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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisor.

If you have sold or transferred all your shares in China HealthCare Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank manager, licensed securities dealer or registered institution or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of China HealthCare Holdings Limited.

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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)

SUBSCRIPTION OF CONVERTIBLE NOTE

A notice convening a special general meeting of China HealthCare Holdings Limited to be held at 10:00 a.m. on 23 July 2014, Wednesday at Unit 801, 8/F, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong is set out on pages 18 to 19 of this circular. A form of proxy for use by the shareholders at the special general meeting is also enclosed with this circular. Whether or not you intend to attend the special general meeting, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and return the form of proxy to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

7 July 2014

* for identification purposes only

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DEFINITIONS

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

“Announcement”	the Company’s announcement dated 3 June 2014 in relation to the Subscription
“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
“Business Day(s)”	any day, other than a Saturday, Sunday, public holiday or a day on which a tropical cyclone warning no. 8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m., on which licensed banks in Hong Kong are generally open for business
“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 Restriction”	the restriction of not allowing the Noteholder to exercise its right to convert the whole or part of the outstanding principal amount of the Convertible Note into Conversion Shares if immediately after such conversion (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 would, 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)
“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

DEFINITIONS

“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
“Director(s)”	director(s) 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 PRC
“Initial Conversion Price”	HK\$0.15 per Conversion Share, subject to adjustments
“Last Trading Day”	3 June 2014, being the last trading day on which the Shares were traded on the Stock Exchange prior to the release of the Announcement
“Latest Practicable Date”	3 July 2014, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“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
“PRC”	the People’s Republic of China

DEFINITIONS

“Preference Shares”	15,000 redeemable convertible cumulative preference shares issued by the Company to certain investors in accordance with the terms and conditions of the subscription agreement dated 5 April 2006 and entered into between the Company and the investors
“SGM”	the special general meeting of the Company to be convened and held on 23 July 2014, Wednesday 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
“Shareholder(s)”	holder(s) 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 of 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

LETTER FROM THE BOARD



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

Executive Directors:

Mr. Jia Hong Sheng (*Chairman*)

Dr. Li Zhong Yuan

Mr. Zhou Bao Yi

Mr. Chung Ho

Mr. Wang Jingming

Registered office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Independent Non-Executive Directors:

Mr. Mu Xiangming

Mr. Jiang Bo

Dr. Yan Shi Yun

Mr. Zhao Hua

Principal place of business:

Unit 801, 8/F

China Insurance Group Building

141 Des Voeux Road Central

Hong Kong

7 July 2014

*To the Shareholders and for information only,
the holder of the Preference Shares*

Dear Sirs,

SUBSCRIPTION OF CONVERTIBLE NOTE

INTRODUCTION

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.

The Subscription is subject to approval by the Shareholders, by way of poll, at the SGM. The purpose of this circular is to provide you with further details of the Subscription and a notice convening the SGM.

* *for identification purposes only*

LETTER FROM THE BOARD

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. The Subscriber and the Guarantor have over 15 years of experience in investment with major focus on retail, television media, natural resources and health care businesses in the PRC, United States of America and Europe.

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 and there are no relationships between the Company and the Subscriber and the Guarantor. The Subscriber and the Guarantor were introduced to the Company by a securities firm.

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;

LETTER FROM THE BOARD

- (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 fulfillment (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). As at the Latest Practicable Date, condition (c) has been fulfilled. The Long Stop Date was set at a date around four months from the date of the Subscription Agreement so as to allow flexibility for the Group in completing the Subscription while the Company intends to complete the Subscription as soon as practicable.

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.

LETTER FROM THE BOARD

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 would, 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).
Conversion Period:	the period commencing from the issue date of the Convertible Note and ending on 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; (iii) a discount of approximately 41.9% to the average closing price of approximately

LETTER FROM THE BOARD

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; and (iv) a discount of approximately 39.8% to the closing price of HK\$0.249 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

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 of the Convertible Note on the maturity date. Based on the above and having considered that, (i) the financial performance and position of the Group were poor for the past few years as evidenced by the record of net liabilities for the Group since the year ended 31 March 2010 and the net loss for the Group for the three years ended 31 March 2012 while the net profit recorded for the year ended 31 March 2013 was mainly attributable to the extinguishment of liability component, and fair value gain on derivative component, of the Preference Shares, which were non-operational and non-recurring in nature; (ii) the liquidity of the Shares is relatively low; (iii) the Company has difficulty in raising fund in view of the solvency problem of the Group; and (iv) the Group has an urgent funding need for settlement of its outstanding obligations, the Directors are of the opinion that the initial conversion price is fair and reasonable so far as the Shareholders are concerned.

**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;

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- (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.

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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 190.3% of the issued share capital of the Company as at the Latest Practicable Date and approximately 65.5% 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 Restriction. Irrespective of the maturity date of the Convertible Note, if there is any principal amount remains outstanding after the mandatory conversion requested by the Company on the maturity date of the Convertible Note, the Company will be entitled to request the Noteholder from time to time, without limitation on the frequency of the mandatory conversion, 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 Restriction. For the avoidance of doubt, there are no time limits for mandatory conversion and 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.

LETTER FROM THE BOARD

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 or 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 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 (except for those liabilities existed as at the date of the Subscription Agreement) 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

LETTER FROM THE BOARD

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 reorganization 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 healthcare services as well as distribution of cooling systems for high-speed trains in the PRC. During the year ended 31 March 2014, the Group continued to carry out B-to-C consumer services as a value added service provider to telecom operators in the PRC and use its distribution network to provide consumers with better services in terms of convenience, communication quality and connection. To seize the opportunity of huge demand for healthcare services brought by the healthcare reform in the PRC, the Group developed the healthcare service business segment by acquiring a subsidiary during the financial year ended 31 March 2014. The Group's healthcare service segment showed a satisfactory performance and a segment profit of approximately HK\$1.6 million was recorded for the year ended 31 March 2014. On the other hand, due to the recent reform of the railway industry in the PRC, the Group's plan to diversify into distribution business of cooling systems for high-speed trains has been adversely affected and no revenues were generated from such segment during the past financial year.

LETTER FROM THE BOARD

As disclosed in the Company's annual results announcement for the year ended 31 March 2014, the Group was facing a solvency problem and the financial distress of the Group had adversely impacted its operating activities. As at 31 March 2014, the current liabilities of the Group was approximately HK\$311.4 million, which mainly consisted of trade and other payables and accrued expenses of approximately HK\$46.4 million, liability component of the Preference Shares of approximately HK\$130.7 million, the liability component of convertible bonds of approximately HK\$49.6 million, income tax payables of approximately HK\$2.9 million, preference shares dividend payable of a subsidiary of approximately HK\$72.8 million and promissory note of approximately HK\$8.0 million. The net current liabilities and net liabilities attributable to owners of the Company as at 31 March 2014 were approximately HK\$104.8 million and HK\$141.6 million respectively.

As at 31 March 2014, the major outstanding repayment obligations of the Company include (i) the Preference Shares (together with the dividend accrued) in the amount of approximately HK\$155.6 million, the due date of which was further extended from 30 June 2014 to 31 March 2015 in accordance with the supplemental agreement dated 30 June 2014 entered into by the Company and the holder of the Preference Shares. Pursuant to the aforementioned supplemental agreement, the calculation and settlement of the dividends of the Preference Shares shall be (a) US\$4 million for the period from 28 July 2006 to 30 November 2012, which shall be settled by promissory notes issued by the Company; (b) 5% per annum for the period from 1 December 2012 to 30 November 2013, for which the Company shall have the right to settle by way of issuance of Shares to the holder of the Preference Shares at a pre-determined price of HK\$0.25 per Share; (c) 6% per annum for the period from 1 December 2013 to 30 June 2014, for which the Company shall have the right to settle by way of issuance of Shares to the holder of the Preference Shares at a pre-determined price of HK\$0.25 per Share; and (d) 7% per annum for the period from 1 July 2014 to 31 March 2015, for which the Company shall have the right to settle by way of issuance of Shares to the holder of the Preference Shares at a pre-determined price of HK\$0.15 per Share; (ii) the convertible bonds (together with the interest accrued) in the amount of approximately HK\$49.6 million, which has already past due. As no interests have been paid since 18 May 2009, a default rate of 5% per annum is charged thereon until the date of repayment; (iii) the promissory note in the amount of approximately HK\$8.0 million, which has already past due; (iv) dividend payable in relation to the preference shares of a subsidiary of the Company of approximately HK\$72.8 million, which has already past due; and (v) trade and other payables and accrued expenses of approximately HK\$46.4 million. The Group has been making every effort to work out a satisfactory solution for improving its financial position, including negotiation with the holder of the Preference Shares to further extend the redemption date of the Preference Shares and seeking for various fund raising opportunities for the Company. The Company has conducted several fund raising exercises recently, a summary of which is set out in the section "FUND RAISING EXERCISE IN THE PAST TWELVE MONTHS" in this circular. Meanwhile, the Company has taken active measures to seek for viable assets and business that can improve the profitability of the Group. As set out in the announcement of the Company dated 28 March 2014, the Company is in discussions with an independent third party with respect to a possible acquisition of certain interests in companies which are principally engaged in provision of healthcare services in the PRC. The negotiation process is ongoing, however, no agreements on the specific terms of the possible acquisition have been reached as at the Latest Practicable Date. The Directors consider that the Subscription can help alleviating the solvency problem and strengthen the financial position of the Group.

LETTER FROM THE BOARD

Apart from the Subscription, the Company has also considered other fund raising alternatives such as bank borrowing, placing of Shares, rights issue or open offer. However, in view of the financial conditions of the Group, it is difficult, even not impossible, for the Group to obtain bank borrowing at reasonable cost and bank borrowing will inevitably incur additional interest expenses without improving the financial position of the Group. Furthermore, placing of Shares will immediately dilute the shareholding of the existing Shareholders while rights issue and open offer take considerable time to complete as compared to the Subscription and usually involve the engagement of underwriter which will incur additional costs to the Company. Given that the Company has an immediate funding need and there are no positive responses from potential underwriters for underwriting of the proposed share placing and/or rights issue of the Company, the Directors consider that the Subscription is a relatively less time-consuming, cost-effective and practicable way to raise fund for the Company.

Having considered that the Subscription allows the Group to obtain immediate interest-free funding with a relatively long maturity term and has no immediate dilution impact on the existing Shareholders, the Directors consider that the Subscription is an appropriate means to raise fund for the Company.

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\$194.5 million is intended to be used as to approximately HK\$164.5 million for settlement of the outstanding liabilities of the Group and the remaining balance of approximately HK\$30.0 million for the general working capital of the Group. After deducting the expenses relating to the Subscription, the net conversion price for each Conversion Share is about HK\$0.1496.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Set out below is a summary of the shareholding in the Company as at the Latest Practicable Date 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 Restriction, each prepared on the basis that there would be no change in the issued share capital of the Company after the Latest Practicable Date other than as stated in each scenario.

	As at the Latest Practicable Date		Upon full conversion of the Convertible Note (Note 5)		Upon conversion of the Convertible Note, subject to the Conversion Restriction	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
Firstsail Investments Limited (Note 1)	100,000,000	14.63	100,000,000	5.04	100,000,000	10.25
ZhongXing Limited (Note 2)	69,422,474	10.16	69,422,474	3.50	69,422,474	7.11
Dragonrisecapital Advisors Inc. (Note 3)	48,155,474	7.05	48,155,474	2.43	48,155,474	4.93
Dr. Li Zhong Yuan (Note 4)	24,443,000	3.58	24,443,000	1.23	24,443,000	2.50
Mr. Zhou Bao Yi	1,002,000	0.15	1,002,000	0.05	1,002,000	0.10
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	65.55	292,699,014	29.99
Other public Shareholders	439,744,747	64.35	439,744,747	22.18	439,744,747	45.06
Total	683,289,695	100.00	1,983,289,695	100.00	975,988,709	100.00

Notes:

- As at the Latest Practicable Date, Firstsail Investments Limited was beneficially owned as to 50% by Ms. Chan Lee On and 50% by Mr. Shen Yuluo.
- As at the Latest Practicable Date, ZhongXing Limited was wholly-owned by Mr. Ho Kin.
- As at the Latest Practicable Date, Dragonrisecapital Advisors Inc. was beneficially wholly-owned by Mr. Yeung Ning.
- As at the Latest Practicable Date, these Shares were held by Timenew Limited, which was wholly-owned by Dr. Li Zhong Yuan.
- 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 Restriction.

LETTER FROM THE BOARD

FUND RAISING EXERCISES 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 the 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 Latest Practicable Date
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 Latest Practicable Date
23 May 2014	Subscription of Shares	HK\$10,400,000	General working capital of the Group	Same as the intended use

Assuming that the option for subscription of convertible notes is fully exercised, the total maximum net proceeds from the above fund raising exercises and the Subscription will be approximately HK\$653.7 million, of which approximately HK\$10.4 million has been received and utilized as general working capital of the Group. It is expected that the remaining funds of approximately HK\$643.3 million to be received from the fund raising exercises shall be used as to (i) approximately HK\$117.0 million for repayment of the principal amount of the Preference Shares; (ii) approximately HK\$57.6 million for settlement of the outstanding convertible bonds and promissory notes; (iii) approximately HK\$418.7 million for potential acquisitions and development of the healthcare related business; and (iv) approximately HK\$50.0 million for general working capital of the Group, of which approximately HK\$46.4 million would be used for settlement of trade payables and other payables.

As at the Latest Practicable Date, save for those previously announced by the Company, there were no arrangements, intentions, understandings or negotiations about any possible fund raising exercise (both debt and equity financing).

SGM

The SGM will be convened by the Company at 10:00 a.m. on 23 July 2014, Wednesday at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong for the purposes of considering and, if thought fit, approving 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, by the way of poll.

LETTER FROM THE BOARD

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has direct or indirect material interest in the Subscription Agreement and accordingly, no Shareholders are required to abstain from voting on the resolution.

The notice of SGM is set out on pages 18 to 19 of this circular. A form of proxy for use at the SGM is also enclosed herewith. Whether or not you intend to attend the SGM, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and return the form of proxy to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting if you so wish.

RECOMMENDATION

The Board considers that the terms of the Subscription Agreement are fair and reasonable and the entering into of the Subscription Agreement is in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favor of the ordinary resolution to approve the Subscription Agreement and the transactions contemplated thereunder.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules 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 the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

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

NOTICE OF SGM



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

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of China HealthCare Holdings Limited (the “**Company**”) will be held at 10:00 a.m. on 23 July 2014, Wednesday at Unit 801, 8/F., China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong, for the purpose of considering and, if thought fit, passing with or without modifications, the following ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT:

- (a) the subscription agreement dated 3 June 2014 (a copy of which marked “A” has been produced to the Meeting and signed by the Chairman of the Meeting for the purpose of identification) entered into among the Company, Lin & Li Investment Limited and Mr. Lin Grant Xiao-Bin in relation to the subscription by Lin & Li Investment Limited of a convertible note in principal amount of HK\$195,000,000 to be issued by the Company (the “**Convertible Note**”), details of which are set out in the circular of the Company to the shareholders dated 7 July 2014 (the “**Circular**”), and all transactions contemplated thereunder be and are hereby approved, ratified and confirmed;
- (b) subject to and conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of, and permission to deal in, the Conversion Shares (as defined below), the allotment and issue of new shares upon the exercise of the conversion rights attaching to the Convertible Note (the “**Conversion Shares**”) in the share capital of the Company be and is hereby approved, and the directors of the Company (the “**Directors**”) be and are hereby granted a specific mandate to allot and issue the Conversion Shares pursuant to and in accordance with the terms and conditions of the instrument constituting the Convertible Note; and

* for identification purposes only

NOTICE OF SGM

- (c) the Directors be and are hereby authorized to do all such acts and things and execute such further documents and take all steps which, in their opinion may be necessary, desirable or expedient to implement and give effect to the terms of, and all transactions contemplated under the aforementioned subscription agreement for and on behalf of the Company and to approve any change and amendment thereto as they may consider necessary, desirable or expedient.

Yours faithfully,

By order of the Board

China HealthCare Holdings Limited

Zhou Bao Yi

Executive Director

Hong Kong, 7 July 2014

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business:

Unit 801, 8/F
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf. In case of a recognized clearing house (or its nominees(s) and in each case, being a corporation), it may authorize such persons as it thinks fit to act as its representatives at the Meeting and vote in its stead.
2. A form of proxy for use in connection with the Meeting is enclosed with this circular. To be valid, the form of proxy, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority must be lodged with the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
3. Completion and delivery of the form of proxy will not preclude any member of the Company from attending and voting in person at the Meeting or any adjournment thereof should such member so wishes, and in such event, the instrument appointing a proxy shall be deemed revoked.
4. In case of joint shareholding, the vote of the senior joint shareholder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint shareholder(s) and for this purposes, seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint shareholding.
5. As at the date of this notice, 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.