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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)

LOAN CAPITALIZATION

On 2 August 2013 (after trading hours), the Company and the Noteholder entered into the Agreement pursuant to which, the Company agreed to settle part of the Promissory Note by capitalizing the principal amount of HK\$10 million of the Promissory Note by means of issuing and allotting the Loan Shares at an issue price of HK\$0.333 per Loan Share to the Noteholder.

The Loan Shares, which represent approximately 4.98% of the existing share capital of the Company and 4.74% of the issued share capital of the Company as enlarged by the issue of the Loan Shares, will be allotted and issued under the general mandate granted to the Directors at the special general meeting of the Company held on 30 July 2013.

BACKGROUND

On 24 November 2012, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement with, among others, Firstsail Investments Limited to acquire the entire issued capital of Anew Capital Limited. As part of the consideration for the acquisition, the Company issued the Promissory Note in principal amount of HK\$18 million to the Noteholder on 19 December 2012. The Promissory Note was due for repayment on 19 June 2013. Details of the acquisition and the Promissory Note are disclosed in the Company's announcement dated 25 November 2012.

On 2 August 2013 (after trading hours), the Company entered into the Agreement with the Noteholder to capitalize the principal amount of HK\$10 million of the Promissory Note by means of issuing and allotting the Loan Shares to the Noteholder. Details of the Loan Capitalization are set out as follows:

* *for identification purposes only*

THE AGREEMENT

Date

2 August 2013

Parties to the Agreement

Noteholder: First Capital Global Limited, a company incorporated in the British Virgin Islands with limited liability, is principally engaged in the business of investment holding and is the holder of the Promissory Note as at the date of the Agreement.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Noteholder and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

Issuer: the Company

Issue price of the Loan Shares

The issue price of HK\$0.333 per Loan Share represents (i) a discount of approximately 12.37% to the closing price of HK\$0.38 per Share as quoted on the Stock Exchange on the date of the Agreement; (ii) a discount of approximately 6.98% to the average closing price of approximately HK\$0.358 per Share for the last five trading days immediately prior to and including the date of the Agreement; and (iii) a discount of approximately 7.63% to the average closing price of approximately HK\$0.3605 per Share for the last ten trading days immediately prior to and including the date of the Agreement.

The issue price of the Loan Shares was arrived at after arm's length negotiations between the Company and the Noteholder with reference to the prevailing market price of the Shares and the financial position of the Group.

Loan Shares

The Loan Shares represent approximately 4.98% of the existing share capital of the Company and approximately 4.74% of the issued share capital of the Company as enlarged by the issue of the Loan Shares.

The Loan Shares shall rank pari passu in all respects with the Shares in issue and shall be free from all encumbrances and third-party rights of whatsoever nature and together with all rights to all dividends, distributions and other payments made or to be made for which the record date falls or after the date of issue of the Loan Shares.

The Loan Shares will be issued under the general mandate granted to the Directors at the special general meeting of the Company held on 30 July 2013, under which the maximum number of Shares which may be allotted and issued is 120,651,933 Shares. Such general mandate has not been utilized as at the date of this announcement. Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Loan Shares.

Extension of the maturity date of the Promissory Note

Upon execution of the Agreement, HK\$10 million of the principal amount of the Promissory Note shall be deemed to be paid in full and the outstanding principal of the Promissory Note shall then be reduced to HK\$8 million. Pursuant to the Agreement, the Noteholder agreed to extend the maturity date of the Promissory Note to 30 November 2013. Save for the extension of the maturity date, all terms and conditions of the Promissory Note remain unchanged.

Conditions precedent

The completion of the Agreement is conditional upon the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Loan Shares on the Stock Exchange.

REASONS FOR THE LOAN CAPITALIZATION

The Group is principally engaged in the provision of B-to-C consumer services and distribution of cooling systems in the PRC.

With reference to the annual report of the Company for the year ended 31 March 2013, the total assets and the total liabilities of the Group were approximately HK\$292.3 million and HK\$295.4 million respectively as at 31 March 2013 while the net current liabilities and net liabilities attributable to the owners of the Company were approximately HK\$60.6 million and HK\$84.2 million respectively. As at 31 March 2013, the gearing ratio of the Group, as expressed as the ratio of total liabilities to total assets, was approximately 101.1%.

In view of the financial position of the Group, the Directors consider that the Loan Capitalization is beneficial to the Company as it can enable the Group to (i) settle part of the outstanding principal of the Promissory Note without affecting the working capital of the Company; (ii) reduce its gearing ratio; (iii) enlarge its capital base; and (iv) improve its net liability position. The Directors consider that the terms of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is a summary of the shareholding in the Company as at the date of this announcement and, for illustrative purposes only, upon issuance of the Loan Shares, prepared on the basis that there would be no changes in the issued share capital of the Company after the date of this announcement other than as stated.

	As at the date of this announcement		Upon issuance of the Loan Shares	
	Number of Shares	%	Number of Shares	%
Dr. Li Zhong Yuan and his associates (<i>Note 1</i>)	24,443,000	4.05	24,443,000	3.86
Mr. Martin Treffer and his associates (<i>Note 2</i>)	1,545,000	0.26	1,545,000	0.24
Mr. Zhou Bao Yi (<i>Note 3</i>)	1,002,000	0.17	1,002,000	0.16
Mr. Mu Xiangming (<i>Note 3</i>)	261,000	0.04	261,000	0.04
Mr. Jiang Bo (<i>Note 3</i>)	261,000	0.04	261,000	0.04
Dragonrise Capital Advisors Inc. (<i>Note 4</i>)	62,480,474	10.36	62,480,474	9.87
ZhongXing Limited (<i>Note 5</i>)	76,160,474	12.62	79,736,474	12.59
Firstsail Investments Limited (<i>Note 6</i>)	100,000,000	16.58	100,000,000	15.79
Noteholder	–	–	30,030,030	4.74
Other public Shareholders	337,106,717	55.88	333,530,717	52.67
Total	<u>603,259,665</u>	<u>100.00</u>	<u>633,289,695</u>	<u>100.00</u>

Notes:

- (1) These Shares include 11,147,000 Shares held by Pacific Annex Capital Limited, a company wholly-owned by Dr. Li Zhong Yuan, a Director, and 13,296,000 Shares held by Dr. Li Zhong Yuan.
- (2) These Shares include 1,295,000 Shares held by 2Trade Group Limited, a company beneficially owned as to 35% by Mr. Martin Treffer, an ex-Director resigned on 3 April 2013, and 250,000 Shares held by Mr. Martin Treffer.
- (3) Mr. Zhou Bao Yi, Mr. Mu Xiangming and Mr. Jiang Bo are Directors.
- (4) Dragonrise Capital Advisors Inc. is beneficially wholly-owned by Mr. Yeung Ning.
- (5) ZhongXing Limited is beneficially wholly-owned by Mr. Ho Kin.
- (6) Firstsail Investments Limited is beneficially owned as to 50% by Ms. Chan Lee On and 50% by Mr. Shen Yuluo.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Group has not conducted any equity fund raising activity in the past 12 months immediately preceding the date of this announcement.

DEFINITIONS

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

“Agreement”	the agreement dated 2 August 2013 entered into between the Company and the Noteholder in relation to the Loan Capitalization
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China HealthCare Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Loan Capitalization”	the capitalization of HK\$10 million due from the Company to the Noteholder under the Promissory Note by issuing and allotting the Loan Shares at HK\$0.333 per Loan Share to the Noteholder in accordance with the terms and conditions of the Agreement
“Loan Shares”	30,030,030 new Shares to be issued and allotted by the Company to the Noteholder pursuant to the Agreement
“Noteholder”	First Capital Global Limited, the holder of the Promissory Note as at the date of the Agreement
“Promissory Note”	the promissory note in principal amount of HK\$18 million issued by the Company to the Noteholder on 19 December 2012 as part of the consideration for the acquisition of the entire issued share capital of Anew Capital Limited by a wholly-owned subsidiary of the Company

“Share(s)”	ordinary share(s) of HK\$0.1 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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

Hong Kong, 2 August 2013

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