



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”)
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8225)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2016

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

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This announcement for which the directors (the “Directors”) of China Health Group Inc. (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 announcement 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 announcement 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.

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 2016 (“this Year”) together with the comparative audited figures for the year ended 31 December 2015 as follows:

HIGHLIGHTS

1. The Group recorded consolidated turnover of RMB20,241,000 for this Year, which represents approximately 1.25% decrease from RMB20,497,000 in year 2015.
2. The Group recorded profit before taxation of RMB2,085,000 this Year, as compared with loss before taxation of RMB3,376,000 in year 2015.
3. The Group recorded operating profit of RMB2,885,000 this Year, deducting financial expense of RMB800,000, as compared with operating profit of RMB172,000 in year 2015. Operating profit increased by 1577%.
4. Basic earnings per share is 0.23 cents in 2016, while basic loss per share was 0.37 cents in 2015.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2016

	Notes	2016 RMB\$'000	2015 RMB\$'000
Revenue	3	20,241	20,497
Other income	4	220	1,876
Cost of services		(3,357)	(4,980)
Staff cost	5(b)	(9,827)	(8,676)
Administrative expenses		(4,392)	(5,379)
Impairment losses on work-in-progress		-	(3,166)
Finance costs	5(a)	(800)	(817)
Loss on revaluation of derivative financial liabilities		<u>-</u>	<u>(2,731)</u>
Profit/(loss) before taxation	5	2,085	(3,376)
Income tax	6	<u>42</u>	<u>(111)</u>
Total comprehensive income/(loss) for the year		<u><u>2,127</u></u>	<u><u>(3,487)</u></u>
Attributable to:			
Equity shareholders of the Company		2,127	(3,353)
Non-controlling interests		<u>-</u>	<u>(134)</u>
Total comprehensive income/(loss) for the year		<u><u>2,127</u></u>	<u><u>(3,487)</u></u>
Earnings/(loss) per share			
Basic	7(a)	0.23 cents	(0.37 cents)
Diluted	7(b)	0.23 cents	(0.37 cents)

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
Non-current assets			
Property, plant and equipment		3,771	4,803
New drug technologies		<u>-</u>	<u>-</u>
		<u>3,771</u>	<u>4,803</u>
Current assets			
Work-in-progress		2,086	2,673
Trade and bills receivable	8	551	3,368
Trade deposits paid	9	3,100	-
Prepayments and other receivables		1,584	1,332
Cash and cash equivalents		<u>1,753</u>	<u>6,775</u>
		<u>9,074</u>	<u>14,148</u>
Current liabilities			
Trade payables, other payables and accrued charges	10	23,311	22,550
Receipts in advance	11	4,855	24,215
Loans from related companies	12	8,321	-
Convertible notes	13	-	5,779
Derivative financial liabilities	13	-	4,447
Bank borrowings		1,500	1,500
Income taxes payable		<u>24</u>	<u>128</u>
		<u>38,011</u>	<u>58,619</u>
Net current liabilities		<u>(28,937)</u>	<u>(44,471)</u>
Net liabilities		<u>(25,166)</u>	<u>(39,668)</u>

	Notes	2016 RMB'000	2015 RMB'000
Capital and reserves			
Share capital		88,673	81,699
Reserves		(<u>113,839</u>)	(<u>121,367</u>)
Deficiency in assets attributable to equity shareholders of the Company		(25,166)	(39,668)
Non-controlling interests		<u>-</u>	<u>-</u>
Deficiency in assets		(<u>25,166</u>)	(<u>39,668</u>)

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.

The consolidated financial statements for the year ended 31 December 2016 were approved by the Board on 24 March 2017.

2. Significant accounting policies

(a) Statement of compliance

The consolidated 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.

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 consolidated financial statements.

2. Significant accounting policies

(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 2016 comprise the Company and its subsidiaries (together referred to as the “Group”).

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that derivative financial liabilities are stated at their fair values.

The preparation of consolidated 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*

As at 31 December 2016, the Group’s current liabilities exceeded its current assets and total assets by approximately RMB28,937,000 (2015: RMB44,471,000) and RMB25,166,000 (2015: RMB39,668,000), respectively. These conditions, along with other matters set forth in 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.

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 a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's result and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 on 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:

	2016 RMB'000	2015 RMB'000
Contracted clinical research services (VPS)	12,279	12,275
Post marketing research and academic promotion services (PMS)	5,473	5,420
Other medical services	<u>2,489</u>	<u>2,802</u>
	<u>20,241</u>	<u>20,497</u>

Other medical services included registration, application and testing services.

The Group primarily operates in the PRC and its revenues are all 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:

	2016 RMB'000	2015 RMB'000
Customer A	3,387	4,926

The above customer received post marketing research and academic promotion services (PMS).

4. Other income

	2016 RMB'000	2015 RMB'000
Compensation income	19	28
Government grants	87	668
Interest income	9	7
Overprovision of litigation claims in prior year	1	346
Overprovision of staff costs in prior year	4	332
Overprovision of other expenses in prior year	80	367
Reversal of impairment losses on other receivables	-	89
Other	20	39
	<u>220</u>	<u>1,876</u>

The above government grants during the years ended 31 December 2016 and 2015 represented unconditional cash awards granted by government authorities.

5. Profit/(loss) before taxation

Profit/(loss) before taxation is arrived at after charging:

	2016 RMB'000	2015 RMB'000
(a) Finance costs		
Interest on:		
Bank borrowings wholly repayable within one year	75	132
Convertible bonds	<u>725</u>	<u>685</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>800</u>	<u>817</u>
(b) Staff costs (including directors' emoluments)		
Salaries, bonuses and awards	7,110	6,484
Contributions to defined contribution retirement plans	1,187	851
Share-based payments	1,424	1,341
Other benefits	<u>106</u>	<u>-</u>
	<u>9,827</u>	<u>8,676</u>
(c) Other items		
Auditors' remuneration	424	490
Litigation claims	296	1,722
Depreciation	1,032	1,207
Operating lease charges in respect of rented premises	<u>24</u>	<u>179</u>

6. Income tax expenses

- (a) Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2016 RMB'000	2015 RMB'000
Current tax – PRC Enterprise Income Tax		
Provision for the year	-	111
Overprovision in prior year	(42)	-
	(42)	111

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 2016 (2015: 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 2016 (2015: 15% to 25%).

7. Earnings/(loss) per share

- (a) Basic earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit attributable to ordinary equity shareholders of the Company of RMB2,127,000 (2015: loss of RMB3,353,000 and the weighted average of 915,484,000 ordinary shares (2015: 915,272,000 shares) in issue during the year, calculated as follows:

- (i) Weighted average number of ordinary shares

	2016 '000	2015 '000
Issued ordinary shares at 1 January	915,272	915,272
Effect of convertible notes converted	212	-
Issued ordinary shares at 31 December	915,484	915,272

- (b) Diluted earnings per share

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as the convertible notes and outstanding share options had an anti-dilutive effect on the basic earnings/(loss) per share amounts presented.

8. Trade and bills receivable

	2016 RMB'000	2015 RMB'000
Trade receivables	551	1,166
Bills receivable	<u>-</u>	<u>2,202</u>
	<u>551</u>	<u>3,368</u>

(a) Ageing analysis

The Group grants credit periods normally ranging from 15 days to 30 days to its customers (2015: ranging from 15 days to 30 days). The bills receivable as at 31 December 2015 were non-interest bearing bank acceptance bills and are aged within 6 months. 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 dates and net of allowances for doubtful debts, is as follows:

	2016 RMB'000	2015 RMB'000
1-30 days	518	1,166
61-90 days	<u>33</u>	<u>-</u>
	<u>551</u>	<u>1,166</u>

(a) Impairment of trade receivables

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

At 31 December 2016 and 2015, no balances in the trade receivables of the Group were individually determined to be impaired

(b) Trade receivables that are not impaired

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	<u>551</u>	<u>1,166</u>

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there were no recent histories of default.

9. Trade deposits paid

Trade deposits paid represented guarantee deposits paid to customers in connection with service agreements signed for the provision of post marketing research and academic promotion services.

10. Trade payables, other payables and accrued charges

	Notes	2016 RMB'000	2015 RMB'000
Trade payables		108	-
Other payables		3,728	4,227
Accrued expenses		3,455	2,550
Amounts due to related parties	(a)	2,987	2,987
Litigation claims payable	(b)	<u>13,033</u>	<u>12,786</u>
		<u>23,311</u>	<u>22,550</u>

(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 plaintiffs according to the respective court judgments.

(c) As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

	2016 RMB'000	2015 RMB'000
31-60 days	<u>108</u>	<u>-</u>

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

	2016 RMB'000	2015 RMB'000
Receipts in advance	<u>4,855</u>	<u>24,215</u>
	2016 RMB'000	2015 RMB'000
At 1 January	24,215	25,687
Cash receipts for the year	552	12,323
Reclassification to amounts due to related parties – Note 21	(6,459)	-
Revenue recognised for the year	(<u>13,453</u>)	(<u>13,795</u>)
At 31 December	<u>4,855</u>	<u>24,215</u>

Included in the receipts in advance is an amount of RMB300,000 (2015: RMB6,145,000) representing suspended projects which are pending mutual agreement between the Group and the customers on final settlement in respect of the deposits received.

12. Loans from related companies

The loans from related companies are unsecured, non-interest bearing and specifically provided to finance the daily operation of the Group. The loans are payable on 30 June 2018 but contain repayment on demand clauses and, therefore, are classified as current liabilities. The loans are not expected to be settled within one year.

13. Convertible notes and derivative financial liabilities

The convertible notes were converted to 77,500,000 ordinary shares at HK\$0.10 each during the year ended 31 December 2016.

14. 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:

2016:

Grant date	Exercise price	At 1 January 2016	Granted during 2016	Exercised during the year	Lapsed during the year	At 31 December 2016
10 August 2006	HK\$0.36	928,800	-	- (928,800)	-	-
10 May 2007	HK\$0.625	1,950,100	-	-	-	1,950,100
7 April 2009	HK\$0.435	4,330,800	-	- (412,000)	-	3,918,800
30 June 2015	HK\$0.45	20,670,000	-	- (3,370,000)	-	17,300,000
		<u>27,879,700</u>	<u>-</u>	<u>- (4,710,800)</u>		<u>23,168,900</u>

2015:

Grant date	Exercise price	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	706,400	-	- (706,400)	-	-
14 December 2005	HK\$0.45	72,000	-	- (72,000)	-	-
10 August 2006	HK\$0.36	1,018,800	-	- (90,000)	-	928,800
10 May 2007	HK\$0.625	2,058,100	-	- (108,000)	-	1,950,100
7 April 2009	HK\$0.435	5,392,800	-	- (1,062,000)	-	4,330,800
30 June 2015	HK\$0.45	-	20,670,000	-	-	20,670,000
		<u>9,248,100</u>	<u>20,670,000</u>	<u>- (2,038,400)</u>		<u>27,879,700</u>

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

	2016		2015	
	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	0.457	27,897,700	0.473	9,248,100
Lapsed during the year	0.431	(4,710,800)	0.472	(2,038,400)
Granted during the year	-	-	0.45	20,670,000
Outstanding at the end of the year	<u>0.462</u>	<u>23,168,900</u>	<u>0.457</u>	<u>27,879,700</u>
Exercisable at the end of the year	<u>0.474</u>	<u>12,788,900</u>	<u>0.477</u>	<u>7,209,700</u>

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 1.53 years (2015: 4.35 years).

15. Contingent liabilities in respect of legal claim

As of 31 December 2016, certain of the subsidiaries of the Group are defendants in proceedings relating to its customers. Based on respective legal advice and court judgements, management is of the opinion that the outcome of such proceedings will not be beyond the existing accruals made for such litigation claims as disclosed in note 10(b). Accordingly, there will be no significant impact to the financial status of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

The Group recorded profit before taxation of RMB2,085,000 this Year, as compared with loss before taxation of RMB3,376,000 in the corresponding period last year. Profit this year was primarily attributed to no fair value loss on revaluation of derivative financial liabilities arising from the unlisted convertible notes issued on 24 December 2014. While loss in last year was primarily attributed to the fair value loss of RMB2,731,000 on convertible notes. After deducting the factor from the fair value loss of Convertible Notes, the Group still recorded loss of RMB 645,000 from operations in the corresponding period last year.

The Group recorded operating profit of RMB2,085,000 for the Year, without considering the financial expense of RMB800,000, as compared with operating profit of RMB172,000 in year 2015. The Group recorded cash outflow from operation activities of RMB6,893,000 for the Year, as compared with net cash generated from operation activities of RMB 3,390, 000 in year 2015.

The Group recorded revenue of RMB20,241,000 for this Year, which represents approximately 1.25% drop from RMB20,497,000 in the corresponding period last year. The 2016 consolidated turnover included approximately RMB 12,279,000 derived from the contracted clinical research services (VPS), amounted to 60.66% of the total revenue; approximately RMB5,473,000 from the post market service and academic promotion services, amounted to 27.04% of the total revenue and approximately RMB2,489,000 from other medical services, amounted to 12.3% of the total revenue. The almost same in revenue for two years 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 markets. (b) The Group recorded an increase revenue in clinical research services (VPS) of approximately RMB4,000 for the Year. (c) Revenue in other medical services decreased by RMB313,000 to RMB2,489,000 compared to that in 2015.

Total consolidated general and administrative expenses were approximately RMB14,219,000 representing an increase of approximately RMB164,000 compared with approximately RMB14,055,000 of the corresponding period last year. The increase was primarily due to the net effect of the employees' wages rising and decrease in provision of litigation claims.

CONVERTIBLE NOTES

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, 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.

On 31 December 2016, Winsland Agents Limited exercised its rights to convert all the Convertible Notes into 77,500,000 of the Company's ordinary shares, representing approximately 8.47% of the issued share capital of the Company immediately before the Conversion and approximately 7.81% of the issued share capital of the Company immediately after the Conversion.

Share capital increased by RMB6,974,000 and capital reserve increased by RMB3,977,000 after the conversion, and convertible notes were removed from current liability for this Year .while the fair values of convertible notes in debt and derivative financial instrument part are listed as current liability RMB5,779,000 and RMB4,447,000 respectively in 2015.

As at 31 December 2016, the loss on revaluation of financial derivative liability in the consolidated statement of profit or loss and other comprehensive income for this year is nil. (2015: RMB2,731,000).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2016, the Group's current liabilities exceeded its current assets and its total liabilities exceeded its total assets by approximately RMB28,937,000 (2015: net current liabilities of approximately RMB44,471,000) and approximately RMB 25,166,000 (2015: net liabilities of approximately RMB39,668,000) respectively.

As at 31 December 2016, the gearing ratio (calculated on the basis of total bank borrowing divided by total assets at the end of the year) of the Group was 0.12 (2015: 0.08). The increase was due to the decrease of total assets this Year.

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 pursuing its business strategy 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)

This Year is a milestone year for company strategic transition. The Group made best use of its VPSCRO's 15 years of efforts and strong relationship with leaders and experts through 400 clinical bases for the marketing and clinical research of new drugs to list and clinical research, brought revenue of RMB 5,473,000 for the second 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 this Year, there was no significant investment.

CAPITAL COMMITMENT

As of 31 December 2016, the Group did not have any significant capital commitment.

HUMAN RESOURCES

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 any dividend for the year ended 31 December 2016 (2015: 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 and Binhui NI. The chairman of the audit committee is Mr. Shou Yuan WU who possesses extensive experience in finance and accounting.

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

DIRECTORS’ INTERESTS IN CONTRACTS OF SIGNIFICANCE

No 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’ INTERESTS IN COMPETING BUSINESS

As at 31 December 2016, none of the Directors or the substantial 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.

EMPLOYEE AND REMUNERATION POLICY

During the Year, staff cost, including Directors’ remuneration is approximately RMB9,827,000 (2015: approximately RMB8,676,000). 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 have be granted to the eligible participants of the Group. 23,168,900 share options have been owned by the eligible participants under the Scheme for the year ended 31 December 2016.

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 2016 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 financial statements for the year. The work performed by Kennic Lui & Co. Ltd. in this respect did not constitute and 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 emphasize 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 2016, with the exception for the following deviations:

Under code provision A.2.1, the responsibilities between chairman and chief executive officer should be divided. 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 2016, 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 Ms. 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.

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, 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.

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 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.

**EXTRACT OF INDEPENDENT AUDITOR’S REPORT ON THE COMPANY’S
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER
2016**

The following is the extract of the independent auditor’s report from KLC Kennic Lui & Co. Ltd., the external auditor of the Company on the Group’s consolidated financial statements for the year ended 31 December 2016:

Opinion

We have audited the consolidated financial statements of China Health Group Inc (the “Company”) and its subsidiaries (together, the “Group”), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to note 2(b)(ii) to the consolidated financial statements which indicates that the Group’s current liabilities exceeded its current assets and total assets by approximately RMB28,937,000 and RMB25,166,000, respectively, as of 31 December 2016. 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. Notwithstanding the above, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group’s ability to generate positive cash flows from new contracts and enforcing stringent cost measures.

PUBLICATION OF ANNUAL REUSLT AND ANNUAL REPORT

This results announcement is published on the GEM website at www.hkexgem.com and the Company's website at www.chgi.net. The annual report of the Company for the year ended 31 December 2016 will be dispatched to the shareholders of the Company and will be available on the respective websites of the Stock Exchange and the Company in due course.

By Order of the Board

China Health Group Inc.
William Xia Guo

Chairman

Beijing PRC, 24 March 2017

As at the date hereof, the Board comprises two executive directors, being Mr. William Xia GUO and Dr. Maria Xue Mei Song; one non-executive director, being Mr. Michael Su; and three independent non-executive directors, being Dr. Shou Yuan Wu, Dr. Bin Hui Ni and Mr. Mark Gavin Lotter.

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 7 days from the date of its posting and on the Company's website at www.chgi.net