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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)

### **SUBSCRIPTION OF REDEEMABLE CONVERTIBLE CUMULATIVE PREFERENCE SHARES VERY SUBSTANTIAL ACQUISITION AMENDMENTS TO THE BYE-LAWS AND RESUMPTION OF TRADING**

**Financial Adviser to the Company**

***Hercules***

**Hercules Capital Limited**

**Financial Adviser and Placing Agent  
in respect of the Convertible Preference Shares**

 **ROTHSCHILD**

#### **SHARE SUBSCRIPTION**

On 5 April 2006, the Company entered into the Subscription Agreement with the Subscribers in relation to the subscription by the Subscribers of the Subscription Shares at a total subscription price of US\$15 million (approximately HK\$116.4 million). The Subscription Shares can be converted at any time during the Conversion Period into Conversion Shares at the Conversion Price. If the Subscription Shares are fully converted into Conversion Shares at the Initial Conversion Price of HK\$1.16, 100,344,827 Conversion Shares, representing approximately 42.8% of the existing issued share capital of the Company and approximately 29.98% and 28.62% of the total issued share capital of the Company as enlarged by the issue of the Conversion Shares and the issue of the Conversion Shares and the CN Conversion Shares, respectively, will be issued.

## **VERY SUBSTANTIAL ACQUISITION**

On 6 April 2006, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Sale and Purchase Agreement to acquire from the Vendors the Sale Shares, which represent 70% of the entire issued share capital of the Target, for a total consideration of HK\$36.4 million, of which HK\$18 million shall be satisfied in cash and approximately HK\$18.4 million shall be satisfied by the issuance of the Convertible Notes. The Noteholder(s) has/have the right to convert all or part of the Convertible Notes into CN Conversion Shares at the CN Conversion Price per CN Conversion Share during the CN Conversion Period. If the Convertible Notes are fully converted into CN Conversion Shares at the Initial CN Conversion Price of HK\$1.16, a total of 15,862,068 CN Conversion Shares will be issued, representing approximately 6.8% of the existing issued share capital of the Company and approximately 6.3% and 4.5% of the total issued share capital of the Company as enlarged by the issue of the CN Conversion Shares and the issue of the CN Conversion and the Conversion Shares respectively.

## **AMENDMENTS TO THE BYE-LAWS**

To incorporate the rights, privileges and restrictions of the Convertible Preference Shares in the Bye-laws, a resolution will be proposed at the SGM to amend the Bye-laws of the Company. Details of the proposed amendments will be disclosed in the circular to be dispatched to the Shareholders.

## **GENERAL**

The Subscribers and the Vendors are not connected persons of the Company and each of the Subscribers, the Vendors and their respective associates are independent and not connected to each other or the Company or its associates.

The Subscription and the Acquisition are independent transactions and are not inter-conditional.

Under the Listing Rules, the Acquisition constitutes a very substantial acquisition and thus it is subject to Shareholders' approval. As the Subscription Shares will be issued under a special mandate, the Subscription is subject to Shareholders' approval as well. A SGM will be held to consider and, if thought fit, approve the resolutions in respect of the Subscription, the Acquisition and the proposed amendments to the Bye-laws. Dr. Li Zhong Yuan, Mr. Lee Jong Dae and Dr. Ni Aimin, who own 10.44%, 1.29% and 0.32% respectively of the issued share capital of the Company, were involved in the negotiations of the Subscription and the Acquisition. However, as none of them nor any other Shareholders have any material interests in the transactions, no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM.

A circular containing, among other things, further details of the Subscription, the Acquisition and the proposed amendments to the Bye-laws of the Company, together with the notice of SGM will be despatched to the Shareholders as soon as practicable.

## **SUSPENSION AND RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was suspended at the request of the Company from 9:30 a.m. on 6 April 2006 pending the release of this announcement and application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 2 May 2006.

**Shareholders of the Company and investors should be aware of and take note that the completion of the Subscription and the Acquisition are conditional upon satisfaction of certain conditions precedent and may or may not proceed. Shareholders of the Company and investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**

## **THE SUBSCRIPTION**

### **The Subscription Agreement**

**Date:** 5 April 2006

**Issuer:** the Company

**Subscribers:** the Subscribers

### **The Subscription**

Pursuant to the Subscription Agreement, the Company has agreed to issue and sell to the Subscribers the Subscription Shares for a total cash consideration of US\$15 million (approximately HK\$116.4 million), which shall be paid by the Subscribers in cash at completion of the Subscription. N M Rothschild & Sons Ltd. is the placing agent and financial adviser to the Company in connection with the Subscription.

The Subscription Shares can be converted at any time during the Conversion Period into Conversion Shares at the Conversion Price. If the Subscription Shares are fully converted into Conversion Shares at the Initial Conversion Price of HK\$1.16, 100,344,827 Conversion Shares, representing approximately 42.8% of the existing issued share capital of the Company and approximately 29.98% and 28.62% of the total issued share capital of the Company as enlarged by the issue of the Conversion Shares and the issue of the Conversion Shares and the CN Conversion Shares, respectively, will be issued.

Each of the Subscribers has agreed that it shall not, for a period of six months following the date of issue of the Subscription Shares, seek to convert more than 50% of the Subscription Shares initially purchased by it.

### **Principal terms of the Convertible Preference Shares**

**Issue Price:** US\$1,000 per Convertible Preference Share

**Ranking:** The Company shall not (unless such sanction has been given by holders of the Convertible Preference Share as would be required for a variation of the special rights attaching to the Convertible Preference Shares or unless otherwise provided in the Bye-laws) create or issue any shares ranking, as regards order in the participation in the profits of the Company or in the assets of the Company on a winding-up or otherwise, senior and in priority to the Convertible Preference Shares, but the Company may issue, without obtaining the consent of the holders of the Convertible Preference Share, shares ranking *pari passu* with the Convertible Preference Shares.

**Dividend:** 2% per annum payable semi-annually in arrears on the Issue Price of each Subscription Share, cumulative dividend, which represents a reduction from the dividend rate of 5% per annum on the Issue Price if and so long as none of the Special Events (as defined below) shall have occurred:

Special Events include:

- a) any consolidation, amalgamation or merger of the Company with any other corporation which results in the Company ceasing to exist as an independent legal entity or any sale of all or substantial all of the assets of the Company or any reorganization or any other transaction where there is or which will result in a change in control (as defined in the Takeovers Code) of the Company;

- b) a material default by the Group in any material agreement or instrument to which the Group is a party;
- c) the persons who are Directors on the date of issue of the Convertible Preference Shares or persons appointed to act as Directors in their stead cease to represent a majority in number of the persons acting as Directors at the relevant time;
- d) the acceleration of the maturity of any other present or future indebtedness of the Group exceeding US\$1.5 million in aggregate principal amount outstanding (or its equivalent in any other currency) by reason of an event of default (as described and specified therein) or any such indebtedness exceeding US\$1.5 million (or its equivalent in any other currency) is not paid within any applicable grace period provided for or, if none, on the due date therefor;
- e) a Directors' resolution is passed for the winding-up, insolvency, administration, reorganization, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or any part of its business or assets;
- f) an effective resolution is passed for the winding-up, insolvency, administration, reorganization, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or any part of its business or assets; a petition is presented or a proceeding is commenced for the winding-up, insolvency, administration, reorganization, reconstruction, dissolution or bankruptcy of the Company or for the appointment of a liquidator, receiver, administrator, trustee or similar officer of the Company or of all or any part of its business or assets and is not discharged within 5 days; if the Company stops or suspends payments to its creditors generally or is unable or admits its inability to pay its debts as they fall due or seeks to enter into any composition or other arrangement with its creditors or is declared or becomes bankrupt or insolvent; or if a creditor takes possession of all or any part of the business or assets of the Company or any execution or other legal process is enforced against the business or any substantial asset of the Company and is not discharged within 5 days;
- g) the listing or trading of the Shares on the Stock Exchange is revoked, withdrawn or suspended for a continuous period of 15 trading days;
- h) a material breach by the Company of any of its representations, warranties, covenants or undertakings in Subscription Agreement, details of which will be disclosed in the circular to be despatched to the Shareholders;
- i) material breach by the Company of certain of the covenants or undertakings as set forth in the Bye-laws; and
- j) the auditors of the Company issue a qualified opinion in respect of any audit report of the Company.

**Maturity Date:** the date falling on the fifth anniversary of the date of issue of the Convertible Preference Shares or such later date, not being later than the seventh anniversary of the date of issue of the Convertible Preference Shares, as may be agreed in writing between the Company and the holders of the Convertible Preference Shares.

**Redemption:** Unless previously redeemed, purchased and cancelled or converted, the Convertible Preference Shares will be redeemed at 100% of their Issue Price on the Maturity Date.

So long as the aggregate number of Convertible Preference Shares outstanding would, if converted, amount to 5% or more of the total issued Shares (including the Shares deemed to be issued upon conversion of such Convertible Preference Shares), a holder of the Convertible Preference Shares shall have the right at any time to require the Company to redeem all or any of the then outstanding Convertible Preference Shares held by it at the Early Redemption Amount of such number of Convertible Preference Shares so redeemed; provided, however, that a holder of the Convertible Preference Shares may not exercise such right prior to the Maturity Date if and for so long as any of the Special Events, as defined previously, shall not have occurred.

**Early Redemption Amount:** In relation to each Convertible Preference Share, its Issue Price plus a premium expressed in US dollars and rounded up to the nearest US cent determined in accordance with the following formula:

$$(\text{US}\$1,000 + D) \times 1.2^n$$

where

D = accrued but unpaid Dividend to the date fixed for redemption of the relevant Convertible Preference Shares

n = the number of days outstanding divided by 360

**Conversion Right:** The holders of the Convertible Preference Shares shall have the right to convert any Convertible Preference Share into Conversion Shares at any time during the Conversion Period at the Conversion Price

**Conversion Period:** Any time during the period from the date of issue of the Convertible Preference Shares and ending on the Maturity Date

**Conversion Price:** As of any date of conversion, the lower of (a) the Initial Conversion Price; and (b) the volume-weighted average price of the Shares for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.9x, in each case converted into US dollars at the rate of US\$1.00 to HK\$7.76.

The Initial Conversion Price will be subject to anti-dilution provisions, including subdivision or consolidation of the Shares, capitalization issue, capital distribution and rights issue, grant of options, warrants or similar rights to the Shareholders at a price per Share which is less than 90% of the market price at the date of the announcement of the terms of the offer or grant.

In addition, the Initial Conversion Price will be subject to a full ratchet adjustment in the event that the Company issues Shares or securities convertible or exchangeable into Shares at an effective purchase price or conversion price less than the Initial Conversion Price. Detailed terms relating to adjustments of the Initial Conversion Price, including the adjusting mechanism, will be disclosed in the circular to be dispatched to the Shareholders.

The Initial Conversion Price represents:–

- a) a discount of approximately 31.8% to the closing price of HK\$1.70 per Share as quoted on the Stock Exchange on 4 April 2006, being the last trading day before the date of this announcement;
- b) a discount of approximately 31.8% to the closing price of HK\$1.70 per Share as quoted on the Stock Exchange over the last 5 trading days up to and including 4 April 2006, being the last trading day immediately before the date of this announcement;
- c) a premium of approximately 141.7% over the unaudited net asset value of the Company of approximately HK\$0.48 per Share as at 30 September 2005, being the date on which the latest interim results of the Company were made up;
- d) a premium of approximately 251.5% over the unaudited consolidated net tangible asset value of the Company of HK\$0.33 per Share as at 30 September 2005, being the date on which the latest interim results of the Company were made up;

The Initial Conversion Price was arrived at after arm's length negotiation between the parties and based on the volume-weighted average closing price of the Shares as quoted on the Stock Exchange over the 20 trading days (excluding those days on which the daily trading volume of the Shares was exceptionally high or low) up to and including 24 March 2006, the date on which the Company and the Subscribers agreed on the Initial Conversion Price pending the execution of the Subscription Agreement, multiplied by a factor of 0.9x.

The Board, including the independent non-executive Directors, considers the Initial Conversion Price fair and reasonable and in the interests of the Shareholders and the Company as a whole in light of the fact that the closing price of the Shares on 24 March 2006 was HK\$1.25 per Share, and the 20 day volume-weighted average closing price of the Shares as quoted on the Stock Exchange prior to and including 24 March 2006 calculated as above-mentioned was HK\$1.29 per Share, which basically reflects the market average of the Shares over the same period.



**Voting:** The holder(s) of the Convertible Preference Shares will not be entitled to attend or vote at any general meeting of the Company by reason only of his/her being the holder(s) of the Convertible Preference Shares, unless a resolution is to be proposed at a general meeting for winding-up the Company or a resolution is to be proposed which if passed would vary or abrogate the rights or privileges of the holder(s) of the Convertible Preference Shares.

**Transferability:** The Convertible Preference Shares may, subject to the prior approval of the Stock Exchange and all relevant rules if applicable, only be assigned or transferred to (i) an affiliate of any of the Subscribers; (ii) one or more funds which is affiliated to or has management agreements with any of the Subscribers or its affiliates; or (iii) such other transferee as may be consented to in advance by the Company.

### **Conditions Precedent**

Completion of the Subscription Agreement is conditional upon, inter alia, the following conditions being fulfilled:-

- a) the passing by the Shareholders at the SGM of the resolutions to approve, amongst other things, the Subscription and the allotment and issue of any Conversion Shares which may fall to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares and the amendments to the Bye-laws for the creation of the Convertible Preference Shares;
- b) the Listing Committee of the Stock Exchange having granted the approval of the listing of, and permission to deal in, the Conversion Shares that may fall to be issued upon exercise of the conversion rights attaching to the Convertible Preference Shares;
- c) the receipt, by no later than 31 August 2006, by the Subscribers of the Group's consolidated financial statements for the year ended 31 March 2006, audited by RSM Nelson Wheeler and which meet the following requirements (such information will be provided to the Subscribers only after it has been published by the Company):
  - (i) the auditors' report on the financial statements shall not contain any material exception or qualification;
  - (ii) the Group's total assets shall exceed its total liabilities; and
  - (iii) the financial statements shall reflect that the Group does not have any contingent liability as of 31 March 2006;
- d) the Subscribers having received from the legal advisers to the Company the legal opinions on the Group.

Save for conditions (a) and (b), the above conditions may be waived by the Subscribers at their discretion. In the event that any of the conditions is not fulfilled or waived by the Subscribers by 31 August 2006, the Subscription Agreement shall cease and determine and the parties shall be released from all obligations and liabilities under it, save for any antecedent breaches of the provisions under the Subscription Agreement.

## **Completion**

Completion of the Subscription Agreement shall take place on or before the seventh day following the date on which the above conditions are fulfilled or waived, as the case may be, or such other time and date as may be mutually agreed by the Company and the Subscribers.

### *Information of the Subscribers*

The Subscribers are investment funds which are managed by Och-Ziff Capital Management Group, a global institutional asset management firm managing in excess of US\$16 billion. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Subscribers and their respective beneficial owners is not connected person of the Company, the Vendors and their respective associates.

### *Reasons for the Subscription and proposed use of proceeds*

The Directors are of the view that additional funding is needed for further development of its existing business and for general working capital purposes. The Company has considered various financing methods, including both debt financing and equity financing. Nevertheless, in view of the fact that the Group is still operating at an investment and development stage and its business is not fixed asset intensive, and significant fixed assets are required to secure bank borrowings of material amounts, it is difficult for the Group to secure conventional bank financing of amounts comparable to the proceeds from the Subscription. The Company has engaged N M Rothschild & Sons Ltd. in the U.K. as its adviser for fund raising since August 2005, and has discussed with various financial institutions regarding various forms of financing. The Subscribers and the proposed Convertible Preference Shares were selected by the Directors based on a number of factors including the size of the proceeds, the timing and the reputation of the Subscribers. Furthermore, in light of the rising interest rate for borrowings and the present financial position of the Company, the Directors do not consider that debt financing would be feasible or in the interests of the Company and its Shareholders.

In addition, the Directors do not believe that a rights issue or an open offer is a better fund raising exercise at the present development stage of the Company. Even if the Company could succeed in procuring an underwriter, the Shares to be issued in either a rights issue or an open offer would need to be at a deep discount which would result in immediate and significant dilutions to Shareholders who do not participate. In contrast, the Convertible Preference Shares and the Convertible Notes would provide/save sufficient funds for the Company to carry out its business plan so that existing Shareholders could enjoy the possible benefits without having to suffer potential immediate and significant dilutions or alternatively being forced to pay additional money.

The Directors consider that the Subscription will provide new funding to the Group for expansion of the existing business and new business development, which in turn will further increase shareholder value as well as enhance the financial position of the Group. The net proceeds from the Subscription is estimated to be approximately HK\$108.3 million, of which HK\$93.1 million shall be applied for establishing and operating model clinical facilities in specialty medicines, upgrading the Group's integrated call center, marketing, distribution and settlement infrastructure for its emergency medical assistance and health/wellness management services etc. and the general operating expenses associated with the Company's existing clinics in Beijing and Shanghai. The remaining balance of the proceeds is planned for general working capital purposes.

The Directors also consider that the terms of the Subscription Agreement, which were negotiated on an arm's length basis and agreed on normal commercial terms between the parties involved, are fair and reasonable and the Subscription is in the interests of the Shareholders and the Company as a whole.



### *Application for listing*

The Conversion Shares will be issued under a special mandate proposed to be sought from the Shareholders at the SGM. No application will be made for the listing of the Convertible Preference Shares. However, the Company will apply to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

## **THE ACQUISITION**

### **The Sale and Purchase Agreement**

**Date:** 6 April 2006

**Vendors:** the Vendors

The First Vendor is a businessman and the Second Vendor is a private company incorporated under the laws of the PRC with principal business activity of investment holding.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the First Vendor, the Second Vendor and its beneficial owners and their respective associates are not connected persons of the Company, the Subscribers and their respective associates.

**Purchaser:** the Purchaser, a wholly-owned subsidiary of the Company

Pursuant to the Sale and Purchase Agreement, the Purchaser agreed to acquire from the First Vendor 66.7% of the existing issued share capital of the Target at a total consideration of HK\$34.684 million, of which HK\$16.284 million shall be satisfied in cash from internal resources of the Group and approximately HK\$18.400 million shall be satisfied by the issuance of the Convertible Notes. According to the same agreement, the Company also agreed to acquire from the Second Vendor 3.3% of the existing issued share capital of the Target at a total consideration of HK\$1.716 million which shall be satisfied in full by cash. After arms' length negotiation between the Purchaser and the Vendors, the Vendors are willing to sell part of their shareholdings in the Target only. Accordingly, only 70% equity interest of the Target is acquired by the Company. Upon completion of the Acquisition, the Target shall be owned as to 70% by the Purchaser, 25% by the Second Vendor and 5% by Shanghai Hengde Technology Limited (上海恆德科技有限公司), an independent third party which is independent of and not connected with the Company or its associates.

The consideration has been determined after arm's length negotiations and on commercial terms with reference to the historical earnings and business potential and growth prospect of the Target. The Target recorded unaudited net profit of approximately RMB 6.3 million (approximately HK\$6.1 million) for the year ended 31 December 2005. According to information from the Ministry of Information Industry of the PRC, as at 31 December 2003, China Mobile Communications Corporation ("China Mobile") had 177 million mobile phone customers, of which approximately 93 million were pre-paid customers while China United Telecommunications Limited ("China Unicom") had approximately 92 million mobile phone customers, among which 46% of the GSM customers and 5% of the CDMA customers were pre-paid customers. The Directors expect that the demand of B-to-C e-payment services for the telecommunication sector shall continue to grow in line with the increase in number of mobile phone users in the foreseeable future. Increasing demands on e-payment services for other sectors are also expected in the coming years.

The total consideration represents a price / earnings ratio of approximately 8.5 times with reference to the unaudited net profit of RMB 6.3 million (approximately HK\$6.1 million) for the year ended 31 December 2005 of the Target and a premium of 66.1% to its unaudited net asset value as at 31 December 2005. The Directors, including the independent non-executive Directors, consider that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Principal terms of the Convertible Notes**

**Principal Amount:** HK\$18.4 million

**CN Conversion Price:** The CN Conversion Price, as of any date of conversion, is the lower of (a) the Initial CN Conversion Price, as adjusted from time to time in accordance with the terms of the Convertible Notes, including share split, consolidation or subdivision of the shares, bonus issue, rights issue, capitalisation of profits or reserves, capital distribution or other dilutive events of the Company; and (b) the volume-weighted average price of the Shares for the twenty trading days ending on the day immediately preceding the date of a relevant conversion notice multiplied by a factor of 0.9x, but in any case no lower than HK\$0.30;

The Initial CN Conversion Price was arrived at after arm's length negotiation between the parties and based on the volume-weighted average closing price of the Shares as quoted on the Stock Exchange over the 20 trading days (excluding those days on which the daily trading volume of the Shares was exceptionally high or low) up to and including 24 March 2006, multiplied by a factor of 0.9x.

The Board, including the independent non-executive Directors, considers the Initial CN Conversion Price fair and reasonable and in the interests of the Shareholders and the Company as a whole in light of the fact that the closing price of the Shares on 24 March 2006 was HK\$1.25 per Share, and the 20 day volume-weighted average closing price of the Shares as quoted on the Stock Exchange prior to and including 24 March 2006 calculated as above-mentioned was HK\$1.29 per Share, which basically reflects the market average of the Shares over the same period.

The Initial CN Conversion Price represents:-

- a) a discount of approximately 31.8% to the closing price of HK\$1.70 per Share as quoted on the Stock Exchange on 4 April 2006, being the last trading day before the date of this announcement;
- b) a discount of approximately 31.8% to the closing price of HK\$1.70 per Share as quoted on the Stock Exchange over the last five trading days up to and including 4 April 2006, being the last trading day immediately before the date of this announcement;
- c) a premium of approximately 141.7% over the unaudited net asset value of the Company of approximately HK\$0.48 per Share as at 30 September 2005, being the date on which the latest interim results of the Company were made up; and

- d) a premium of approximately 251.5% over the unaudited consolidated net tangible asset value of the Company of HK\$0.33 per Share as at 30 September 2005, being the date on which the latest interim results of the Company were made up.

**Interest:** The Convertible Notes will bear interest at a rate of 2% per annum on the outstanding principal amount of the Convertible Notes, which will be payable by the Company semi-annually in arrears in equal installments starting the 180th day of the date of issue of the Convertible Notes.

**Maturity Date:** the date falling four years after the date of the issue of the Convertible Notes, extendable for a further one year at the option of the Company.

**Redemption:** The Company may redeem the Convertible Notes in whole at 100% at any time after the 2nd anniversary of issuance and prior to the maturity date of the Convertible Notes by way of a notice in advance of 30 business days. The Convertible Notes shall be mandatorily redeemed by the Company at 100% on the maturity date.

If the trading price of the Shares falls below HK\$0.30, the holder(s) of the Convertible Notes shall have the right to request the Company to redeem the Convertible Notes immediately. For avoidance of doubt, the floor of HK\$0.30 for the CN Conversion Price shall still apply if such redemption right is not exercised and the Convertible Notes are converted under such circumstances.

**CN Conversion Period:** The Convertible Notes are convertible at any time from the date of issue and up to the maturity date of the Convertible Notes.

**Conversion Rights:** The Noteholder(s) has/have the right to convert all or part of the Convertible Notes in amounts of HK\$100,000 or its integral multiple into CN Conversion Shares at the CN Conversion Price during the CN Conversion Period.

**CN Conversion Shares:** The number of CN Conversion Shares to be issued upon full conversion of the Convertible Notes at the Initial CN Conversion Price will be 15,862,068 Shares, representing approximately 6.8% of the existing issued share capital of the Company and 6.3% of the issued share capital as enlarged by the issue of the CN Conversion Shares upon conversion of the Convertible Notes in full and 4.5% of the issued share capital as enlarged by the issue of the CN Conversion Shares upon conversion of the Convertible Notes in full and the issue of the Conversion Shares upon conversion of the Convertible Preference Shares in full.

The CN Conversion Shares will rank *pari passu* in all respects with the Shares in issue on the date of conversion.

**Voting Right:** The Noteholder(s) will not be entitled to attend or vote at any general meeting of the Company by reason only of his/her being the Noteholder(s).

**Transferability:** The Convertible Notes may be assigned or transferred to any third party or parties other than a connected person of the Company unless necessary approvals and consents by independent shareholders of the Company have been obtained with respect to any assignment or transfer of the Convertible Notes to a connected person of the Company. Prompt notice will be given to the Stock Exchange of each transfer.

**Listing of the Convertible Notes:** No application will be made for the listing of the Convertible Notes in any exchange of any jurisdiction.

The CN Conversion Shares will be issued under a special mandate proposed to be sought from the Shareholders at the SGM. Application will be made to the Stock Exchange for the listing of, and permission to deal in, the CN Conversion Shares.

### **Conditions Precedent**

Completion of the Sale and Purchase Agreement is conditional upon, inter alia,:

- a) the satisfactory completion of the due diligence review by the Purchaser on, but not limited to, the legal, financial and operational matters of the Target;
- b) the passing of ordinary resolutions by the Shareholders approving the Sale and Purchase Agreement and the transactions contemplated thereunder, the issue of the Convertible Notes and the issue of the CN Conversion Shares upon the conversion of the Convertible Notes at the SGM;
- c) the granting of the listing of and permission to deal in the CN Conversion Shares by the Listing Committee of the Stock Exchange;
- d) issuance by such authority of an approval certificate approving the conversion of the Target into a sino-foreign equity joint venture and its adoption of the JV contract and JV Articles of Association, key terms of which are set out in "Others" below;
- e) issuance by the relevant administration of industry and commerce of a business licence confirming the conversion of the Target into a sino-foreign equity joint venture, with contents including the same business scope as set out in the Target's present business licence; and
- f) the obtaining of the consent in writing from the minority shareholder of the Target to waive all (if any) pre-emptive rights that it may have in respect of the Sale Shares.

The Purchaser may waive condition (a) at any time by notice in writing to the Vendors. However, as at the date of this announcement, the Purchaser has no intention to waive such condition. In the event that the conditions precedent is not fulfilled (or waived in the case of condition (a)) by 31 August 2006 or a later date, in any case no later than 31 December 2006, agreed mutually by the contracting parties, then the Sale and Purchase Agreement shall cease to be of any effect and the parties shall be released from all obligations and liabilities under it, save for any antecedent breaches of the provisions under the Sale and Purchase Agreement.

The Share Subscription and the Acquisition are independent transactions which are not inter-conditional on each other.

## **Completion**

Completion of the Sale and Purchase Agreement shall take place on the third business day following the date on which the above conditions are fulfilled or waived, as the case may be, or such other time and date as may be mutually agreed by the Purchaser and the Vendors.

## **Others**

According to the proposed JV Contract and JV Articles of Association, the Target shall have five directors, three of which shall be nominated by the Purchaser and the remaining positions shall be nominated by the Second Vendor. Both the Purchaser and the Second Vendor shall enjoy a right of first refusal in respect of any transfer of Shares in the Target.

### *Information of the Target*

The Target was incorporated under PRC laws in November 2000. It has an authorized and issued share capital of RMB 40 million. The Target is principally engaged in B-to-C e-payment services and distributions. Technologically the Target has developed and been continuously improving its proprietary platform of comprehensive e-commerce services and proprietary multi-functional POS systems.

As its initial focus, the Target has been successfully conducting its B-to-C business in mobile phone pre-payment field through its POS systems, where the two exclusive wireless operators in China, China Mobile and China Unicom, are its strategic partners; almost 4,000 of its proprietary e-charge POS systems have been placed in all major convenience store chains and other retail spots throughout the city of Shanghai; and it has achieved dominant market share of about 25% in the Shanghai mobile prepayment market.

Of particular significance and relevance to the Company, the Target's proprietary e-commerce platform together with its vast number of almost 4,000 proprietary e-pos machines spreading all over Shanghai not only serve as a well-versed settlement and service system but much more importantly also as marketing network and distribution channels in Shanghai applicable to e-cash of various B-to-C businesses.

The unaudited consolidated financial results of the Target, which have been prepared in accordance with accounting principles generally accepted in Hong Kong, for each of the two years ended 31 December 2005 are summarized as follows:

	<b>For the year ended 31 December</b>	
	<b>2004</b>	<b>2005</b>
	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Revenue	1,733,386	<b>2,023,000</b>
Profit/(loss) before taxation and extraordinary items	(6,401)	<b>8,075</b>
Profit/(loss) after taxation and extraordinary items	(7,495)	<b>6,322</b>

The improvements in turnover and results of the Target for the two years ended 31 December 2005 were a result of the substantial increase in demand and penetration of the e-payment service in the PRC during the period. The profit margin was also improved as the Target achieved certain economies of scale. The net loss incurred for the year ended 31 December 2004 was due mainly to provisions made, one of which, in the amount of RMB5 million, was made for account receivables exceeding 3 years and another of which, in the amount of RMB6.5 million, was for the account receivable from a chain distributor who went into bankruptcy in 2004.

As at 31 December 2005, the Target had unaudited net asset value of approximately RMB31.3 million.

#### *Reasons for and effects of the Acquisition*

The Group is principally engaged in the provision of healthcare services in the PRC since 2004; the production and distribution of biotechnology products and investment holding.

During the past year, the Group discontinued its loss making business of sourcing and distribution of electronic parts and components and devoted most of its resources to create a platform for the provision of integrated healthcare services for foreign visitors, expatriates and PRC nationals in the PRC. The Directors believe the prospect of healthcare services in the PRC is highly promising and remain optimistic towards building up a successful business franchise in this segment.

In developing the business of consumer friendly B-to-C health/wellness service provision, the Company has secured a unique access to the infrastructure of Chinese healthcare providers, i.e. a nationwide network of 914 hospitals, via a public-private partnership with the wholly-owned institutions of the Chinese Ministry of Health in the form of strategic equity holdings in and alliances with the Company at both holding company and operating company levels. With such a background and in building up an integrated value chain of health/wellness service provision in China, the Company has been searching for ways and means to have its own direct B-to-C access/settlement platform in health and wellness to distribute its consumer medicine products (i.e. packages of bundled health and wellness services) efficiently, effectively and conveniently, and the Target meets the Company's requirement in these aspects. In addition, upon completion of the Acquisition, the Target will become a subsidiary of the Company and the accounts of the Target will be consolidated into the Group's accounts. In view of the robust ongoing performance of the Target, the Directors consider that the Acquisition will enhance the Group's overall business performance and substantially strengthen its revenue base and consumer reach.

The Subscription and the Acquisition, both of which are subject to Shareholders' approval, are independent transactions and not inter-conditional. The Company will pursue the Acquisition, subject to Shareholders' approval, even if the Subscription lapses. Therefore, part of the consideration of the Acquisition will be satisfied by the issuance of the Convertible Notes instead of cash to ensure that the Group has sufficient working capital for its daily operations.

Taking into account the above factors, the Board, including the independent non-executive Directors, is of the view that the terms of the Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.



## CHANGE IN THE SHAREHOLDING STRUCTURE OF THE COMPANY

Assuming that there are no changes in the issued share capital of the Company prior to the completion of the Subscription and the Acquisition, the effects on the shareholding structure of the Company upon (i) full conversion of the Subscription Shares; (ii) full conversion of the Convertible Notes; and (iii) full conversion of the Subscription Shares and Convertible Notes will be as follows:

	Existing Shareholding structure as at the date of this announcement		Shareholding structure upon full conversion of the Subscription Shares at the Initial Conversion Price		Shareholding structure upon full conversion of the Convertible Notes at the Initial CN Conversion Price		Shareholding structure upon full conversion of the Subscription Shares and Convertible Notes at the Initial Conversion Price and Initial CN Conversion Price respectively	
	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>	<i>No. of Shares</i>	<i>%</i>
Guo Kang Pharmaceutical & Medical Supplies Ltd. <sup>Note 1</sup>	17,000,000	7.25	17,000,000	5.08	17,000,000	6.79	17,000,000	4.85
Orient Access International Inc.	17,300,000	7.38	17,300,000	5.17	17,300,000	6.91	17,300,000	4.94
China Healthcare Services Ltd.	20,243,000	8.64	20,243,000	6.05	20,243,000	8.09	20,243,000	5.78
Pacific Annex Capital Limited <sup>Note 2</sup>	11,147,000	4.76	11,147,000	3.33	11,147,000	4.46	11,147,000	3.18
Timenew Limited <sup>Note 2</sup>	8,661,000	3.70	8,661,000	2.59	8,661,000	3.46	8,661,000	2.47
Dr. Li Zhong Yuan	4,635,000	1.98	4,635,000	1.38	4,635,000	1.85	4,635,000	1.32
Dr. Ni Aimin	750,000	0.32	750,000	0.22	750,000	0.30	750,000	0.21
Mr. Lee Jong Dae	3,026,500	1.29	3,026,500	0.91	3,026,500	1.21	3,026,500	0.87
Mr. Deng Ku Hon	432,000	0.18	432,000	0.13	432,000	0.17	432,000	0.12
Mr. Robin Willi	912,000	0.39	912,000	0.27	912,000	0.37	912,000	0.26
2Trade Group Limited <sup>Note 3</sup>	1,295,000	0.55	1,295,000	0.39	1,295,000	0.52	1,295,000	0.37
Mr. Martin Treffer <sup>Note 5</sup>	250,000	0.11	250,000	0.07	250,000	0.10	250,000	0.07
The Subscribers	–	–	100,344,827	29.98	–	–	100,344,827	28.62
The First Vendor	–	–	–	–	15,862,068	6.34	15,862,068	4.52
Other public Shareholders	148,716,077	63.45	148,716,077	44.43	148,716,077	59.43	148,716,077	42.42
	<u>234,367,577</u>	<u>100.00</u>	<u>334,712,404</u>	<u>100.00</u>	<u>250,229,645</u>	<u>100.00</u>	<u>350,574,472</u>	<u>100.00</u>
Shares held by connected persons of the Company	<u>31,108,500</u>	<u>13.27</u>	<u>131,453,327</u>	<u>39.27</u>	<u>31,108,500</u>	<u>12.43</u>	<u>131,453,327</u>	<u>37.49</u>
Shares in public hands	<u>203,259,077</u>	<u>86.73</u>	<u>203,259,077</u>	<u>60.73</u>	<u>219,121,145</u>	<u>87.57</u>	<u>219,121,145</u>	<u>62.51</u>

*Notes:*

1. Guo Kang Pharmaceutical & Medical Supplies Limited is beneficially owned by International Health Cooperation and Exchange Centre of the Ministry of Health, the PRC, who are not connected persons of the Company or its associates.
2. Pacific Annex Capital Limited and Timenew Limited are wholly owned by Dr. Li Zhong Yuan and thus Dr. Li Zhong Yuan is deemed to be interested in the Shares held by Pacific Annex Capital Limited and Timenew Limited.
3. 2Trade Group Limited is as to 35% beneficially owned by Mr. Martin Treffer and thus Mr. Martin Treffer is deemed to be interested in the Shares held by 2Trade Group Limited.
4. In accordance with the Listing Rules, Pacific Annex Capital Limited, Timenew Limited, Dr. Li Zhong Yuan, Dr. Ni Aimin, Mr. Lee Jong Dae, Mr. Deng Ku Hon, Mr. Robin Willi, 2Trade Group Limited and Mr. Martin Treffer are connected persons of the Company.
5. To the best knowledge of the Directors and information available to date, none of Orient Access International Inc. and China Healthcare Services Ltd. and their respective beneficial owners are connected persons of the Company and each of Guo Kang Pharmaceutical & Medical Supplies Ltd., Orient Access International Inc., China Healthcare Services Ltd. and Pacific Annex Capital Limited are independent of each other.
6. The above table is for illustrative purpose only and the Conversion Price and CN Conversion Price are subject to adjustments as described in this announcement.

If the Convertible Notes are converted into CN Conversion Shares based on the initial CN Conversion Price of HK\$1.16 per Share, the number of CN Conversion Shares to be issued to the First Vendor upon full conversion of the Convertible Notes will be 15,862,068 new Shares, representing approximately 6.8% of the existing issued share capital of the Company and approximately 6.3% of the total issued share capital of the Company as enlarged by the issue of the CN Conversion Shares. If the Convertible Notes are converted into CN Conversion Shares based on the minimum CN Conversion Price of HK\$0.30 per Share, the number of CN Conversion Shares to be issued to the First Vendor upon full conversion of the Convertible Notes will be 61,333,333 new Shares, representing approximately 26.2% of the existing issued share capital of the Company and approximately 20.7% of the total issued share capital of the Company as enlarged by the issue of the CN Conversion Shares.

As at the date of this announcement, the Company had an aggregate of 33,704,000 outstanding share options with exercise prices in the range of HK\$2.325 to HK\$8.600 each. The Company also had outstanding convertible bonds in aggregate principal amount of approximately US\$6.6 million which might be converted into 20,388,118 Shares by the holders of the bonds at a conversion price of HK\$2.525 per Share, subject to adjustment, during the period from 19 May 2005 to 18 May 2009. The exercise in full of the subscription rights attaching to the outstanding share options and convertible bonds, the Convertible Preference Shares and the Convertible Notes would result in the issue of an aggregate of 170,299,013 Shares, which represent approximately 42.1% of the enlarged issued share capital of the Company. Save for the aforesaid, the Company has no other outstanding options, warrants, derivatives or other securities that are convertible into Shares.

Upon full exercise of the subscription rights attaching to the outstanding share options and convertible bonds, the Convertible Preference Shares and the Convertible Notes, there shall be 239,509,263 Shares, which represent approximately 59.2% of the share capital of the Company on fully diluted basis, in public hands. The Company undertakes that it shall take appropriate steps to ensure that not less than 25% of the Shares then in issue will be held in public hands from time to time and will make further announcements in relation to any action taken in respect of the public float of the Shares to ensure strict compliance with the Listing Rules.

As the issue of Conversion Shares and CN Conversion Shares will have a dilutive effect on Shareholders, the Company will keep the Shareholders informed of all relevant details relating to any conversion of the Convertible Preference Shares or Convertible Notes in the following manner:

- a) the Company will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth working day following the end of each calendar month and will include the following details in a table form:
  - (i) whether any conversion of the Convertible Preference Shares and Convertible Notes has occurred during the relevant month and, if so, details of the conversion(s), including the conversion date, number of new Shares issued and the conversion price for each conversion. If there is no conversion during the relevant month, the Company will make a statement to that effect;
  - (ii) the number of shares to be issued upon conversion of the outstanding Convertible Preference Shares and Convertible Notes after the conversion of any of the Convertible Preference Shares or Convertible Notes, if any;
  - (iii) the total number of Shares issued and/or cancelled pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company and/or Shares cancelled pursuant to any repurchase of Shares by the Company, with a breakdown of the Shares concerned by the relevant transactions; and
  - (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant month;
- b) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Convertible Preference Shares and / or Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the last public announcement made by the Company in respect of the Convertible Preference Share and/or Convertible Notes (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange; and
- c) should any general disclosure obligation of the Company arise under Rule 13.09 of the Listing Rules, a further announcement will be made as and when appropriate.

Save for the issue of convertible bonds in aggregate principal amount of US\$6.6 million (approximately HK\$51.2 million) by the Company to eleven independent professional, institutional and individual investors who are not connected persons of the Company on 18 May 2005, the Company has not carried out any equity fund raising activities in the 12 months immediately preceding this announcement. As of the date of this announcement, the outstanding principal of the aforementioned convertible bonds remains at US\$6.6 million. To the best knowledge of the Directors and information available to date, the subscribers of the US\$6.6 million convertible bonds are independent of and not connected with the Subscribers, Vendors and/or any of their respective associates.

#### **AMENDMENTS TO THE BYE-LAWS**

To incorporate the rights, privileges and restrictions of the Convertible Preference Shares in the Bye-laws, a resolution will be proposed at the SGM to amend the Bye-laws of the Company. Details of the proposed amendments will be disclosed in the circular to be dispatched to the Shareholders.

#### **GENERAL**

Under the Listing Rules, the Acquisition constitutes a very substantial acquisition and thus it is subject to Shareholders' approval. As the Subscription Shares will be issued under a special mandate, the Subscription is subject to Shareholders' approval as well. A SGM will be held to consider and, if thought fit, approve the resolutions in respect of the Subscription, the Acquisition and the proposed amendments to the Bye-laws.

Dr. Li Zhong Yuan, Mr. Lee Jong Dae and Dr. Ni Aimin, who own 10.44%, 1.29% and 0.32% respectively of the issued share capital of the Company, were involved in the negotiations of the Subscription and the Acquisition. However, as none of them nor any other Shareholders have any material interests in the transactions, no Shareholders are required to abstain from voting on the resolutions to be proposed at the SGM.

A circular containing, among other things, further details of the Subscription, the Acquisition and the proposed amendments in the Bye-laws, together with the notice of SGM will be despatched to the Shareholders as soon as practicable.

#### **SUSPENSION AND RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was suspended at the request of the Company from 9:30 a.m. on 6 April 2006 pending the release of this announcement and application has been made to the Stock Exchange for the resumption of trading in the Shares from 9:30 a.m. on 2 May 2006.

**Shareholders of the Company and investors should be aware of and take note that the completion of the Subscription and the Acquisition are conditional upon satisfaction of certain conditions precedent and may or may not proceed. Shareholders of the Company and investors are advised to exercise caution when dealing in the Shares, and if they are in any doubt about their position, they should consult their professional advisers.**

#### **DEFINITIONS**

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

“Acquisition”                      the acquisition of the Sale Shares by the Purchaser from the Vendors in accordance with the terms and conditions of the Sale and Purchase Agreement

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Bye-laws”	the Bye-laws of the Company
“CN Conversion Period”	any time from the date of issue and up to the maturity date of the Convertible Notes
“CN Conversion Price”	the price at which the CN Conversion Shares will be issued upon the exercise of the Convertible Notes by the Noteholder(s)
“CN Conversion Share(s)”	the Shares to be issued by the Company pursuant to the exercise by the Noteholder(s) of the Convertible Notes
“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
“Conversion Period”	any time during the period from the date of issue of the Convertible Preference Shares and ending on the Maturity Date
“Conversion Price”	the price per Conversion Share at which the Convertible Preference Shares are to be converted into Conversion Shares
“Conversion Shares”	the Shares to be issued by the Company upon the conversion of the Convertible Preference Shares which shall rank pari passu with the other existing Shares
“Convertible Preference Shares”	the unlisted redeemable convertible cumulative preference shares of US\$0.01 each in the capital of the Company
“Convertible Notes”	the convertible notes of a principal amount of HK\$18.4 million to be issued by the Company, as part of the consideration for the Acquisition, to the First Vendor in accordance with the terms and conditions of the Sale and Purchase Agreement
“Directors”	the directors of the Company
“First Vendor”	Mr. Hou Shu Ming, a merchant who is independent of and not connected with the Company, the Subscribers or any of their respective associates. Mr. Hou is currently the vice president of Weishenjuhe (Beijing) Technologies Ltd. (維深巨合(北京) 科技有限公司), which is principally engaged in the business of information technologies. Weishenjuhe (Beijing) Technologies Ltd. is independent and not connected with the Company or any of its associates
“Group”	the Company and its subsidiaries

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Initial CN Conversion Price”	HK\$1.16 per CN Conversion Share, subject to adjustment, if any
“Initial Conversion Price”	HK\$1.16 per Conversion Share, subject to adjustment, if any
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Noteholder(s)”	the person(s) or corporation(s) who is or are for the time being the registered holder(s) of the Convertible Notes
“PRC”	People’s Republic of China, and for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region and Taiwan
“Purchaser”	Success Gateway Investments Limited (勝基投資有限公司), a wholly-owned subsidiary of the Company
“Sale and Purchase Agreement”	the sale and purchase agreement dated 6 April 2006 entered into between the Purchaser and the Vendors in relation to the Acquisition
“Sale Shares”	70% of the entire registered capital of the Target
“Second Vendor”	Panjinfenyuan Technology Investment Limited (盤錦鋒源科技投資有限公司), a company incorporated under the laws of the PRC, which is beneficially owned as to 50% by Mr. Tian Chengwang and 50% by Mr. Li Guoming. Both Mr. Tian and Mr. Li are independent of and not connected with the Company or any of its associates
“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 Subscription, the Acquisition and amendments to the Bye-laws
“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)
“Subscribers”	OZ Master Fund, Ltd., OZ Asia Master Fund, Ltd., OZ Global Special Investments Master Fund, L.P. and Fleet Maritime, Inc.
“Subscription”	the subscription of the Subscription Shares by the Subscribers upon and subject to the terms and conditions of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 5 April 2006 entered into between the Company and the Subscribers in relation to the Subscription
“Subscription Shares”	15,000 Convertible Preference Shares to be issued by the Company to the Subscribers in accordance with the terms and conditions of the Subscription Agreement



“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target”	Shanghai Harvest Network Technology Co. Limited, a company incorporated in the PRC and it is owned as to 66.7% by the First Vendor, 28.3% by the Second Vendor and 5.0% by Shanghai Hende Technology Limited, an independent third party which is incorporated under the law of PRC and principally engaged in investment holding
“Vendors”	the First Vendor and the Second Vendor
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By Order of the Board  
**China HealthCare Holdings Limited**  
**Li Zhong Yuan**  
*Chairman*

Hong Kong, 28 April 2006

*As at the date of this announcement, the Board comprises four executive Directors, namely, Dr. Li Zhong Yuan, Mr. Lee Jong Dae, Dr. Ni Aimin, Mr. Deng Ku Hon, two non-executive Directors, namely Mr. Robin Willi and Mr. Martin Treffer, and three independent non-executive Directors, namely Dr. Ma Yin Ming, Mr. Li Xiao Ru and Mr. Mu Xiangming.*

*\* for identification purpose only*

Please also refer to the published version of this announcement in The Standard.