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HEALTHCARE

華 | 夏 | 健 | 康

CHINA HEALTHCARE ENTERPRISE GROUP LIMITED

華 夏 健 康 產 業 集 團 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1143)

MEMORANDUM OF UNDERSTANDING

The Board is pleased to announce that on 22 June 2016 (after trading hours), the Purchaser (a wholly owned subsidiary of the Company) entered into a non-legally binding MOU with the Vendor in relation to the Proposed Acquisition of the entire issued share capital of the Target Company.

Pursuant to the MOU, the Purchaser shall pay the Vendor the Deposit in an amount not more than HKD200 million as earnest money. The actual amount of Deposit shall be agreed by the parties at least two days before the payment of Deposit falls due. The payment of the Deposit may constitute an advance to an entity for the Company under Rule 13.13 of the Listing Rules. The shares of the Target Company and the Hong Kong Company were charged in favour of the Purchaser as collateral to secure the repayment obligation of the Deposit.

The Board wishes to emphasise that no legally binding agreement in relation to the Proposed Acquisition has been entered into as at the date of this announcement and the Proposed Acquisition may or may not materialize. Shareholders and potential investors of the Company are urged to exercise caution when dealing in the securities of the Company.

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

MEMORANDUM OF UNDERSTANDING

The Board wishes to announce that on 22 June 2016 (after trading hours), the Purchaser and the Vendor entered into a non-legally binding MOU pursuant to which the Vendor proposed to sell and the Purchaser proposed to purchase the entire issued share capital of the Target Company.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendor is an independent third party not connected with the Company and its connected person (as defined in the Listing Rules).

Pursuant to the MOU, the Vendor shall not (and shall procure his agents and advisers not to) for a period of 6 months from the date of the MOU (or such other date as the parties may agree) directly or indirectly solicit, initiate, encourage, enter into or participate in any inquiry, discussion or proposal with any third party on any sale or transfer of any shares or material assets of the Target Group. A formal share purchase agreement will be entered into by the parties within 14 days (or such other date as the parties may agree), subject to completion of the Due Diligence Review on the Target Group by the Purchaser and the result of which is to the satisfaction of the Purchaser. The Purchaser has the absolute discretion to waive such condition.

ADVANCE TO AN ENTITY

The Purchaser shall pay the Vendor (or his nominee) a refundable Deposit in an amount of not more than HKD200 million within 7 days from the signing of the MOU (or such other date as the parties may agree) as earnest money. The actual amount of Deposit shall be agreed by the parties at least two days before the payment of Deposit falls due. The payment of the Deposit will be funded by the internal resources of the Company. In the event that a formal share purchase agreement is entered into between the Vendor and the Purchaser, the Deposit shall be applied as a deposit and partial payment of the consideration for the Proposed Acquisition in accordance with the terms of the formal share purchase agreement.

The Vendor shall immediately return the Deposit to the Purchaser:

- (a) if the Purchaser is in its absolute discretion not satisfied with the results of the Due Diligence Review;
- (b) if the Purchaser is satisfied with the results of the Due Diligence Review but the Vendor rejects or fails to enter into a formal share purchase agreement;
- (c) upon termination of the MOU; or
- (d) by agreement of the parties to the MOU in writing.

The MOU shall be terminated upon the expiry of the Exclusivity Period; or upon the execution of a formal share purchase agreement; or by agreement of the parties to the MOU in writing (whichever is the earliest).

As the amount of Deposit may exceed 8% under the assets ratio of the Company, the payment of the Deposit may constitute an advance to an entity for the Company under Rule 13.13 of the Listing Rules.

As a continuing security for the repayment of the Deposit and the due performance of the MOU by the Vendor, (a) a Deed of Charge dated 22 June 2016 was signed by the Vendor to charge all his shares in the Target Company in favour of the Purchaser; and (b) a Deed of Charge dated 22 June 2016 was signed by the Target Company to charge all its shares in the Hong Kong Company in favour of the Purchaser. The charges were made in respect of the entire issued share capital of the Target Company and the Hong Kong Company respectively by way of first fixed charge until the return of the full amount of the Deposit or the signing of the formal share purchase agreement, whichever is earlier.

REASONS FOR ENTERING INTO THE MOU

To the best knowledge, information and belief of the Directors, the Target Company is an investment holding company and is the sole legal and beneficial owner of the Hong Kong Company, which in turn is the sole shareholder of a wholly foreign owned enterprise in the PRC. The said wholly foreign owned enterprise is the sole owner of a PRC established company, which in turn holds 60% equity interest in the PRC Company. The PRC Company owns various subsidiaries in the PRC which are engaged in proprietary Chinese medicines, chemical raw materials, biochemical products, chemical medicine preparation and healthy food. The Vendor shall use his best endeavours to procure the remaining 40% equity interest of the PRC Company to be disposed of to the Purchaser at a price to be determined.

The Group is principally engaged in (i) distribution of business phone systems under the RCA brand; and (ii) EMS business originally engaged by the Group with manufacturing facilities located in Guangzhou. Major products manufactured under the EMS business are electronic consumer products including but not limited to residential and business phones, beauty consumer products, home appliances and appliance control products.

It is the Company's business strategy to shift its business focus on the medical and healthcare industry. As stated in previous announcements, the Company is in the preliminary stage of reviewing and considering the feasibility of certain projects which are principally engaged in the medical and healthcare industry. The Proposed Acquisition will further allow the Group to expand into medical and healthcare industry. The terms of the MOU were arrived at arm's length negotiations between the Purchaser and the Vendor. The Board considers the terms of the MOU are normal commercial terms and fair and reasonable, and, if materialized, will be in the interests of the Company and its Shareholders as a whole.

GENERAL

The MOU contains certain legally binding provisions relating to, inter alia, term of confidentiality, exclusivity, and governing law of the MOU. However, it is not legally binding in respect of the Proposed Acquisition.

The Board wishes to emphasise that no legally binding agreement in relation to the Proposed Acquisition has been entered into as at the date of this announcement and the Proposed Acquisition may or may not materialize. Shareholders and potential investors of the Company are urged to exercise caution when dealing in the securities of the Company.

The Proposed Acquisition, if materialize, may constitute a notifiable transaction under Chapter 14 of the Listing Rules. Further announcement will be made by the Company as and when necessary.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	China Healthcare Enterprise Group Limited, a company incorporated in the Cayman Islands with limited liability and the securities of which are listed on the Stock Exchange
“Deposit”	a refundable deposit in an amount not more than HKD200 million, the actual amount of which shall be agreed by the parties at least two days before the payment of Deposit falls due, payable by the Purchaser to the Vendor (or his nominee) as earnest money of the Proposed Acquisition
“Director(s)”	director(s) of the Company
“Due Diligence Review”	the business, legal and financial due diligence to be conducted by the Purchaser on the Target Group pursuant to the MOU
“EMS”	electronic manufacturing services
“Exclusivity Period”	a period of 6 months from the date of the MOU, or such other date as the parties may agree
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Company”	Well Champ International Limited 祥佳國際有限公司, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“MOU”	the non-legally binding memorandum of understanding dated 22 June 2016 entered into between the Purchaser and the Vendor in relation to the Proposed Acquisition
“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
“PRC Company”	Anhui Huayuan Pharmaceutical Company Limited* (安徽華源醫藥股份有限公司), a company established in the PRC with limited liability and a member of the Target Group
“Proposed Acquisition”	the proposed acquisition of the entire issued share capital of the Target Company by the Purchaser from the Vendor
“Purchaser”	Captain Ace Limited, a company incorporated in British Virgin Islands with limited liability and a wholly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Lung Hang Investments Limited 隆亨投資有限公司, a company incorporated in the British Virgin Islands with limited liability wholly owned by the Vendor
“Target Group”	the Target Company together with its subsidiaries
“Vendor”	Zeng Huadi, the sole legal and beneficial owner of the entire issued share capital of the Target Company

By Order of the Board
China Healthcare Enterprise Group Limited
Gong Shaoxiang
Chairman and Executive Director

Hong Kong, 22 June 2016

As at the date of this announcement, the Board comprises Mr. Gong Shaoxiang (Chairman) and Mr. Lee Chi Hwa Joshua as executive Directors, Mr. Cao Yuyun as non-executive Director and Mr. Bao Jinqiao, Mr. Wong Chun Hung and Mr. Leung Pok Man as independent non-executive Directors.

* *For identification purpose only*