CHINA HEALTH GROUP INC.

中國醫療集團有限公司

(Carrying on business in Hong Kong as "萬全醫療集團")

(Formerly known as "Venturepharm Laboratories Limited")

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8225)

ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED

31 DECEMBER 2015

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the "Directors") of China Health Group Inc. (formerly known as Venturepharm Laboratories Limited)(the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to China Health Group Inc. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The board of Directors of the Company (the "Board") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 (the "Year") together with the comparative audited figures for the year ended 31 December 2014 as follows:

HIGHLIGHTS

1.The Group recorded consolidated turnover of RMB20,497,000 for the year ended 31 December 2015 (the Year), which represents approximately 244% increase from RMB5,956,000 in year 2014.

2.The Group recorded loss before taxation of RMB3,376,000 for the Year, as compared with profit before taxation of RMB44,117,000 in year 2014.

3.The Group recorded operating profit of RMB172,000 for the Year, without considering fair value change of convertible bonds of RMB2,731,000 and financial expense of RMB817,000, as compared with operating loss of RMB8,319,000 in year 2014.

4. The Group obtained operating cash inflow of RMB3,390,000 for the Year, as compared with operating cash inflow of RMB11,000 in year 2014.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2015

	Notes	2015 RMB$'000	2014 RMB$'000
Revenue	3	**20,497**	5,956
Cost of services		**(4,980)**	(1,415)
Gross profit		**15,517**	4,541
Other income	4	**1,876**	1,517
Administrative expenses		**(14,055)**	(12,737)
Impairment losses on work-in-progress		**(3,166)**	(1,640)
Profit/(loss) from operations		**172**	(8,319)
Finance costs	5(a)	**(817)**	(170)
Loss on revaluation of derivative financial liabilities		**(2,731)**	(307)
Gain on disposal of financial assets at fair value through profit or loss, net		**-**	16
Gain on waiver of convertible notes and interest	12	**-**	52,897
(Loss)/profit before taxation	5	**(3,376)**	44,117
Income tax expense	6	**(111)**	(32)
Total comprehensive (loss)/income for the year		**(3,487)**	44,085
Attributable to:			
Equity shareholders of the Company		**(3,353)**	44,117
Non-controlling interests		**(134)**	(32)
Total comprehensive (loss)/income for the year		**(3,487)**	44,085
(Loss)/earnings per share			
Basic	7(a)	**(0.37 cents)**	11.57cents
Diluted	7(b)	**(0.37 cents)**	9.62cents

Consolidated Statement of Financial Position

At 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Non-current assets			
Property, plant and equipment		**4,803**	6,010
New drug technologies		**-**	-
		4,803	6,010
Current assets			
Work-in-progress		**2,673**	5,502
Trade and bills receivable	8	**3,368**	50
Prepayments and other receivables	9	**1,332**	500
Cash and cash equivalents		**6,775**	3,878
		14,148	9,930
Current liabilities			
Payables and accrued charges	10	**22,550**	19,284
Receipts in advance	11	**24,215**	25,687
Convertible notes	12	**5,779**	-
Derivative financial liabilities	12	**4,447**	-
Bank borrowings		**1,500**	2,000
Income taxes payable		**128**	24
		58,619	46,995
Net current liabilities		**(44,471)**	(37,065)
Total assets less current liabilities		**(39,668)**	(31,055)
Non-current liabilities			
Convertible notes	12	**-**	4,844
Derivative financial liabilities	12	**-**	1,623
		-	6,467
Net liabilities		**(39,668)**	(37,522)

Consolidated Statement of Financial Position (continued)

At 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
Capital and reserves			
Share capital		**81,699**	81,699
Reserves		**(121,367)**	(119,355)
Deficiency in assets attributable to equity shareholders of the Company		**(39,668)**	(37,656)
Non-controlling interests		**-**	134
Total deficiency in assets		**(39,668)**	(37,522)

Notes to the Financial Statements

1. General

The Company was incorporated in the Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands. The address of its registered office is Scotia Centre, 4th Floor, PO Box 2804, George Town, Grand Cayman, Cayman Islands and its principal place of business is Building AII Venturepharma Center, No. 11 of West Third Ring North Road, Haidian District, Beijing, the People's Republic of China (the "PRC"), 100089. The Company has had its shares listed on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited since 10 July 2003.

The Company is an investment holding company.

The consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand. RMB is the functional currency of the Company and is also the functional currency for the Company's subsidiaries established in the PRC.

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which is a collective term that includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosures required by the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

(i) Measurement basis, judgements, estimates and assumptions

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group").

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(ii) *Going concern*

The Group incurred a net loss of approximately RMB3,487,000 for the year ended 31 December 2015 (2014: profit of RMB44,085,000) and, as of that date, the Group's current liabilities exceeded its current assets and total assets by approximately RMB44,471,000 (2014: RMB37,065,000) and RMB39,668,000 (2014:RMB31,055,000), respectively. These conditions, along with other matters set forth in the consolidated financial statements, indicate the existence of a material uncertainly that may cast significant doubt about the Group's ability to continue as a going concern.

The directors believe that the Group will be able to meet its financial obligations in full as and when they fall due for the foreseeable future since the directors of the Company believe that the Group will generate positive cash flows in the next twelve months by receiving cash from new contracts and enforcing stringent cost measures. Accordingly, the financial statements have been prepared on a going concern basis. The financial statements do not include any adjustments relating to the carrying amounts and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

(c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contributions
- Annual improvements to HKFRSs 2010-2012 Cycle
- Annual improvements to HKFRSs 2011-2013 Cycle

The impacts of the adoption of the amended HKFRSs are discussed below.

Amendments to HKAS 19, Employee benefits: Defined benefit plans: Employee contributions

The amendments introduce relief to reduce the complexity of accounting for certain contributions from employees or third parties under defined benefit plans. When the contributions are eligible for the practical expedient provided by the amendments, a company is allowed to recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, instead of including them in calculating the defined benefit obligation. The amendments do not have an impact on these financial statements as the Group do not have defined benefit plans.

Annual Improvements to HKFRSs 2010-2012 Cycle and 2011-2013 Cycle

These two cycles of annual improvements contain amendments to nine standards with consequential amendments to other standards. Among them, HKAS 24, on related party disclosures has been amended to expand the definition of a "related party" to include a management entity that provides key management personnel services to the reporting entity, and to require the disclosure of the amounts incurred for obtaining such personnel services provided by the management entity. These amendments do not have an impact on the Group's related party disclosures as the Group does not obtain key management personnel services from any management entities.

The Group has not applied the new and revised HKFRSs that have been issued but not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operation and financial position.

3. Revenue and segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The Group provides pharmaceutical development and product commercialisation services. These services are subject to similar business risks, and resources are allocated based on what is beneficial to the Group in enhancing the value as a whole rather than any specific unit. The Group's chief operating decision-maker considers that the performance assessment of the Group should be based on the profit/(loss) before taxation of the Group as a whole. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8.

Breakdown of revenue from services is as follows:

	2015 RMB'000	2014 RMB'000
Contracted clinical research services (VPS)	12,275	5,579
Post market service（PMS）	5,420	
Other medical services	2,802	377
	20,497	5,956

Other medical services included registration, application and testing services.

The Group primarily operates in the PRC and its revenues are derived in the PRC for both years.

Revenues from customers of the corresponding years contributing over 10% of total sales of the Group are as follows:

	2015 RMB'000	2014 RMB'000
Customer A		1,018
Customer B		1,000
Customer C	4,926	

4. Other income

	2015 RMB'000	2014 RMB'000
Compensation income	28	94
Government grants (Note)	668	108
Interest income	7	6
Overprovision of legal compensation in prior year	346	312
Overprovision of staff cost in prior year	332	-
Overprovision of other expenses in prior year	367	-
Reversal of impairment losses on other receivables	89	672
Reversal of impairment losses on trade receivables	-	130
Dividend income	-	13
Other	39	182
	1,876	1,517

Note: Government grants in the years ended 31 December 2015 and 2014 represented unconditional cash awards granted by government authorities.

5. (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging/(crediting):

	2015 RMB'000	2014 RMB'000
(a) Finance costs		
Interest on:		
Bank borrowings wholly repayable within one year	132	148
Convertible bonds	685	14
Other	-	8
Total interest expenses on financial liabilities not at fair value through profit or loss	817	170
(b) Staff costs (including directors' emoluments)		
Salaries, bonuses and awards	6,484	3,769
Contributions to defined contribution retirement plans	851	989
Share-based payments	1,341	-
Other benefits	-	12
	8,676	4,770

	2015 RMB'000	2014 RMB'000
(c) Other items		
Auditors' remuneration	490	511
Litigation claims	1,722	2,536
Depreciation	1,207	1,154
Operating lease charges in respect of rented premises	179	392
Impairment losses on other receivables	-	1,066
Impairment losses on trade receivables	-	194
Loss on disposal of property, plant and equipment	-	117
Write-off of other receivables	-	40

6. Income tax expense

(a) Taxation in the consolidated statement of profit or loss represents:

	2015 RMB'000	2014 RMB'000

Current tax – PRC Enterprise Income Tax		
Provision for the year	111	32

No provision for Hong Kong profits tax has been made as the Group had no assessable profits generated in Hong Kong for the year ended 31 December 2015 (2014: Nil).

The provision for PRC Enterprise Income Tax has been calculated on the estimated assessable profits for the year according to the relevant laws and regulations. The applicable income tax rate ranges from 15% to 25% as at 31 December 2015 (2014: 15% to 25%).

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2015 RMB'000	2014 RMB'000
(Loss)/profit before taxation	(3,376)	44,117
Notional tax on profit before taxation calculated at the applicable tax rate of 25%	(844)	11,029
Tax effect of non-deductible expenses	-	275
Tax effect of non-taxable revenue	-	(13,546)
Tax effect of unused tax losses not recognised	2,696	2,450
Tax effect of utilisation of tax losses not recognised	(1,290)	-
Tax holiday	-	(176)
Tax effect of deferred tax not recognised	(451)	-
Actual tax expense	111	32

7. (Loss)/Earnings per share

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the loss attributable to ordinary equity shareholders of the Company of RMB3,353,000 (2014: profit of RMB44,117,000 and the weighted average of 915,272,000 ordinary shares (2014: 381,154,000 shares) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2015 '000	2014 '000

Issued ordinary shares at 1 January	915,272	366,109
Effect of share options exercised	-	15,045
Issued ordinary shares at 31 December	915,272	381,154

(b) Diluted (loss)/earnings per share

The diluted loss per share attributable to the shareholders of the Company for the year ended 31 December 2015 is the same as the basic loss per share because conversion of convertible bonds and share options only decreases the loss per share and, therefore, is anti-dilutive.

The calculation of diluted earnings per share attributable to the shareholders of the Company for the year ended 31 December 2014 is based on the profit attributable to ordinary equity shareholders of the Company of RMB44,131,000 and the weighted average number of ordinary shares of 458,654,000 shares, calculated as follows:

(i) Profit attributable to ordinary equity shares of the Company (diluted)

	2014 RMB'000
Profit attributable to the owners of the Company	44,117
Interest expenses on convertible notes (net of tax)	14
	44,131

(ii) Weighted average number of ordinary shares (diluted)

	2014 '000
Weighted average number of ordinary shares at 31 December	381,154
Effect of deemed issues of share under the Company's share option scheme and conversion of convertible notes	77,500
	458,654

8. Trade and bills receivable

	2015 RMB'000	2014 RMB'000
Trade receivables	1,166	1,293
Bills receivable	2,202	-
Less: allowance for doubtful debts	-	(1,243)

	3,368	50

(a) Ageing analysis

The Group grants a credit period normally ranging from 15 days to 30 days to its customers (2014: ranging from 15 days to 30 days). The bills receivable are non-interest bearing bank acceptance bills and are aged within 6 months as at 31 December 2015. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by management.

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of allowance for doubtful debts, is as follows:

	2015 RMB'000	2014 RMB'000
1-30 days	1,166	-
61-90 days	-	50
	1,166	50

(b) Impairment of trade receivables

Impairment losses in respect of trade receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	1,243	4,366
Uncollectible amounts written off	(1,243)	(4,059)
Provision for impairments during the year	-	1,066
Reversal of impairment losses during the year	-	(130)
At 31 December	-	1,243

(c) Trade receivables that are not impaired

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	1,166	-

2 to 3 months past due	-	50
	-	50
	1,166	50

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

9. Prepayments and other receivables

	2015 RMB'000	2014 RMB'000
Prepayments	538	30
Deposits	25	25
Other receivables	769	4,121
At 31 December	1,332	4,176
Less: allowance for doubtful debts	-	(3,676)
	1,332	500

(a) Impairment of other receivables

Impairment losses in respect of other receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for doubtful debts during the year, including both specific and collective loss components, are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	3,676	4,154
Written off during the year	(3,587)	-
Reversal of impairment losses during the year	(89)	(672)
Provision for impairments during the year	-	194
At 31 December	-	3,676

10. Payables and accrued charges

	Notes	2015 RMB'000	2014 RMB'000
Other payables		4,227	3,348
Accrued expenses		2,550	1,539
Amounts due to related parties	(a)	2,987	2,987
Litigation claims payables	(b)	12,786	11,410
		22,550	19,284

(a) Amounts due to related parties are unsecured, non-interest bearing and without fixed repayment terms.

(b) Several subsidiaries of the Company are defendants in various lawsuits and claims arising out of the normal course of the Group's business. The amount represents the outstanding claims payable to the plaintiffs, according to the respective courts' judgments.

All of the other payables are expected to be settled or recognised as income within one year or are repayable on demand.

11. Receipts in advance

	2015 RMB'000	2014 RMB'000
Receipts in advance	24,215	25,687

	2015 RMB'000	2014 RMB'000
At 1 January	25,687	21,743
Cash receipts for the year	12,323	8,363
Revenue recognised for the year	(13,795)	(4,419
At 31 December	24,215	25,687

Included in the receipts in advance is an amount of RMB6,145,000 (2014: RMB6,145,000) representing suspended projects which are pending mutual agreement between the Group and the customers on the final settlement in respect of those monies received.

12. Convertible notes and derivative financial liabilities

	Tranche 1 RMB'000	Tranche 2 RMB'000	Total RMB'000
Movement in the convertible notes – liability component:			
At 1 January 2014	95,479	-	95,479
Repayments during the year	(47,748)	-	(47,748)
Waiver of principal	(47,731)	-	(47,731)
Issued during the year	-	4,830	4,830
Interest charged	-	14	14
At 31 December 2014 and 1 January 2015	-	4,844	4,844
Interest charged	-	685	685
Exchange realignment	-	250	250
At 31 December 2015	-	5,779	5,779

	Tranche 2 RMB'000
Movement in the convertible notes – derivative component:	
At 1 January 2014	-
Issue of convertible notes	1,318
Fair value changes	307
Exchange realignment	(2)
At 31 December 2014 and 1 January 2015	1,623
Fair value change	2,731
Exchange realignment	93
At 31 December 2015	4,447

Tranche 1

On 10 September 2007, the Company issued notes in an aggregate principal amount of CHF15,000,000. Unless previously redeemed, repurchased and cancelled or converted, any outstanding convertible notes were to be redeemed at the redemption amount (110% of the principal amount outstanding of the convertible notes) on the date falling on the fifth anniversary of the date of issue of the convertible notes. The notes have interest at the rate of 3.5% per annum payable annually.

On 4 September 2012, an extraordinary resolution was passed by the majority of note- holders in accordance with the terms of the convertible notes to approve the extension for payment of the convertible notes to 10 September 2015 with an increase in the interest rate from 3.5% to 4% per annum. The extension of the convertible notes was also approved by the shareholders of the Company at an extraordinary general meeting held on 20 September 2012.

The conversion price, in Swiss Francs, was equivalent to 130% of the average closing prices of the shares of the Company as published in the daily quotation sheets published by the Stock Exchange of Hong Kong Limited for 30 consecutive trading days up to and including the fifth business day prior to the closing date per share.

The noteholders had the right to convert, at the conversion price, the whole of the principal amount of convertible notes into shares at any time and from time to time, from the date of issue of the convertible notes.

On 20 July 2014, the Company came to an agreement with its convertible noteholders. The settlement waivers of payables on convertible notes of RMB52,897,000 included a waiver of principle of RMB47,731,000 and a waiver of interest accrued of RMB5,166,000.

Tranche 2

On 24 December 2014, the Company issued unlisted convertible notes with a face value of US$1,000,000 and a maturity date of 24 December 2016. The notes are unsecured and bear no interest. The noteholder has the right to convert the notes into ordinary shares at any time up to maturity at a conversion price of HK$0.10 each, subject to anti-dilutive adjustments, or redeem them at 100% of the nominal value of the convertible bonds upon maturity. The Company may, at any time prior to the maturity date, repay the outstanding principal of the notes.

The convertible notes contain two components, namely, the host liability component and a compound derivative conponent consisting of the conversion option and the redemption option . The convertible bonds are denominated in USD, which is a currency other than the Company's functional currency. The conversion and redemption option in the convertible bonds does not exchange a fixed number of the Company's own equity instruments for a fixed amount of cash, denominated in USD. Accordingly, the options are accounted for separately as a derivative liability, which is not closely related to the host debt component. The fair values of the debt component and the derivative component were determined at the date of issue. Subsequent to initial recognition, the debt component is carried at amortised cost while the derivative component is measured at fair value, with changes in fair value being recognised in profit or loss.

The effective interest rate of the liability component on initial recognition is 12.822% per annum.

13. Equity settled share-based transactions

The Company has a share option scheme which was adopted on 20 June 2003 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options at predetermined considerations to subscribe for shares of the Company.

(a) The terms and conditions of the grants given are as follows:

2015:

Grant date	Exercise price	Note	At 1 January 2015	Granted during 2015	Exercised during the year	Lapsed during the year	At 31 December 2015
2 March 2005	HK$0.52	(ii)	706,400	-	-	706,400	-
14 December 2005	HK$0.45	(iii)	72,000	-	-	72,000	-
10 August 2006	HK$0.36	(iv)	1,018,800	-	-	90,000	928,800
10 May 2007	HK$0.625	(v)	2,058,100	-	-	108,000	1,950,100
7 April 2009	HK$0.435	(vi)	5,392,800	-	-	1,062,000	4,330,800
30 June 2015	HK$0.45	(vii)	-	20,670,000	-	-	20,670,000
			9,248,100	20,670,000	-	2,038,400	27,879,700

2014:

Grant date	Exercise price	Note	At 1 January 2014	Granted during 2014	Exercised during the year	Lapsed during the year	At 31 December 2014
20 June 2003	HK$0.32	(i)	9,720,000	-	-	9,720,000	-
2 March 2005	HK$0.52	(ii)	850,400	-	-	144,000	706,400
14 December 2005	HK$0.45	(iii)	72,000	-	-	-	72,000
10 August 2006	HK$0.36	(iv)	1,254,600	-	-	235,800	1,018,800
10 May 2007	HK$0.625	(v)	2,643,300	-	-	585,200	2,058,100
7 April 2009	HK$0.435	(vi)	6,308,800	-	-	916,000	5,392,800
			20,849,100	-	-	11,601,000	9,248,100

(b) The number and weighted average exercise prices of share options are as follows:

	2015		2014	
	Weighted average exercise price HK$	Number of options ('000)	Weighted average exercise price HK$	Number of options ('000)
Outstanding at the beginning of the year	0.473	9,248,100	0.400	20,849,100
Lapsed during the year	0.472	(2,038,400)	0.348	(11,601,000)
Granted during the year	0.45	20,670,000	-	-
Outstanding at the end of the year	0.457	27,879,700	0.473	9,248,100
Exercisable at the end of the year	0.477	7,209,700	0.473	9,248,100

The options outstanding at 31 December 2015 had a weighted average remaining contractual life of 4.35 years (2014: 3.22 years).

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial lattice model. The contractual life of the share option is used as an input and expectations of early exercise are incorporated into the binomial lattice model.

	2015
Fair value at measurement date	HK$0.209 - HK$0.2881
Share price	HK$0.43
Exercise price	HK$0.45
Expected volatility (expressed as weighted average volatility used in the modeling under binomial lattice model)	89.29%
Option life (expressed as weighted average life used in the modeling under binomial lattice model)	10 years
Expected dividends	0%
Risk-free interest rate (based on Exchange Fund Notes)	1.788%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to historical dividends. Changes in the subjective input assumption could materially affect the fair value estimates.

Share options were granted under service conditions which have not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

14. Material related parties transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, wholly related to amounts paid to the Company's directors as disclosed in note 8, is as follows:

	2015 RMB'000	2014 RMB'000
Short term employee benefits	1,463	221
Contributions to defined contribution retirement plan	85	122

Share based payments	600	-
	2,148	343

Total remuneration is included in "staff costs" (see note 5(b)).

(b) Financing arrangements

	2015 RMB'000	2014 RMB'000
Other payables due to related companies:		
海南萬德瑪藥業有限公司	383	383
北京萬全德眾醫藥生物技術有限公司	873	873
北京萬全生物醫藥科技有限公司	598	598
海口盛科生命科學研究院有限公司	1,133	1,133
	2,987	2,987

The outstanding balances with these related companies which are included in "Other payables and accruals", non-interest bearing and have no fixed repayment terms.

(c) Receipts in advance

	2015 RMB'000	2014 RMB'000
萬特製藥（海南）有限公司	3,830	-
江蘇萬德瑪藥業有限公司	2,629	-
	6,459	-

During the year ended 31 December 2015, the Group signed several pharmaceutical research and promotional contracts with the above related parties and received deposit amounting to RMB6,459,000 (2014: Nil). The revenue on the above contracts was determined based on sales results of specific products in 2016. The respective services have been started but the amount of revenue cannot be accurately projected up to the dated of this report, and accordingly, no revenue is recognised for the year ended 31 December 2015 in respect of these contracts.

The related companies are under the common control of Mr. Guo Xia, William, a director of the Company.

(d) Other related parties transactions

i. The Group had the following significant business transactions with a related company during the year ended 31 December 2015:

Name of related party	Nature of transactions	Note	2015 RMB'000	2014 RMB'000
萬全萬特製藥（廈門）有限公司	Testing services	(i)	849	-

The management of the Group is of the opinion that revenue from the services to the related company were made on normal commercial terms negotiated between the parties.

ii. The unsecured bank loan to the Croup of RMB 1,500,000 was guranteed by a director , Ms Maria Xuemei Song , of the Company to the extent of RMB 1,500,000.

15. Contingent liabilities in respect of legal claim

As of 31 December 2015, certain of the subsidiaries of the Group are defendants in proceedings relating to its customers. Based on respective legal advice and count judgements, management is of the opinion that the outcome of such proceedings will not beyond the existing accruals made for such litigation claims as disclosed in note 10(b). Accordingly, there will have no significant impact to the financial status of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group recorded total loss before taxation of approximately RMB3,376,000 for the Year, as compared with total profit before taxation of approximately RMB44,117,000 in the corresponding period last year. Net loss this year was primarily attributed to the fair value loss of approximately RMB2,731,000 on derivative financial liabilities arising from the assessment on the valuation of the unlisted convertible notes issued on 24 December 2014. While net profit in the corresponding period last year was primarily attributed to the exceptional income of approximately RMB52,897,000 from the restructuring of the 2007 Convertible Notes. After deducting exceptional income of approximately RMB52,897,000 from the restructuring of the 2007 Convertible Notes, the Group still recorded total loss of approximately RMB8,780,000 from operations in the corresponding period last year.

The Group recorded operating profit of approximately RMB172,000 for the Year, without considering the fair value change of convertible bonds of approximately RMB2,731,000 and financial expense of approximately RMB817,000, as compared with total operating loss of approximately RMB8,319,000 in year 2014.The Group obtained net cash generated from operation activities of approximately RMB3,390,000 for theYear, as compared with net cash generated from operation activities of RMB11,000 in year 2014.

The Group recorded total revenue of approximately RMB20,497,000 for the Year, which represents approximately 244% increase from approximately RMB5,956,000 in the corresponding period last year. The 2015 consolidated turnover included approximately RMB 12,275,000 derived from the contracted clinical research services (VPS), amounted to 59.89% of the total revenue; approximately RMB5,420,000 from the post market service and academic promotion services, amounted to 26.44% of the total revenue and approximately RMB2,802,000 from other medical services, amounted to 13.67% of the total revenue. The increase in revenue was mainly due to (a) the terminal of clinical medicine of research-type extension based on the clinical research i.e .the post market service and academic promotion service ,which is one of the four growth-driving platforms was widely recognized by the national markets .(b) The Group recorded a increase revenue in clinical research services (VPS) of approximately RMB6,696,000 for the Year,Total consolidated gross profit was approximately RMB15,517,000 as compared with approximately RMB4,541,000 in 2014, yet gross profit marigin remained the same of 76% for two years.

Total consolidated general and administrative expenses were approximately RMB14,055,000 representing a increase of approximately RMB1,318,000 compared with approximately RMB12,737,000 of the corresponding period last year. The increase was primarily due to theemployees' wages rising.

CONVERTIBLE NOTES

On 24 December 2014, the Company issued new unlisted convertible notes with a face value of US$1,000,000 and a maturity date of 24 December 2016. The notes are unsecured, bear no interest and have a term of 2 years. The noteholder has right to convert the notes into ordinary shares at any time up to maturity at a conversion price of HK$0.1.

The loss caused by fair value change of convertible bond is about RMB 2,731,000 (2014: RMB 307,000), and is recorded in the loss on revaluation of derivative financial liability in the consolidated statement of profit or loss and other comprehensive income for the year.

The fair values of convertible notes in debt and derivative financial instrument parts are RMB5,779,000 and RMB4,447,000 respectively (2014:RMB4,844,000 and RMB1,623,000). This convertible notes would be expired in 2016, so be listed as current liability for the Year (2014:Non-current liability).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2015, the Group’s current liabilities exceeded its current assets and its total liabilities exceeded its total assets by approximately RMB44,471,000 (2014: net current liabilities of approximately RMB37,065,000 and approximately RMB 39,668,000 (2014: net liabilities of approximately RMB37,522,000) respectively.

Meanwhile, considering the working capital and long term fund demand for future development, the Group will consider to raise further funds through bank loans, issuance of new shares, convertible notes, and issuance of new debts, etc.

FOREIGN EXCHANGE EXPOSURE

During the year, the Group's transactions were substantially denominated in Renminbi ("RMB"). As such, the foreign currency risk facing the Group is limited. Currently, the Group has not adopted any financial instrument for hedging purposes.

BUSINESS REVIEW

Aiming at long-term development, the Group keeps pursung its business stratergy of transforming from a leading technology transfer supplier to a health care service group under the internet architecture.

The Group has managed to establish a new drug technology development and value-added services business model for whole value chains such as preclinical studies, Clinical Research Service (VPS), regulatory affair (RA) service and post market service (PMS),and devoted to build four growth-driving platforms,such as the medical management platform under the internet architecture, the terminal of clinical medicine of research-type extension based on the clinical research, rehabilitation therapy industry platforms and special features of hospital industry platforms.

The Group continued its investment in the enhancement of marketing capability and the expansion of market network, and introduced a new drug technology development and value-added services business model for whole value chains in the domestic market under the brand of Venturepharm ,while striving to establish and expand overseas markets under the brand of VPS-CRO. During the Year, the Group not only focused on business expansion, but also paid more attention to the enhancement of brand value and the improvement of professional capability, aiming at becoming a comprehensive and reliable technology and service provider with the most prestigious brand and leading technologies.

Post marketing research and academic promotion services (PMS)

The Year is a milestone year for company strategic transition .The Group make best use of its VPSCRO's 15 years of efforts and strong relationship with leaders and experts through 400 clinical base for the marketing and clinical reserch of new drugs to list and clinical research, brought revenue of RMB 5,420,000 for the first time.

Clinical Research Service (VPS)

Taken clinical study as the prime focus, the Group has established the most integrated service in the country, which provides a series of services ranging from phase I clinical and bioequivalence studies, phase II-III clinical studies, and phase IV post-marketing clinical study, to data management and medical statistics, and medical administration related service. Meanwhile, the Group makes a great efforts to improve the professional capability involving the above mentioned services and has preliminarily established 13 professional research institutions including Venturepharm-CBI phase Ⅰ clinical research center, VPS-mart phase IV clinical research and academic promotion center, SAS-Venturepharm data management and medical statistics center, VP-Porsche RA service center, OHH-VP Pacific-Asia clinical research institution for oncology, TangXi-VP Pacific-Asia clinical research institution for Diabetes, CNSVP Psychoneurologic and pain management Pacific-Asia clinical research institution, CV-VP Cardiovascular Pacific-Asia clinical research center, AIDS and hepatitis Pacific-Asia clinical research institution, DermNova Pacific-Asia clinical research institution for dermatosis and gynecologic disease and TCM-VP clinical research center for natural drug and traditional Chinese medicine, etc.

In the meantime, the Group has built a nation-wide network with bases in Beijing, Shanghai and Guangzhou and offices in over 30 provincial capital cities for clinical monitoring and academic promotion, covering over 80% hospitals which have been authorized to conduct clinical research. The Group has the capacity of operating more than 60 phase I and BE projects each year and conducting 50 phase II-III clinical projects simultaneously. Meanwhile, the Group is able to carry out 4 phase IV clinical trials with large sample size (2,000 subjects) at the same period.

PROSPECTS

The Group will continuously push forward the strategic transition from a leading technology transference supplier to a health care service group under the internet architecture. The Group will also continuously strengthen the terminal of clinical medicine of research-type extension based on the clinical research, at the same time push forward the construction of medical management platform under the internet architecture, rehabilitation therapy industry platforms, and special features of hospital industry platform with steady steps.

The Board will also review and assess of potential project or investment according to reliable principles, in order to improve the group business performance and return to shareholders.

SIGNIFICANT INVESTMENT

During the Year, there was no significant investment

HUMAN RESOUCES

The Group's remuneration policy is basically determined by the performance of individual employees. In addition to salaries and bonuses, The Group also provided various other benefits to its employees. Employee benefits included medical and pension contributions and share options schemes.

The Group monitored closely the remuneration and fringe benefits of the employees and rewarded employees in accordance with the Group's business performance. In addition, training and development opportunities for the employees were also provided by the Group.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015(2014: Nil).

REVIEW OF FINANCIAL STATEMENTS

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules 5.28 to 5.33. The primary duties of the audit committee are (a) to review the Group's annual reports, interim reports and quarterly reports (b) to discuss and review with the audit of the Company on the scope and findings of the audit; and (c) to supervise the financial reporting process risk management and internal control systems of the Group. and provide advice and comments to the Board.

The audit committee has three members comprising the three Independent Non-executive Directors, Mr. Shou Yuan Wu, Mr. Mark Gavin Lotter (appointed on 17 February 2015) and Binhui NI (appointed on 31 March 2015). The chariman of the audit committee is Mr. Shou Yuan WU who possesses extensive experience in finance and accounting

The audit committee of the Board has reviewed and approved the consolidated financial statements for the year, including the accounting principles and new and revised accounting standards adopted by the Company, and discussed matters relating to auditing, internal controls and financial reporting.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than the transaction disclosed in note 14, no other contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at 31 December 2015, none of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business that competes or may compete with the business of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, the Company has maintained the prescribed public float under the GEM Listing Rules.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Directors an annual confirmation for independence pursuant to Rule 5.09 of the GEM Listing Rules. The Independent Non-executive Directors have confirmed that they are independent.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest customers of the Group accounted for approximately 50.1% of the Group's sales. The largest customer accounted for approximately 24.0% of the sales of the Group.

During the year, the five largest suppliers of the Group accounted for approximately 77.6% of the Group's sales. The largest suppliers accounted for approximately 71.7% of the sales of the Group.

None of the Directors, their associates or any shareholders which, to the knowledge of the Directors, own more than 5% of the Company's issued share capital had any interest in the five largest customers of the Group.

EMPLOYEE AND REMUNERATION POLICY

During the Year, staff cost, including Directors' remuneration is approximately RMB8,676,000 (2014: approximately RMB4,770,000). The Group remunerates its employees based on their performance, and the prevailing market price. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

The Company adopted the Share Option Schemes where share options to subscribe for shares of the Company may be granted to the eligible participants of the Group. 20,670,000 share options have been granted to the eligible participants under the Scheme during the Year.

CHANGE OF AUDITORS

The consolidated financial statements have been audited by KLC Kennic Lui & Co. Ltd.("KLC"). Following the resignation of UHY Vocation HK CPA Limited as auditor of the Company on 10 December 2015, KLC was appointed as the auditor of the Company to fill the vacancy and to hold office until the conclusion of the next annual general meeting of the Company.

Same as disclosed above, there were no other change in auditor of the Company during the preceding three years.

SCOPE OF WORK OF KLC Kennic Lui & Co. Ltd.

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2015 as set out in this announcement have been agreed by the Group's auditors, Kennic Lui & Co. Ltd., to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Kennic Lui & Co. Ltd. in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Kennic Lui & Co. Ltd. on this announcement.

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 15 to the GEM Listing Rules. The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the year ended 31 December 2015, with the exception for the following deviations:
Under code provision A.2.1, the responsibilities between chairman and chief executive officer should be divided. Mr. Cheung Sing Tai is the Chairman and the Chief Executive Officer of the Company. However currently, the Company does not have Chief Executive Officer. The day-to-day management of the Company's business is handled by the executive directors, who take the responsibility to run the Group's business and to implement the Group's strategy so as to achieve the overall commercial objectives of the Company.

Under code provision A.4.1, non-executive Directors should be appointed for specific term. There is no specific term of appointment of the non-executive Directors; however, they are subject to retirement by rotation in accordance with the Articles and the Code. Accordingly, the Company considers that sufficient measures have been taken to deal with the requirement in respect of the appointment terms of non-executive Directors as required under the code provision.

Under the code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. In addition, Under the code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting and he should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. The annual general meeting of the Company (the "AGM") held on 30 June 2015, Mr. William Xia Guo (chairman of the Board),did not attend the said AGM to answer questions of the shareholders of the Company due to other prior business engagements. However, Mr. William Xia Guo has appointed the other attended Director Maria Xuemei Song as their representative at the said meetings to answer questions of the shareholders of the Company.

RULE 5.05(1) OF THE GEM LISTING RULES

Rule 5.05(1) of the GEM Listing Rules the board of directors of a listed issuer must include at least three independent non-executive Directors.

Upon the resignation of Mr. Jing An Zhang as the independent non-executive Director of the Company on 24 November 2014, the number of independent non-executive Directors fell below the minimum requirement.

And the resignation of Mr. Paul CONTOMICHALOS as the independent non-executive Director of the Company on 21 January 2015, the number of independent non-executive Directors fell below the minimum requirement.

After the appointment of Mr. Mark Gavin Lotter on 17 February 2015 and Dr Binhui NI on 31 March 2015 as the independent non-executive Director on 16 March 2015, the Company has fulfilled the requirement on the number of independent non-executive directors of the Company as required under Rule 5.05(1) of the GEM Listing Rules.

RULE 5.28 OF THE GEM LISTING RULES

Rule 5.28 of the GEM Listing Rules every listed issuer must establish an audit committee comprising non-executive directors only. The audit committee must comprise a minimum of 3 members.

Upon the resignation of Mr. Jing An Zhang as the member of the audit committee of the Company on 24 November 2014, the number of members of the audit committee fell below the minimum requirement.

And the resignation of Mr. Paul CONTOMICHALOS as the member of the audit committee of the Company on 21 January 2015, the number of members of the audit committee fell below the minimum requirement.

After the appointment of Mr. Mark Gavin Lotter on 17 February 2015 and Dr. Binhui NI on 30 March 2015 as the member of the audit committee, the Company has fulfilled the requirement on the number of members of the audit committee as required under Rule 5.28 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and and the Directors confirmed that they have complied with the required standard of dealings and its code of conduct regarding securities transactions by Directors during the Year.

Independent Auditor's Report Highlights

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter in relation to the going concern basis for preparation of consolidated financial statements

Without qualifying our opinion, we draw attention to note 2(b)(ii) to the consolidated financial statements which indicates that the Group incurred a net loss of approximately RMB3,487,000 for the year ended 31 December 2015 and, as of that date, the Group's current liabilities exceeded its current assets and total assets by approximately RMB44,471,000 and RMB39,668,000, respectively. These conditions, along with other matters as set forth in note 2 (b)(ii) to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2014 was audited by another auditor who expessed an unmodified opinion on those statements on 31 March 2015.

By Order of the Board

China Health Group Inc.
William Xia Guo

Chairman

Beijing PRC, 21 March 2016

As at the date of this announcement, the Board comprises two executive directors, being Mr. William Xia Guo and Dr. Maria Xue Mei Song; one non-executive director, being Dr. Nathan Xin Zhang; and three independent non-executive directors, being Dr. Shou Yuan Wu, Mr. Mark Gavin Lotte and Dr. Bin Hui Ni.

This announcement, for which the directors of the Company (the "Directors") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of securities of the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, conform that, to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respect and not misleading; (2) there are no other matters the omission of which would make any statement in all material respects and not misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the GEM website with the domain name of www.hkgem.com on the "Latest Company Announcements" page for at least 7days from the date of its posting and on the Company's website at www. chgi. Net.