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## **China HealthCare Holdings Limited**

**中國衛生控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 673)

### **VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION**

**Financial Adviser to the Company**

***Hercules***

**Hercules Capital Limited**

On 15 September 2011, the Vendors and Shanghai Harvest, being subsidiaries of the Company and Shanghai Huiqu entered into the Agreement pursuant to which (i) the Vendors conditionally agreed to sell, and Shanghai Huiqu conditionally agreed to acquire, the entire equity interest in Shanghai Harvest for a total consideration of RMB35,910,836; and (ii) the Second Vendor conditionally agreed to sell, and Shanghai Harvest conditionally agreed to acquire, 10% equity interest in Shanghai Kejin for a consideration of RMB1.

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Ms. Zhang Yijuan and Ms. Zhou Lifan, being the substantial shareholders holding 60.98% and 39.02% equity interest in Shanghai Huiqu respectively, are the general manager and financial controller of Shanghai Harvest respectively and therefore are connected persons of the Company under Chapter 14A of the Listing Rules. As such, the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Agreement and transactions contemplated thereunder are subject to the Independent Shareholders' approval, by way of poll, at the SGM. As at the date of this announcement, no Shares are held by Ms. Zhang Yijuan, Ms. Zhou Lifan and their respective associates. On the other hand, Dr. Li Zhong Yuan and his associates hold 7.6% equity interest in the First Vendor as at the date hereof. Dr. Li Zhong Yuan and his associates shall abstain from voting on the resolution approving the Disposal at the SGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Dr. Li Zhong Yuan and his associates, no other Shareholders are required to abstain from voting on the resolution approving the Disposal at the SGM. An independent board committee will be formed to advise the Independent Shareholders on the Disposal and an independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders on the Disposal.

\* for identification purpose only

A circular containing, among other things, further details of the Disposal, the financial information of Shanghai Harvest Group, pro forma financial information of the Group, the advices from the independent board committee and the independent financial adviser, the notice of SGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 28 October 2011.

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:00 a.m. on 19 September 2011 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares from 9:00 a.m. on 10 October 2011.

On 15 September 2011, the Vendors and Shanghai Harvest, and Shanghai Huiqu entered into the Agreement in relation to the Disposal. The principal terms of the Agreement are set out below:

## **THE AGREEMENT**

**Date:** 15 September 2011

### **Parties:**

- (i) Purchasers:
- (a) Shanghai Huiqu, an investment holding company which was established under the laws of the PRC.
  - (b) Shanghai Harvest, a subsidiary of the Company as at the date of this announcement.
- (ii) Vendors: Harvest Network Limited and Shanghai De Yi Er Investment Management Consulting Co. Ltd., both are subsidiaries of the Company.

### **Assets to be disposed of**

The First Sale Shares and the Second Sale Shares represent the entire equity interest in Shanghai Harvest to be acquired by Shanghai Huiqu and the Third Sale Shares represent 10% equity interest in Shanghai Kejin to be acquired by Shanghai Harvest.

### **Consideration**

The total consideration for the Disposal is RMB35,910,837 (equivalent to approximately HK\$44,062,377), which comprises the consideration for the First Sale Shares of RMB25,137,585 (equivalent to approximately HK\$30,843,663), the consideration for the Second Sale Shares of RMB10,773,251 (equivalent to approximately HK\$13,218,713) and the consideration for the Third Sale Shares of RMB1 (equivalent to approximately HK\$1.2). The consideration is payable in cash.

The consideration for the Disposal was determined after arm's length negotiations between the Vendors and the Purchasers with reference to the audited consolidated net asset value of Shanghai Harvest Group and the historical performance of Shanghai Harvest Group for the past years.

### **Conditions Precedent**

Completion of the Agreement is conditional upon, inter alia:

- a) Shanghai Huiqu being satisfied with the results of the due diligence on, including but not limited to, the legal, financial and operation of Shanghai Harvest Group;
- b) the approval of the Agreement and transactions contemplated thereunder by the Independent Shareholders at the SGM;
- c) the approval of the transfer of Sale Shares contemplated under the Agreement by the respective board of directors of the Purchasers and the Vendors; and
- d) no statute, regulation or decision which would prohibit, restrict or materially delay the Disposal having been proposed, enacted or taken by any governmental or official authority.

The transfers of the First Sale Shares, the Second Sale Shares and the Third Sale Shares are inter-conditional and shall be completed simultaneously. Shanghai Huiqu may waive the condition (a) by written notice to the Vendors. Completion of the Agreement shall take place on a date to be mutually agreed by the parties to the Agreement after the date on which all conditions are satisfied or, as the case may be, waived. If any of the conditions is not satisfied or, as the case may be, waived by Shanghai Huiqu on or before 31 December 2011, or such later date as agreed by the parties to the Agreement (in any event not later than six months after the date of the Agreement), in writing, Shanghai Huiqu shall have the right to elect not to proceed with the Disposal and the Agreement shall lapse save in respect of claims arising out of any antecedent breach. As at the date of this announcement, Shanghai Huiqu has not indicated any intention to waive the condition (a).

### **INFORMATION ON SHANGHAI HARVEST GROUP**

Shanghai Harvest was established in November 2000 under the laws of the PRC. It has a registered capital of RMB40 million and is beneficially owned as to 70% by the First Vendor and 30% by the Second Vendor as at the date of this announcement. Shanghai Kejin was established in June 2003 under the laws of the PRC. It is owned as to 90% by Shanghai Harvest and 10% by the Second Vendor as at the date of this announcement.

Shanghai Harvest Group is principally engaged in B-to-C e-payment services and distributions, including e-commerce distribution of mobile pre-charge, sales of mobile phone usage fees and provision of payment solution service. Shanghai Harvest Group has a proprietary platform for e-commerce services and proprietary multi-functional Point of Sale (POS) systems and has been conducting its B-to-C

business in mobile phone pre-payment field through its POS systems. Furthermore, Shanghai Harvest Group has expanded its business in the third party payment service sector by upgrading its information technology platform and connecting it with China UnionPay, which enables retail outlets and households to process payments of credit card bills through its POS payment terminals.

After their expiration, the purchase agreements entered into between Shanghai Harvest Group and the telecommunication operators were renewed by consignment agreements with effect from April 2010. Accordingly, Shanghai Harvest Group has acted as a consignee of the telecommunication operators for distributing the mobile pre-charge cards in Shanghai and received and recorded gross commission income, instead of gross sales amount, generated from sale of mobile pre-charge cards as its revenue since then. As a result, the revenue of Shanghai Harvest Group decreased substantially from approximately RMB2,422.3 million for the year ended 31 March 2010 to approximately RMB37.8 million for the year ended 31 March 2011.

The audited consolidated financial information of Shanghai Harvest Group, which have been prepared in accordance with accounting principles generally accepted in Hong Kong, for the two years ended 31 March 2011 are summarized as follows:

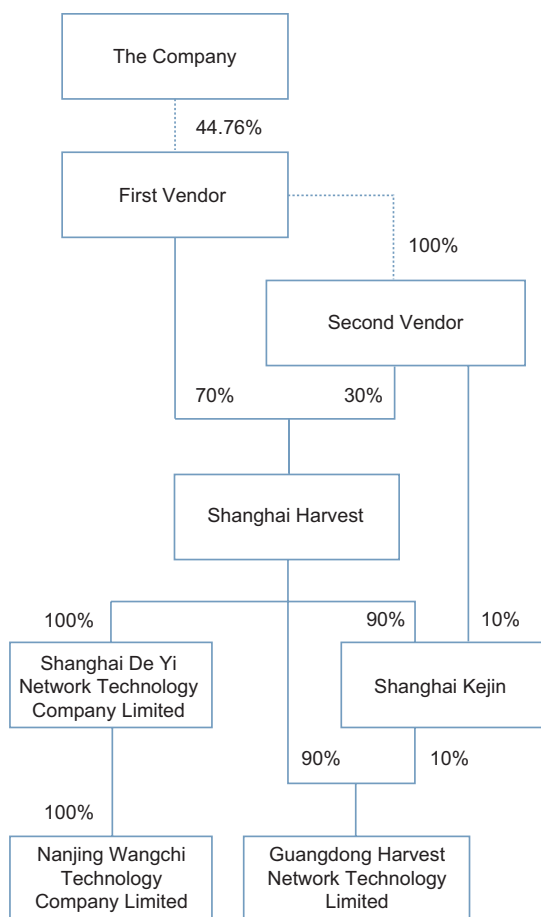
|  | For the year ended 31 March |                |
|--|-----------------------------|----------------|
|  | 2011                        | 2010           |
|  | <i>RMB'000</i>              | <i>RMB'000</i> |
| Revenue                                      | 37,827                      | 2,422,265      |
| Loss before taxation and extraordinary items | (2,450)                     | (4,240)        |
| Net loss for the year                        | (3,201)                     | (4,495)        |

As at 31 March 2011, Shanghai Harvest Group had an audited consolidated net asset value of approximately RMB35,910,836.

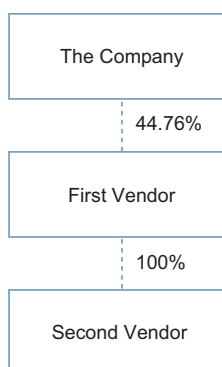
## CORPORATE STRUCTURE OF THE GROUP

The following diagrams depict the simplified corporate structure of the Group before and after the completion of the Disposal, assuming that there will be no further change in the corporate structure from the date hereof to the date of completion of the Disposal:

### Before completion of the Disposal



### After completion of the Disposal



—— direct holding  
 ..... indirect holding

*Note: Given the Group has the controlling power over the board of directors of the First Vendor, the First Vendor and its subsidiaries had been accounted for as the subsidiaries of the Company. As at the date of this announcement, the 70% and 30% equity interests in Shanghai Harvest are held on trust by Shanghai Huiqu for and on behalf of the First Vendor and the Second Vendor.*

## **REASONS FOR THE DISPOSAL**

The Group is principally engaged in the provision of B-to-C consumer services.

In December 2010, People's Bank of China issued the Administration Rules on Payment Services of Non-financial Institutions, which stipulated that all non-financial institutions providing third party payment services in the PRC must obtain a payment business licence with effect from 1 September 2011 and licence applications of foreign-owned enterprises shall be approved by the PRC State Council. Accordingly, Shanghai Harvest Group may have to suspend one of its businesses, bank card payment services, which falls within the definition of third party payment services, until the payment business licence is granted. Without having Shanghai Harvest Group off the Group, the Directors believe that it is highly unlikely for Shanghai Harvest Group to obtain the approval from the PRC State Council for the license application given the stringent restrictions on "offshore control" over domestic third party payment service sector in the PRC. Having considered the abovementioned factors and the loss-making track record of Shanghai Harvest Group for the two years ended 31 March 2011, the Directors are of the view that the Disposal is in the interest of the Company and the Shareholders as a whole as it can prevent the Group from incurring further loss and provide an opportunity for the Group to reallocate its resources on its profitable business. Moreover, given that (i) the Company has put considerable resources in the development of Shanghai Harvest Group and expected to realize its investment in Shanghai Harvest Group at a reasonable price, while the Purchaser is the only purchaser who was willing to acquire Shanghai Harvest at a consideration acceptable to the Company; (ii) the other potential purchasers, being competitors of Shanghai Harvest, requested the Company to provide detailed and sensitive information of Shanghai Harvest Group, which the Directors consider that if the negotiations with the potential purchasers fail, the disclosure of such sensitive information will adversely affect the operation of Shanghai Harvest Group and further affect the interest of the Company and its Shareholders; and (iii) the other potential purchasers requested the obtaining of the payment business licence as one of the conditions precedent for the disposal, which is impracticable to Shanghai Harvest Group as long as the Company remains as the beneficial owner of Shanghai Harvest Group, the Directors are of the view that the disposal of Shanghai Harvest to Shanghai Huiqu is in the interest of the Company and the Shareholders as a whole. The Directors also consider that the terms of the Agreement, which were negotiated on an arm's length basis and agreed on normal commercial terms between the parties involved, are fair and reasonable.

## **USE OF PROCEEDS**

The net proceeds of the Disposal (after payment of professional fees and other related expenses) are estimated to be of approximately RMB34.9 million (equivalent to approximately HK\$42.8 million). The Company intends to apply the net proceeds from the Disposal for general working capital of the Group and reducing corporate liabilities.

## **FINANCIAL EFFECTS OF THE DISPOSAL**

Upon completion of the Agreement, the Group shall not have any equity interest in Shanghai Harvest and Shanghai Kejin. Shanghai Harvest shall cease to be a subsidiary of the Company since then.

Based on the audited financial information of the Group as at 31 March 2011, it is expected that a gain of approximately HK\$1.21 million would have been recognized in the consolidated accounts of the Company had the Disposal been completed on 1 April 2010. Furthermore, the Group's total assets would have increased by approximately HK\$31.9 million to approximately HK\$321.1 million and the Group's total liabilities would have increased by approximately HK\$30.8 million to approximately HK\$417.8 million had the Disposal been completed on 31 March 2011.

The abovementioned financial effects are shown for illustrative purpose only and the amount eventually to be recognized in the consolidated accounts of the Company depends on the net book value of Shanghai Harvest as at the date of completion of the Agreement.

## **OUTLOOK OF THE GROUP**

Upon completion of the Disposal, the Group will focus on its business of the provision of B-to-C consumer services in Shandong Province, including the provision of management and other services to the POS-enabled retail outlets and distribution of mobile pre-charge and sales of mobile phone usage fees in those retail outlets. The Group shall continue to conduct its B-to-C consumer services in mobile top-up field through the multi-functional POS-enabled retail outlets throughout Shandong, the second largest mobile top-up provincial market in the PRC. As at the date hereof, the Group has developed a growing distribution network of almost 26,000 POS-enabled retail outlets in Shandong and has reached the first in market share as a third party distributor in mobile top-up distribution market in Shandong. As the Shandong Business only involves in the provision of management and other services to the retail outlets and the sales of mobile value-added services as an agent of the telecommunication operators, which does not involve any third party payment service, the Administration Rules on Payment Services of Non-financial Institutions issued by People's Bank of China does not apply to the Shandong Business.

As disclosed in the annual results announcement of the Company for the year ended 31 March 2011, the Group is currently in discussion with certain prospective external resources providers to bring in viable assets and/or projects to restructure the Group's overdue financial obligation and to solve the Group's solvency problem. As at the date hereof, no concrete details have been arrived yet regarding the ongoing discussions with prospective external resources providers. Save for the abovementioned, the Company has no current plans or intentions for acquisition or disposal of any asset or business to effect any significant change to its existing business and to conduct any fund raising activity.



## **GENERAL**

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules in respect of the Disposal exceed 75%, the Disposal constitutes a very substantial disposal for the Company under Chapter 14 of the Listing Rules. Ms. Zhang Yijuan and Ms. Zhou Lifen, being the substantial shareholders holding 60.98% and 39.02% equity interest in Shanghai Huiqu respectively, are the general manager and financial controller of Shanghai Harvest respectively and therefore are connected persons of the Company under Chapter 14A of the Listing Rules. As such, the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. Accordingly, the Agreement and transactions contemplated thereunder are subject to the Independent Shareholders' approval, by way of poll, at the SGM. As at the date of this announcement, no Shares are held by Ms. Zhang Yijuan, Ms. Zhou Lifen and their respective associates. On the other hand, Dr. Li Zhong Yuan and his associates hold 7.6% equity interest in the First Vendor as at the date hereof. Dr. Li Zhong Yuan and his associates shall abstain from voting on the resolution approving the Disposal at the SGM. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, save for Dr. Li Zhong Yuan and his associates, no other Shareholders are required to abstain from voting on the resolution approving the Disposal at the SGM. An independent board committee will be formed to advise the Independent Shareholders on the Disposal and an independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders on the Disposal.

A circular containing, among other things, further details of the Disposal, the financial information of Shanghai Harvest Group, pro forma financial information of the Group, the advices from the independent board committee and the independent financial adviser, the notice of SGM and other information as required under the Listing Rules is expected to be despatched to the Shareholders on or before 28 October 2011.

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended from 9:00 a.m. on 19 September 2011 pending the release of this announcement. Application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange from 9:00 a.m. on 10 October 2011.



## DEFINITIONS

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

|                              |  |
|------------------------------|--|
| “Agreement”                  | the sale and purchase agreement dated 15 September 2011 entered into between the Vendors and the Purchasers in relation to the Disposal  |
| “associate”                  | has the meaning ascribed to it under the Listing Rules   |
| “Board”                      | the board of Directors   |
| “Company”                    | China HealthCare Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange  |
| “connected persons”          | has the meaning ascribed to it under the Listing Rules   |
| “Director(s)”                | the director(s) of the Company   |
| “Disposal”                   | the disposal of the Sale Shares by the Vendors to the Purchasers pursuant to the Agreement   |
| “First Sale Shares”          | 70% equity interest in Shanghai Harvest beneficially owned by the First Vendor as at the date of the Agreement   |
| “First Vendor”               | Harvest Network Limited, a company incorporated in the British Virgin Islands with limited liability, being a subsidiary of the Company beneficially holding 70% equity interest of Shanghai Harvest |
| “Group”                      | the Company and its subsidiaries   |
| “HK\$”                       | Hong Kong dollars, the lawful currency of Hong Kong  |
| “Hong Kong”                  | the Hong Kong Special Administrative Region of the PRC   |
| “Independent Shareholder(s)” | Shareholders other than Dr. Li Zhong Yuan and his associates   |
| “Listing Rules”              | The Rules Governing the Listing of Securities on the Stock Exchange  |
| “PRC”                        | People’s Republic of China, and for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan  |

|                          |  |
|--------------------------|--|
| “Purchasers”             | Shanghai Huiqu and Shanghai Harvest  |
| “RMB”                    | Renminbi, the lawful currency of the PRC   |
| “Sale Shares”            | the First Sale Shares, the Second Sale Shares and the Third Sale Shares  |
| “Second Sale Shares”     | 30% equity interest in Shanghai Harvest beneficially owned by the Second Vendor as at the date of the Agreement  |
| “Second Vendor”          | Shanghai De Yi Er Investment Management Consulting Co. Ltd. (上海德意爾投資管理諮詢有限公司), a company established under the laws of the PRC, being a subsidiary of the Company beneficially holding 30% equity interest of Shanghai Harvest |
| “SGM”                    | the special general meeting of the Company to be convened for the purpose of considering, and if thought fit, approving, among other things, the Disposal  |
| “Shandong Business”      | the provision of B-to-C consumer services in Shandong Province   |
| “Shanghai Harvest”       | Shanghai Harvest Network Technology Co., Ltd. (上海德豐信息網絡技術有限公司), a company established under the laws of the PRC  |
| “Shanghai Harvest Group” | Shanghai Harvest and its subsidiaries  |
| “Shanghai Huiqu”         | 上海匯趣電子商務有限公司(Shanghai Huiqu E-commerce Company Limited), a company established under the laws of the PRC   |
| “Shanghai Kejin”         | Shanghai Kejin Network Technology Company Limited (上海科錦信息網絡技術有限公司), a company established under the laws of the PRC  |
| “Share(s)”               | ordinary share(s) of HK\$0.1 each in the issued share capital of the Company   |
| “Shareholder(s)”         | the holder(s) of the Share(s)  |
| “Stock Exchange”         | The Stock Exchange of Hong Kong Limited  |

|                     |   |
|---------------------|---|
| “Third Sale Shares” | 10% equity interest in Shanghai Kejin held by the Second Vendor as at the date of the Agreement |
| “Vendors”           | the First Vendor and the Second Vendor  |
| “%”                 | per cent  |

By Order of the Board  
**China HealthCare Holdings Limited**  
**Zhou Bao Yi**  
*Executive Director*

Hong Kong, 9 October 2011

*The exchange rate adopted in this announcement, for illustration purposes only, is HK\$1.00=RMB0.815.*

*As at the date of this announcement, the Board comprises two executive Directors, namely Dr. Li Zhong Yuan and Mr. Zhou Bao Yi; one non-executive Director, namely Mr. Martin Treffer; and three independent non-executive Directors, namely Mr. Mu Xiangming, Mr. Jiang Bo and Dr. Yan Shi Yun.*