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**HUA XIA HEALTHCARE HOLDINGS LIMITED**

**華夏醫療集團有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8143)**

**(1) VERY SUBSTANTIAL ACQUISITION AND  
CONNECTED TRANSACTION  
IN RESPECT OF PROPOSED ACQUISITION OF  
PHARMACEUTICAL RETAIL CHAIN, WHOLESALE AND  
DISTRIBUTION BUSINESS;  
(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;  
AND  
(3) RESUMPTION OF TRADING**

**Financial adviser to the Company**



**INCU Corporate Finance Limited**

**THE PROPOSED ACQUISITION**

The Board is pleased to announce that on 26 October 2009, the Company entered into the Framework Agreement with Mr. Yung, Huihao Sihai and Huihao Hong Kong for the Proposed Acquisition.

On 13 November 2009, the Purchaser entered into the Formal Agreement with Mr. Yung for the Proposed Acquisition. The Formal Agreement supersedes and replaces all the terms and conditions of the Framework Agreement. HK\$9.8 million has been paid by the Group to Mr. Yung pursuant to the Formal Agreement within 5 business days as deposit upon signing of the Formal Agreement.

\* For identification purpose only

Subject to the completion of Reorganisation, the Target will be interested in 100% equity interests in Huihao Hong Kong which is principally engaged in pharmaceutical retail chain, wholesale and distribution business in the PRC, and by virtue of the Control Agreements, Huihao Hong Kong will hold 99.29% equity interests in Huihao Sihai which is principally engaged in the pharmaceutical retail chain business in the PRC.

The Proposed Acquisition constitutes a very substantial acquisition on the part of the Company under the GEM Listing Rules. As Mr. Yung is the sole beneficial owner of the Target and is a connected person of the Company, the Proposed Acquisition constitutes a connected transaction on the part of the Company and will be subject to the approval of the Independent Shareholders at the EGM by way of poll.

## **THE PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

The Board proposes to seek the approval by way of an ordinary resolution at the EGM by Independent Shareholders of an increase in its authorised share capital from HK\$500,000,000 divided into 10,000,000,000 Shares of HK\$0.05 each to HK\$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 CP Shares.

## **GENERAL**

A circular containing, among other things, (i) further details of the Formal Agreement and the transactions contemplated thereunder; (ii) the Capital Increase; (iii) the letter from the independent financial adviser to the IBC and the Independent Shareholders; (iv) the recommendations from the IBC to the Independent Shareholders in respect of the terms of the Formal Agreement, the Capital Increase and the transactions contemplated thereunder; and (v) the notice of the EGM, will be despatched to the Shareholders as soon as practicable in compliance with the GEM Listing Rules.

The Proposed Acquisition and the Capital Increase are subject to, among others, the approval by the Independent Shareholders at the EGM to be taken by way of a poll. Mr. Yung and his associates, who hold approximately 27.25% of the entire issued share capital of the Company as at the date of this announcement, will abstain from voting for the relevant resolution(s) at the EGM to approve the Formal Agreement and the transactions contemplated thereunder due to their interests in the Proposed Acquisition and the Capital Increase.

The IBC comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the Formal Agreement and the Capital Increase and the transactions contemplated thereunder. An independent financial adviser will be appointed to advise the IBC and the Independent Shareholders in this regard.

**As the Proposed Acquisition is subject to the fulfillment of a number of conditions precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.**

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 27 October 2009 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 24 November 2009.

The Board is pleased to announce that on 26 October 2009, the Company entered into the Framework Agreement with Mr. Yung, Huihao Sihai and Huihao Hong Kong for the Proposed Acquisition. On 13 November 2009, the Purchaser and Mr. Yung entered into the Formal Agreement which supersedes and replaces all the terms and conditions under the Framework Agreement.

## **THE FORMAL AGREEMENT**

### **Date**

13 November 2009

### **Parties**

- (i) Mr. Yung, as vendor; and
- (ii) Timely Hero Enterprises Limited, a wholly owned subsidiary of the Company, as purchaser.

Upon completion of the Reorganisation, Mr. Yung will be interested in 100% equity interests in the Target, which is the beneficial owner of 100% equity interests in Huihao Hong Kong which, in turn, will hold 99.29% equity interests in Huihao Sihai pursuant to the Control Agreements. Mr. Yung is an executive Director and a substantial Shareholder holding (both in person and through his wholly-owned corporation, Easeglory) 1,225,073,750 Shares in aggregate, representing approximately 27.25% of the issued share capital of the Company as at the date of this announcement. Mr. Yung is therefore a connected person of the Company as defined under the GEM Listing Rules.

### **Assets to be acquired**

- (i) The Sale Share, being the entire issued share capital of the Target; and
- (ii) The Sale Loan, being all obligations, liabilities and debts owing or incurred by the Target Group to Mr. Yung (whether actual, contingent or deferred) at Completion. As at the date of the Formal Agreement, the Target Group was indebted to Mr. Yung in the amount of approximately HK\$35,500,000.

## **Consideration**

The consideration for the Sale Share and the Sale Loan is HK\$600 million, representing 12 times of the profit guarantee given by Mr. Yung under the Formal Agreement which shall be satisfied by the Purchaser in the following manner:–

- (a) as to HK\$9.8 million being the initial deposit and part of the Consideration, be payable by the Purchaser to Mr. Yung in cash within 5 business days after the date of the Formal Agreement. As at the date of this announcement, the Deposit has been paid by the Purchaser to Mr. Yung;
- (b) as to HK\$10.2 million being the further deposit and part of the Consideration, will be payable by the Purchaser to Mr. Yung in cash on the date the Proposed Acquisition is approved by the Independent Shareholders at the EGM;
- (c) as to HK\$290 million will be payable by the Purchaser procuring the Company to allot and issue the CP Shares in favour of Mr. Yung upon Completion; and
- (d) as to HK\$290 million will be payable by the Purchaser procuring the Company to issue the Promissory Note in favour of Mr. Yung upon Completion.

The cash consideration was and will be financed by the Group's internal resources.

## **Basis of determining the Consideration**

The Consideration was on normal commercial terms and arrived at after arm's length negotiations between the parties to the Formal Agreement and by reference to (i) the Profit Guarantee; (ii) the price earning ratio of 12 times, after taking into account the lower range of the price earning ratios of other listed companies in Hong Kong engaging in similar business of the Target Group ranging from about 10.1 times to about 67.5 times; (iii) prospects of pharmaceutical business in the PRC; (iv) financial performance of the Target Group; and (v) secured foothold and establishment of the pharmaceutical retail chain under Huihao Sihai brand name in Fujian.

## **The Profit Guarantee**

In the Formal Agreement, Mr. Yung has irrevocably guaranteed and warranted to the Company that the audited consolidated net profit after taxation and extraordinary or exceptional items and minority interests of the Target Group for the year ending 31 March 2011 (the "**Net Profit**") shall not be less than the Guaranteed Profit of HK\$50 million.

## Adjustment mechanism for the Consideration

In the event that the Net Profit is less than the Guaranteed Profit, Mr. Yung shall pay to the Company, an amount equivalent to the product of the 12, being the price earning multiple for determining the Consideration and such shortfall, as compensation (the “**Shortfall**”). In the event there is an audited consolidated net loss for the year ending 31 March 2011, the Net Profit will be deemed to be zero for the purpose of calculating compensation payable to the Group.

The amount of Shortfall will first be set off against the face value of the Promissory Note then outstanding. If the amount of Shortfall exceeds the face value of the Promissory Note then outstanding, Mr. Yung shall pay to the Purchaser the remaining Shortfall in cash. For the avoidance of doubt, (i) the total amount to be set off and payable by Mr. Yung shall not exceed HK\$600 million, being the total consideration payable for the Proposed Acquisition; and (ii) if the Net Profit exceeds the Guaranteed Profit, no payment shall be made by the Group to Mr. Yung.

As informed by Mr. Yung, the acquisition of 100% equity interests in the Huihao Medicine Wholesale Group and 99.29% equity interests in Huihao Sihai from the Independent Third Parties by Mr. Yung had been approved in-principle by the relevant authorities in the PRC on 2 December 2008 and 6 November 2009 respectively. The original acquisition costs of 100% equity interests in the Huihao Medicine Wholesale Group and 99.29% equity interests Huihao Sihai to Mr. Yung are approximately HK\$35,500,000 and RMB10,957,579 respectively. In aggregate, the total costs of acquisition of the Target Group incurred or to be incurred by Mr. Yung before completion of the Reorganisation is approximately HK\$48 million. The acquisition costs were determined based on the then net asset value of the acquired assets and were made in compliance with the relevant law in the PRC.

As referred in the above paragraph headed “Basis of determining the Consideration”, the Consideration of HK\$600 million has been arrived after arm’s length negotiation between the parties to the Formal Agreement and was determined based on the price earnings ratio approach (which is a common valuation approach used in Hong Kong for valuing enterprises based on their future prospects) and the Profit Guarantee, i.e. the product of 12 times (being the lower range of the price earning ratios of other listed companies in Hong Kong engaging in similar business of the Target Group ranging from about 10.1 times to about 67.5 times) and the Guaranteed Profit of HK\$50 million. In view of the other factors considered for determining the Consideration as mentioned above and the adjustment mechanism for the Consideration, the Directors (excluding independent non-executive Directors whose opinion on the matter will be set forth in the circular in relation to the Proposed Acquisition after having been advised by the independent financial adviser in this regard) consider that the basis for determining the Consideration (i.e. using a price earning ratio approach rather than a net asset value approach) and that the Consideration represents a premium over the original acquisition costs paid by Mr. Yung for the Sale Share and Sale Loan are fair and reasonable.

## Conditions precedent

The Proposed Acquisition is subject to the following conditions precedent:

- (a) the obtaining of all necessary consents and approvals on the part of Mr. Yung, the Company and the Target Group respectively;
- (b) the warranties given by Mr. Yung in the Formal Agreement remaining true and accurate in all respects;
- (c) the GEM Listing Committee of the Stock Exchange having granted the listing of, and the permission to deal in the Conversion CP Shares;
- (d) the passing by the Independent Shareholders at the EGM by way of poll, the necessary resolutions to approve the Formal Agreement and the transactions contemplated thereunder, including without limitation, the issue of the Promissory Note and the CP Shares as required by the GEM Listing Rules;
- (e) the obtaining of a PRC legal opinion (in the form and the substance satisfactory to the Company) in relation to the validity and legality of the incorporation of the Target Group, the Reorganisation and the transactions contemplated under the Formal Agreement;
- (f) the Company being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group; and
- (g) the completion of Reorganisation.

Save for conditions (b) and (f) which are waivable by the Purchaser, none of the conditions precedent are waivable. If the above conditions precedent have not been satisfied (or as the case may be, waived) on or before the Long Stop Date or such later date as the Company and Mr. Yung may agree, Mr. Yung shall forthwith refund the Deposit (without interest) to the Company and the Formal Agreement shall cease and determine and neither party shall have any obligations and liabilities towards each other thereunder save for antecedent breaches of the terms of the Formal Agreement.

If Completion does not take place as a result of the sole default of the Purchaser, Mr. Yung shall have the right to forfeit the Deposit paid.

If Completion does not take place as a result of the sole default of Mr. Yung, Mr. Yung shall forthwith repay the Deposit and compensate the Purchaser a sum equivalent to the amounts of the Deposit paid. On this basis, Mr. Yung shall compensate the Purchaser a sum of HK\$19.6 million (representing approximately 3.27% of the Consideration).

If Completion does not take place otherwise than as a result of the sole default of neither the Purchaser nor Mr. Yung, Mr. Yung shall forthwith and repay the Deposit to the Purchaser (without interest).

## **Completion**

Completion is subject to the fulfilment and/or waiver of the conditions precedent set out in the Formal Agreement. Upon Completion, the Target Group will become subsidiaries of the Company and its financial results will be consolidated into the accounts of the Group.

The Directors (excluding the independent non-executive Directors whose opinion on the matter will be set forth in the circular in relation to the Proposed Acquisition after having been advised by the independent financial adviser in this regard) are of the view that the terms of the Formal Agreement are fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

## **CONVERTIBLE PREFERENCE SHARES**

Upon Completion, HK\$290 million of the Consideration, will be satisfied by the Purchaser procuring the Company to allot and issue 4,833,333,333 CP Shares in favour of Mr. Yung at an Issue Price of HK\$0.06.

The principal terms of the CP Shares are as follows:

Notional value	HK\$0.06
Issue Price	HK\$0.06 per CP Share
Number of CP Shares to be issued	4,833,333,333 CP Shares
Conversion price	Initially, CP Shares of the notional value of an amount equivalent to HK\$0.06 shall be convertible into one Share (subject to standard adjustments)
Conversion period	Perpetual

Limitations on conversion	No conversion of the CP Shares is allowed provided that (i) any conversion of the CP Shares triggers a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the CP Shares and parties acting in concert with any of them who exercised the conversion rights and the number of Shares to be allotted and issued upon the exercise of the conversion rights attaching to the CP Shares (if applicable, including any Shares acquired by the parties acting in concert with the holder(s) of the CP Shares), together with the Shares and Conversion CP Shares in issue, represents 30% or more of the then issued ordinary share capital of the Company or otherwise pursuant to other provisions of the Takeovers Code or (ii) if immediately after such conversion, the public float of the Shares falls below the minimum public float requirements stipulated under the GEM Listing Rules or as required by the Stock Exchange.
Redemption	The CP Shares are non-redeemable.
Ranking	<p>The CP Shares rank: (i) in priority to the Shares and any other shares of the Company as to return of capital, and (ii) pari passu with Shares as to dividends.</p> <p>The Conversion CP Shares, when allotted and issued, will rank pari passu in all respects with all Shares in issue at the date of allotment and issue of such Conversion CP Shares.</p>
Voting rights	<p>Holders of the CP Shares (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the CP Shares or a resolution is proposed for the winding up of the Company.</p>
Dividends	<p>Holder of each CP Share shall have the same entitlement to dividend as holder of the number of Shares into which such CP Shares may be converted upon exercise of conversion rights attached thereto.</p>



Transferability	The CP Shares may be assigned or transferred to any transferee provided that such transferee is not a connected person of the Company.
Rights upon liquidation	On winding up of the Company, the holder(s) of the CP Shares shall be entitled to the return of capital on the basis of the notional value of the CP Shares.
Governing law	The CP Shares shall be governed by and construed in accordance with the laws of the Cayman Islands.
Listing	No application will be made by the Company to the GEM Listing Committee of the Stock Exchange for the listing of the CP Shares.

The Issue Price per CP Share is HK\$0.06 and was determined after arm's length negotiations between the parties to the Formal Agreement with reference to the recent market price of the Shares, which represent (i) a premium of approximately 7.14% over the closing price of HK\$0.0560 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of approximately 2.74% over the average closing price of HK\$0.0584 per Share as quoted on the Stock Exchange on the last five trading days immediately prior to the Last Trading Day; and (iii) a premium of approximately 6.76% over the average closing price of HK\$0.0562 per Share as quoted on the Stock Exchange on the last ten trading days immediately prior to the Last Trading Day.

The Directors (excluding the independent non-executive Directors whose opinion on the matter will be set forth in the circular in relation to the Proposed Acquisition after having been advised by the independent financial adviser in this regard) consider that the Issue Price of HK\$0.06 and initial Conversion Price of HK\$0.06 per CP Share are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Upon Completion, 4,833,333,333 CP Shares will be allotted and issued at the Issue Price. Upon full conversion of all CP Shares at the initial Conversion Price of HK\$0.06, 4,833,333,333 Conversion CP Shares will be issued, which represent approximately 107.52% of the issued share capital of the Company as at the date of this announcement and approximately 51.81% of the issued share capital of the Company as enlarged by the issue of the Conversion CP Shares. However, holder(s) of the CP Shares shall have the right to convert the CP Shares provided that any conversion of the CP Shares does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the CP Shares and parties acting in concert with any of them. The CP Shares will be issued under a specific mandate to be sought at the EGM. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion CP Shares.

## THE PROMISSORY NOTE

Upon Completion, the Company will issue the Promissory Note in the principal amount of HK\$290 million to Mr. Yung. The principal terms of the Promissory Note are as follows:

Issuer	The Company
Principal amount	HK\$290 million
Maturity	The tenth anniversary from the date of issue of the Promissory Note
Transferability	<p>The Promissory Note may be assigned or transferred to any transferee provided that such transferee is not a connected person of the Company and that Mr. Yung has discharged in full his obligations under the adjustment mechanism relating to the Consideration.</p> <p>The Promissory Note may be assigned or transferred in whole or in part (in multiples of HK\$1,000,000) of its outstanding principal amount.</p>
Coupon rate	1% per annum, payable semi-annually in arrears.
Redemption	<p>The Company may at any time before the maturity date of the Promissory Note, by serving at least ten (10) business days' prior written notice to the holder(s) of the Promissory Note with the total amount proposed to be redeemed from such holder specified therein, redeem the Promissory Note (in whole or in part) at 100% to the principal amount of the part of the Promissory Note to be redeemed.</p> <p>Any amount of the Promissory Note which remains outstanding on the maturity date shall be redeemed at 100% of its then outstanding principal amount, inclusive of interest thereon.</p> <p>Any amount of the Promissory Note which is redeemed by the Company will be forthwith cancelled.</p> <p>The holder(s) of the Promissory Note shall not have any early redemption right.</p>

## SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER COMPLETION

The following table shows the shareholding structure (i) as at the date of this announcement; (ii) upon Completion and the issue of all the CP Shares; and (iii) upon Completion and the full conversion of CP Shares to Conversion CP Shares.

Shareholders	As at the date of this announcement		Upon Completion and the issue of all the CP Shares (note 3)			Upon Completion and the issue of all the Conversion CP Shares (for illustration propose only, note 4)	
	Number of Shares	Approximate %	Number of Shares	Number of CP Shares	Approximate %	Number of Shares	Approximate %
Mr. Yung (notes 1 and 2)	15,468,750	0.34	15,468,750	4,833,333,333	51.98	4,848,802,083	51.98
Easeglory (note 1)	1,209,605,000	26.91	1,209,605,000	–	12.97	1,209,605,000	12.97
	1,225,073,750	27.25	1,225,073,750	–	64.95	6,058,407,083	64.95
Zheng Gang (note 2)	9,000,000	0.20	9,000,000	–	0.10	9,000,000	0.10
Sub-total	1,234,073,750	27.45	1,234,073,750	–	65.05	6,067,407,083	65.05
Public Shareholders	3,261,038,236	72.55	3,261,038,236	–	34.95	3,261,038,236	34.95
Total	<u>4,495,111,986</u>	<u>100.00</u>	<u>4,495,111,986</u>	<u>4,833,333,333</u>	<u>100.00</u>	<u>9,328,445,319</u>	<u>100.00</u>

Notes:

- (1) Easeglory, a company incorporated in the BVI with limited liability, the entire issued share capital of which is wholly owned by Mr. Yung. Mr. Yung is deemed to be interested in the 1,209,605,000 Shares by virtue of the Securities and Futures Ordinance.
- (2) Mr. Yung and Zheng Gang are Directors.
- (3) Holders of the CP Shares (in their capacity as such) will not be permitted to attend or vote at meetings of the Company, unless a resolution is proposed to vary the rights of holders of the CP Shares or a resolution is proposed for the winding up of the Company.
- (4) This scenario is for illustration purpose only assuming all the CP Shares have been fully converted into Conversion CP Shares. However, pursuant to the terms and conditions of the CP Shares, holder(s) of the CP Shares shall have the right to convert the CP Shares provided that any conversion of the CP Shares does not trigger a mandatory offer obligation under Rule 26 of the Takeovers Code on the part of the holder(s) of the CP Shares and parties acting in concert with any of them.

There will be no change of control of the Company after the allotment and issue of the CP Shares.

## **INFORMATION OF THE TARGET GROUP**

The Target Group is one of the leading distributors and providers of supply chain services for pharmaceutical and healthcare products in Fujian province, the PRC. There are three major business segments under two operating subsidiaries in the Target Group as described below.

As advised by Mr. Yung, Huihao Hong Kong, one of the operating subsidiaries of the Targets, is a company incorporated in Hong Kong on 1 March 2004. The Huihao Medicine Wholesale Group is engaged in pharmaceutical wholesale and distribution and direct sales to hospitals.

### **Pharmaceutical wholesale and distribution**

The Directors believe that the pharmaceutical wholesale and distribution business of the Target Group has a leading position in the Fujian Province. The Huihao Medicine Wholesale Group maintains solid business connections with thousands of drug manufacturers on a national basis, and has formed a strategic alliance with other major pharmaceutical corporations in six neighborhood provinces. Today, The Huihao Medicine Wholesale Group is the distribution agent for over 100 pharmaceutical products from well-renowned overseas and local medicine manufacturers in Fujian Province. The Huihao Medicine Wholesale Group has more than 2,000 distribution customers in the Fujian Province, including 110 distributors and 1,000 retail pharmacies.

### **Direct sales to hospitals**

The direct sales to hospitals deliver a broad range of pharmaceutical products to more than 100 hospitals.

### **Pharmaceutical retail chain**

As advised by Mr. Yung, Huihao Sihai, one of the operating subsidiaries of the Target, is a company established in the PRC on 30 November 2001. Its major business is the retailing of pharmaceutical products.

Its pharmaceutical retail chain operation is one of the leading pharmaceutical retail chains in Fujian Province. There are more than 80 direct pharmacies located in major cities under the brand name “Huihao Sihai”. This pharmaceutical retail chain complies with national Good Supply Practice standard and provide a broad range of pharmaceutical products to the general public in Fujian.

Set out below is the financial information of (i) the Target for the period from the date of incorporation to 10 November 2009 based on the unaudited financial statements for the same period as provided by Mr. Yung ; (ii) the Huihao Medicine Wholesale Group based on the unaudited financial statements for the two years ended 31 March 2008 and 31 March 2009 respectively as provided by Mr. Yung; and (iii) Huihao Sihai based on the unaudited financial statements for the year ended 31 March 2009 as provided by Mr. Yung:

**(i) The Target**

	<b>For the period from the date of incorporation to 10 November 2009</b>
	Unaudited (HK\$)
Loss before taxation and extraordinary items	6,300
Loss after taxation and extraordinary items	6,300

**(ii) The Huihao Medicine Wholesale Group**

	<b>For the year ended 31 March 2008</b>	<b>For the year ended 31 March 2009</b>
	Unaudited (HK\$)	Unaudited (HK\$)
Profit before taxation and extraordinary items	21,920	2,880,827
Profit after taxation and extraordinary items	21,920	1,302,732

**(iii) Huihao Sihai**

	<b>For the year ended 31 March 2009</b>
	Unaudited (RMB)
Loss before taxation and extraordinary items	1,825,580
Loss after taxation and extraordinary items	1,871,204

The unaudited net liability value of the Target as at 10 November 2009 was approximately HK\$6,292.

The unaudited net asset value of each of the Huihao Medicine Wholesale Group and Huihao Sihai as at 31 March 2009 were approximately HK\$4,474,754 and RMB9,555,690 respectively. The unaudited net asset value of the Huihao Medicine Wholesale Group as at 31 March 2008 was approximately HK\$978,080.

The financial performance of the subsidiaries of Huihao Hong Kong, namely, Fujian Huihao Pharmaceutical Co. Ltd, Putian Medicine Co. Ltd and Fujian Huiming Pharmaceutical Co. Ltd, has been consolidated into the accounts of Huihao Hong Kong since the date of acquisition, i.e. 2 December 2008.

Only the unaudited financial information of Huihao Sihai for the year ended 31 March 2009 was available for information purpose as at the date of this announcement. The Company will conduct its financial due diligence, the satisfactory completion of which being one of the conditions precedent to the Completion. In addition, the financial information of the Target Group will be subject to audit by the reporting accountants and included in the circular in relation to the Proposed Acquisition.

## **THE CONTROL AGREEMENTS**

Initially, pharmaceutical retail chain carried out by Huihao Sihai is a restricted business in the PRC. Pursuant to the Catalogue for the Guidance of Foreign Investment Industries 《外商投資產業指導目錄》 issued by the Ministry of Commerce of the PRC, foreign investors are not allowed to hold the entire shareholding interests in a company which is principally engaged in pharmaceutical retail chain business in the PRC. Under CEPA, preferential treatment will be granted by the PRC authorities to a natural person who is a Hong Kong permanent resident or a Hong Kong service suppliers which is a company having engaged in substantive business operations in Hong Kong for three to five years, to acquire the entire equity interests in the restricted business. As at the date of this announcement, the shareholding structure of Huihao Sihai has been approved by the relevant PRC authorities. As part of the Reorganisation and in order to obtain an effective control on Huihao Sihai, the Group intends to enter into the Control Agreements with Mr. Yung as the Group does not have any suitable vehicle that meet the requirement to benefit from CEPA to hold the 99.29% equity interests in Huihao Sihai at the date of this announcement and up to the Completion. The Board expects that it will take several years for the Group to get the necessary qualification under CEPA in order to directly hold 99.29% equity interests in Huihao Sihai.

Accordingly, the Control Agreements are designed to provide the Group with an effective control over and the right to enjoy the economic benefits in and/or assets of, Huihao Sihai. Upon Completion, the Company will be able to govern the financial and operating policies of Huihao Sihai because (i) the board of directors of Huihao Sihai will be controlled by Huihao Hong Kong pursuant to the Management Appointment Agreement and the Director's Undertaking; (ii) the general meeting will be controlled by Huihao Hong Kong pursuant to the Shareholder's Undertaking; (iii) all the benefits arising from the equity interests in Huihao Sihai will be entirely conveyed to Huihao Hong Kong pursuant to the Share Charge; and (iv) all the economic benefits arising from the operation of Huihao Sihai will be retained by Huihao Hong Kong pursuant to the Consultancy Service Agreement. Subject to the entering into of the Control Agreements, Huihao Sihai will be accounted for as a 99.29% subsidiary of the Company in accordance with generally accepted accounting principles in Hong Kong. The Company will seek the auditor's view on the accounting treatment in respect of Huihao Sihai and disclose the same in the subsequent circular of the Company.

The Company has been verbally advised by its PRC legal adviser that the Control Agreements are legal, effective and enforceable and in compliance with the relevant rules and regulations of the PRC.

Preliminary terms and conditions of the Control Agreements are extracted as below, subject to the final negotiation and finalisation of the Control Agreements between the parties thereto. Further information on the Control Agreements will be set out in the circular to be despatched in relation to the Proposed Acquisition.

### **The Loan Agreement**

- Date: Before completion of the Reorganisation
- Parties: (1) Mr. Yung, as borrower; and  
(2) Huihao Hong Kong, as lender
- Subject: Huihao Hong Kong will advance an interest-free loan of not less than HK\$12,500,000 for an initial term of ten years to Mr. Yung, extendable at the option of Huihao Hong Kong.
- Term: The loan will only be used for the purpose of acquisition of the equity interests in Huihao Sihai. The loan can only be offset against the consideration under the Exclusive Share Purchase Agreement. The initial term of the Loan Agreement is ten years which is extendable at the option of Huihao Hong Kong.

## **Exclusive Share Purchase Agreement**

- Date: Before completion of the Reorganisation
- Parties: (1) Mr. Yung, as grantor;
- (2) Huihao Sihai; and
- (3) Huihao Hong Kong
- Subject: Mr. Yung will grant an irrevocable and exclusive right to Huihao Hong Kong or its nominee to purchase the entire or part of his equity interests in Huihao Sihai of up to 99.29%.
- Consideration: Parties to the Exclusive Share Purchase Agreement agree that the consideration for the purchase of the 99.29% equity interests in Huihao Sihai will be offset against the loan amount under the Loan Agreement or by any other means in compliance with the relevant rules and requirements in the PRC upon exercise of the right to acquire equity interests in Huihao Sihai by Huihao Hong Kong.
- Term: Within ten years from the date of entering into of the Exclusive Share Purchase Agreement, extendable at the option of Huihao Hong Kong. Huihao Hong Kong may exercise its rights under the Exclusive Share Purchase Agreement in whole or in part to acquire up to 99.29% of the equity interests in Huihao Sihai.

## **Share Charge**

- Date: Before completion of the Reorganisation
- Parties: (1) Mr. Yung, as chargor; and
- (2) Huihao Hong Kong, as chargee
- Subject: In consideration of the advancement of the loan by Huihao Hong Kong to Mr. Yung under the Loan Agreement, Mr. Yung shall create a charge over his 99.29% equity interests in Huihao Sihai in favour of Huihao Hong Kong to secure the performance of Mr. Yung under the Exclusive Share Purchase Agreement and the Loan Agreement.
- Term: In accordance with the terms and conditions of the Share Charge, Mr. Yung shall charge his entire 99.29% equity interests in Huihao Sihai to Huihao Hong Kong and procure Huihao Sihai to register the Share Charge in its register of members.



The period of the Share Charge will commence from the date of the Share Charge until (i) the fulfillment of all obligations under the Exclusive Share Purchase Agreement and/or the Share Charge; (ii) the termination of the Loan Agreement; or (iii) in the reasonable opinion of Huihao Hong Kong that the conditions of any of the parties to the Share Charge have been changed which would adversely affect the performance of the Exclusive Share Purchase Agreement and/or the Share Charge, whichever is earlier.

During the term of the Share Charge, Mr. Yung shall convey all the dividends, distribution, other payments, capital bonus and other assets distributed paid or made by Huihao Sihai to Huihao Hong Kong with respect to his entire charged equity interests in Huihao Sihai.

### **Management Appointment Agreement**

Date: Before completion of the Reorganisation

Parties: (1) Mr. Yung;  
(2) Huihao Sihai; and  
(3) Huihao Hong Kong

Subject: Huihao Hong Kong shall appoint directors to the board of directors of Huihao Sihai creating an effective control on the board of directors of Huihao Sihai. In addition, Huihao Hong Kong will also be entitled to remove the general manager and legal representative of Huihao Sihai and replace therewith its nominees.

Term: Commencing from the date of the Management Appointment Agreement until the fulfillment of all of the obligations under the Exclusive Share Purchase Agreement and/or the Share Charge.

### **Director's Undertaking**

Date: Before completion of the Reorganisation

Party: Mr. Yung

Subject: Mr. Yung shall undertake to pass a copy of all director notices received from Huihao Sihai to Huihao Hong Kong and to vote on any resolutions proposed at a meeting of the directors of Huihao Sihai in accordance with the voting instructions given by directions of Huihao Hong Kong. Mr. Yung will further undertake to procure any of his replacing director of Huihao Sihai to give a similar undertaking as aforesaid.

### **Shareholder's Undertaking**

Date: Before completion of the Reorganisation

Party: Mr. Yung

Subject: Mr. Yung shall undertake to Huihao Hong Kong to vote on any resolution proposed at a meeting of the shareholders of Huihao Sihai in accordance with the directions of Huihao Hong Kong.

### **Consultancy Service Agreement**

Date: Before completion of the Reorganisation

Parties: (1) Huihao Sihai; and  
(2) Huihao Hong Kong or its subsidiaries

Subject: Huihao Hong Kong or its subsidiaries will provide Huihao Sihai consultancy services including (i) sending its employees to Huihao Sihai and providing guidance on Huihao Sihai's daily operations and marketing strategies from time to time; (ii) providing training to sales and management staff of Huihao Sihai; (iii) formulating sales plan for Huihao Sihai's consideration in achieving its sales target; and (iv) providing assistance/support to Huihao Sihai in aspects of management, sales, accounting, technology and administration which may include the provision of company secretarial services and seconding its employees to Huihao Sihai for on site assistance.

- Term: The initial servicing period is fixed for ten years from the date of the entering into of the Consultancy Service Agreement renewable in the tenth year at the option of Huihao Hong Kong which shall then be renewed automatically year by year until either party giving not less than one month's notice to each other.
- Servicing fee: Huihao Hong Kong shall charge Huihao Sihai a service fee of based on a certain percentage of the actual unaudited turnover or net profit of Huihao Sihai.

## **REASONS FOR AND THE BENEFITS OF THE PROPOSED ACQUISITION**

The Group is principally engaged in the provision of general hospital and healthcare and hospital management services in the PRC.

The Proposed Acquisition will enable the Group to diversify into the pharmaceutical wholesale and distribution and pharmaceutical retail chain business in the PRC.

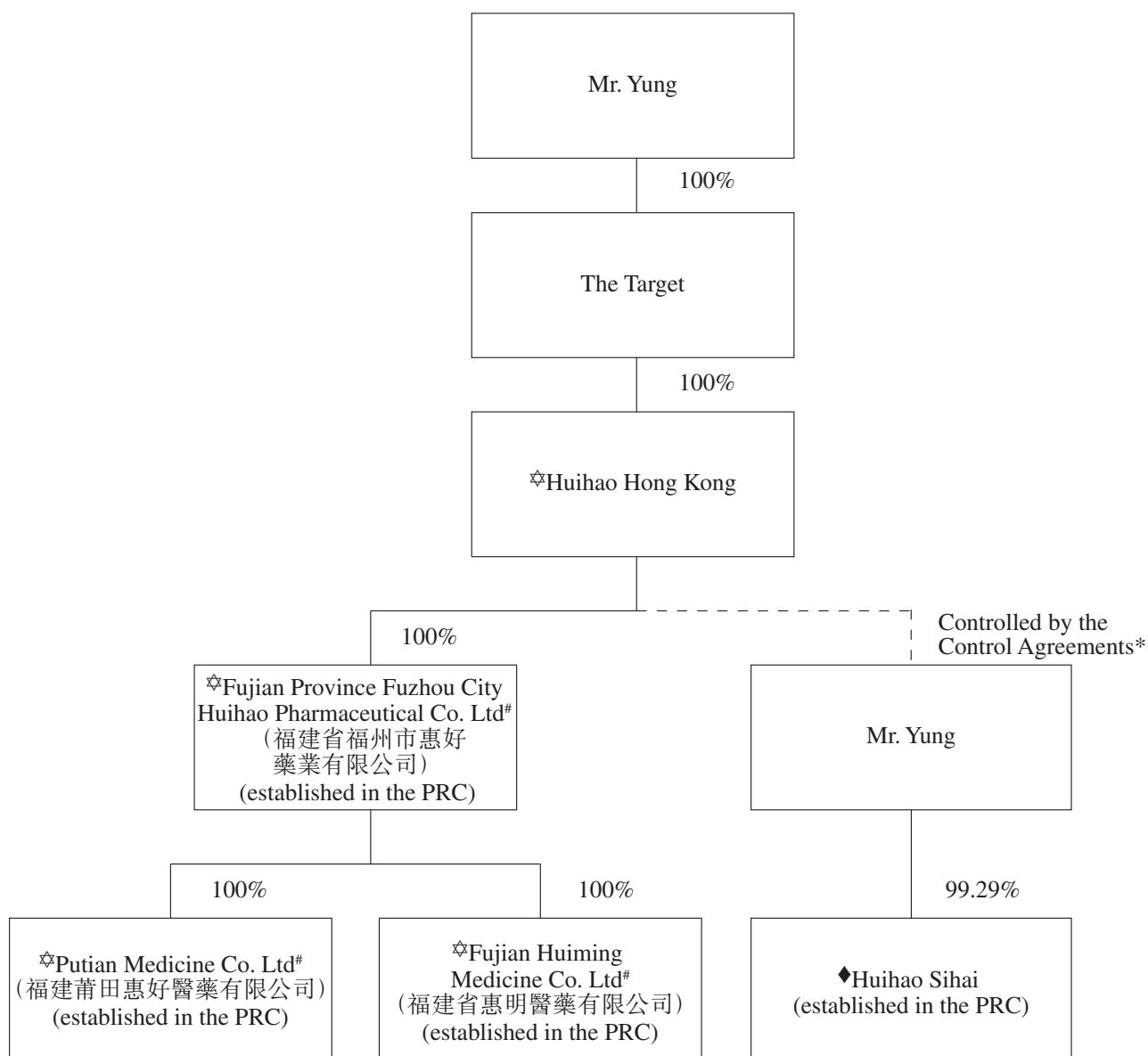
With the fast economic growth, large population and increasing health consciousness of the people in the PRC, the PRC pharmaceutical industry has been growing rapidly. According to the figures published by China Association of Pharmaceutical Commerce (中國醫藥商業協會), the total sales in the PRC pharmaceutical industry in the year 2008 had increased by about 57% as compared to RMB 300 billion in 2003.

Majority of the Target Group's business activity is currently conducted in the Fujian Province and its neighborhood provinces. According to the China Statistics Yearbook of 2008, the population of Fujian was about 36.4 million. The average annual income in the Fujian urban cities had attained a double digit growth in the past consecutive five years, ranging from about 10.3% to about 15.8% per annum and reached RMB17,961 per capita in 2008. With the sizeable population base, increasing income levels, increasing health consciousness, and the supportive regulation on the healthcare sector, the Directors believe that there will be upside potential in the pharmaceutical wholesale and distribution and pharmaceutical retail chain business of the Target Group and the diversification into the pharmaceutical business is a promising opportunity that will benefit the Company and Shareholders in the long run.

The Directors (excluding the independent non-executive Directors whose opinion on the matter will be set forth in the circular in relation to the Proposed Acquisition after having been advised by the independent financial adviser in this regard) consider that the Proposed Acquisition is a vertical expansion of the business of the Company, the Company has no intention to dispose of the existing business of the Company.

## GROUP STRUCTURE

The diagram below shows the structure of the Target Group and their ultimate beneficial shareholders immediately after Reorganisation and before Completion:



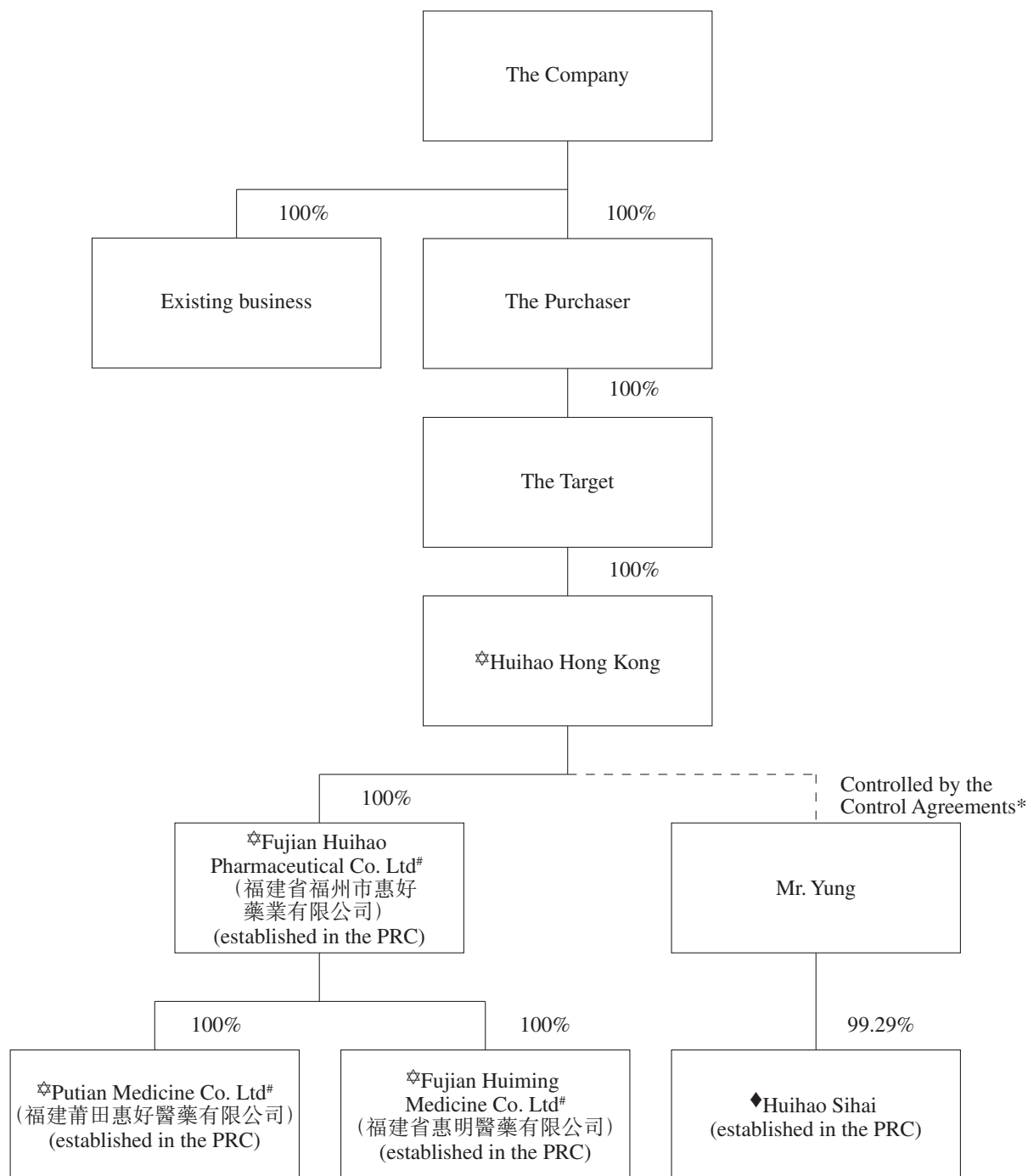
Notes:

☆ These companies are principally engaged in pharmaceutical wholesale and distribution business in Fujian, the PRC.

◆ This company is principally engaged in pharmaceutical retail chain business in Fujian, the PRC.

\* Huihao Hong Kong, Mr. Yung and Huihao Sihai will enter into the Control Agreements on or before the completion of Reorganisation for the purpose of securing an effective control on Huihao Sihai by the Target.

The diagram below shows the structure of the Target Group and their ultimate beneficial shareholder immediately after Completion:



☆ These companies are principally engaged in pharmaceutical wholesale and distribution business in Fujian, the PRC.

◆ This company is principally engaged in pharmaceutical retail chain business in Fujian, the PRC.

\* Huihao Hong Kong, Mr. Yung and Huihao Sihai will enter into the Control Agreements on or before the completion of Reorganisation for the purpose of securing the effective control on Huihao Sihai by the Target.

## **THE PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL**

As at the date of this announcement, the authorised share capital of the Company is HK\$500,000,000 divided into 10,000,000,000 Shares, of which 4,495,111,986 Shares have been issued. To facilitate the issue of the CP Shares and Conversion CP Shares by the Company upon Completion, the Board proposes to increase the authorised share capital of the Company from HK\$500,000,000 divided into 10,000,000,000 Shares of HK\$0.05 each to HK\$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 CP Shares. An ordinary resolution will be sought at the EGM to approve the Capital Increase and the reclassification of the increased authorised capital of the Company into 12,000,000,000 Shares and 8,000,000,000 CP Shares.

The Capital Increase is conditional upon passing of an ordinary resolution by the Independent Shareholders at the EGM.

## **IMPLICATIONS UNDER THE GEM LISTING RULES**

The Proposed Acquisition constitutes a very substantial acquisition on the part of the Company under the GEM Listing Rules. As Mr. Yung is a connected person of the Company, the Proposed Acquisition also constitutes a connected transaction on the part of the Company and will be subject to the approval of the Independent Shareholders at the EGM by way of poll.

A circular containing, among other things, (i) further details of the Formal Agreement and the transactions contemplated thereunder; (ii) the letter from the independent financial adviser to the IBC and the Independent Shareholders; (iii) the recommendation from the IBC to the Independent Shareholders in respect of the terms of the Formal Agreement and the transactions contemplated thereunder; and (iv) the notice of the EGM will be despatched to the Shareholders as soon as practicable in compliance with the GEM Listing Rules.

The Proposed Acquisition and the Capital Increase are subject to, among others, the approval by the Independent Shareholders at the EGM to be taken by way of poll. Mr. Yung and his associates, who hold approximately 27.25% of the entire issued share capital of the Company as at the date of this announcement, will abstain from voting for the relevant resolution at the EGM to approve the Proposed Acquisition, Capital Increase and the transactions contemplated thereunder due to their interests in the Proposed Acquisition.

The IBC comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the Formal Agreement, Capital Increase and the transactions contemplated thereunder. An independent financial adviser will be appointed to advise the IBC and the Independent Shareholders in this regard.

**As the Proposed Acquisition is subject to the fulfillment of a number of conditions precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.**

## **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended from 9:30 a.m. on 27 October 2009 pending the release of this announcement. Application has been made by the Company for the resumption of trading in the Shares with effect from 9:30 a.m. on 24 November 2009.

## **DEFINITIONS**

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

“associates”	the meaning ascribed thereto in the GEM Listing Rules
“Board”	the board of Directors
“business day”	any day (other than a Saturday or Sunday or public holidays) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“BVI”	British Virgin Islands
“Capital Increase”	the proposed increase of the authorised share capital of the Company from HK\$500,000,000 divided into 10,000,000,000 Shares of HK\$0.05 each to HK\$1,500,000,000 by the creation of an additional 12,000,000,000 Shares and 8,000,000,000 CP Shares
“CEPA”	Mainland and Hong Kong Closer Economic Partnership Arrangement
“Company”	Hua Xia Healthcare Holdings Limited, a company incorporated in the Cayman Islands with limited liability the issued Shares of which are listed on GEM
“Completion”	completion of the Proposed Acquisition in accordance with the terms of the Formal Agreement
“connected persons”	has the meaning ascribed to this term under the GEM Listing Rules

“Consideration”	HK\$600 million, being the consideration for the Sale Share and Sale Loan
“Consultancy Service Agreement”	a consultancy service agreement to be entered into between Huihao Sihai and Huihao Hong Kong in relation to the provision of management consultancy services to Huihao Sihai by Huihao Hong Kong (if necessary)
“Control Agreements”	the agreements to be entered into among Mr. Yung, Huihao Sihai and Huihao Hong Kong including but not limited to, the Loan Agreement, the Share Charge, the Exclusive Share Purchase Agreement, the Management Appointment Agreement, the Director’s Undertakings, the Shareholder’s Undertaking, and the Consultancy Service Agreement, all forms and substances of the Control Agreements shall be to the satisfaction of the Purchaser
“Conversion CP Shares”	new Shares to be issued by the Company upon the exercise of the conversion rights attached to the CP Shares
“CP Shares”	a total of 4,833,333,333 non-redeemable convertible preference shares of HK\$0.06 each to be allotted and issued at the Issue Price in the share capital of the Company and having the rights and benefits and subject to the restrictions to be set out in the terms governing the CP Shares
“Deposit”	together (i) HK\$9,800,000 being the initial deposit which has been made by the Company to Mr. Yung within 5 business days upon signing of the Formal Agreement; and (ii) HK\$10,200,000 being the further deposit and the payment to be paid by the Purchaser to Mr. Yung in cash on the date the Proposed Acquisition is approved by the Independent Shareholders at the EGM
“Director(s)”	director(s) of the Company
“Director’s Undertaking”	an undertaking to be executed by Mr. Yung in favour of Huihao Hong Kong that he shall vote in accordance with the instructions of Huihao Hong Kong in all future director’s meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement
“Easeglory”	Easeglory Holdings Limited, a company incorporated in the BVI, the entire issued share capital of which is wholly and beneficially owned by Mr. Yung



“EGM”	an extraordinary general meeting of the Company to be convened to consider and approve the Formal Agreement, Capital Increase and the transactions contemplated thereunder
“Exclusive Share Purchase Agreement”	an agreement to be entered into between Huihao Hong Kong and Mr. Yung in relation to the acquisition of 99.29% equity interests in Huihao Sihai by Huihao Hong Kong
“Formal Agreement”	a formal sale and purchase agreement and entered into between the Purchaser as purchaser and Mr. Yung as vendor on 13 November 2009 in relation to the Proposed Acquisition which supersedes and replaces all the terms and conditions of the Framework Agreement
“Framework Agreement”	the framework agreement dated 26 October 2009 and entered into among the Company as purchaser, Mr. Yung as vendor, Huihao Sihai and Huihao Hong Kong in relation to the Proposed Acquisition
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Guaranteed Profit”	audited consolidated net profit after taxation and extraordinary or exceptional items and minority interests of the Target Group for the year ending 31 March 2011 which shall not be less than HK\$50 million
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Huihao Hong Kong”	Hui Hao (HK) Group Limited (惠好(香港)醫藥集團有限公司), a company incorporated in Hong Kong with limited liability and the entire equity interests of which will be acquired by the Target upon completion of the Reorganisation
“Huihao Medicine Wholesale Group”	together, Huihao Hong Kong, Fujian Huihao Pharmaceutical Co. Ltd. (福建省福州市惠好藥業有限公司#), Putian Medicine Co. Ltd. (福建莆田惠好醫藥有限公司#) and Fujian Huiming Medicine Co. Ltd. (福建省惠明醫藥有限公司#)

“Huihao Sihai”	Fujian Huihao Sihai Pharmaceutical Chain Company Limited (福建惠好四海醫藥連鎖有限責任公司#), a company established in the PRC with limited liability, 99.29% equity interests of which will be held by the Target through Huihao Hong Kong upon completion of the Reorganisation
“IBC”	the independent board committee comprising all the independent non-executive Directors will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the Formal Agreement, Capital Increase and the transactions contemplated thereunder
“Independent Shareholders”	Shareholders other than Mr. Yung, Easeglory and their respective associates
“Independent Third Party”	any person or company and its ultimate beneficial owner(s), to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons
“Issue Price”	an issue price of HK\$0.06 for each CP Share
“Last Trading Day”	23 October 2009, being the last trading date immediately before the date of the signing of the Framework Agreement
“Loan Agreement”	a loan agreement to be entered into between Huihao Hong Kong and Mr. Yung in relation to the advancement of loan of HK\$12.5 million by Huihao Hong Kong to Mr. Yung for the purpose of acquisition of the equity interests in Huihao Sihai for an initial term of ten years
“Long Stop Date”	the 180th days from the date of the Formal Agreement, or such other date as may be agreed by the Purchaser and Mr. Yung
“Management Appointment Agreement”	an exclusive appointment agreement to be entered into between Huihao Sihai and Huihao Hong Kong in relation to the appointment of directors to the board of directors of Huihao Sihai by Huihao Hong Kong
“Mr. Yung”	Mr. Yung Kwok Leong, an executive Director and a substantial Shareholder, being the vendor to the Proposed Acquisition
“PRC”	The People’s Republic of China

“Profit Guarantee”	the profit guarantee given by Mr. Yung in relation to the Proposed Acquisition
“Promissory Note”	promissory note with the principal amount of HK\$290 million to be issued by the Company to satisfy part of the Consideration payable by the Purchaser pursuant to the Formal Agreement
“Proposed Acquisition”	the proposed acquisition of the Sale Share and Sale Loan
“Purchaser”	Timely Hero Enterprises Limited, a company incorporated in the BVI with limited liability and a wholly owned subsidiary of the Company
“Reorganisation”	the acquisition of 100% equity interests in Huihao Hong Kong, and its subsidiaries (including 99.29% equity interests in Huihao Sihai) by the Target
“Sale Loan”	all obligations, liabilities and debts owing or incurred by the Target Group to Mr. Yung at Completion (whether actual, contingent or deferred). As at the date of the Formal Agreement, the Target Group was indebted to Mr. Yung in the amount of approximately HK\$35,500,000
“Sale Share”	1 ordinary share of US\$1.00 in the issued share capital of the Target, representing the entire issued share capital of the Target
“Share Charge”	a share charge to be created by Mr. Yung in favour of Huihao Hong Kong over Huihao Sihai to secure the Loan Agreement and the Exclusive Share Purchase Agreement
“Share(s)”	ordinary share(s) of HK\$0.05 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Shareholder’s Undertaking”	an undertaking to be executed by Mr. Yung in favour of Huihao Hong Kong that he will vote in accordance with the instructions of Huihao Hong Kong in all future shareholder’s meetings of Huihao Sihai prior to the completion of the Exclusive Share Purchase Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	Hong Kong Code on Takeovers and Mergers

“Target”	Nurture Fit Limited, a company incorporated in the BVI, whose entire issued share capital is beneficially owned by Mr. Yung, and upon completion of the Reorganisation, the Target will hold 100% equity interests in Huihao Hong Kong
“Target Group”	the Target, Huihao Sihai, Huihao Hong Kong and their respective subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of United States of America
“%”	per cent.

# *The English transliteration of the Chinese names in this announcement, where indicated, is included for information only, and should not be regarded as the official English names of such Chinese names.*

By order of the Board  
**Hua Xia Healthcare Holdings Limited**  
**Yung Kwok Leong**  
*Chairman*

Hong Kong, 23 November 2009

*As at the date of this announcement, the executive Directors are Mr. Yung Kwok Leong, Dr. Jiang Tao, Mr. Zheng Gang, Dr. Huang Jiaqing and Mr. Chen Jin Shan, the non-executive Director is Dr. Wong Yu Man, James, and the independent non-executive Directors are Ms. Wong Ka Wai, Jeanne, Prof. Hu Shanlian and Prof. Lu Chuanzhen.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief that:– (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its posting and on the website of the Company at [www.huaxia-healthcare.com](http://www.huaxia-healthcare.com).*