was derived from (i) the Sports and Healthcare Business (comprising mainly club membership fees of the sports and healthcare clubhouses and the fees for the services provided in the clubhouses (e.g. physical coaching services); (ii) the Tumours Medical Business (comprising mainly leasing of medical equipment and consultancy service fees); and (iii) the Eye-care Business (comprising mainly sale of optical products and provision of eye-care services).

Sports and Healthcare Business

In April 2015, the Group completed its acquisition of the Sports and Healthcare Business. Following completion of its acquisition of the Sports and Healthcare Business, the Group has been actively formulating development plans and liaising with its potential business partners such as life-style (beauty and spa services), sports and rehabilitation and clinical services providers with a view to upgrading its clubhouses to become full scale healthcare services and recreational centres and increasing the income of the clubhouses and average spending of the club members. At the same time, the Group is also re-evaluating the cost structure of the Sports and Healthcare Business with a view to improving its operating efficiency.

As at 30 June 2015, the Group's sports and healthcare clubhouses had more than 31,000 members.

Eye-care Business

Following the entering into of an agreement with a remarkable registered licensed Chinese medicine practitioner in Hong Kong relating to the formation of a joint venture of the Group for the development of its Chinese Medicine Healthcare and Therapy Business (as defined below) in Hong Kong and the PRC, the Company is formulating plans to create synergies between the Eye-care Business and the Chinese Medicine Healthcare and Therapy Business including better utilization of the "Hong Kong Optical" brand name to broaden the income sources of this business line, e.g. application of Chinese medicine therapy to improve eye-illness such as short/long-sightedness.

Tumours Medical Business

The Group's income from the Tumours Medical Business is mainly derived from the leasing of medical equipment and provision of consultancy service under its medical centres. 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 of 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 Tumours Medical Business is carried out by Anping Medical, a majority foreign controlled enterprise and an indirect non wholly-owned subsidiary of the Company.

As reiterated in the Company's annual and interim reports and announcements in 2015 and prior years, the operating environment of the Tumours Medical Business has become more and more difficult and challenging due to the ever tightening regulatory environment. As described in the Profit Warning Announcement, 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 of the PRC hospitals. 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 departments) 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 its hospital partners, such business model of the Group is subject to challenge by the relevant supervising authorities as to whether the substance of the aforesaid arrangement with the hospital/business partners constitute "renting/contracting out" of medical departments by the hospitals. As a result, the Group received termination notices in respect of four of its medical centres in 2013.

In April 2015, the Central Committee of the Military Commission of the PRC promulgated to conduct a national-wide audit exercise on military hospitals (the "**CCMC Audit and Rectification Exercise**") to focus on the non-compliance of their operation. Under the CCMC Audit and Rectification Exercise, operations involving provision of for-profit services will be assessed and if such for-profit operations involve entities which are majority foreign owned, they will be forced to cease operation. Since all of the Group's existing medical centres are located in the PRC military hospitals, despite the above-mentioned arrangement of the Group's provision of leasing and consultancy services to the PRC hospitals being made through its PRC incorporated business partners, Anping Medical is in substance the subject company providing services to the medical centres located in the PRC military hospitals. In view of the halt of payment for settlement of the Group's trade receivables of the First Subject Medical Centre, it has appeared to the Group that the business model of the Tumours Medical Business is in violation of the relevant requirements pursuant to the CCMC Audit and Rectification Exercise for the reasons that Anping Medical is a majority foreign owned enterprise and, therefore, the Group's hospital partner has taken actions such as holding up payments for the services rendered by the Group pending the Group's rectification of such non-compliance matters (e.g. converting Anping Medical into a majority domestic owned company).

Given the above and in the interest of the Company and its shareholders as a whole, the Group has been taking actions including contemplating to dispose of all of its remaining 45% equity interest in the Tumours Medical Business and/or undergoing a restructuring plan (i.e. converting Anping Medical into a majority domestic owned company) in order to reduce its business risks in association with the Tumours Medical Business (in fact, the Company has, since 2013, been seizing opportunities to progressively reduce its interests in the Tumours Medical Business).

Asset Management Segment

Investment in financial/fixed/distressed assets

The Group's investment portfolio comprises investments in financial/fixed/distressed assets in Hong Kong. This segment recorded total assets of HK$365.2 million as at 30 June 2015 (31 December 2014: HK$117.7 million) and net gain of HK$32.4 million during the six months ended 30 June 2015 (six months ended 30 June 2014: nil).

In January 2015, the Company completed the subscription of 257,812,500 new shares of Rui Kang (or 51,562,500 new shares of Rui Kang following its share consolidation in April 2015) and became the single largest shareholder of Rui Kang. In February 2015, Rui Kang entered into a subscription agreement with the Group to subscribe for new shares of a special purpose vehicle (the "**Rui Kang JV**") for a consideration of HK$4.8 million such that the Group and Rui Kang are interested in 77% and 23% equity interest in the Rui Kang JV, respectively, and the Rui Kang JV in turn holds 60% equity interest in the Sports and Healthcare Business. It is anticipated that the introduction of Rui Kang as a shareholder in the Sports and Healthcare Business will enable the Group leverage on its expertise and connections in the businesses of healthcare products and consumer cosmetics to complement the services and product offering of the Sports and Healthcare Business. In addition to the aforesaid joint investment in the Sports and Healthcare Business, the Company's investment in Rui Kang is expected to continue to set ground for strategic cooperation between the two parties.

Loan financing

The Group, during the six months ended 30 June 2015, has obtained a money lenders licence granted by the licensing court in Hong Kong pursuant to the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Group is adopting loan financing policy and procedures with reference to market practice and the Money Lenders Ordinance and expects to commence the loan financing business in the second half of 2015.

RECENT DEVELOPMENT AND PROSPECTS

Recent Development

On 10 July 2015, the Company undertook to Rui Kang and its underwriter to fully participate in the rights issue of Rui Kang (on the basis of four rights share of Rui Kang for every one share of Rui Kang in issue at the subscription price of HK$0.18 per rights share of Rui Kang) for a total consideration of HK$37 million. The Group will remain as the single largest shareholder of Rui Kang following Rui Kang's rights issue and expects to benefit from Rui Kang's business growth fueled by funding from the rights issue.

Prospects

Healthcare and well-being business segment

It is the business goal of the Group to become an integrated healthcare and well-being services provider and the Group is in the course of re-positioning and developing its healthcare and health management platform. The Group, on 14 July 2015, entered into an agreement with a remarkable Chinese medicine licensed Chinese medicine practitioner for the establishment of a joint venture. The joint venture will establish and develop a chain of healthcare and therapy centres (the "**Chinese Medicine Healthcare and Therapy Business**") in Hong Kong and the PRC which integrate modern testing technology and traditional Chinese medicine methodology to provide comprehensive treatment to patients including (i) diagnosis, treatment , prevention or alleviation of disease or symptom of disease; (ii) prescription of Chinese herbal medicines; and (iii) regulation of the functional states of human bodies. The joint venture 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 in the PRC under the Sports and Healthcare Business). The Group expects that the Chinese Medicine Healthcare and Therapy Business will create synergy with (i) the Sports and Healthcare Business through introduction of clinical concepts in sports and exercise by including various specific programs to achieve injury curing and body enhancement objectives (e.g. sport rehabilitation program or recovery from sport injury, strokes and accidents, etc.) and (ii) the Eye-care Business by applying eye illness treatment, especially for short/long/week-sightedness, amblyopia and maculopathy.

Asset management segment

The Group will continue to expand its asset management segment with due care and diligence in exploring investment opportunities in financial/fixed/distressed assets to enhance return to the shareholders of the Company, with a particular focus on healthcare and related listed companies for potential co-operation opportunities and generating investment return. The Group also expects to commence the loan financing business in the second half of 2015. The management of the Group will devote resources to this business and attentively seize any opportunities to facilitate its development.

Looking forward, the Group will continue to (i) invest in the healthcare and well-being and other sectors with synergy to the Group's healthcare management platform; (ii) seize appropriate debt/ equity fund raising opportunities to facilitate the Group's development and improve its capital structure; and (iii) enhance the return to its shareholders by continuously investing in financial/fixed/ distressed assets and expanding the loan financing business.

FINANCIAL REVIEW

Liquidity and financial resources

In order to strengthen the Group's capital base, in March and June 2015, the Company entered into two placing agreements with placing agents for the placing of 223,426,687 and 362,853,795 new shares of the Company at the placing prices of HK$0.19 and HK$0.335 per share, respectively, and the net proceeds amounted to HK$41.2 million and HK$117.9 million, respectively. In addition, in the extraordinary general meeting of the Company held on 20 May 2015, the shareholders of the Company approved the allotment and issue of 473,708,851 conversion shares of the Company under the two tranches of convertible bonds in the aggregate principal amount of HK$86.7 million at the adjusted conversion price of HK$0.183 per share of the Company (i.e. full conversion of the convertible bonds). Following the allotment and issue of the conversion shares, the principal of the two tranches of convertible bonds amounted to nil.

For the six months ended 30 June 2015, the net cash outflow from operating activities amounted to HK$108.1 million (six months ended 30 June 2014: net cash outflow of HK$44.5 million) and the net cash outflow from investing activities and financing activities amounted to HK$48.3 million (six months ended 30 June 2014: net cash outflow of HK$0.6 million) and HK$58.0 million (six months ended 30 June 2014: net cash inflow of HK$18.5 million), respectively. As a result, the Group recorded a net cash outflow of HK$98.4 million for the six months ended 30 June 2015 (six months ended 30 June 2014: net cash outflow of HK$26.6 million).

As at 30 June 2015, the Group had cash and bank balances of HK$79.1 million (31 December 2014: HK$178.1 million).

As at 30 June 2015, the Group's total borrowings amounted to HK$160.6 million (31 December 2014: HK$253.6 million) which included borrowings of HK$129.6 million (31 December 2014: HK$178.5 million), convertible securities of HK$2.0 million (31 December 2014: HK$45.2 million) and bond/note payable of HK$29.0 million (31 December 2014: HK$29.9 million). The decrease in total borrowings was attributable to repayments during the period. The borrowings are denominated in Hong Kong dollars and Japanese Yen and will either be repaid by internally generated funds or rolled over upon maturity.

As at 30 June 2015, the Group's net asset value (including non-controlling interest) was HK$793.7 million (31 December 2014: HK$587.2 million) with a liquidity ratio (calculated based on the Group's current assets to current liabilities) of 1.88 times as at 30 June 2015 (as compared to 2.06 times as at 31 December 2014). The Group's gearing ratio (calculated based on the Group's total borrowings to the equity attributable to the owners of the Company) was 23.2% (31 December 2014: 56.0%).

Exposure to fluctuation in exchange rates

The Group's cash flow from operations is mainly denominated in Renminbi and Hong Kong dollars; whilst its assets are mostly denominated in Renminbi and Hong Kong dollars, and liabilities held are mainly denominated in Japanese Yen and Hong Kong dollars. Therefore, the recent depreciation of Renminbi and continuing depreciation of Japanese Yen have a mixed impact on the Group's costs for repayment of Japanese Yen dominated debt and interest. The Group will continue to monitor the situation and may consider to reduce its debt exposure to Japanese Yen as and when appropriate. In addition, although the Group currently does not have a foreign currency hedging policy, it does and will continue to monitor the foreign exchange exposure closely and will consider hedging if there is significant foreign currency exposure.

Charge on group assets

As at 30 June 2015, investment properties with carrying value of HK$192.2 million (31 December 2014: HK$44.9 million) of the Group was pledged to a financial institution to secure borrowings of HK$58.2 million (31 December 2014: HK$32.0 million) of the Group.

CONTINGENCIES

No provision in respect of contingencies would need to be made in the consolidated financial statements of the Group for the six months ended 30 June 2015.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2015, the total number of employees of the Group was 998. The Group remunerates its employees based on their performance, working experience and the prevailing market price. Other employee benefits include retirement benefits, insurance and medical coverage, training programs and share option scheme.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 June 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any shares of the Company.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving and maintaining a high standard of corporate governance. During the six months ended 30 June 2015, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Listing Rules except for the following deviation:

Code provision A.4.1

Under code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive Directors are appointed for a specific term. This constitutes a deviation from the code provision. However, all the non-executive Directors are subject to retirement by rotation at the annual general meetings pursuant to the articles of association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters including review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2015.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors.

Having made enquiry of all Directors, each of them has confirmed that they have complied with the required standard as set out in the Model Code for the six months ended 30 June 2015.

INTERIM REPORT

The interim report of the Company for the six months ended 30 June 2015 will be despatched to shareholders and published on the websites of the Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.chinawahyan.com) as soon as practicable.

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

Hong Kong, 31 August 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.