

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.



China HealthCare Holdings Limited
中國衛生控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

SUBSCRIPTION OF CONVERTIBLE NOTE

THE SUBSCRIPTION

On 3 June 2014 (after trading hours), the Company, the Subscriber and the Guarantor entered into the Subscription Agreement, pursuant to which the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Note in principal amount of HK\$195,000,000.

Completion is subject to the conditions as set out in the paragraph headed “Conditions Precedent” below. Detailed terms of the Convertible Note are also set out in the paragraph headed “Principal terms of the Convertible Note” in this announcement.

Assuming the conversion rights attaching to the Convertible Note are exercised in full at the Initial Conversion Price of HK\$0.15 per Conversion Share, a total of 1,300,000,000 Conversion Shares will be allotted and issued, representing approximately 205.3% of the existing issued share capital of the Company as at the date of this announcement and approximately 67.2% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares. The Conversion Shares will be issued pursuant to a specific mandate to be sought from the Shareholders at the SGM. An application will be made by the Company to the Stock Exchange for the approval of the listing of, and permission to deal in, the Conversion Shares.

The estimated net proceeds from the Subscription (after deducting all related expenses) of approximately HK\$194,500,000 is intended to be used for general working capital and/or settlement of outstanding liabilities of the Group.

GENERAL

The SGM will be convened and held for the Shareholders to consider and, if thought fit, pass the resolution in relation to the Subscription. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders are required to abstain from voting at the SGM.

A circular containing, among other things, details of the Subscription and a notice of the SGM will be dispatched to the Shareholders on or before 15 July 2014 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

INTRODUCTION

On 3 June 2014 (after trading hours), the Company, the Subscriber and the Guarantor entered into the Subscription Agreement in respect of the Subscription. Details of the Subscription Agreement and the principal terms of the Convertible Note are set out below:

THE SUBSCRIPTION AGREEMENT

Date

3 June 2014

Parties

Issuer: the Company

Subscriber: Lin & Li Investment Limited, an investment holding company incorporated under the laws of the British Virgin Islands with limited liability and wholly-owned by the Guarantor

Guarantor: Mr. Lin Grant Xiao-Bin

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

Subject Matter

Pursuant to the Subscription Agreement, the Company conditionally agreed to issue, and the Subscriber conditionally agreed to subscribe for, the Convertible Note.

Subscription Price

The Subscriber conditionally agreed to subscribe for the Convertible Note in principal amount of HK\$195,000,000, at the issue price equivalent to 100% of the principal amount, which shall be satisfied in cash by the Subscriber upon Completion.

Conditions Precedent

Completion is conditional upon, inter alia, the following conditions being fulfilled (or waived by the relevant party in writing):

- (a) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares;
- (b) the passing by the Shareholders at the SGM an ordinary resolution approving the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Note and the allotment and issue of the Conversion Shares;
- (c) the passing by the directors of the Subscriber of a resolution approving the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the subscription of the Convertible Note;
- (d) the warranties provided by the Company in the Subscription Agreement remaining true and accurate and not misleading in all respects as at the date of Completion; and
- (e) the warranties provided by the Subscriber in the Subscription Agreement remaining true and accurate and not misleading in all respects as at the date of Completion.

Completion shall take place simultaneously with the fulfilment (or otherwise waived) of the last of the conditions precedent or such other date as may be agreed between the parties. If any of the conditions specified above is not fulfilled (or waived by the relevant party in writing, which waiver if granted may be subject to such conditions as such party deems fit) on or before the Long Stop Date or such other date as the Company and the Subscriber shall mutually agree, the Subscription Agreement shall forthwith become null and void and cease to have any effect whatsoever and neither party shall have any claim against the other for costs, damages, compensations or otherwise (save for liabilities for any antecedent breaches of the Subscription Agreement).

Termination

If at any time on or prior to the Completion:

- (a) the Company commits any material breach of any warranty provided by the Company under the Subscription Agreement or omits to perform or observe any of its other obligations or undertakings expressed to be assumed by it under the Subscription Agreement in any material aspect; or
- (b) the Subscriber commits any material breach of any warranty provided by the Subscriber under the Subscription Agreement or omits to perform or observe any of its other obligations or undertakings expressed to be assumed by it under the Subscription Agreement in any material aspect; or
- (c) an Event of Default (as defined in the paragraph headed “Principal terms of the Convertible Note” herein) or a prospective Event of Default has occurred and has not been remedied to the satisfaction of the other party on or prior to the Completion,

then, in any such case, the aforesaid other party may on or before the date of Completion in its absolute discretion without any liability on its part, by notice in writing terminate the Subscription Agreement. If the Subscription Agreement is terminated, the parties to the Subscription Agreement shall be released and discharged from their respective obligations (without prejudice to the rights and/or obligations of any party in respect of any antecedent breach), subject to the terms of the Subscription Agreement.

Guarantee

The Guarantor agreed to guarantee the due and punctual performance and observance by the Subscriber of all its obligations under the Subscription Agreement.

PRINCIPAL TERMS OF THE CONVERTIBLE NOTE

Issuer:	the Company
Principal amount:	HK\$195,000,000
Issue price:	100% of the principal amount of the Convertible Note
Interest rate:	Nil
Maturity date:	the date falling on the third anniversary from the date of issue of the Convertible Note

Conversion right: the Noteholder shall have the right to convert the whole or part of the outstanding principal amount of the Convertible Note into Conversion Shares at the Initial Conversion Price (subject to adjustments) at any time and from time to time during the conversion period. Notwithstanding the above, the Noteholder shall not have the right to convert the whole or part of the outstanding principal amount of the Convertible Note into Conversion Shares to the extent that immediately after such conversion if (a) the minimum public float requirement for the Shares as required under the Listing Rules could not be maintained; or (b) the Noteholder whether alone or together with parties acting in concert with it will, directly or indirectly, control or be interested in 30% or more of the voting rights of the Company as enlarged by such conversion (or in such other percentage lower than 30% as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer) (the “Conversion Restrictions”).

Conversion Period: the period commencing from the issue date of the Convertible Note and ending upon the maturity date of the Convertible Note.

Conversion Price: the Initial Conversion Price is HK\$0.15 per Conversion Share, subject to adjustments in accordance with the terms and conditions of the Convertible Note. The Initial Conversion Price represents: (i) a discount of approximately 40.0% to the closing price of HK\$0.250 per Share as quoted on the Stock Exchange on the Last Trading Day; (ii) a discount of approximately 41.6% to the average closing price of approximately HK\$0.257 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day; and (iii) a discount of approximately 41.9% to the average closing price of approximately HK\$0.258 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day.

The Conversion Price was determined after arm’s length negotiations between the Company and the Subscriber, taking into account (i) the prevailing market price of the Shares; (ii) the net liabilities attributable to owners of the Company of approximately HK\$84.0 million as at 30 September 2013; (iii) the financial distress facing by the Group and the possible consequences of failing to obtain the necessary funding for normal operation of the Group and repayment of liabilities in the near future; and (iv) other favorable terms of the Convertible Note such as zero interest and mandatory conversion on the maturity date of the Convertible Note.

Events leading to adjustment to the conversion price:

events leading to adjustment to the conversion price of the Convertible Note include the followings:

- (i) an alternation of the nominal amount of the Shares by reasons of share consolidation or subdivision;
- (ii) an issue by the Company of Shares credited as fully paid by way of capitalization of profits or reserves (including any share premium account or capital redemption reserve fund);
- (iii) a capital distribution made by the Company to the Shareholders (whether on a reduction of capital or otherwise) or a grant by the Company to the Shareholders of rights to acquire for cash assets of the Company or any of its subsidiaries;
- (iv) an offer by the Company to the Shareholders of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe for new Shares to the Shareholders at a price which is less than 80% of the market price at the date of the announcement of the terms of the offer or grant;
- (v) (a) an issue by the Company wholly for cash of any securities which by their terms are convertible into or exchange for or carry rights of subscription for new Shares, and the total effective consideration per Share initially receivable for such securities is less than 80% of the market price at the date of the announcement of the terms of issue of such securities; and (b) any modification of the rights of conversion or exchange or subscription attached to any such securities as are mentioned in (a) above so that the total effective consideration per Share initially receivable for such securities shall be less than 80% of the market price at the date of announcement of the proposal for modification;
- (vi) an issue by the Company of any Share wholly for cash at a price per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue;
- (vii) an issue by the Company of any Share for the acquisition of asset at a total effective consideration per Share which is less than 80% of the market price at the date of the announcement of the terms of such issue; and
- (viii) any other event that the Company reasonably determines that an adjustment should be made to the Conversion Price.

Notwithstanding the above, the Subscriber acknowledged and agreed that the issue of the April 2014 CN and the grant of the Options by the Company shall not cause any adjustment on the conversion price of the Convertible Note.

Conversion Shares: The Conversion Shares shall rank pari passu in all respects with the fully paid Shares in issue on the relevant conversion date and shall entitle the holders to participate in full in all dividend or other distribution paid or made on the Shares after the relevant conversion date other than any dividend or other distribution previously declared, or recommended or resolved to be paid or made if the record date therefor falls on or before the relevant conversion date.

The Conversion Shares converted under 30% of the principal amount of the Convertible Note and 70% of the principal amount of the Convertible Note are subject to a lock-up period of six months and twelve months respectively, during which the Conversion Shares converted thereunder shall be legally and beneficially held by the Subscriber and the Subscriber shall not transfer any interest in respect thereof to any other party unless with the prior written consent of the Company.

Assuming that the Convertible Note is fully converted into Conversion Shares at the Initial Conversion Price, a total of 1,300,000,000 Conversion Shares will be allotted and issued to the Noteholder, which represent approximately 205.3% of the issued share capital of the Company as at the date of this announcement and approximately 67.2% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares upon exercise of the Convertible Note.

The Conversion Shares will be issued under a specific mandate, which will be sought at the SGM. An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares on the Stock Exchange.

Mandatory conversion: the Company shall be entitled to request the Noteholder to mandatorily convert the outstanding principal amount of the Convertible Note into Conversion Shares at the Initial Conversion Price (subject to adjustments) on the maturity date of the Convertible Note and the Conversion Shares will be issued and allotted to the Noteholder subject to the Conversion Restrictions. Irrespective of the maturity date of the Convertible Note, if there is any principal amount remains outstanding after the mandatory conversion, the Company will be entitled to request the Noteholder from time to time to mandatorily convert all and any part of the outstanding principal under the Convertible Note into Conversion Shares until there is no principal moneys outstanding subject always to the Conversion Restrictions. For the avoidance of doubt, no request for the repayment of any part of the principal moneys outstanding under the Convertible Note can be made by the Noteholder to the Company unless there is any occurrence of Events of Default.

Transferability: 30% of the Convertible Note and 70% of the Convertible Note are subject to a lock-up period of six months and twelve months, commencing from the date of issue of the Convertible Note, respectively. The Convertible Note may be assigned or transferred in whole or in part to any third party, save for party or parties connected with or acting in concert with any of the directors, chief executives or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates, at any time after the abovementioned lock-up periods.

Voting: the Noteholder shall not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of it being the Noteholder.

Events of Default: the Noteholder may give notice to the Company that the Convertible Note is, and it shall on the giving of such notice immediately become, due and payable at its principal amount and all other sums payable under the Convertible Note if:

- (i) the Company fails to pay any principal amount in respect of the Convertible Note when due unless non-payment of such amount is due to administrative or technical error and payment is made within 3 business days of the due date thereof; or
- (ii) the Company defaults in the performance or observance of or compliance with any of its other obligations set out in the instrument of the constituting the Convertible Note which default is

incapable of remedy or, if capable of remedy, is not remedied within 14 days after notice of the occurrence of such default by the Noteholder; or

- (iii) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its major subsidiaries (and, where any such appointment is made in relation to a major subsidiary, the appointment is not discharged within 14 days of it being made); or
- (iv) the Company or any of its major subsidiaries becomes insolvent or is unable to pay its debts as they fall due or applies for or consents to or suffers the appointment of any administrator, liquidator or receiver of the Company or any of its major subsidiaries or the whole or any substantial part of the undertaking, property, assets or revenues of the Company or any of its major subsidiaries (and, where any such appointment is made in relation to a major subsidiary, the appointment is not discharged or withdrawn within 14 days of it being made) or takes any proceeding under any law for a readjustment or deferment of its respective obligations or any part of them or makes or enters into a general assignment or compromise with or for the benefit of its respective creditors; or
- (v) a petition is presented or a proceeding is commenced or an order is made or an effective resolution is passed for the winding-up, insolvency, administration or dissolution of the Company or any of its major subsidiaries (and where any such petition, proceeding or order is presented, commenced or made in relation to a major subsidiary, such petition, proceeding or order is not set aside or withdrawn within 14 days of it being filed, commenced or made), except in the case of winding-up of any subsidiaries of the Company in the course of internal reorganisation without involving insolvency; or
- (vi) a moratorium is agreed or declared in respect of any indebtedness of the Company or any of its major subsidiaries (and, in the case of a major subsidiary, is not lifted within 14 days of it being agreed or declared) or any governmental authority or agency condemns, seizes, compulsorily purchases or expropriates all or a substantial part of the assets of the Company or any of its major subsidiaries; or
- (vii) the Shares cease to be listed on the Stock Exchange.

Listing: Application will not be made for the listing of, or permission to deal in, the Convertible Note on the Stock Exchange or any other stock exchange.

REASONS FOR THE ISSUE OF THE CONVERTIBLE NOTE AND USE OF PROCEEDS

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

As disclosed in the Company's interim report for the six months ended 30 September 2013, the Group was facing a solvency problem and the financial distress of the Group had adversely impacted its operating activities. The Group has been making every effort to work out a satisfactory solution for improving its financial position and has taken active measures to seek for viable assets and business that can improve the profitability of the Group. The Directors consider that the Subscription will help alleviating the solvency problem and strengthen the financial position of the Group.

The Directors consider that the terms of the Subscription Agreement, which were arrived at after arm's length negotiations between the Company and the Subscriber, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

The estimated net proceeds from the Subscription (after deducting all related expenses) of approximately HK\$194,500,000 is intended to be used for general working capital and/or settlement of outstanding liabilities of the Group. After deducting the expenses relating to the Subscription, the net conversion price for each Conversion Share is about HK\$0.1496.

SHAREHOLDING STRUCTURE

Set out below is a summary of the shareholding in the Company as at the date of this announcement and, for illustrative purpose only, (i) upon full conversion of the Convertible Note; and (ii) upon conversion of the Convertible Note, subject to the Conversion Restrictions, 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 other than as stated in each scenario.

	As at the date of this announcement		Upon full conversion of the Convertible Notes and the Option CN ^{Note 6}		Upon conversion of the Convertible Notes and the Option CN, subject to the Conversion Restrictions ^{Note 5}	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Firstsail Investments Limited ^(Note 1)	100,000,000	15.79	100,000,000	5.18	100,000,000	11.06
Dragonrisecapital Advisors Inc. ^(Note 2)	48,155,474	7.61	48,155,474	2.49	48,155,474	5.32
ZhongXing Limited ^(Note 3)	69,422,474	10.96	69,422,474	3.59	69,422,474	7.67
Dr. Li Zhong Yuan ^(Note 4)	24,443,000	3.86	24,443,000	1.27	24,443,000	2.70
Mr. Zhou Bao Yi	1,002,000	0.16	1,002,000	0.05	1,002,000	0.11
Mr. Mu Xiang Ming	261,000	0.04	261,000	0.01	261,000	0.03
Mr. Jiang Bo	261,000	0.04	261,000	0.01	261,000	0.03
The Subscriber	–	–	1,300,000,000	67.24	271,280,645	29.99
Other public Shareholders	<u>389,744,747</u>	<u>61.54</u>	<u>389,744,747</u>	<u>20.16</u>	<u>389,744,747</u>	<u>43.09</u>
Total	<u>633,289,695</u>	<u>100.00</u>	<u>1,933,289,695</u>	<u>100.00</u>	<u>904,570,340</u>	<u>100.00</u>

Notes:

- As at the date hereof, Firstsail Investments Limited is beneficially owned as to 50% by Ms. Chan Lee On and 50% by Mr. Shen Yuluo.
- As at the date hereof, Dragonrisecapital Advisors Inc. is beneficially wholly-owned by Mr. Yeung Ning.
- As at the date hereof, ZhongXing Limited is wholly-owned by Mr. Ho Kin.
- These Shares are held by Timenew Limited, which is wholly-owned by Dr. Li Zhong Yuan as at the date hereof.
- Pursuant to the Subscription Agreement, the Noteholder is restricted not to convert the whole or part of the outstanding principal amount of the Convertible Note into Conversion Shares to the extent that immediately after such conversion if (a) the minimum public float requirement for the Shares as required under the Listing Rules could not be maintained; or (b) the Noteholder whether alone or together with parties acting in concert with it will, directly or indirectly, control or be interested in 30% or more of the

voting rights of the Company as enlarged by such conversion (or in such other percentage lower than 30% as may from time to time be specified in the Takeovers Code being the level for triggering a mandatory general offer).

6. This scenario is shown for illustrative purposes only and will not exist in reality as the conversion rights attaching to the Convertible Note are subject to the Conversion Restrictions set out in Note 5 above.

EQUITY FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not conducted any fund raising activity in the twelve months immediately preceding the date of this announcement.

Date of announcement	Description	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
8 April 2014	Issue of convertible notes	HK\$224,400,000	Financing the potential acquisitions and general working capital of the Group	The issue has not been completed yet as at the date of this announcement
8 April 2014	Issue of option for subscription of convertible notes	HK\$224,400,000 (maximum)	General working capital and future business development of the Group	The issue has not been completed yet as at the date of this announcement
23 May 2014	Subscription of Shares	HK\$10,400,000	General working capital of the Group	The subscription has not been completed yet as at the date of this announcement

GENERAL

A SGM will be convened and held for the Shareholders to consider and, if thought fit, passing the resolution to approve the Subscription Agreement and the transactions contemplated thereunder, including but not limited to the issue of the Convertible Note and the issue and allotment of the Conversion Shares. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders are required to abstain from voting at the SGM.

A circular containing, among other things, further details of the Subscription and a notice of the SGM will be despatched to the Shareholders in compliance with the Listing Rules. The Company expects that the circular will be despatched to the Shareholders on or before 15 July 2014 so as to allow sufficient time for the preparation of the relevant information for inclusion in the circular.

Shareholders and potential investors should note that the Subscription is subject to various conditions precedent. As the Subscription may or may not proceed, Shareholders and potential investors are reminded to exercise caution when dealing in the Shares.

DEFINITION

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

“April 2014 CN”	the convertible notes in aggregate principal amount of HK\$225,000,000 to be issued by the Company to two independent subscribers pursuant to the subscription agreements dated 8 April 2014 and entered into between the Company and each of the subscribers
“associate(s)”	has the meaning ascribed thereto in the Listing Rules
“Board”	board of the Directors
“Company”	China HealthCare Holdings Limited, a company incorporated in Bermuda with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange
“Completion”	completion of the Subscription Agreement in accordance with its terms and conditions
“connected person(s)”	has the meaning ascribed thereto in the Listing Rules
“Conversion Share(s)”	the Share(s) to be allotted and issued by the Company upon an exercise of the conversion rights attaching to the Convertible Note

“Convertible Note”	the convertible note in principal amount of HK\$195,000,000 to be issued by the Company to the Subscriber pursuant to the Subscription Agreement
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Lin Grant Xiao-Bin
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Initial Conversion Price”	HK\$0.15 per Conversion Share, subject to adjustments
“Last Trading Day”	3 June 2014, being the last trading day before the publication of this announcement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2014 (or such other date as the parties to the Subscription Agreement may agree in writing)
“Noteholder”	the person who is for the time being the holder of the Convertible Note
“Options”	the options to be granted by the Company to two independent subscribers, pursuant to which the subscribers have the right to request the Company to issue convertible notes to them on the same terms and conditions of the April 2014 CN and in an aggregate principal amount of not more than that of the April 2014 CN, in accordance with the subscription agreements dated 8 April 2014 and entered into between the Company and each of the subscribers
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and approve the Subscription Agreement and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.1 each in the capital of the Company
“Shareholders”	holders of the Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Lin & Li Investment Limited, which subscribed for the Convertible Note pursuant to the Subscription Agreement
“Subscription”	the subscription for the Convertible Note by the Subscriber pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the subscription agreement dated 3 June 2014 and entered into among the Company, the Subscriber and the Guarantor in relation to the Subscription
“Takeovers Code”	the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong
“%”	per cent

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

Hong Kong, 3 June 2014

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

* *for identification purpose only*