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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)

FRAMEWORK AGREEMENT
IN RELATION TO A POSSIBLE ACQUISITION

On 30 September 2014 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, the Company, the Procurers and the Vendors entered into the Framework Agreement in relation to the Possible Acquisition. Pursuant to the Framework Agreement, the Purchaser agreed to acquire, and the Vendors agreed to sell, the entire issued share capital of the Target at a total consideration of HK\$2,380 million, which shall be satisfied as to (i) HK\$213 million by issuance of the Promissory Note I; (ii) HK\$193 million by issuance of Promissory Note II; (iii) HK\$1,690 million by issuance of the Convertible Notes; and (iv) HK\$284 million by payment in cash.

The Possible Acquisition is subject to the parties entering into a definitive agreement, which are intended to be entered into by the parties to the Framework Agreement within sixty days from the date of the Framework Agreement (or such longer period as the parties may mutually agree in writing), and the terms and conditions as set forth therein. If no definitive agreements are concluded within the aforesaid period, the Framework Agreement shall lapse and of no effect.

The Board wishes to emphasize that the Possible Acquisition may or may not materialize and is subject to the conclusion of a definitive agreement. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares. If the Possible Acquisition materializes, it may constitute a notifiable transaction for the Company under the Listing Rules. The Company will make further announcement(s) in respect of the Possible Acquisition in accordance with the Listing Rules as and when appropriate.

* for identification purposes only

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions under Part XIVA of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong).

The Board is pleased to announce that on 30 September 2014 (after trading hours), the Purchaser, a wholly-owned subsidiary of the Company, the Company, the Procurers and the Vendors entered into the Framework Agreement in relation to the Possible Acquisition. The Possible Acquisition is subject to the parties entering into a definitive agreement, which is intended to be entered into by the parties to the Framework Agreement within sixty days from the date of the Framework Agreement (or such longer period as the parties may mutually agree in writing), and the terms and conditions as set forth therein. If no definitive agreements are concluded within the aforesaid period, the Framework Agreement shall lapse and of no effect. The major terms of the Framework Agreement are summarized below:

THE FRAMEWORK AGREEMENT

Date

30 September 2014

Parties to the Framework Agreement

Purchaser: Long Heng Investments Limited, an indirect wholly-owned subsidiary of the Company

Vendors: Profit City Ventures Limited and Sino Achiever Limited, both of which are companies incorporated in the British Virgin Islands with limited liability

Procurers: Corporate Leader Global Limited, Profit City Ventures Limited, Sino Achiever Limited, Sunny Pacific Investments Limited, Pacific Kingdom Limited and Zhao Gang Limited, all of which are companies incorporated in the British Virgin Islands with limited liability, and Ms. Lv Mu Xin

Promisor: the Company

To the best knowledge, information and belief of the Directors after having made all reasonable enquiries, the Vendors, the Procurers and their respective ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

Assets to be acquired

Pursuant to the Framework Agreement, the Purchaser agreed to acquire, and the Vendors agreed to sell, the entire issued share capital of the Target, which is a limited liability company to be established under the laws of the PRC. The Procurers have undertaken to procure the Reorganization

to be completed before the completion of the Possible Acquisition. Upon completion of the Reorganization, the Target Group shall own a 20-year operating right of a grade-two general hospital located in the eastern provinces of the PRC, which provides medical diagnosis, treatment and preventive care services for the general public, and shall receive a management fee of not less than 90% of the net profit of the hospital. The hospital has a total of 650 beds in operation and around 20 clinical departments, including psychiatry, rehabilitation medicine, oncology, respiratory and urology surgery, etc. The hospital is currently applying for the approval from the relevant government authority for an upgrade to a grade-three general hospital.

The Target Group shall also have interests in the operating rights of nine cancer treatment centers in hospitals located in Nanjing, Jinan, Tianjin, Beijing, Changchun, Shanghai, Ningbo and Zhengzhou, the PRC. According to the existing cooperative agreements with the hospitals, the holders of the operating rights of the cancer treatment centers are entitled to 51% to 100% of the net profit of the cancer treatment centers and are responsible for providing the necessary medical equipment and managing the daily operations of the centers during the term of the operating rights.

Consideration

The Consideration shall be HK\$2,380 million, which shall be satisfied as to (i) HK\$213 million by issuance of the Promissory Note I; (ii) HK\$193 million by issuance of the Promissory Note II; (iii) HK\$1,690 million by issuance of the Convertible Notes; and (iv) HK\$284 million by payment in cash. The Consideration is subject to adjustments based on the actual average net profits of the Target Group for the two years ending 31 December 2016 and the adjustment mechanism set out in the section headed “Profit guarantee and consideration adjustment” in this announcement.

The consideration of the Possible Acquisition was determined after arm’s length negotiations among the parties to the Framework Agreement, having taken into account (i) the profit guarantee of the Target Group for the two years ending 31 December 2016; (ii) the price-to-earnings ratios of other companies listed in Hong Kong and the United States of America and engaged in similar business of the Target Group; and (iii) the growth potential and prospects of the Target Group.

Principal terms of the Convertible Notes

The principal terms of the Convertible Notes are summarized below:

Issuer:	The Company
Principal amount:	HK\$1,690 million
Issue price:	100% of the principal amount of the Convertible Notes
Interest:	Nil
Maturity date:	The fifth anniversary of the date of issue of the Convertible Notes

Conversion price: The initial conversion price is HK\$0.2, subject to adjustments for events specified in the terms and conditions of the Convertible Notes, including share consolidation, share subdivision, capitalization of profits or reserves, capital distribution, rights issue, open offer and equity or equity derivative issues.

The initial conversion price represents:–

- (i) a discount of approximately 24.5% to the closing price of HK\$0.2650 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a discount of approximately 24.8% to the average closing price of HK\$0.2660 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and
- (iii) a discount of approximately 25.1% to the average closing price of HK\$0.2669 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The initial conversion price was arrived at after arm's length negotiations between the parties to the Framework Agreement with reference to the prevailing market price of the Shares.

Conversion rights: The Convertible Notes carry the rights to convert the whole or part of their principal amount into Conversion Shares at the conversion price during the conversion period at the discretion of the holders of the Convertible Notes provided that the holders and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in 30% or more of the entire issued Shares (or in such other percentage as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer); and (ii) the allotment and issue of the Conversion Shares upon exercise of the conversion right will not cause the Company to be in breach of the minimum public float requirement stipulated under the Listing Rules.

Conversion period: The period commencing on the date of issue of the Convertible Notes and expiring on the maturity date of the Convertible Notes.

Entrusted period:	The period commencing from the date of issue of the Convertible Notes and expiring on the date on which the audit report of the Target Group for the year ending 31 December 2016 is issued by its auditors, during which the Convertible Notes in an aggregate principal amount of HK\$600 million will be held in trust by a third party mutually agreed by the Vendors and the Purchaser.
Conversion Shares	<p>The Conversion Shares shall rank pari passu in all respects with the fully paid Shares in issue on the relevant conversion date.</p> <p>Assuming that the Conversion Notes are fully converted into Conversion Shares at the initial conversion price of HK\$0.2, a total of 8,450,000,000 Conversion Shares will be issued, which represent approximately 1,236.7% of the existing issued share capital of the Company and approximately 92.5% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares.</p>
Transferability:	The Convertible Notes shall be freely transferrable after the Entrusted Period.

Profit guarantee and consideration adjustment

The Procurers have undertaken that the audited net profit after tax of the Target Group for the year ending 31 December 2015 and 31 December 2016 shall not be less than HK\$126 million and HK\$150 million respectively. In the event that the guaranteed profit is not met, the Consideration shall be adjusted downward by an amount equivalent to the difference between the average guaranteed profit for the two years ending 31 December 2016 and the average audited net profit of the Target Group for the two years ending 31 December 2016 times a factor of 17.25, being the implied price-to-earnings ratio of the Consideration to the average guaranteed profit. For avoidance of doubt, no upward adjustments will be made on the Consideration even if the average audited net profit exceeds the average guaranteed profit.

Conditions precedent of the Possible Acquisition

Completion of the Possible Acquisition shall be conditional upon, inter alia, the followings:

- (i) the Shareholders passing at the special general meeting of the Company an ordinary resolution approving the definitive agreement regarding the Possible Acquisition and the transactions contemplated thereunder;
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Conversion Shares to be allotted and issued by the Company upon exercise of the conversion rights attaching to the Convertible Notes;

- (iii) the Reorganization being completed;
- (iv) the Purchaser being satisfied with the results of the due diligence on the Target Group;
- (v) all necessary consents, license, authorizations and approvals (including but not limited to government agencies, regulatory bodies or any third party) relating to the Possible Acquisition, if any, having been obtained; and
- (vi) there being no material adverse changes in the Target Group's assets and business up to the date of the completion of the Possible Acquisition.

Exclusive right

Pursuant to the Framework Agreement, the Purchaser is given the exclusive right to negotiate with the Procurers and the Vendors for the purchase of their interests in the Target and the subject assets and rights thereof during the term of the Framework Agreement. The Procurers and the Vendors have undertaken that none of them and/or their respective affiliates shall, without the written consent of the Purchaser, directly or indirectly, solicit, participate or conduct any discussion, accept and approve any offer or enter into any agreement, with any third parties regarding the sale or transfer of, or any transaction that may result in a sale or transfer of, their interests in the Target and/or the operating rights in the aforesaid hospital and nine cancer treatment centers during the exclusive negotiation period. The Procurers and the Vendors shall also terminate the relevant negotiations or transactions with any other third parties, if any, immediately after entering into the Framework Agreement.

GENERAL

The Board wishes to emphasize that the Possible Acquisition may or may not materialize and is subject to the conclusion of a definitive agreement. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares. If the Possible Acquisition materializes, it may constitute a notifiable transaction for the Company under the Listing Rules. The Company will make further announcement(s) in respect of the Possible Acquisition in accordance with the Listing Rules as and when appropriate.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	China HealthCare Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the same meaning ascribed thereto under the Listing Rules
“Consideration”	the total consideration of HK\$2,380 million for the Possible Acquisition
“Conversion Share(s)”	new Share(s) to be issued by the Company upon conversion of the Convertible Notes
“Convertible Notes”	the convertible notes in the principal amount of HK\$1,930 million to be issued by the Company to the Vendors or their nominees as partial settlement of the Consideration
“Director(s)”	the director(s) of the Company
“Framework Agreement”	the framework agreement dated 30 September 2014 entered into among the Company, the Purchaser, the Vendors and the Procurers in relation to the Possible Acquisition
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Last Trading Day”	30 September 2014, being the last trading day before the publication of this announcement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“Promissory Note I”	the promissory note in the principal amount of HK\$213 million to be issued by the Company to the Vendors or their nominees as partial settlement of the Consideration. The promissory note bears no interest and has a maturity date falling on the last day of the twelfth month from the issue date of the note
“Promissory Note II”	the promissory note in the principal amount of HK\$193 million to be issued by the Company to the Vendors or their nominees as partial settlement of the Consideration. The promissory note bears no interest and has a maturity date falling on the last day of the eighteenth month from the issue date of the note
“Possible Acquisition”	the possible acquisition of the entire issued share capital of the Target by the Company from the Vendors
“Procurers”	Corporate Leader Global Limited, Profit City Ventures Limited, Sino Achiever Limited, Sunny Pacific Investments Limited, Pacific Kingdom Limited and Zhao Gang Limited, all of which are companies incorporated in the British Virgin Islands with limited liability, and Ms. Lv Mu Xin
“Purchaser”	Long Heng Investments Limited, a wholly-owned subsidiary of the Company
“Reorganization”	the establishment of the Target Group and the injection of the operating rights of a hospital and nine cancer treatment centers into the Target Group
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong
“Target”	a limited liability company to be established under the laws of the PRC
“Target Group”	the Target and its subsidiaries after completion of the Reorganization

“Vendors” Profit City Ventures Limited and Sino Achiever Limited, the intended shareholders of the Target

“%” per cent

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

Hong Kong, 30 September 2014

As at the date of this announcement, the Board comprises five executive Directors, namely Mr. Jia Hong Sheng (Chairman), Dr. Li Zhong Yuan, Mr. Zhou Bao Yi, Mr. Chung Ho and Mr. Wang Jingming; and four independent non-executive Directors, namely Mr. Mu Xiangming, Mr. Jiang Bo, Dr. Yan Shi Yun and Mr. Zhao Hua.