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MINGYUAN MEDICARE DEVELOPMENT COMPANY LIMITED

銘源醫療發展有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 0233)

INSIDE INFORMATION

This announcement is made by Mingyuan Medicare Development Company Limited (the “**Company**”) pursuant to Rule 13.09(2)(a) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) and Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (“**SFO**”).

Respectively on 5 August 2011 and 19 December 2011, the Company made two announcements for (1) the acquisition of 70% equity interest in Shanghai Yuanqi (as defined hereinbelow) and (2) disposal of 51% equity interest in Weiyi (as defined hereinbelow).

The current management has discovered fraud or potential fraud in relation of the two transactions and the purpose of this announcement is to provide information to the shareholders of the findings.

Shanghai Yuanqi Acquisition

In the 5 August 2011 announcement (the “**Acquisition Announcement**”), the Company announced the acquisition of 70% equity interest in a company called 上海源奇生物醫藥科技有限公司 (Shanghai Yuanqi Bio-Pharmaceutical Company Limited) (“**Shanghai Yuanqi**”) in the PRC by its wholly owned subsidiary 上海銘源數康生物芯片 (SHMY HealthDigit Biochips Co. Ltd.) (“**SHMY HealthDigit**”) for a consideration of RMB 354,000,000, of which (i) RMB225,000,000 in cash and (ii) 326,871,967 new shares of the Company at HK\$0.478 per share to the value of RMB 129,000,000 as consideration shares. The Company further announced the completion of the acquisition on 23 November 2011.

In the Acquisition Announcement, the 70% equity interest of Shanghai Yuanqi was said to be sold by Mr. Yan Rong Rong (“**Yan**”) for 51% and Madam Xiong Hui (“**Xiong**”) for 19% to SHMY HealthDigit.

** For identification purpose only*

Civil Complaint by Xiong at the PRC Court

On 18 May 2015, Xiong commenced a civil complaint at the People’s Court of Feng Xian District, City of Shanghai, the PRC. Subsequent search of the documents kept at the Administration of Industry and Commerce revealed:

- (a) A different Equity Transfer Agreement to what the Company announced was entered into on the same day of 5 August 2011 between SHMY HealthDigit (Mr. Iu Chung (“**Iu**”), the brother of then chairman of the board Mr. Yao Yuan (“**Yao**”), was the legal person), and Yan and Xiong whereat the total consideration for the 70% equity interest of Shanghai Yuanqi was agreed at RMB 354,000,000 represented by the issuance of 896,997,491 shares of the Company of which 243,470,711 shares were to be issued to Xiong to satisfy the payment for her 19% equity interest in Shanghai Yuanqi. No cash was required to be paid by SHMY HealthDigit to either Yan or Xiong.
- (b) On 21 December 2011, Xiong was only given a confirmation of entitlement to 88,722,391 shares in the Company (as opposed to the actual delivery of the shares), the balance of 154,748,333 shares had never been issued to Xiong.
- (c) By an agreement dated 18 March 2014 between SHMY HealthDigit and Xiong whereat it was agreed that SHMY HealthDigit would pay Xiong RMB 60 million to settle the unpaid consideration shares of her 19% interest before 30 August 2014.
- (d) On the same day of 18 March 2014, a Debt-to Convert-to-Shares Agreement was entered into between SHMY HealthDigit and Xiong whereat SHMY HealthDigit acknowledged the debt of RMB 60 million owed to Xiong and agreed to transfer all the 70% equity interest in Shanghai Yuanqi to Xiong if the debt was not paid.
- (e) SHMY HealthDigit did not pay the debt to Xiong and Xiong commenced the civil complaint to enforce her alleged right under the Debt-to Convert-to-Shares Agreement.

Loss of Shanghai Yuanqi interest

On 18 February 2016, record in the Administration of Industry and Commerce shows that the 70% equity interest in Shanghai Yuanqi owned by SHMY HealthDigit was transferred to Xiong by agreement between SHMY HealthDigit and Xiong.

Findings by the new management

Shortly before the acquisition, Yan's 51% interest in Shanghai Yuanqi was acquired from a person called Mr. Zhu Cong Zhen (朱從真) ("Zhu") for RMB 1.02 million on 21 June 2011. When Yan sold his 51% interest, the Company paid (allegedly) cash RMB 163,928,571 and 238,149,576 consideration shares of the Company at HK\$0.478 per share. The Equity Transfer Agreement produced by Xiong, where Yan was a party to, suggests that no cash payment was to be paid to Yan as well.

At all material times, Zhu was one of the directors of SHMY HealthDigit and Yan was an employee of a company called 上海銘源酒店餐飲管理有限公司 (English transliteration: Shanghai Mingyuan Hotel Food and Beverage Management Company Limited), a PRC company not associated with the Company, which was and still is owned by both Yao and Iu.

The then management of the Company had not disclosed to the shareholders the connected relationship of Yan with Yao and that Yan only acquired the 51% equity interest from Zhu, a director of SHMY HealthDigit, less than 2 months ago at the price of RMB 1.02 million.

Further enquiry with the branch share registrar of the Company in Hong Kong has confirmed the issuance of a total of 238,149,576 shares of the Company to Yan's name and 88,722,391 shares to Xiong's name on 23 December 2011 as consideration shares payable pursuant to the terms of the acquisition as mentioned in the Acquisition Announcement.

The consideration shares issued to Yan exceeded 5% of the then total issued capital of the Company and Yan was required to disclose his interest to the Hong Kong Stock Exchange and the Company according to the SFO. But Yan had not done so.

There is no evidence available to the current management that the consideration shares were actually delivered to the hands of Yan and Xiong, albeit they were issued in their names. Records show that Yan transferred all his 238,149,576 shares from January 2012 to May 2012 except 50,000,000 shares which are still in Yan's name. Xiong transferred all her 88,722,391 shares in May 2014.

The current management does not have information to confirm the actual payment of the cash consideration of RMB 163,928,571 and RMB 61,071,429 to Yan and Xiong respectively. In her civil complaint in the PRC court, Xiong claimed the agreement to sell her 19% equity interest was for consideration shares of the Company only and she had only received a confirmation as to her entitlement to 88,722,391 shares as opposed to the actual shares.

The loss of Shanghai Yuanqi's interest will have impact on the asset value of the Company and the current management will bring this loss to the attention of the auditor.

The findings suggest a prima facie fraud and the current management is seeking legal advice on what appropriate legal actions should be taken against those responsible.

Shanghai Hospital

On 19 December 2011 (the "**Disposal Announcement**"), the Company by its then company secretary Mr. Kenny Poon ("**Kenny Poon**") announced the disposal of its indirect 51% interest in a PRC company called Shanghai Weiyi Hospital Investment and Management Limited ("**Weiyi**") by its wholly owned subsidiary Shanghai HealthDigit Co. Limited ("**Shanghai HealthDigit**") to a Madam Jiang Yi (蔣毅) ("**Jiang**") for a consideration of RMB 65 million.

At the material times, Yao was the chairman of board of the Company and his brother Iu was the legal person of Shanghai HealthDigit.

On 4 January 2012, the Company announced the completion of the disposal.

On 25 April 2014, more than two years after the completion, the Company by Kenny Poon announced that a loan agreement dated 20 December 2011 was entered into between Shanghai HealthDigit and Weiyi whereby Shanghai HealthDigit agreed to lend to Weiyi RMB 85.24 million for a term of two years ended on 19 December 2013. It was said in the announcement of the Company dated 25 April 2014 (the "**Loan Announcement**") that Shanghai HealthDigit had subsequently recovered the loan from Weiyi.

Civil Action in the Shanghai court

The current management obtained a judgment dated 30 July 2013 by the Shanghai City First Intermediate People's Court, the PRC which has revealed a different story from what the Company had announced in respect of the disposal.

The action was brought by Shanghai Mingyuan Enterprises Group Limited ("**Shanghai Mingyuan**") as plaintiff and Dao Ge Te Medical Technology (Shenzhen) Company Limited ("**Dao Ge Te**") and Shanghai Tian Tan Pu Hwa Hospital Company Limited ("**Tian Tan**") as defendants to enforce a share charge of all the Weiyi shares (see below). According to the evidence adduced by Shanghai Mingyuan at the trial, the following matters came to light:

- (a) By an agreement dated 9 August 2010 entered into between Jiang, a Mr. Yang Xing (楊興) (“**Yang**”) and Mr. Tang Hon Ming (唐洪明) (“**Tang**”) as sellers and Dao Ge Te and Tian Tan, Jiang, Yang and Tang sold all their 100% shares in Weiyi to Dao Ge Te and Tian Tan as buyers for a consideration of RMB 40 million in cash and RMB 120 million worth of floating listed company’s shares.
- (b) Shanghai Mingyuan was and is a company in PRC owned and controlled by Yao and Iu.
- (c) Pursuant to the agreement, cash consideration of RMB 40 million was paid on 7 December 2010 in Hong Kong currency HK\$46,790,000 by a cheque issued by a Hong Kong solicitors firm Messrs Angela Ho & Associates to a company called Ming Yuan Holdings Limited, which was owned and controlled by Yao and Iu.
- (d) Completion of the sale took place on 21 December 2010. On 31 December 2010, the buyers executed a share charge on all 100% shares in Weiyi in favour of Shanghai Mingyuan for their obligations to pay the balance of consideration of RMB 120 million worth of floating listed shares.
- (e) The share charge was registered on 17 January 2011 with the Hong-Kou Branch of the Shanghai Administration of Industry and Commerce.
- (f) Jiang, Yang and Tang held the 100% shares in Weiyi for Shanghai Mingyuan as nominee holders.
- (g) After hearing of the action, Shanghai City First Intermediate People’s Court ordered the validity of the share charge and later confirmed by the Shanghai City Higher People’s Court on appeal by the buyers.

The evidence Shanghai Mingyuan produced in the hearing of the action contradicts what the Company announced on 6 July 2006 about the independence of the sellers when the Company acquired the 51% equity interest from Tang and Yang. All along, Tang and Yang were nominees of the 51% equity interest in Weiyi for Shanghai Mingyuan, a company owned by Yao and Iu.

Further findings by the current management

Contrary to what the Disposal Announcement of the Company says, on 8 November 2010, Shanghai HealthDigit transferred all its 51% equity interest in Weiyi to Jiang at the price of RMB 6,800 and the transfer agreement dated the same day of 8 November 2010 between Shanghai HealthDigit and Jiang was filed with the Hong-Kou Branch of the Shanghai Administration of Industry and Commerce.

In fact, by 8 November 2010, the Company had lost the 51% equity interest in Weiyi in favour of Jiang, for only RMB6,800. Jiang was the nominee of Shanghai HealthDigit which in turn owned by Yao and Iu.

The cheque in the sum of HK\$46,790,000 issued by the Hong Kong solicitors firm Messrs Angela Ho & Associates as cash consideration paid by the buyers under the 9 August 2010 agreement was paid to Ming Yuan Holdings Limited, a British Virgin Islands company owned and controlled by Yao and Iu. Kenny Poon issued an acknowledgment of receipt of the payment on behalf of the sellers Jiang, Yang and Tang. On the acknowledgement of receipt, Yao also signed for Shanghai Mingyuan.

At the time of making the Disposal Announcement for the purported disposal of 51% equity interest in Weiyi by Shanghai HealthDigit to Jiang, the Company had already transferred the 51% equity interest to Jiang on 8 November 2010, who subsequently transferred the same to the buyers on 21 December 2010. Kenny Poon acknowledged the receipt of the cash consideration paid by the buyers and the recipient of the cheque was a company owned by Yao and Iu.

As such, when the Disposal Announcement was made, Kenny Poon and Yao knew that the contents of the Disposal Announcement were not true.

The current management of the Company does not have evidence showing that the loan to Weiyi in the sum of RMB 85.24 million had been repaid to Shanghai HealthDigit as announced by the then management in the Loan Announcement.

The purported sale of the 51% Weiyi interest on 19 December 2011 is a fraud, given the fact that the Company had already transferred such interest to Jiang on 8 November 2010.

If the loan to Weiyi had been fully recovered by Shanghai HealthDigit, there would have no loss to the Company as a result of the fraud.

The Company will investigate further once control of Shanghai HealthDigit is regained.

Trading in shares of the Company will remain suspended pending satisfaction of the resumption conditions imposed by the Stock Exchange.

By Order of the Board
Mingyuan Medicare Development Company Limited
LAM Ping Cheung
Chairman

Hong Kong, 30 September 2016

As at the date of this announcement, the Board comprises (i) Mr. Lam Ping Cheung and Mr. Hui Yip Wing as executive Directors; (ii) Ms. Lam Yan Fong Flora as non-executive Director; and (iii) Ms. Chan Mee Sze, Ms. Hui Wai Man Shirley, Mr. Lam Suk Ping and Mr. Wong Anthony Chi-ho as independent non-executive Directors.