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Union Medical Healthcare Limited

香港醫思醫療集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2138)

CONNECTED TRANSACTION ACQUISITION OF 75% EQUITY INTEREST IN EACH OF THE TARGET COMPANIES

THE SALE AND PURCHASE AGREEMENT

The Board hereby announces that, on 2 November 2016 (after trading hours), the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with each of the Sellers and each of the Target Companies, pursuant to which the Sellers agreed to sell, and the Purchaser agreed to purchase, the Sale Shares, being 75% of the equity interest in each of Target Companies, at a total consideration of HK$37,731,000.

LISTING RULES IMPLICATIONS

Immediately prior to the Acquisition, each of the Target Companies was owned (i) as to 50% by Mr. Cheng and (ii) as to 50% (through Redhill) by the spouse of Mr. Tang. Mr. Tang is the chairman, executive Director and the chief executive officer of the Group. Redhill and the Target Companies are therefore connected persons of the Group.

Redhill, a substantial shareholder of each of the Target Companies, is regarded as an associate of a controller of the Company under Rule 14A.28 of the Listing Rules. As such, the Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. As all the percentage ratios (as defined in the Listing Rules) are more than 0.1% but less than 5%, the Acquisition is only subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement under the Listing Rules.

THE SALE AND PURCHASE AGREEMENT

The Board hereby announces that on 2 November 2016 (after trading hours), the Purchaser, an indirectly wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement with each of the Sellers and each of the Target Companies. The principal terms of the Sale and Purchase Agreement are set out below:

Date: 2 November 2016

Parties:

(a) Redhill Shine Limited (a company wholly-owned by the spouse of Mr. Tang) and Mr. Cheng as the Sellers

(b) Union Medical Technology Holdings Limited (an indirectly wholly-owned subsidiary of the Company) as the Purchaser

(c) Good Union Corporation Limited and Good Union Medical Limited as the Target Companies

Assets to be acquired:

Pursuant to the Sale and Purchase Agreement, the Sellers agreed to sell, and the Purchaser agreed to purchase, the Sale Shares, being 75% of the equity interest in each of the Target Companies.

The Purchaser shall purchase the Sale Shares from each of the Sellers in the manner set out as follows:

	% of equity interest in each of the Target Companies acquired	
Target Company	**From Redhill**	**From Mr. Cheng**
GUC	50%	25%
GUM	50%	25%

Consideration:

The Consideration is HK$37,731,000 which shall be paid by the Purchaser to the Sellers or such person as the Sellers shall direct by payment cheques in accordance with the following apportionments upon Completion:

(a) HK$25,154,000 to Redhill; and

(b) HK$12,577,000 to Mr. Cheng.

The Consideration was determined after arm's length negotiations between the Purchaser and the Sellers on normal commercial terms after taking into consideration (i) a discount of 1.14% to the Valuation Report which indicates fair value of the Sale Shares as HK$38,167,500 as at the Benchmark Date, (ii) the latest audited financial statement of the Target Companies for the year ended 31 March 2016; (iii) the recent and historical performance of the Target Companies; (iv) the competitive strength and growth potential of the Target Companies; (v) the terms of the profit guarantee mentioned in the section "Profit Guarantee" below, and (vi) the factors mentioned in the section ''Reasons for and benefits of the transaction'' below. The Consideration will be funded by the Group's internal resources and will be settled entirely in cash.

Profit Guarantee:

The Sellers irrevocably jointly and severally warrants, undertake and guarantee to the Purchaser to achieve the aggregate audited net profits after tax of the Target Companies for each of the next ten financial years after the Completion Date (the "**Target Profits**") as follows:

Year	Target Profits (not less than)
Year 1	HK$6,930,000
Year 2	HK$7,034,000
Year 3	HK$7,139,000
Year 4	HK$7,246,000
Year 5	HK$7,355,000
Year 6	HK$7,465,000
Year 7	HK$7,577,000
Year 8	HK$7,691,000
Year 9	HK$7,806,000
Year 10	HK$7,923,000

Pursuant to the Sale and Purchase Agreement, in the event that the actual aggregate audited net profits after tax of the Target Companies are lower than the aggregated Target Profits (which were determined after having considered the underlying profit forecast adopted in the Valuation Report) for the respective periods from Year 1 to Year 3, from Year 4 to Year 6, and from Year 7 to Year 9 and Year 10 (as defined in the table above), the Sellers shall each be responsible to pay the Purchaser an amount equivalent to their respective responsible percentages of the shortfall between the aggregate Target Profits and the actual aggregate audited net profits after tax of the Target Companies (the "**Shortfall**") (the "**Payback**"):

(a) Mr. Cheng is responsible for 25% of the Shortfall; and

(b) Redhill is responsible for 50% of the Shortfall.

The Payback, if any, shall be paid by the Sellers to the Purchaser within 30 days after the issuance of the audited accounts of the Target Companies at the end of the financial year of Year 3, Year 6, Year 9 and Year 10 (as the case may be).

Conditions Precedent:
Completion is conditional upon, among other things, satisfaction of the following conditions:

(a) the Purchaser being satisfied with the results of the financial and legal due diligence to be conducted on each of the Target Companies;

(b) all requisite consents, license and approvals required to be obtained from any relevant governmental authorities in respect of the Acquisition having been obtained; and

(c) the warranties provided by the Sellers in the Sale and Purchase Agreement remain true and accurate in all.

In the event that any of the above conditions are not fulfilled or waived by the Purchaser on or before 30 November 2016, or such later date as may be agreed between the Purchaser and the Sellers in writing, the Sale and Purchase Agreement shall become null and void and be of no further effect whatsoever and all the obligations and liabilities of the parties shall cease and terminate (save for the rights of the parties to claim the others in respect of any antecedent breaches or any rights or remedies which shall have accrued prior thereto).

Completion:
Subject to the fulfilment or waiver of the conditions precedent, Completion shall take place on or before 30 November 2016, thereupon, the Sellers and the Target Companies shall conduct and complete the following, among other things, on or before 30 November 2016:

(a) completion of all registration procedures in respect of the changes of ownership of the Sale Shares to the Purchaser or its nominee(s);

(b) appointment of such persons as the Purchaser may nominate as director(s), company secretary and auditors of the Target Companies; and

(c) delivery to the Purchaser or the Purchaser's solicitors of certain documents including but not limited to the corporate records, company seal(s), financial statements, one counterpart of each of the deed of indemnity and the shareholders agreement duly executed by the Sellers and the Target Companies, and other documents in relation to the control and operation powers of the Target Companies.

Upon Completion, all the Target Companies will become indirectly and non-wholly owned subsidiaries of the Company and the financial results, assets and liabilities of the Target Companies will be consolidated into the financial statements of the Group.

INFORMATION OF THE TARGET COMPANIES AND THE SELLERS

Immediately prior to the Acquisition, each of GUC and GUM was owned as to 50% by Mr. Cheng and as to 50% by Redhill.

Mr. Cheng is a senior management and a general manager of the medical operations of the Group.

Redhill is an investment holding company wholly-owned by the spouse of Mr. Tang. Immediately prior to the Acquisition, Redhill owns 50% of the equity interest in each of the Target Companies, which are primarily engaged in the supply of medication and medical consumables to aesthetic medical or traditional beauty service providers in Hong Kong.

GUC is a company incorporated in Hong Kong and is primarily engaged in the supply and distribution of medical consumables, medications, medical devices and equipment.

GUM is a company incorporated in Hong Kong and is primarily engaged in the supply of medications through its 30%-owned associate.

As advised by the Sellers, their total contributed initial investment amounts during the incorporation of GUC and GUM were HK$540,000 and HK$370,000, respectively.

Based on the information provided by the Sellers, the following table sets forth the aggregate financial information of the Target Companies, each of which was audited and prepared in accordance with Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants:

	For the year ended 31 March	
	2016	**2015**
	HK$	HK$
Target Companies		
Aggregate revenue	34,827,268	29,531,719
Aggregate profits before tax	6,330,454	5,203,705
Aggregate profits after tax	5,589,768	4,575,976

As at 31 March 2016, the aggregate total assets and net assets of the Target Companies were HK$19,390,251 and HK$11,621,672, respectively.

INFORMATION OF THE GROUP AND THE PURCHASER

The Purchaser is a company incorporated in the British Virgin Islands and is an indirectly wholly-owned subsidiary of the Company. As of the date of this announcement, the Purchaser is an investment holding company with no operating subsidiaries.

The Group is principally engaged in the (1) medical services, comprising aesthetic surgical procedures, minimally invasive procedures and energy-based procedures performed by doctors and general consultation services, as well as dental, Chinese medicinal and ophthalmological services; (2) quasi-medical services, comprising energy-based procedures performed by our trained therapists who have completed mandatory internal training developed by our Doctors; (3) traditional beauty services, comprising facials, massages and other non-invasive procedures; (4) skincare and beauty products, primarily of our private-label brands, PRODERMA LAB and Suissebeaute; (5) health management centre; and (6) chiropractic and physiotherapy services in Hong Kong.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Board believes that (a) the aggregate profits of the Target Companies will contribute positively to the financial results of the Company in the near future; and (b) the services to be provided by the Target Companies will (i) complement and provide synergy to medical services and medical aesthetic services that the Group can offer, (ii) provide priority access to new medical technology, medical equipment and medication, (iii) diversify the Group's business portfolio, and (iv) develop a one-stop platform to further attract distributorship opportunities in the Greater China.

Based on the above, the Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable, and the Sale and Purchase Agreement and the Acquisition have been entered into after arm's length negotiation and determined on normal commercial terms that are in the interest of the Company and its Shareholders as a whole.

COMPLIANCE WITH RULE 14.62 OF THE LISTING RULES

The Valuation Report has been prepared by Asset Appraisal. According to the Valuation Report, the fair value of the Sale Shares was reasonably stated at HK$38,167,500 as at the Benchmark Date. The valuation has adopted the discounted cash flow method under the income approach. Furthermore, the Target Profits were determined with reference to the underlying profit forecast adopted in the Valuation Report. As such, the valuation and the Target Profits constitute "profit forecast" under Rule 14.61 of the Listing Rules and the requirements of Rule 14.62 of the Listing Rules are therefore applicable. A letter from each of KPMG and the Board has been submitted to the Stock Exchange, and is set out in Appendix I and Appendix II to this announcement, respectively pursuant to Rule 14.62 of the Listing Rules.

The valuation contained in the Valuation Report has been prepared on the following principal assumptions:

1) there will be no major change in the existing political, legal and economic conditions in which the Target Companies are being operated;

2) save for any proposed changes on taxation policies, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by the Target Companies;
3) the interest rates and exchange rates will not differ materially from those presently prevailing;
4) the availability of finance will not be a constraint on the forecast growth of the Target Companies' operations in accordance with the business plan and the projection;
5) the Target Companies shall have uninterrupted rights to operate its business during the unexpired term of their authorized operating permits;
6) the unaudited financial statements of Target Companies as supplied have been prepared in a manner truly and accurately reflected the financial position of the Target Companies as at the respective balance sheet dates;
7) the systems and the technology utilised by the Target Companies in carrying out their existing businesses do not infringe any relevant regulations and law;
8) the Target Companies have obtained all necessary permits and approvals to carry out the business and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;
9) Inflation rate and terminal growth rate of the Target Companies are both 3.0%;
10) the Target Companies are free and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever;
11) the Target Companies shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support their business operations;
12) the estimated fair value of the Sale Shares does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other typical benefits which may influence the ordinary business enterprise values of the Target Companies; and
13) there will be no material changes in the Target Companies' business strategy.

The auditors of the Company, KPMG, have performed procedures on the arithmetical calculation of the discounted cash flows on which the Valuation Report is based on, and the Board is of the opinion that the Valuation Report and the Target Profits mentioned in this announcement have been stated after due and careful enquiries. The qualifications of the experts who have provided their opinions in this announcement are
as follows:

Name	**Qualification**
Asset Appraisal	Independent professional appraiser
KPMG	Certified Public Accountants

Each of Asset Appraisal and KPMG, has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its report or letter and/or all references to its name in the form and context in which it respectively appears in this announcement.

To the best of the knowledge, information and belief of Directors, having made all reasonable enquiries, each of Asset Appraisal and KPMG are third parties independent from the Company and its connected persons (as defined in the Listing Rules).

As at the date of this announcement, neither Asset Appraisal nor KPMG has any shareholding or was beneficially interested in, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate person(s) to subscribe for the securities in any member of the Group.

LISTING RULES IMPLICATIONS

Immediately prior to the signing of the Sale and Purchase Agreement, each of the Target Companies was owned (i) as to 50% by Mr. Cheng and (ii) as to 50% (through Redhill) by the spouse of Mr. Tang. Mr. Tang is the chairman, executive Director and chief executive officer of the Group, Redhill and the Target Companies are therefore connected persons of the Group.

Redhill, a substantial Shareholder of each of the Target Companies, is regarded as an associate of a controller of the Company under Rule 14A.28 of the Listing Rules. As such, the Acquisition, constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

As all the percentage ratios (as defined in the Listing Rules) are more than 0.1% but less than 5%, the Acquisition is only subject to the reporting and announcement requirements but is exempt from the independent Shareholders' approval requirement under the Listing Rules.

Save for Mr. Tang, no Director has a material interest in the Acquisition, nor is required to abstain from voting on the resolutions approving the Acquisition. Mr. Tang had abstained from voting on the resolutions approving the Acquisition.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition of the Sale Shares by the Purchaser from the Sellers
"Asset Appraisal"	Asset Appraisal Limited (中誠達產評值顧問有限公司), an independent professional appraiser
"Benchmark Date"	30 September 2016

"Board"	the board of Directors
"Company"	Union Medical Healthcare Limited (香港醫思醫療集團有限公司*), an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition pursuant to the terms of the Sale and Purchase Agreement
"Completion Date"	the date of Completion which shall take place on or before 30 November 2016 or such later date as the Purchaser and the Sellers may agree in writing
"Consideration"	HK$37,731,000 being the total consideration to be paid by the Purchaser to the Sellers for the Acquisition under the Sale and Purchase Agreement and subject to adjustment
"Director(s)"	director(s) of the Company
“Greater China”	the PRC, Taiwan, Hong Kong and the Macau Special Administrative Region
"GUC "	Good Union Corporation Limited, a company incorporated under the laws of Hong Kong with limited liability and as at the date of this announcement owned as to 50% by Mr. Cheng and 50% by Redhill
"GUM "	Good Union Medical Limited, a company incorporated under the laws of Hong Kong with limited liability and as at the date of this announcement owned as to 50% by Mr. Cheng and 50% by Redhill
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"KPMG"	Messrs. KPMG, auditors of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Cheng"	Mr. Cheng Yeung, a Hong Kong resident, and a senior management and general manager of the medical operations of the Group
"Mr. Tang"	Mr. Tang Chi Fai, a Hong Kong resident, and the chairman, executive Director and chief executive officer of the Group

"PRC"	the People's Republic of China
"Purchaser"	Union Medical Technology Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirectly wholly-owned subsidiary of the Company
"Redhill"	Redhill Shine Limited, a company incorporated under the laws of British Virgin Islands with limited liability, a company wholly-owned by the spouse of Mr. Tang
"Sale Shares"	75% of the equity interest in each of the Target Companies
"Sale and Purchase Agreement "	the sale and purchase agreement dated 2 November 2016 entered into between the Purchaser, each of the Sellers and each of the Target Companies in relation to the Acquisition
"Seller(s)"	Redhill and Mr. Cheng, collectively referred to as the Sellers, each a Seller
"Shareholder(s)"	holder(s) of share(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company(ies)"	GUC and GUM
"Valuation Report"	valuation report dated 2 November 2016 issued by Asset Appraisal
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent

By Order of the Board
Union Medical Healthcare Limited
Lee Gabriel
Executive Director

Hong Kong, 2 November 2016

As at the date of this announcement, the Board comprises four executive Directors, namely Mr. Tang Chi Fai, Mr. Lee Gabriel, Mr. Luk Kun Shing Ben and Mr. Yeung Chin Wan, and three independent non-executive Directors, namely Mr. Ma Ching Nam, Dr. Yu Ka Fai Alexis and Mr. Look Andrew.

* *for identification purpose only*

APPENDIX I - LETTER FROM KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

2 November 2016

REPORT ON THE DISCOUNTED FUTURE CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF THE TARGET COMPANIES

TO THE BOARD OF DIRECTORS OF UNION MEDICAL HEALTHCARE LIMITED

We refer to the discounted cash flows on which the business valuation dated 2 November 2016 prepared by Asset Appraisal Limited in respect of the appraisal of the fair value of the Target Companies (as defined in this announcement) as at 30 September 2016 (the "**Valuation**") is based. The Valuation is prepared based on the discounted future cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of Union Medical Healthcare Limited (the "**Directors**") are responsible for the preparation of the discounted future cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future cash flows used in the Valuation. The discounted future cash flows do not involve the adoption of accounting policies.

Basis of opinion

We conducted our engagement in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors have properly compiled the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We performed procedures on the arithmetical calculations and the compilation s of the discounted future cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted future cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future cash flows are based and our work does not constitute any valuation of the Target Companies or an expression of an audit or review opinion on the Valuation.

The discounted future cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KPMG
Certified Public Accountants
Hong Kong

APPENDIX II — LETTER FROM THE BOARD

The following is the text of a letter from the Board prepared for the purpose of incorporation in this announcement.

2 November 2016

The Stock Exchange of Hong Kong Limited
11th Floor, One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Dear Sirs,

Re: Letter from the Board on the Valuation Report and the Target Profits pursuant to Rule 14.62 of the Listing Rules

Reference is made to the announcement of the Company dated 2 November 2016 (the "**Announcement**") of which this letter forms part. Unless the context otherwise requires, capitalised terms used herein shall have the same meaning as those defined in the Announcement.

The Announcement mentioned the Valuation Report prepared by Asset Appraisal on the fair value of the Sale Shares and the Target Profits which were determined with reference to the Valuation Report. We have reviewed the Valuation Report for which Asset Appraisals are responsible, and discussed with Asset Appraisal on relevant matters (including the part of bases and assumptions upon which the Valuation Report has been prepared). We have also considered the letter from the auditors of the Company dated 2 November 2016 addressed to us regarding whether the Valuation Report was compiled properly so far as the calculations are concerned.

On the basis of the foregoing, we are of the opinion that the Valuation Report and the Target Profits mentioned in the Announcement have been stated after due and careful enquiries.

Yours faithfully,
For and on behalf of the Board
Union Medical Healthcare Limited
Lee Gabriel
Executive Director