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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)

**VARIATION TO THE TERMS OF THE AGREEMENT
AND
DELAY IN DESPATCH OF CIRCULAR
IN RELATION TO
A VERY SUBSTANTIAL ACQUISITION
AND
POSSIBLE SUBSCRIPTION OF CONVERTIBLE NOTES**

VARIATION TO TERMS OF THE AGREEMENT

On 29 December 2010, the Purchaser, the Procurer and the Guarantors entered into the Supplemental Agreements to amend certain terms of the Agreement. Details of the amendments are set out in this announcement.

DELAY IN DESPATCH OF CIRCULAR

As additional time is required for the preparation of the information for inclusion in the Circular, the despatch date of the Circular is expected to be postponed to a date falling on or before 18 February 2011.

POSSIBLE SUBSCRIPTION OF NEW CONVERTIBLE NOTES

On 29 December 2010, the Company, the Subscribers and the CN Guarantors entered into the Subscription Term Sheet, pursuant to which the Company has conditionally agreed to issue, and the Subscribers have conditionally agreed to subscribe, the New Convertible Notes with an aggregate principal amount of HK\$778.0 million. The New Convertible Notes carry the rights to convert into New Conversion Shares at an initial conversion price of HK\$0.48.

If the New Convertible Notes are fully converted into New Conversion Shares at the initial conversion price of HK\$0.48, 1,620,833,334 New Conversion Shares, representing (i) approximately 396.1% of the existing share capital of the Company; and (ii) approximately 79.8% of the share capital of the Company as enlarged by the issue of the New Conversion Shares, will be issued by the Company.

The Subscription Term Sheet does not constitute a legally-binding commitment in respect of the Subscription, which is subject to the execution and completion of a formal agreement. If any formal agreement in respect of the Subscription is signed, an announcement with further details of the Subscription will be published by the Company.

Reference is made to the announcement of the Company dated 13 October 2010 in relation to, among other things, the acquisition of the Acquired Assets. Unless otherwise stated, capitalized terms used herein shall have the same meanings as ascribed thereto in the Announcement.

VARIATION TO TERMS OF THE AGREEMENT

On 29 December 2010 (after the trading hours), the Purchaser, the Procurer and the Guarantors entered into the Supplemental Agreements to amend certain terms of the Agreement. Details of the amendments are set out as follows:

a) Denomination of the Convertible Notes

The Convertible Notes shall be denominated in RMB, instead of HK\$ as stipulated in the Agreement, so as to match with the functional currency of the Group. Accordingly, the total principal amount and initial conversion price of the Convertible Notes shall be approximately RMB2,858 million and RMB0.344753 respectively (equivalent to HK\$3,316 million and HK\$0.40 respectively based on the prevailing exchange rate on the date of the Agreement).

b) Redemption of the Convertible Notes

The Company will be obliged to redeem any outstanding Convertible Notes on the maturity date by issuance of new Shares at RMB0.344753 (equivalent to HK\$0.40) per Share instead of at the price of the higher of the then market price or HK\$0.4 per Share as stipulated in the Agreement.

According to Hong Kong Accounting Standard 32 Financial Instruments: Presentation (HKAS 32), an instrument is an equity instrument if, and only if, certain conditions are met. One of the conditions is that the instrument should either be a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments or a derivative that will be settled by the issuer exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments if the instrument will or may be settled in the issuer's own equity instruments. In order to meet the condition for classifying the Convertible Notes as an equity instrument instead of a financial liability, the variable factor on the redemption price of the Convertible Notes is eliminated. The Directors consider that the amendment is in the best interest of the Company and the Shareholders as a whole as the financial position of the Group will be adversely affected if the Convertible Notes are accounted for as a financial liability.

Furthermore, as the holders of the Convertible Notes have the right to convert the Convertible Notes into Shares at the conversion price of RMB0.344753 (equivalent to HK\$0.40) per Share at any time during the conversion period, the Directors believe that it is highly likely that the holders of the Convertible Notes shall exercise their conversion right instead of having the Convertible Notes to be redeemed by the Company at a redemption price of higher than HK\$0.40 upon maturity, if the price of the Shares is higher than HK\$0.40 per Share. Therefore, the Directors consider that the possibility of issuing Shares at a price higher than HK\$0.40 per Share for redemption of the Convertible Notes is minimal and the amendment on the term of redemption shall have no significant adverse impact on the Group.

c) Escrow arrangement

In the event that the completion of the Acquisition takes place before the issue of the audited consolidated financial statements of the Acquired Assets for the year ending 31 December 2010, 50% of the Convertible Notes, instead of 100% of the Convertible Notes as stipulated in the Agreement, shall be placed in an escrow account maintained by a legal firm until the finalization of the adjustments of the consideration of the Acquisition.

As the Acquired Assets have recorded a total net profit attributable to owners of approximately HK\$97.64 million for the six months ended 30 June 2010, which is about 49% of the 2010 Targeted Profit, the Directors consider that the new escrow arrangement is fair and reasonable and on normal commercial terms.

d) Extension of long stop date

As additional time is required for the fulfillment of the conditions for completion of the Acquisition, the long stop date for the Completion shall be extended from 31 December 2010 to 28 February 2011.

Save as disclosed above, all other material terms and conditions of the Agreement as prescribed in the Announcement shall remain unchanged and continue in force.

DELAY IN DESPATCH OF CIRCULAR

As disclosed in the Announcement, the Company expected to despatch a circular in relation to, inter alia, the Acquisition and the Capital Increase to the Shareholders on or before 31 December 2010. However, as additional time is required for the preparation of the information for inclusion in the Circular, including but not limited to the accountants' reports of the Acquired Assets and the unaudited pro forma financial information of the Enlarged Group, the despatch date of the circular is expected to be postponed to a date falling on or before 18 February 2011.

POSSIBLE SUBSCRIPTION OF NEW CONVERTIBLE NOTES

On 29 December 2010, the Company, the Subscribers and the CN Guarantors entered into the non-legally binding Subscription Term Sheet, pursuant to which the Company has conditionally agreed to issue, and the Subscribers have conditionally agreed to subscribe for, the New Convertible Notes with an aggregate principal amount of HK\$778.0 million at a total consideration of US\$100 million (equivalent to approximately HK\$778.0 million).

The Subscribers

Carlyle Asia Growth Partners IV, L.P. and CAGP IV Co-Investment, L.P., are affiliates of The Carlyle Group, which is a global alternative asset manager with US\$90.5 billion of assets under management committed to 67 funds as of March 31, 2010. Carlyle Asia Growth Partners IV is the fourth fund managed by the Carlyle Asia Growth Capital Group, which has an aggregate committed capital of approximately US\$2 billion. The group invests through a team of local professionals in six offices – Beijing, Hong Kong, Mumbai, Shanghai, Seoul and Tokyo.

Since 1987, Carlyle Group has invested \$60.6 billion of equity in 969 transactions. The Carlyle Group employs more than 880 people in 19 countries. In the aggregate, Carlyle portfolio companies have more than \$84 billion in revenue and employ more than 398,000 people around the world.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Subscribers and their respective ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

Preliminary terms of the New Convertible Notes

The principal terms of the New Convertible Notes set out in the Subscription Term Sheet are shown as follows:

Principal amount: HK\$778.0 million

Conversion price: The initial conversion price is HK\$0.48 per New Conversion Share, which represents:

- (i) a discount of approximately 58.62% to the closing price of HK\$1.160 per Share on 29 December 2010, being the date on which the terms of the Subscription Term Sheet were fixed;
- (ii) a discount of approximately 56.83% to the average closing price of HK\$1.112 per Share for the last five trading days up to and including 29 December 2010; and

- (iii) a discount of approximately 56.08% to the average closing price of HK\$1.093 per Share for the last ten trading days up to and including 29 December 2010.

The initial conversion price was arrived at after arm's length negotiation between the Company and the Subscribers. Given that (i) a majority of the New Convertible Notes and the New Conversion Shares converted therefrom are subject to a lock-up period of three years; (ii) the total principal amount of the New Convertible Notes is relatively large; (iii) the investment in the Convertible Notes is for long term as declared by the Subscribers; and (iv) the Subscribers have a prime league status in global financial arena, the Directors consider that a discount on the initial conversion price of the New Convertible Notes to the current closing price of the Shares is commercially justifiable and it is fair and reasonable so far as the Shareholders are concerned.

Conversion rights:

The New Convertible Notes carry the rights to convert the whole or part of their principal amount into New Conversion Shares at the initial conversion price of HK\$0.48 per New Conversion Share during the conversion period at the discretion of the holders of the Convertible Notes provided that (i) the holder and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in 30% or more of the total issued Shares (or in such other percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer); and (ii) the allotment and issue of the New Conversion Shares upon exercise of the conversion right of the New Convertible Notes will not cause the Company to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules.

Conversion shares:

The number of New Conversion Shares to be issued upon full conversion of the New Convertible Notes will be 1,620,833,334 New Conversion Shares, representing (i) approximately 396.1% of the existing share capital of the Company; and (ii) approximately 79.8% of the share capital of the Company as enlarged by the issue of the New Conversion Shares.

The New Conversion Shares shall be issued under a specific mandate to be approved by the Shareholders at a special general meeting. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the New Conversion Shares. The New Conversion Shares will rank pari passu in all respects with the then existing Shares in issue.

Status:

The New Convertible Notes shall be issued free and clear from all options, liens, charges, claims, agreements, encumbrances and third party rights and with all rights attaching thereto.

Listing: No applications will be made for the listing of the New Convertible Notes on any stock exchange.

Lock-up of the New Convertible Notes and the New Conversion Shares

The Subscribers shall not transfer or dispose of any New Convertible Note or New Conversion Share at any time during the period commencing on the date of issue of the New Convertible Notes and ending on the date of expiry unless with prior consent from the Company in writing. However, such restrictions shall not apply to (i) the transfer or disposal of between the funds owned by the Subscribers provided that such funds assume the same conversion restriction as set out in the Subscription Agreement; (ii) the transfer or disposal of 138,000,000 New Conversion Shares and/or such principal amount of New Convertible Notes that can be converted into such number of New Conversion Shares (or in any combination between such New Conversion Shares or New Convertible Notes) commencing from the date falling six months after the issue of the New Convertible Notes; (iii) the transfer or disposal of 78,000,000 New Conversion Shares and/or such principal amount of New Convertible Notes that can be converted into such number of New Conversion Shares (or in any combination between such New Conversion Shares or New Convertible Notes) commencing from the date falling eighteen months after the issue of the New Convertible Notes; and (iv) the transfer or disposal of 118,000,000 New Conversion Shares and/or such principal amount of New Convertible Notes that can be converted into such number of New Conversion Shares (or in any combination between such New Conversion Shares or New Convertible Notes) commencing from the date falling twenty-four months after the issue of the New Convertible Notes.

The Subscribers further declare that their investments in the Company are for long term.

Restriction on issue of the Shares or convertible notes by the Company

The Company shall not issue any Share or convertible note that can be converted into Shares during the period from the date of the Subscription Agreement to the date falling three months after the issue of the New Convertible Notes, unless such issue does not exceed US\$50.0 million and the terms of issue are not more favourable than the terms of the New Convertible Notes.

Preferential subscription rights

Except for the issue of Shares by the Company as a result of (i) the conversion of the Convertible Notes, the New Convertible Notes and the Existing Convertible Notes; and (ii) any capitalization issue, capital reduction, share split or consolidation, the Subscribers shall have the right to subscribe Shares or convertible notes to be issued by the Company in proportion to their respective shareholding in the Company (the shareholding shall be calculated based on the assumption that the Subscribers have fully converted the New Convertible Notes and all the outstanding convertible notes of the Company have been fully converted by the respective holders) during the term of the New Convertible Notes.

Conditions Precedent

Completion is conditional upon, inter alia:

- (a) the passing of the relevant resolutions at the general meeting of the Company by the Shareholders or the independent Shareholders (as the case may be) for approving (i) the issue of the New Convertible Notes; (ii) the issue of the New Conversion Shares upon conversion of the New Convertible Notes; and (iii) the appointment of a new non-executive Director to be nominated by the Subscribers;
- (b) the passing of the relevant resolutions at the board meeting of the Company by the Directors for approving the issue of the New Convertible Notes and the New Conversion Shares upon conversion of the New Convertible Notes;
- (c) the granting of the listing of, and permission to deal in, the New Conversion Shares by the Listing Committee of the Stock Exchange;
- (d) the granting of the permission for the issue of the New Convertible Notes and the New Conversion Shares by the Bermuda Monetary Authority, if required;
- (e) the completion of the Acquisition;
- (f) the satisfactory completion of business, financial and legal due diligence on all relevant aspects of the Acquired Assets and the Group by the Subscribers (or their professional adviser); and
- (g) the Subscribers receiving a copy of a legal opinion, in form and substance reasonably satisfactory to the Subscribers, from a firm of Bermuda qualified lawyers certifying the legality of the issuance of the New Convertible Notes and the New Conversion Shares to the Subscribers under the Bermuda laws and regulations.

Subscription Agreement

A Subscription Agreement will be entered into by the parties to the Subscription Term Sheet upon finalization of the detailed terms of the New Convertible Notes, which is expected to take place on or before 31 January 2011. An announcement with further details of the Subscription will be published as and when appropriate.

Use of proceeds

The total gross proceeds from the Subscription will be amounted to approximately US\$100.0 million (equivalent to approximately HK\$778.0 million) while the net proceeds from the Subscription, after the deduction of related expenses of approximately US\$1.0 million (equivalent to approximately HK\$7.78 million), is estimated to be approximately US\$99.0 million (equivalent to approximately HK\$770.2 million), which shall be applied for developing the Group's business in funeral service.

Reasons for the Subscription

The Group is principally engaged in investment holding, e-commerce business in relation to consumer services in e-distribution of mobile pre-charge, procurement of healthcare services and sales of medical devices and consumables.

The Directors consider that the Subscription shall provide additional working capital for the business development of the Group, in particular for further development of the Acquired Assets upon completion of the Acquisition. In addition, the Subscription (if the conversion right attaching to the New Convertible Notes is exercised) will broaden the capital and shareholder base of the Company. The Directors consider that the terms of the Subscription Term Sheet, 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 interest of the Company and the Shareholders as a whole.

Change in shareholding structure

Set out below is a summary of the shareholding in the Company as at the date of this announcement and, for illustrative purposes only, (i) upon full conversion of the New Convertible Notes; (ii) upon full conversion of the New Convertible Notes, subject to the conversion restrictions; and (iii) upon full conversion of the New Convertible Notes, the Convertible Notes, subject to the conversion restrictions, and the existing convertible securities of the Company, each prepared on the basis that there would be no changes in the issued share capital of the Company after the date of this announcement and prior to the completion of the Subscription.

	As at the date of this announcement		Upon full conversion of the New Convertible Notes		Upon full conversion of the New Convertible Notes, subject to the conversion restrictions (Note 6)		Upon full conversion of the New Convertible Notes, the Convertible Notes, subject to the conversion restrictions (Note 7), and the existing convertible securities of the Company (Note 8)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Dr. Li Zhong Yuan and his associates (Note 1)	24,443,000	5.97	24,443,000	1.20	24,443,000	4.18	30,687,000	1.38
Mr. Martin Treffer and his associates (Note 2)	1,545,000	0.38	1,545,000	0.08	1,545,000	0.26	3,447,000	0.16
Mr. Zhou Bao Yi (Note 3)	1,002,000	0.24	1,002,000	0.05	1,002,000	0.17	1,002,000	0.05
Mr. Mu Xiangming (Note 3)	261,000	0.06	261,000	0.01	261,000	0.04	471,000	0.02
Dr. Yan Shi Yun (Note 3)	261,000	0.06	261,000	0.01	261,000	0.04	261,000	0.01
Mr. Jiang Bo (Note 3)	261,000	0.06	261,000	0.01	261,000	0.04	261,000	0.01
Dragonrise Capital Advisors Inc.	62,480,474	15.27	62,480,474	3.08	62,480,474	10.69	62,480,474	2.82
Capital Foresight Limited (Note 4)	-	-	-	-	-	-	364,687,500	16.44
ZhongXing Limited (Note 5)	8,595,000	2.10	8,595,000	0.42	8,595,000	1.47	71,075,474	3.20
The Procurer	-	-	-	-	-	-	665,376,459	29.99
The Subscribers	-	-	1,620,833,334	79.84	175,278,915	29.99	665,376,459	29.99
Other public Shareholders	310,330,480	75.86	310,330,480	15.30	310,330,480	53.12	353,535,718	15.93
Total	409,178,954	100.00	2,030,012,288	100.00	584,457,869	100.00	2,218,661,084	100.00

Notes:

- (1) These Shares included 11,147,000 Shares held by Pacific Annex Capital Limited and 13,296,000 Shares held by Dr. Li Zhong Yuan, a Director. Since Pacific Annex Capital Limited is wholly-owned by Dr. Li Zhong Yuan, Dr. Li Zhong Yuan is deemed to be interested in the Shares held by Pacific Annex Capital Limited.

- (2) These Shares included 1,295,000 Shares held by 2Trade Group Limited and 250,000 Shares held by Mr. Martin Treffer, a Director. Since 2Trade Group Limited is beneficially owned as to 35% by Mr. Martin Treffer, Mr. Martin Treffer is deemed to be interested in the Shares held by 2Trade Group Limited.
- (3) Mr. Zhou Bao Yi, Mr. Mu Xiangming, Dr. Yan Shi Yun and Mr. Jing Bo are Directors.
- (4) Capital Foresight Limited, the holder of the Preference Shares, is beneficially owned by Mr. Yu Feng, Mr. Chen Li Bo and Mr. Li Xiao Ru. Upon full conversion of the Preference Shares in accordance with their terms and conditions, 364,687,500 Shares will be issued to Capital Foresight Limited.
- (5) ZhongXing Limited, the holder of the convertible notes, is beneficially owned by Mr. Ho Kin. Upon full conversion of the convertible notes, 62,480,474 Shares will be issued to ZhongXing Limited.
- (6) Pursuant to the Subscription Term Sheet, the New Convertible Notes are convertible into New Conversion Shares only to the extent that (i) the holder and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in 30% or more of the total issued Shares (or in such other percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer); and (ii) the allotment and issue of the New Conversion Shares upon exercise of the conversion right of the New Convertible Notes will not cause the Company to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules.
- (7) Pursuant to the Agreement, the Convertible Notes are convertible into Conversion Shares only to the extent that (i) the holder and parties acting in concert with it, taken together, will not directly or indirectly, control or be interested in 30% or more of the total issued Shares (or in such other percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer); and (ii) the allotment and issue of the New Conversion Shares upon exercise of the conversion right of the New Convertible Notes will not cause the Company to be in breach of the minimum public float requirement stipulated under Rule 8.08 of the Listing Rules.
- (8) The existing convertible securities of the Company include the Preference Shares, the Existing Convertible Notes and an aggregate of 20,321,000 outstanding share options with exercise prices in the range of HK\$0.5 to HK\$8.6 each. Save as aforementioned, the Company has no other convertible securities outstanding as at the date of this announcement.

GENERAL

The Subscription Term Sheet does not constitute a legally-binding commitment in respect of the Subscription, which is subject to the execution and completion of a formal agreement. If any formal agreement in respect of the Subscription is signed, an announcement with further details of the Subscription will be published by the Company.

The Board wishes to emphasize that no binding agreement in relation to the Subscription has been entered into as at the date of this announcement. Investors are urged to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“Announcement”	the Company’s announcement dated 13 October 2010 in relation to, among other things, the Acquisition and the Capital Increase
“Circular”	a circular in relation to, inter alia, the Acquisition and the Capital Increase to be issued by the Company to the Shareholders
“CN Guarantors”	China Zhongfu, Tide Rejoice Limited and the Management Guarantors
“Existing Convertible Notes”	the convertible notes in original principal amount of HK\$50 million issued by the Company to certain independent investors
“New Convertible Notes”	the convertible notes in an aggregate principal amount of HK\$778.0 million to be issued by the Company to the Subscribers pursuant to the Subscription Term Sheet
“New Conversion Shares”	the new Shares to be issued upon the exercise of the conversion rights attaching to the New Convertible Notes
“RMB”	Renminbi, the lawful currency of the PRC
“Subscribers”	Carlyle Asia Growth Partners IV, L.P. and CAGP IV Co-Investment, L.P. and their associated parties, who will subscribe for the New Convertible Notes in an aggregate principal amount of HK\$778.0 million
“Subscription”	the subscription of the New Convertible Notes by the Subscribers pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	a formal subscription agreement to be entered into between the Company, the Subscribers and the CN Guarantors regarding the Subscription
“Subscription Term Sheet”	the non-legally binding subscription term sheet dated 29 December 2010 entered into between the Company, the Subscribers and the CN Guarantors in respect of the Subscription

“Supplemental Agreements” two supplemental agreements dated 29 December 2010 entered into between the Purchaser, the Procurer and the Guarantors to amend certain terms of the Agreement

“US\$” United States dollar, the lawful currency of the United States of America

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

Hong Kong, 29 December 2010

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.

* *For identification purposes only*