THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Health Group Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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China Health Group Limited
中國衛生集團有限公司

(Carrying on business in Hong Kong as CHG HS Limited)

(Incorporated in Bermuda with limited liability)

(Stock Code: 673)

MAJOR TRANSACTION
PROPOSED ACQUISITION OF EQUITY INTEREST
IN THE TARGET COMPANY
AND
NOTICE OF SGM

Capitalised terms used in this cover shall have the same meanings as those defined in this circular.

A notice convening the SGM to be held at Conference Room, 12th Floor, Haiwang Xingchen Building, at the junction of Hou Hai Bin Road and Dong Bin Road, Nanshan District, Shenzhen, China at 11:00 a.m. on 18 October 2019 is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.ch-groups.com).

Whether or not you are able to attend the SGM, please complete and sign the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

25 September 2019

CONTENTS

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

"2016 Agreement"	the agreement dated 12 September 2016 (as supplemented by a supplemental agreement dated 29 September 2016) entered into among the Company, the Management Company, the Hospital, Mr. Sang and Mr. Han in relation to the grant of the right to operate the Hospital to the Management Company
"Acquisition"	the proposed acquisition of the Sale Interest by the Purchaser pursuant to the terms and conditions of the Share Purchase Agreement
"Announcement"	the announcement of the Company dated 28 December 2018 in relation to the Share Purchase Agreement
"Board"	the board of Directors
"Business Day(s)"	a day(s) other than a Saturday, Sunday or public holiday in Hong Kong when commercial banks in Hong Kong are open for business
"Bye-law(s)"	the bye-law(s) of the Company, as amended from time to time
"Company"	China Health Group Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Acquisition
"Conditions Precedent"	the conditions precedent for Completion
"Connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Consideration"	a total consideration in the amount of RMB4.2 million (equivalent to approximately HK$4.79 million) for the Sale Interest pursuant to the Share Purchase Agreement
"Deposit"	the deposit in the sum of RMB1.8 million (equivalent to approximately HK$2.05 million) to be paid by the Purchaser to Mr. Sang pursuant to the Share Purchase Agreement which shall be applied towards satisfaction of the entire consideration for the Potential Transfer

"Director(s)"	director(s) of the Company
"Enlarged Group"	the Group as enlarged by the Acquisition
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region of the PRC
"Hospital"	安平博愛醫院 (Anping Bo'ai Hospital*), a private Class II not-for-profit general hospital before the Reorganisation located in Anping County, Hebei Province, the PRC, which has been renamed to 安平康融醫院 (Anping Kangrong Hospital*) and become a for-profit hospital on 9 August 2019 as part of the Reorganisation
"Independent Third Party(ies)"	party(ies) who is/are independent of the Company and its connected person(s) (as defined in the Listing Rules)
"Latest Practicable Date"	24 September 2019, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Lender"	中衛國際融資租賃(深圳)有限公司 (Zhongwei International Finance Leasing (Shenzhen) Company Limited*), a company established in the PRC and a wholly-owned subsidiary of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	a loan facility in the aggregate principal amount of not more than RMB10.0 million (equivalent to HK$11.4 million) provided by the Lender to the Hospital under the Loan Agreement
"Loan Agreement"	the agreement dated 1 October 2016 entered into between the Lender and the Hospital in relation to the provision of the Loan by the Lender to the Hospital

"Long Stop Date"	being 31 October 2019 or such later date as may be agreed in writing among the parties to the Share Purchase Agreement
"Management Company"	中衛健康產業(深圳)有限公司 (Zongwei Health Industries (Shenzhen) Co., Ltd.*), a company established in accordance with the laws of the PRC and an indirect wholly-owned subsidiary of the Company
"Mr. Han"	Mr. Han Jianbin(韓建彬), one of the Vendors who owned 15% of the Hospital prior to the Reorganisation
"Mr. Sang"	Mr. Sang Shiwen(桑世玟), one of the Vendors who owned 85% of the Hospital prior to the Reorganisation
"Potential Transfer"	the possible transfer of the Remaining Interest by Mr. Sang to the Purchaser, subject to the request of the Purchaser and compliance with applicable laws and regulations in the PRC and the Listing Rules
"PRC" or "China"	The People's Republic of China, which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Properties"	the buildings located at 河北省安平縣心盈街南中心路東 F-1 地號 (F-1 Zhongxin Road East, Xin Ying Street South, Anping County, Hebei Province, the PRC*) where the operations of the Hospital are conducted
"Purchaser"	北京中衛康融醫院管理有限公司 (Beijing Zhongweikangrong Hospital Management Co., Ltd.*), a company established in accordance with the laws of the PRC and a wholly-owned subsidiary of the Management Company
"Remaining Interest"	the remaining 30% equity interest in the Target Company held by Mr. Sang after Completion which, subject to fulfillment of certain conditions, shall be transferred to the Purchaser under the terms and conditions of the Share Purchase Agreement
"Rental Agreement"	the agreement dated 1 January 2017 (as supplemented by a supplemental agreement dated 15 January 2018) entered into between the Management Company and the Hospital in relation to the lease of the Properties by the Management Company to the Hospital

"Reorganisation"	the reorganisation of the Hospital prior to Completion, pursuant to which, among other things, the Hospital has been transformed into a for-profit medical institution
"Sale Interest"	the 70% equity interest in the Target Company to be acquired by the Purchaser from the Vendors under the Share Purchase Agreement
"SGM"	the special general meeting of the Company to be convened to consider and, if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder
"Share Purchase Agreement"	the agreement dated 28 December 2018 entered into among the Purchaser, Mr. Sang, Mr. Han and the Hospital in relation to the Acquisition and the Potential Transfer (as supplemented by supplemental agreements dated 20 June 2019, 31 July 2019 and 24 September 2019)
"Share(s)"	ordinary share(s) of HK$0.1 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	安平康融醫院有限公司 (Anping Kangrong Hospital Co., Ltd.*), a company established in the PRC on 12 February 2019, which is held as to 85% and 15% by Mr. Sang and Mr. Han respectively prior to Completion
"Vendors"	together, Mr. Han and Mr. Sang
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

Unless indicated otherwise in this circular, the exchange rate of RMB1 to HK$1.14 has been used, where applicable, for illustration purposes only and does not constitute any representation that any amount has been, could have been or may be exchanged at such rate or any other rates or at all on the date or dates in question or any other date.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures. Any discrepancy in any table between totals and sums of amounts listed in this circular is due to rounding.

* *The English names of the PRC nationals, companies, entities, departments, facilities, certificates, titles and the like are transliteration of their Chinese names and are included in this circular for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese names prevail.*

China Health Group Limited
中國衛生集團有限公司

(Carrying on business in Hong Kong as CHG HS Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 673)

Executive Directors:
Mr. Zhang Fan *(Chairman)*
Mr. Chung Ho
Mr. Wang Jingming
Mr. Weng Yu

Non-executive Directors:
Mr. Xing Yong
Mr. Huang Lianhai
Mr. Zhang Dawei
Mr. Wang Yongming

Independent non-executive Directors:
Mr. Xiao Zuhe
Mr. Jiang Xuejun
Mr. Du Yanhua
Mr. Lai Liangquan

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
Unit 801, 8/F,
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

25 September 2019

To the Shareholders

Dear Sir/Madam,

MAJOR TRANSACTION
PROPOSED ACQUISITION OF EQUITY INTEREST
IN THE TARGET COMPANY

A. INTRODUCTION

Reference is made to the Announcement and subsequent announcements of the Company dated 1 February 2019, 28 February 2019, 10 May 2019, 20 June 2019, 28 June 2019, 31 July 2019 and 24 September 2019 respectively.

On 28 December 2018, the Purchaser (an indirect wholly-owned subsidiary of the Company), the Vendors and the Hospital entered into the Share Purchase Agreement, pursuant to which the Purchaser conditionally agreed to acquire and the Vendors conditionally agreed to sell the Sale Interest at the Consideration of RMB4.2 million (equivalent to approximately HK$4.79 million), which shall be satisfied by cash by the Purchaser to the Vendors. Further, pursuant to the Share Purchase Agreement, it was agreed that the Purchaser shall, within five Business Days after Completion, pay Mr. Sang the Deposit which shall be applied towards satisfaction of the entire consideration for the Potential Transfer, subject to fulfilment of certain conditions.

The Acquisition and the Potential Transfer together constitute a major transaction of the Company and is subject to the announcement, reporting and shareholders' approval requirements under Chapter 14 of the Listing Rules. The SGM shall be convened to seek Shareholders' approval of the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the Potential Transfer).

The purpose of this circular is to provide you with, among other things, (i) details of the Share Purchase Agreement; (ii) the financial information of the Group; (iii) the accountants' report and management discussion and analysis of the Hospital; (iv) the unaudited pro forma financial information of the Enlarged Group; and (v) a notice of SGM.

B. THE SHARE PURCHASE AGREEMENT

The principal terms of the Share Purchase Agreement are summarised below:

Date

28 December 2018 (as supplemented by supplemental agreements dated 20 June 2019, 31 July 2019 and 24 September 2019)

Parties

(i) The Purchaser;

(ii) Mr. Sang;

(iii) Mr. Han; and

(iv) the Hospital.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendors is an Independent Third Party.

Subject matter

Pursuant to the Share Purchase Agreement, the Purchaser has conditionally agreed to acquire 70% equity interest in the Target Company, as to 55% from Mr. Sang and as to 15% from Mr. Han. The Target Company was established on 12 February 2019, which is currently held as to 85% and 15% by Mr. Sang and Mr. Han respectively. The registered capital and paid up capital of the Target Company are RMB500,000 respectively.

The Hospital was held as to 85% by Mr. Sang and as to 15% by Mr. Han before the Reorganisation. It is one of the Conditions Precedent that Completion is subject to the implementation of the Reorganisation, pursuant to which:

(i) all the assets, liabilities, businesses, contracts, licences, permits and employees of the Hospital shall be transferred to the Target Company;

(ii) the Hospital shall be renamed as 安平康融醫院 (Anping Kangrong Hospital*) and transformed into a for-profit hospital from its status of a privately run not-for-profit general hospital, and all requisite approvals, filings or registrations with relevant government authorities shall be made in accordance with applicable laws, regulations and procedures in the PRC; and

(iii) the existing licences and registrations of the Hospital in relation to its status of a privately run not-for-profit general hospital shall be cancelled.

The approval for the Hospital to be transformed from a privately-run not-for-profit hospital to a for-profit hospital has been obtained in March 2019. The Hospital has also obtained the new medical institution licence (醫療機構執業許可證) as a for-profit hospital under the name of 安平康融醫院 (Anping Kangrong Hospital*) on 9 August 2019 and all the assets, liabilities, businesses, contracts, licences, permits and employees of the Hospital have been transferred to the Target Company. The Reorganisation has been completed as at the Latest Practicable Date.

Consideration

The Consideration for the Sale Interest is RMB4.2 million (equivalent to approximately HK$4.79 million) and shall be fully satisfied by cash by the Purchaser to the Vendors in the following manner:

(i) RMB3.0 million (the "**First Payment**"), of which RMB2.5 million and RMB0.5 million has been paid by the Purchaser to Mr. Sang and Mr. Han respectively, within three Business Days after the signing of the Share Purchase Agreement; and

(ii) the balance of RMB1.2 million, of which RMB0.8 million and RMB0.4 million shall be paid by the Purchaser to Mr. Sang and Mr. Han respectively, within three Business Days after (a) Completion; and (b) the registration of the persons designated by the Purchaser as the legal representatives, directors, supervisors, and managers of the Target Company.

The Consideration was determined after arm's length negotiations among the Purchaser and the Vendors, taking into account (i) the consideration of RMB15.0 million paid by the Management Company for the management right over the Hospital under the 2016 Agreement; (ii) the number of beds currently available in the Hospital and the potential to expand the capacity of the Hospital; and (iii) the value per bed of recent acquisitions of hospitals obtained from public sources available to the Company. Please refer to further details disclosed in the section headed "Reasons for and benefits of the Acquisition and the Potential Transfer" below. The Consideration has been/will be funded by internal resources of the Group.

Conditions Precedent

Completion shall be conditional upon satisfaction of each of the following Conditions Precedent (unless with the Purchaser's waiver):

(i) (a) the Reorganisation having been completed; and (b) all requisite governmental authorisations having been obtained by the Target Company from all applicable governmental entities which are necessary in connection with the proposed Acquisition, if any;

(ii) the Purchaser having obtained through the Company approval of the Board and the approval of the Stock Exchange in relation to the Share Purchase Agreement and the transactions contemplated thereunder, and the passing of ordinary resolution(s) by the Shareholders at the SGM to approve the Share Purchase Agreement and the transactions contemplated thereunder; and

(iii) each of the warranties given by the Vendors and the Hospital under the Share Purchase Agreement being complete, true and accurate, and all obligations of the Vendors and the Hospital being complied with and there is no existence of any breach of the terms of the Share Purchase Agreement and any laws and regulations.

None of the above Conditions Precedent can be waived by the Vendors. As of the Latest Practicable Date, except for Condition Precedent set out in (i), none of the Conditions Precedent has been fulfilled.

Completion

Completion and the registration of the Purchaser as the owner of the Sale Interest shall take place within ten Business Days after the fulfilment (or waiver, if applicable) of all the Conditions Precedent but not later than the Long Stop Date. Upon Completion, the Target Company will be owned as to 70% by the Purchaser and as to 30% by Mr. Sang. The Target Company will become an indirect non-wholly owned subsidiary of the Company and the financial results of the Target Company will be consolidated into the accounts of the Group.

Termination

The Share Purchase Agreement may be terminated under the following circumstances:

(i) mutual agreement of the parties;

(ii) non-fulfilment of the Conditions Precedent; or

(iii) failure to complete the procedures to transform the Hospital from not-for-profit to for-profit within 185 days from the date of the execution of the Share Purchase Agreement (except at a later date agreed by the Purchaser).

If the Conditions Precedent are not fulfilled before the Long Stop Date, the Share Purchase Agreement shall be terminated. If the Share Purchase Agreement is terminated due to non-fulfilment of the Conditions Precedent or by mutual agreement of the parties or the failure to transform the Hospital from not-for-profit to for-profit within 185 days from the date of the Share Purchase Agreement, the first payment of the Consideration of RMB3.0 million already paid by the Purchaser shall be fully refunded to the Purchaser without interest upon termination of the Share Purchase Agreement. If Completion does not take place due to either one of the Vendors or the Hospital terminates the Share Purchase Agreement or the Purchaser terminates the Share Purchase Agreement as a result of any reason caused by either one of the Vendors or the Hospital, the Vendors shall refund the first payment of the Consideration of RMB3.0 million to the Purchaser and pay a further sum of RMB840,000 as compensation to the Purchaser. If the Share Purchase Agreement is terminated due to default of the Purchaser, the first payment of the Consideration of RMB3.0 million shall not be refunded.

The Deposit and the Remaining Interest

Pursuant to the Share Purchase Agreement, it was agreed between the Purchaser and Mr. Sang that the Purchaser shall pay the Deposit of RMB1.8 million (equivalent to approximately HK$2.05 million) to Mr. Sang within five Business Days after Completion which shall be applied towards satisfaction of the entire consideration for the Potential Transfer. The Deposit is refundable, without interest, under the circumstances that Mr. Sang fails to register the transfer of the Remaining Interest upon the request of the Purchaser. No further payment is to be made by the Purchaser for the acquisition of the Remaining Interest. In consideration of the Purchaser paying the Deposit, Mr. Sang shall execute all necessary documents upon receipt of the Deposit creating a share charge over the Remaining Interest in favour of the Purchaser.

At present, there is legal restriction for foreign entities to acquire the entire interests in the Hospital. Pursuant to Article 8 of《中外合資、合作醫療机构管理暫行辦法》(Interim Measures for the Administration of Sino-foreign Joint Ventures and Cooperative Medical Institutions*) (the "**Interim Measures**") jointly issued by the Ministry of Health (中華人民共和國衛生部) and the Ministry of Foreign Trade and Economic Cooperation（對外貿易與經濟合作部）in May 2007 which became effective in July 2007, the establishment of sino-foreign joint ventures and cooperative medical institutions shall meet the conditions that the proportion or interest of the Chinese party in such sino-foreign joint ventures or cooperative medical institutions shall not be less than 30%. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Interim Measures are still valid, despite the National Health and Wellness Committee (國家衛生健康委員會) has taken over the role of Ministry of Health and the Ministry of Foreign Trade and Economic Cooperation has been integrated into the Ministry of Commerce (商務部) after the issue of the Interim Measures. Despite the Purchaser is a company established in the PRC, its immediate holding company (i.e. the Management Company) is a wholly foreign-owned enterprise established in the PRC. Accordingly, the Purchaser may be seen as a foreign entity under the Interim Measures and be subject to the aforesaid restriction in its shareholding interest in medical institutions.

The Potential Transfer shall be effected at the request of the Purchaser and subject to (i) compliance with all applicable laws, rules and regulations; and (ii) if required by the Listing Rules, the Company having obtained the approval of the Shareholders in respect of the acquisition of the Remaining Interest. There is no deadline under the terms of the Share Purchase Agreement for the Purchaser to exercise its right and request for the execution of the Potential Transfer. The Company intends to request for the execution of the Potential Transfer as soon as practicable when the relevant government authority(ies) do(es) not impose any restriction thereto.

C. INFORMATION OF THE TARGET COMPANY AND THE HOSPITAL

The Target Company

The Target Company was established on 12 February 2019 and is currently held as to 85% and 15% by Mr. Sang and Mr. Han respectively. The scope of business of the Target Company covers general medicine, pediatrics, obstetrics and gynecology, surgery, traditional Chinese medicine and otolaryngology. The Target Company did not carry out any business since the date of establishment and does not have any assets or liabilities prior to the Reorganisation, save for the registered and paid up capital of RMB500,000.

The Hospital

The Hospital was a private not-for-profit Class II general hospital located in Anping County, Hebei Province, the PRC before the Reorganisation and has been operating at the Properties for over 21 years. The total gross floor area of the Properties is approximately 6,123 square metres, of which approximately 3,000 square metres are for treatment and diagnosis use, offering up to 130 beds at the Hospital. Currently, the Hospital employs 118 employees. The Hospital provides services covering clinical medicine, pediatrics, surgery, gynecology, traditional Chinese medicine and otolaryngology through out-patient services, hospitalization and general medical services including health examinations and diagnosis. As mentioned in the paragraph headed "Subject matter" under the section headed "The Share Purchase Agreement" above, completion of the Reorganisation is a Condition Precedent for Completion. Accordingly, upon completion of the Reorganisation, the Hospital has become the Target Company, which is a for-profit medical institution.

Set out below is the audited financial information of the Hospital for the three years ended 31 December 2016, 2017 and 2018 and for the three months ended 31 March 2019 as extracted from the accountants' report of the Hospital set out in Appendix II to this circular:

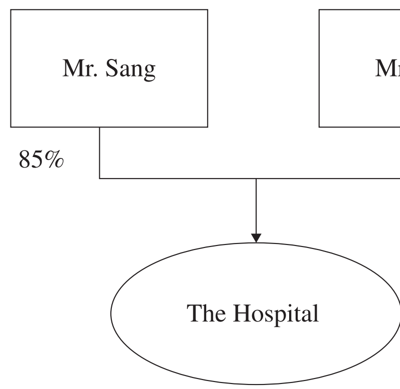
	For the financial year ended 31 December			For the three months ended 31 March
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	13,916	14,005	16,030	5,468
Net profit/(loss) before taxation	769	(3,026)	(6,575)	(2,251)
Net profit/(loss) after taxation	769	(3,026)	(6,575)	(2,251)

	As at 31 December			As at 31 March
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Net assets/(liabilities)	2,602	(424)	(6,999)	(9,250)

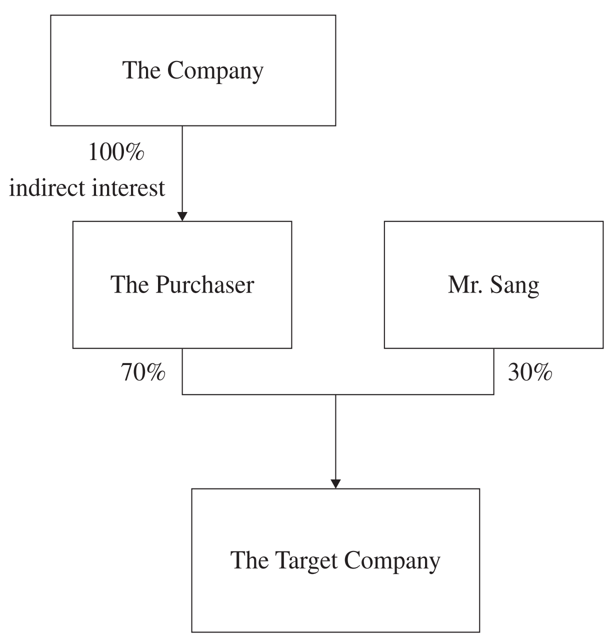
Please also refer to the accountants' report set out in Appendix II to this circular and the management discussion and analysis set out in Appendix III to this circular for further details on the financial information of the Hospital.

Shareholding structure

Shareholding structure of the Hospital before the Acquisition



Shareholding structure of the Target Company upon Completion



Existing relationship with the Group

The 2016 Agreement

Pursuant to the 2016 Agreement (as supplemented by a supplemental agreement dated 29 September 2016), Mr. Sang and Mr. Han granted the Company an operation right to manage and operate the Hospital through the Management Company for a term of 20 years commencing on 1 October 2016 and up to 30 September 2036 at a consideration of RMB15.0 million. The consideration of RMB15.0 million was fully paid by the Company to Mr. Sang and Mr. Han in accordance with the terms of the 2016 Agreement.

Pursuant to the 2016 Agreement, the Management Company is responsible for the operation of the Hospital covering areas such as personnel management, operational decisions, implementation of new policies and procedures, procurement of medicines and medical equipment, and disposition of assets. Following the execution of the 2016 Agreement, the Management Company has implemented a new hospital management model developed by the Company and adjusted the internal management structure of the Hospital as elaborated below:

(i) a hospital management committee has been set up as the decision making body of the Hospital which comprises three members appointed by the Management Company; and

(ii) the Management Company also appointed the legal representative, dean and finance director of the Hospital.

In consideration of the services provided, the Management Company shall be entitled to a fee equivalent to 90% of the revenue of the Hospital and bear certain costs of the Hospital (the "**Old Method**"). The costs to be borne by the Management Company shall include personnel expenses, sanitary material fees, drug fees and other operating expenses, and exclude depreciation, repair and maintenance, rental and finance costs payable to the Management Company and Independent Third Parties, and legal and professional fees relating to legal proceedings involving the Hospital. The Old Method was applied during the period from 1 October 2016 to 30 September 2017, as the parties reviewed the implications of PRC value added tax on the Management Company under the Old Method in late 2017 and considered it was appropriate to adjust the basis on which the management fee payable to the Management Company is computed to minimise the Management Company's exposure to PRC value added tax. The revision involved the Management Company's entitlement to a fee equivalent to 6% of the revenue of the Hospital (the "**New Method**"). Under the Old Method, PRC value added tax is payable by the Management Company based on the management fee which was 90% of the Hospital revenue, while under the New Method, PRC value added tax is payable by the Management Company based on the management fee which is 6% of the Hospital revenue. The management fees are payable to the Management Company on a monthly basis. The revision to the New Method was negotiated among the Company and the Vendors after arm's length negotiations, taking into account the following additional factors:

– the parties reviewed the performance of the Hospital since the Management Company took over the management of the Hospital on 1 October 2016 and noted that additional investments in medical equipment and human resources might be required in order to enhance the long term competitiveness of the Hospital. These investments might increase the operating costs to be borne by the Management Company while the positive effect on revenue might not be immediate, and accordingly the Management Company might record losses from the management of the Hospital in the short run under the Old Method when 90% of the revenue of the Hospital was insufficient to cover the additional operating costs to be incurred;

– it was also noted that enhancement to the record keeping procedures of the Hospital was needed to ensure that revenue and costs of the Hospital were recorded properly and timely, based upon which the management fee payable to and the costs to be borne by the Management Company were determined. Computing the management fee based on the top line of the Hospital under the New Method would remove the burden to examine in detail the records of costs and expenses of the Hospital which would be borne by the Management Company according to the Old Method;

– the Company has compared the management fee payable to the Management Company net of operating costs borne by it (the "**Net Revenue**") under the Old Method for the period from 1 October 2016 to 30 September 2017 with the management fee which would have been recorded as revenue by the Management Company had the New Method been adopted during the same period as follows:

	Under the Old Method *(Note)* *RMB'000*	**Under the New Method** *(Note)* *RMB'000*	**Difference** *RMB'000*
For the period from 1 October 2016 to 31 March 2017	352.7	425.7	73.0
For the period from 1 April 2017 to 30 September 2017	379.7	400.7	21.0

Note: The figures under the Old Method represent 90% of the revenue of the Hospital net of expenses borne by the Management Company, while the figures under the New Method represents 6% of the revenue of the Hospital

The Company noted that the Net Revenue recognised as revenue of the Group based on the Old Method was not significantly different from the management fees calculated using the New Method;

– during the preparation of the audited consolidated financial statements of the Group for the year ended 31 March 2017, the Company has consulted its auditors on the relevant accounting standards applicable to account for the Management Company's income and costs associated with the 2016 Agreement, and was advised that according to the applicable accounting standards (which were HKAS 18 and HKFRS 15), the Company should recognise the Net Revenue under the Old Method as revenue of the Group. As the revenue to be recognised by the Group under the Old Method was not significantly different from that to be recognised had the New Method been adopted, the Company considered the revision to the basis of determining the management fee of the Management Company would not have material implications to the amount of revenue to be recognised and the accounting treatment of revenue in the consolidated financial statements of the Group; and

– the New Method is consistent with the basis on which the management fee for other hospitals managed by the Group is determined.

Based on the above, it was agreed between the Company and the Vendors in around December 2017 that the New Method shall be adopted in place of the Old Method with retrospective effect from 1 April 2017, despite the Old Method had been used and accounted for by the Group during the interim financial period ended 30 September 2017. The difference between the Net Revenue recorded by the Management Company under the Old Method for the interim financial period ended 30 September 2017 and the management fee that the Management Company should have recorded using the New Method for the same period, which amounted to approximately RMB21,000, had been adjusted to the revenue of the Group in December 2017 (i.e. reflected in the Group's results for the year ended 31 March 2018). No formal supplemental agreement was entered into among the Company, the Hospital and the Vendors regarding such revision.

Having considered that (i) there is no material difference in the Net Revenue recognised by the Management Company under the Old Method and the management fee receivable under the New Method; (ii) the accounting treatment for the Net Revenue under the Old Method is the same as the management fee under the New Method; and (iii) there is no formal supplemental agreement entered into among the parties in respect of the revision to the New Method, the Company did not consider the revision a material variation to the terms of the 2016 Agreement and had not made a separate announcement in that regard. The Company has stated the New Method in its annual results announcement and the annual report for the year ended 31 March 2019.

For each of the three years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the mangement fee payable to the Management Company for the provision of management services to the Hospital was approximately RMB0.43 million, RMB0.54 million, RMB0.96 million and RMB0.33 million respectively. The Hospital had settled approximately RMB0.28 million of the aforesaid management fees since the commencement of the 2016 Agreement.

As the Target Company's financial statements were not subject to audit prior to contemplation of the Acquisition, it was agreed that the management fee payable to the Management Company was calculated based on the management accounts of the Target Company. The management fee payable amounts for the two years ended 31 December 2016 and 2017 above are inevitably different from the amounts calculated based on the audited revenue of the Target Company as set out on in Appendix II of this circular because the reporting accountants have made some adjustments (for timing difference in recognitions of certain revenue and expenses and reclassifications of certain expenses previously capitalised) to the Target Company's financial statements during the audit for the purpose of the preparation of the Accountants' Report.

The Board considers that a reconciliation on the management fee payable to the Management Company for each of the years ended 31 December 2016 and 2017 would be burdensome to the Company and of little value to the Shareholders as (i) the Group has already recognised the management fee calculated based on the management accounts of the Target Company and it would not make any restatement/adjustment on its published financial statements for the difference arising from calculating the management fee based on the Target Company's audited financial statements set out in the Accountants' Report; and (ii) the impact of calculating the management fee based on the Old Method and the New Method is not significant as disclosed above.

The Loan Agreement

Pursuant to the 2016 Agreement, the Company agreed to provide, by itself or through the Management Company, the Hospital with the Loan in the principal amount of not more than RMB10.0 million to support the capital needs for the improvement and expansion of operations of the Hospital. Subsequent to the 2016 Agreement and on 1 October 2016, the Company nominated the Lender to provide the Loan, and the Lender and the Hospital entered into the Loan Agreement. The Loan is unsecured, bears interest at 10% per annum (payable at maturity of the Loan) and has a term of three years commencing from 1 October 2016. The Lender is a wholly-owned subsidiary of the Company principally engaged in the provision of finance leasing services.

As at the Latest Practicable Date, the outstanding principal amount of the Loan is RMB6.09 million.

For the three years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019, the interest expense on the Loan payable to the Group were approximately RMB0.03 million, RMB0.23 million, RMB0.51 million and RMB0.15 million respectively. The interest expenses were calculated on the basis of 10% per annum on the outstanding principal amount of the Loan during the year/period. The Hospital had not settled the aforesaid accrued interest since commencement of the Loan Agreement.

The Rental Agreement

In conjunction with the 2016 Agreement, the Management Company acquired the Properties from the Vendors pursuant to an agreement dated 12 September 2016 at the consideration of RMB15.0 million. The Management Company and the Hospital then entered into the Rental Agreement, pursuant to which the Management Company agreed to lease the Properties to the Hospital at an annual rental of RMB1.2 million, payable quarterly in advance, for a term of ten years commencing on 1 January 2017, with rental payable from 1 June 2017 onwards.

For the two years ended 31 December 2017 and 2018 and the three months ended 31 March 2019, the rental expenses payable to the Management Company were approximately RMB0.7 million, RMB1.2 million and RMB0.3 million respectively. The Hospital had settled RMB1.0 million of the aforesaid rental expenses since commencement of the Rental Agreement.

Finance lease arrangements

During the year ended 31 December 2017, the Hospital had acquired certain medical equipment which was financed by finance lease arrangements with the Group, the principal terms of which are as follows:

Date of lease agreement	**Medical equipment**	**Principal amount** *RMB'000*	**Lease period**	**Repayment schedule**
20 January 2017	High resolution abdominal endoscope	1,140	1 April 2017 to 31 March 2023	24 equal quarterly installments, payable in arrears
20 January 2017	Digital X-ray system	850	1 April 2017 to 31 March 2022	20 equal quarterly installments, payable in arrears
30 March 2017	Digital endoscope and cleaning system	1,200	1 April 2017 to 31 March 2023	24 equal quarterly installments, payable in arrears

The finance lease arrangements do not bear interest. The Hospital had settled a total of RMB0.28 million of the finance lease payments and as at 31 March 2019, the outstanding finance lease payments due to the Group amounted to approximately RMB2.9 million.

Arrangements after Completion

Management

After Completion, the hospital management committee will cease its role and the overall management of the Hospital will rest with the board of directors of the Target Company.

As at the Latest Practicable Date, the sole director of the Target Company is Mr. Fan Shui Ping (范水平), being a representative from the Company. Upon Completion, the board of directors of the Target Company will comprise three members, being Mr. Fan Shui Ping, Mr. Xing Yong (邢勇) and Mr. Liu Hong Di (劉洪提), all being representatives from the Company. Mr. Fan Shui Ping has extensive experience in hospital management through his previous involvements in senior roles in various public hospitals in the PRC. He has worked in collaboration with Mr. Wang Jianming, an executive Director, to design and formulate modern operation model for hospitals which were implemented in the hospitals managed by the Group. He is currently a consultant of the Group. Mr. Liu Hong Di possesses professional qualifications in clinical medicine and attending physician. He has taken up senior roles such as Business Director and General Manager of certain subsidiaries of the Group. Mr. Xing Yong is a non-executive Director.

Neither Mr. Sang nor Mr. Han will act as or appoint his representative as the legal representative, director or senior management of the Target Company. Mr. Han is currently working as a general surgeon at the Hospital and will remain to work at the Hospital after Completion.

The Management Company and Mr. Sang do not intend to enter into a shareholders' agreement to govern their respective rights and obligations in the Target Company after Completion. The Company does not consider the absence of a shareholders' agreement would prejudice the interest of the Management Company, given that the Management Company has majority control over the issued shares of the Target Company and the terms of a shareholders' agreement typically serve to protect the interest of the minority shareholder.

The 2016 Agreement, the Loan Agreement, the Rental Agreement and the finance lease arrangements

It is a term of the Share Purchase Agreement that upon Completion, the 2016 Agreement shall be terminated. Given that the board of directors of the Target Company shall comprise only members nominated by the Company and the Company shall continue to exercise control over the operations of the Hospital through its control over the board of directors and senior management of the Target Company, the parties agreed that the 2016 Agreement is not necessary in the circumstances.

It is intended that a new loan agreement will be entered between the Lender and the Target Company before the existing maturity date of 30 September 2019 to rollover the Loan to 30 September 2021. Except for the maturity date, the other terms of the Loan are expected to remain unchanged. In light of the current financial position and liquidity position of the Hospital, it is expected that the Target Company will continue to rely on the Loan to finance its operations and thus it is not expected that the Loan will be repaid prior to Completion.

The Rental Agreement for the Properties and the finance lease arrangements for medical equipment will continue to be valid after Completion.

Each of the above expenses of the Target Group has fixed payments terms, however, the Target Company was unable to settle the balances according to the payment terms in view of its liquidity position. The Group, being the manager and operator of the Hospital, had a thorough understanding of the Hospital's financial position and understood that it would have settled these balances due to the Group if it had sufficient cash resources. There is no repayment schedule or penalty for these late payments while having considered the improving financial performance of the Hospital under the Group's management and operation and the Group's positive outlook of the PRC medical and healthcare industry, the Board considers that it is in the interest of the Company and the Shareholders to allow the Hospital some time to improve its liquidity position and generate sufficient cash to repay the balance due to the Group. As the Company will be in a better position to control its investment in the Hospital following Completion, the Board is of the view that the results of operation and cashflow of the Hospital will improve. As such, the Hospital will be able to settle the late payments due to the Group. The Board has no intention to waive the late payments.

D. INFORMATION OF THE GROUP

The Company is incorporated in Bermuda with limited liability and its issued Shares are listed on the Main Board of the Stock Exchange. The Company is a Hong Kong-based investment holding company principally engaged in medical businesses. The Company mainly operates through four segments, namely provision of hospital management services, trading of medical equipment, business factoring and property investment.

The Purchaser is a company established under the laws of the PRC with limited liability and an indirect wholly-owned subsidiary of the Company. The Purchaser is principally engaged in hospital management service. At present, there are two hospitals in the PRC being managed by the Purchaser, namely 承德市雙灤區人民醫院暨承德市精神病醫院 (Chengde City Shuangluan District People's Hospital and Chengde City Psychiatric Hospital*) (the "**Shuangluan Hospital**") and the Hospital.

E. REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE POTENTIAL TRANSFER

The Directors consider that there is a huge market for medical and healthcare industry globally, particularly in the PRC on the back of the supporting policies of the PRC government. Having accumulated track record in and developed its own operating model for the management and operations of hospitals over the years through management agreements, the Directors believe it is a strategic move for the Group to extend its involvement as an equity owner in medical institutions to capture the opportunities available in the industry. The Company has been actively seeking for acquisition opportunities and considers the Hospital a suitable target for the Group, given the Group has extensive knowledge about the Hospital through the Management Company's involvement in its operations and the resources that the Management Company had spent on improving the operating system and hardware of the Hospital since it took over the management of the Hospital in October 2016.

The Directors have also considered the following factors in making the decision regarding the Acquisition and the Potential Transfer:

– the Hospital was historically a not-for-profit medical institution. As the profit of a not-for-profit hospital is not available for distribution to its owners, the Hospital was not operated under a market driven business model that utilises its resources most efficiently to maximise return. In addition to the synergies that the Hospital has been enjoying such as the procurement capability shared among the hospitals managed by the Group and the brand name in hospital management established by the Group, the Directors believe there are rooms to improve the efficiency of the Hospital despite its less than satisfactory financial performance in the past two financial years ended 31 December 2017 and 2018. Capitalising on the Hospital's reputation established in orthopedics, gynecology and pediatrics over the years, the Directors intend to continue to invest in both hardware and software of the Hospital, as described in more detail below, and seize market share in these specialty areas;

– since the Management Company took over the management of the Hospital, there had been improvements in the performance of the Hospital in terms of number of in-patient and out-patient visitors, and revenue increased by approximately 14.5% from RMB14.0 million for the year ended 31 December 2017 to approximately RMB16.0 million for the year ended 31 December 2018. Despite the increase in revenue, the Hospital recorded net losses of approximately RMB3.0 million and RMB6.6 million for the year ended 31 December 2017 and 2018 respectively. Such losses were mainly due to the substantial increase in depreciation charges on the new medical equipment acquired during 2017 and 2018, the rental expenses incurred on the Properties, the interests on the Loan as well as the increased staff costs for newly recruited specialists and engagement of external experts and management fee payable to the Management Company. Following the Acquisition, certain of such expenses would be eliminated on consolidation;

– although the Hospital has been under the management of the Management Company pursuant to the 2016 Agreement and the Management Company is able to recommend measures to improve the performance of the Hospital, the decision on significant investment and expansion plans still rests with the owners of the Hospital. It is therefore in the interest of the Company to become equity owner of the Hospital and enjoy more flexibility to devise the development and investment plan that best suits the long term growth of the Hospital. In addition, the Hospital has been relying on the Loan to finance its expansion and daily operations. To acquire an equity interest in the Hospital as compares to being a creditor of the Hospital puts the Company in a better position to control the risk involved in its investment in the Hospital;

– as mentioned in the paragraph headed "The Deposit and the Remaining Interest" under the section headed "The Share Purchase Agreement" above, there is currently restrictions for foreign entities to own more than 70% interest in medical institutions. Accordingly, the Acquisition only involves the Sale Interest which represents a 70% equity interest in the Target Company. It is the intention of the Company to become the 100% owner of the Hospital when the relevant government authority(ies) do(es) not impose any restriction thereto. To this end, the Company and Mr. Sang agreed that subject to compliance with applicable laws and regulations of the PRC and at the request of the Purchaser, Mr. Sang shall transfer the Remaining Interest to the Purchaser and the Deposit shall be applied towards satisfaction of the entire consideration for the Potential Transfer. The arrangement serves to enable the Company to lock in the price payable for the Remaining Interest, provide the certainty to acquire the Remaining Interest when the relevant government authority(ies) do(es) not impose any restriction thereto, and reduce the time and resources that the Company may have to spend on negotiating the terms of the Potential Transfer with Mr. Sang in the future. The share charge over the Remaining Interest to be created in favour of the Purchaser when the Deposit is paid safeguards the interest of the Company;

– following Completion, the Target Company will become a non-wholly owned subsidiary of the Company and its financial statements will be consolidated into the Group. The Acquisition would help to broaden the revenue base of the Group significantly, as the Group will reflect 100% of the revenue of the Hospital instead of 6% of the Hospital revenue as management fee calculated under the New Method;

– the Consideration together with the Deposit values the 100% equity interest in the Target Company at RMB6.0 million. In deliberating the acquisition of the Sale Interest and the Remaining Interest, in addition to the aforesaid RMB6.0 million, the Directors had also taken into account the consideration of RMB15.0 million already paid by the Group for the management right over the Hospital under the 2016 Agreement, given that it is a term of the Share Purchase Agreement that the 2016 Agreement shall cease after Completion and the RMB15.0 million paid under the 2016 Agreement would not be refunded. Taking this into account, the aggregate investment costs in the Hospital to the Group would have been RMB21.0 million, which translates to approximately RMB162,000 per bed based on 130 beds (the "**Available Beds**") currently available at the Hospital. Such value is substantially lower than the equivalent value per bed of other recent acquisitions of hospitals in the range of about RMB300,000 (the "**Value per Bed**") based on information available to the Company from public sources. Even if the amount due from the Target Company to the Group of approximately RMB11.7 million as at 31 March 2019 was taken as part of the Group's investment costs in the Hospital, the investment cost per bed would have been approximately RMB252,000 based on the Available Beds and is still lower than the Value per Bed. The Directors consider that the relatively lower value per bed of the Hospital may be due to the less than satisfactory financial performance of the Hospital, the net liabilities position of the Hospital and the inability of the Vendors to provide funding to supporting the operations and expansions of the Hospital. The Directors believe the acquisition costs for the Hospital would be much higher if the Company were to negotiate the terms of the Acquisition and the Potential Transfer when the Hospital becomes profitable; and

– as stated in the 2019 annual report of the Company, the Group aims to invest in setting up central hospitals in certain major cities in the PRC. The Acquisition represents the first step towards achieving this goal and lays a foundation for the Group to building a hospital group.

It is the intention of the Company that following Completion, the Hospital shall focus on the following specialty areas:

– Orthopedics: it is intended that additional investments will be made in medical equipment such as nuclear magnetic resonance imaging equipment and endoscope for minimal invasive spinal surgery, and more specialists/consultants will be engaged to undertake more complicated surgeries for patients;

– Gynecology: it is intended that the Hospital shall develop comprehensive services from prenatal check to postpartum care and sterility treatment, and additional equipment such as hysteroscope will be purchased to enhance the quality of services; and

– Psychiatry: having considered that there is no psychiatric services provided by other hospitals in Anping County and the Shuangluan Hospital managed by the Group is specialised in psychiatry, it is intended for the Hospital to explore the feasibility of providing psychiatric services capitalising on the experience of the Group in Shuangluan Hospital and setting up psychiatry department to expand its service offerings.

In addition to the purchase of additional medical equipment as mentioned above, capital expenditures on expanding the floor area of the Hospital for treatment and diagnosis use may be required. It is expected that the total floor area for treatment and diagnosis use shall be increased by 4,000 square metres (of which idle area within the Properties of approximately 1,000 square metres shall be deployed and 3,000 square metres shall be leased area from suitable properties to be identified), offering about 120 additional beds covering postpartum and psychiatric care in the coming three years. The expenditures for the aforesaid additional floor area and beds (including capital expenditures and rental expenses) are estimated to be approximately RMB4.6 million for the coming three years, and are intended to be funded by internal resources of the Group. Further, the Management Company, through its connection with other hospitals, shall promote the collaborations with other hospitals and/or medical professionals with a view to improving the professional and technical expertise and standard of the staff at the Hospital. The Management Company also intends to set key performance indexes to monitor and assess the efficiency of the Hospital services and design remuneration policies involving appropriate incentive elements based on the key performance indexes to align the interests of the staff with the Hospital. The Directors believe the above plan serves to enhance the competitiveness of the Hospital and is in the interests of the long term development of the Hospital.

In view of the above, the Board considers that the terms of the Share Purchase Agreement are fair and reasonable and on normal commercial terms, and the Acquisition and the Potential Transfer are in the interests of the Company and the Shareholders as a whole.

F. FINANCIAL EFFECTS OF THE ACQUISITION AND THE POTENTIAL TRANSFER

Upon Completion, the Target Company will become an indirect non-wholly-owned subsidiary of the Company, and the financial results and the assets and liabilities of the Target Company will be consolidated in the financial statements of the Group.

Revenue and earnings

Based on the audited financial statements of the Hospital for the year ended 31 December 2018, the Hospital recorded revenue of approximately RMB16.03 million and loss after taxation of approximately RMB6.58 million. Following Completion, it is expected that the revenue of the Group will be increased by the revenue of the Hospital but the management fee and rental income from the Properties previously recorded by the Group as revenue would be eliminated on consolidation and no longer be accounted for as revenue of the Enlarged Group. Given the loss making track record of the Hospital and the additional investments that may be required to enhance the competitiveness of the Hospital, the Target Company is not expected to contribute positively in the near term to the earnings of the Enlarged Group immediately after Completion. The interest income on the Loan previously recorded by the Group as other income would also be eliminated on consolidation.

Assets and liabilities

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, which illustrates the financial effects of the Acquisition assuming that Completion had taken place on 31 March 2019:

(i) the net assets of the Group would have been decreased from approximately HK$132.05 million to HK$114.68 million, principally due to the write off of the intangible assets relating to the operating right of the Hospital under the 2016 Agreement;

(ii) the total assets of the Enlarged Group would have been decreased from approximately HK$215.24 million to HK$212.18 million; and

(iii) the total liabilities of the Group would have been increased from approximately HK$83.20 million to HK$97.50 million.

Assuming the Potential Transfer had also been completed on 31 March 2019, the total assets of the Enlarged Group would have been decreased to RMB210.12 million while the total liabilities would remain unchanged.

G. LISTING RULES IMPLICATIONS

As the applicable percentage ratios in respect of the Acquisition and the Potential Transfer exceed 25% but are less than 100%, the Acquisition and the Potential Transfer together constitute a major transaction of the Company under the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

H. SGM

The SGM will be held for the Shareholders to consider and, if thought fit, approve the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the Potential Transfer). To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders will be required to abstain from voting in relation to the resolution(s) to approve the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the Potential Transfer) at the SGM.

The notice convening the SGM to be held at Conference Room, 12th Floor, Haiwang Xingchen Building, at the junction of Hou Hai Bin Road and Dong Bin Road, Nanshan District, Shenzhen, China at 11:00 a.m. on 18 October 2019 is set out on pages SGM-1 to SGM-3 of this circular. A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the SGM (or any adjourned meeting thereof) in person should you so desire.

I. RECOMMENDATIONS

The Board believes that the terms of the Share Purchase Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends all Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Share Purchase Agreement and the transactions contemplated thereunder (including the Acquisition and the Potential Transfer).

J. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Shareholders and potential investors of the Company should note that Completion is subject to a number of Conditions Precedent which may or may not be fulfilled and Completion may or may not take place. Shareholders and potential investors of the Company are reminded to exercise cautions when dealing in the securities of the Company.

By order of the Board
China Health Group Limited
Zhang Fan
Chairman and Executive Director

A. FINANCIAL INFORMATION OF THE GROUP

The financial information of the Group for the last three financial years is disclosed in the following documents which have been published on the website of The Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the website of the Company (www.ch-groups.com):

- annual report of the Company for the year ended 31 March 2019 published on 31 July 2019 (http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0731/LTN20190731644.pdf);

- annual report of the Company for the year ended 31 March 2018 published on 31 July 2018 (http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0731/LTN20180731049.pdf); and

- annual report of the Company for the year ended 31 March 2017 published on 31 July 2017 (http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0731/LTN20170731005.pdf).

B. STATEMENT OF INDEBTEDNESS

At the close of business on 31 July 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information relating to this indebtedness statement, the Enlarged Group had outstanding obligation under finance leases of approximately RMB2,870,000, which was secured by the charges over the leased assets with a carrying amount of approximately RMB3,184,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Enlarged Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding as at 31 July 2019.

Save as aforementioned in this indebtedness statement, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 July 2019 up to and including the Latest Practicable Date.

C. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

Trading prospects

Amid growing global trade frictions, the medical and healthcare industry, as the fastest-growing emerging industry, is exhibiting its enormous investment value. In addition, as a result of active innovations in the medical industry in terms of products and technologies, such as numerous innovations in biotechnology, gene detection and editing and immunotherapy areas, a large number of unicorn enterprises have emerged, bringing infinite vitality and room for imagination for the capital market.

In recent years, by promoting the implementation of public health policies for a "Healthy China", the PRC government has also provided a huge market for the global medical and healthcare industry. As a professional manager and investor in the medical and healthcare area, the Group has gradually accumulated and developed its own brand influence with years of operation.

During the financial year ended 31 March 2019, the Group recorded fast growth in its core business, and revenue from the newly-added medical consumables (heart stents and peripheral equipment) trading achieved steady growth, which is planned to be further extended for the integration of trading, industry and technology industrial chain. With the continuous social and economic development, urbanization and huge ageing population in China, the medical and healthcare industry has shown a diversified and rapid growth in recent years. The PRC government has implemented a series of reform measures to, while strengthening public hospitals, relieve the restrictions on access by private capital and encourage foreign capital to invest in establishing and operating hospitals, which has provided enormous business opportunities for the development of the Group. The Group will gradually shift its focus from the operation and management of general hospitals to specialty chains and from the entrusted operation of public hospitals to including both equity investment and operation. Looking forward, the Group will capture the historic development opportunities for the medical and big health industry by focusing on high-end medical services and continuously seeking structural investment opportunities, so as to build the Group's core competitiveness and leading position in the relevant areas and bring attractive returns to its shareholders and investors.

Hospital management business

As present, there are two hospitals under the Group's management, namely the Shuangluan Hospital and the Hospital. Among them, with the expansion of hospital scale, the revenue of the Shuangluan Hospital is expected to grow significantly and therefore the Group can also capture satisfactory revenue from expansion of the Shuangluan Hospital.

Medical equipment and consumables trading

The Group carried out medical equipment trading business for hospitals through a trading company with medical equipment procurement and supply licences in Beijing. The business is expected to continue to facilitate the sourcing and supplying of high quality equipment to the hospitals managed/owned by the Group, which in turn streamlines the hospital operations, maintains quality of services and improves performance of the hospital management business accordingly.

The Group established 馬格瑞茲(武漢)醫療技術發展有限公司 (Mageruizi (Wuhan) Medical Technology Development Co., Ltd.*) ("**Mageruizi Wuhan**") with an Independent Third Party in August 2018 to further develop the trading of medical consumables. It focuses on the trading of high-value medical consumables. The Group contributed RMB2.55 million in cash to the capital of Mageruizi Wuhan and holds a 51% equity interest therein. The Directors expect that this new trading company will contribute positively to the medical equipment and consumable trading business of the Group.

Business factoring business

The Group shall continue to conduct factoring business for hospitals which will bring in steady revenue and profits to the Group as well as provide the necessary funding to hospitals for improvement in quality of services by these hospitals.

Property investment

Following Completion, the Properties will become fixed assets of the Group and rental income generated from the Rental Agreement shall be eliminated on consolidation and the Enlarged Group will not be engaged in property investment business.

Financial prospects

The subscription of 100,000,000 new Shares by an employee benefit trust pursuant to an agreement dated 11 September 2018 has been completed on 19 August 2019, raising net proceeds of HK$9.6 million. The net proceeds replenished the financial resources of the Group for future business development, investment and general working capital uses and the Directors consider the Company has sufficient working capital to meet its business needs in the foreseeable future, barring unforeseen circumstances.

D. WORKING CAPITAL STATEMENT

Taking into account of the cash flow impact of the Acquisition and the Potential Transfer and the financial resources available to the Enlarged Group (including the Enlarged Group's internally generated funds), the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is, for at least the next twelve months from the date of publication of this circular.

E. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2019, being the date to which the latest published audited consolidated financial statements of the Group were made up.

F. ACQUISITIONS AFTER THE DATE OF THE LATEST PUBLISHED AUDITED ACCOUNTS

Save for the Acquisition, since 31 March 2019 (the date to which the latest published audited consolidated financial statements of the Group have been made up), no member of the Group has acquired or agreed to acquire or is proposing to acquire a business or an interest in the share capital of a company whose profits or assets make or will make a material contribution to the figures in the auditor's report or the next audited consolidated financial statements of the Group.

The following is the text of an accountants' report on the Hospital, received from the reporting accountant, Elite Partners CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

Dear Sirs,

We set out below our report on the financial information of Anping Bo'ai Hospital (the "Hospital") comprising the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Hospital for each of the three years ended 31 December 2016, 2017, 2018 and three months ended 31 March 2019 (the "Relevant Periods"), and the statements of financial position of the Hospital as at 31 December 2016, 2017, 2018 and 31 March 2019 together with the notes thereto (the "Historical Financial Information"), and the comparative statement of profit or loss and other comprehensive income, statement of changes in equity, prepared on the basis of presentation set out in note 3 below, for inclusion in the circular of China Health Group Limited (the "Company") dated 25 September 2019 (the "Circular") in connection with the proposed acquisition of the entire equity interests of the Hospital at a cash consideration of RMB4.2 million (equivalent to approximately HK$4.79 million) (the "Acquisition").

The statutory financial statements of the Hospital for the years ended 31 December 2016, 2017, 2018 were prepared in accordance with the People's Republic of China Generally Accepted Accounting Principles ("PRC GAAP") and were audited by Shenzhen Xinrui Certified Public Accountants (General Partnership), certified public accountants registered in the PRC.

For the purpose of this report, the Hospital Management Committee of the Hospital have prepared the financial statements of the Hospital (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for each of the years ended 31 December 2016, 2017, 2018 and three months ended 31 March 2019 were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Financial Information set out in this report has been prepared based on the Underlying Financial Statements with no adjustments made thereon.

Hospital Management Committee responsibility

The Hospital Management Committee of the Hospital are responsible for the preparation of the Historical Financial Information that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the directors of the Hospital determine is necessary to enable the preparation of the Historical Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that give a true and fair view in accordance with the basis of preparation and presentation set out in Note 3 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of this report, a true and fair view of the consolidated financial position of the Hospital as at 31 December 2016, 2017, 2018 and 31 March 2019 and of the Hospital's financial performance and cash flows for the Relevant Periods.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Hospital which comprises statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the three months ended 31 March 2018 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Hospital are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements of the Hospital as defined on page II-1 have been made.

Dividends

We refer to Note 11 to the Historical Financial Information which contains information about the dividends paid by entities comprising the Hospital in respect of the Relevant Periods and states that no dividend was declared or paid by the Hospital since the date of its incorporation.

Elite Partners CPA Limited
Certified Public Accountants

Chan Wai Nam William
Practising Certificate number: P05957
Hong Kong, 25 September 2019

I. HISTORICAL FINANCIAL INFORMATION OF THE HOSPITAL

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The statutory financial statements of the Hospital for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by Elite Partners CPA Limited, in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended 31 March		For the year ended 31 December 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
		2019	2018			
	Note	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	5,468	3,394	16,030	14,005	13,916
Cost of services		(5,011)	(3,100)	(14,831)	(12,591)	(10,489)
Gross profit		457	294	1,199	1,414	3,427
Other income	*7*	3	14	89	118	567
Administrative expenses		(2,434)	(1,224)	(6,809)	(4,179)	(3,194)
Finance costs	*8*	(277)	(202)	(1,054)	(379)	(31)
(Loss)/profit before tax	*9*	(2,251)	(1,118)	(6,575)	(3,026)	769
Income tax	*10*	–	–	–	–	–
(Loss)/profit for the period/year		(2,251)	(1,118)	(6,575)	(3,026)	769
Other comprehensive that may be reclassified subsequently to profit or loss						
Exchange difference arising on translation of financial statements of foreign operations		–	–	–	–	–
Total comprehensive (expenses)/ income for the period/year		(2,251)	(1,118)	(6,575)	(3,026)	769

STATEMENTS OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016, 2017, 2018 AND 31 MARCH 2019

	Note	As at 31 March 2019 RMB'000	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2016 RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	12	16,235	16,601	12,551	3,072
Total non-currents assets		16,235	16,601	12,551	3,072
Current assets					
Inventories	13	2,118	1,924	984	1,778
Accounts receivables	14	1,778	1,230	641	618
Prepayment, deposits and other receivables	15	517	796	290	34
Cash and bank balances	16	350	1,454	2,768	1,658
Total current assets		4,763	5,404	4,683	4,088
Current liabilities					
Trade payables	17	8,969	7,472	3,454	1,601
Other payables, accrual expenses and deposit received	18	594	1,530	1,261	493
Amount due to operator	19	5,595	4,499	1,949	464
Other borrowings	20	2,000	2,000	–	–
Lease liabilities	21	1,153	1,153	1,153	–
Obligation under finance leases	22	2,089	1,932	840	–
Total current liabilities		20,400	18,586	8,657	2,558
Net current (liabilities)/assets		(15,637)	(13,182)	(3,974)	1,530
Total assets less current liabilities		598	3,419	8,577	4,602
Non-current liabilities					
Other borrowings	20	4,086	4,086	3,581	2,000
Lease liabilities	21	1,961	2,212	3,210	–
Obligation under finance leases	22	3,801	4,120	2,210	–
Total non-current liabilities		9,848	10,418	9,001	2,000
NET (LIABILITIES)/ASSETS		(9,250)	(6,999)	(424)	2,602
FINANCED BY:					
Capital fund	23	3,850	3,850	3,850	3,850
Accumulated deficit		(13,100)	(10,849)	(4,274)	(1,248)
		(9,250)	(6,999)	(424)	2,602

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED 31 DECEMBER 2016, 2017, 2018 AND THREE MONTHS ENDED 31 MARCH 2019

	Capital fund	Accumulated deficit	Total
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January 2016	3,850	(2,017)	1,833
Profit and total comprehensive income for the year	–	769	769
As at 31 December 2016 and 1 January 2017	3,850	(1,248)	2,602
Loss and total comprehensive expenses for the year	–	(3,026)	(3,026)
As at 31 December 2017 and 1 January 2018	3,850	(4,274)	(424)
Loss and total comprehensive expenses for the year	–	(6,575)	(6,575)
As at 31 December 2018 and 1 January 2019	3,850	(10,849)	(6,999)
Loss and total comprehensive expenses for the period	–	(2,251)	(2,251)
As at 31 March 2019	3,850	(13,100)	(9,250)
As at 1 January 2018	3,850	(4,274)	(424)
Loss and total comprehensive expenses for the period	–	(1,118)	(1,118)
As at 31 March 2018 (unaudited)	3,850	(5,392)	(1,542)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED 31 DECEMBER 2016, 2017, 2018 AND THREE MONTHS ENDED 31 MARCH 2019

	Three months ended 31 March 2019	2018	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	***RMB'000***
Cash flow from operating activities					
(Loss)/profit before tax:	(2,251)	(1,118)	(6,575)	(3,026)	769
Adjustment for:					
Finance cost	277	202	1,054	379	31
Interest income	(1)	–	(3)	(6)	(1)
Depreciation of property, plant and equipment	574	253	2,203	768	347
Depreciation of right of use of assets	268	268	1,071	625	–
Loss on disposal of property, plant and equipment	–	–	58	–	11
Operating cash flow before movement in working capital	(1,133)	(395)	(2,192)	(1,260)	1,157
(Increase)/decrease in inventories	(194)	(383)	(940)	794	(456)
(Increase)/decrease in account receivables	(548)	60	(589)	(23)	(224)
Decrease/(increase) in prepayment, deposits and other receivables	279	(810)	(506)	(256)	(363)
Increase in trade payable	1,497	1,249	4,018	1,853	1,106
(Decrease)/increase in other payables, accrual expenses and deposit received	(935)	(128)	268	768	(135)
Increase/(decrease) in amount due to operator	1,095	(411)	2,551	1,485	464
Cash generated/(used in) from operating activities	61	(818)	2,610	3,361	1,549
Cash flow from investing activities					
Purchases of property, plant equipment	(476)	(1,127)	(3,632)	(2,772)	(2,045)
Bank interest received	1	–	3	6	1
Net cash used in investing activities	(475)	(1,127)	(3,629)	(2,766)	(2,044)
Cash flow from financing activities					
Interest paid	(229)	(149)	(853)	(226)	(31)
New borrowings raised	–	1,165	2,505	1,581	2,000
Capital element of lease rentals paid	(252)	(247)	(999)	(547)	–
Interest element of lease rentals paid	(48)	(53)	(201)	(153)	–
Repayment of finance lease	(161)	(184)	(747)	(140)	–
Net cash (used in)/generated from financing activities	(690)	532	(295)	515	1,969

	Three months ended 31 March 2019	Three months ended 31 March 2018	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
	RMB'000	*RMB'000* (unaudited)	*RMB'000*	*RMB'000*	*RMB'000*
Net (decrease)/increase in cash and cash equivalents	(1,104)	(1,413)	(1,314)	1,110	1,474
Cash and cash equivalents at beginning of the period/year	1,454	2,768	2,768	1,658	184
Cash at and cash equivalents at end of the period/year	350	1,355	1,454	2,768	1,658
Analysis of cash and cash equivalents:					
Cash and bank balances	350	1,355	1,454	2,768	1,658

II. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION OF THE HOSPITAL

Anping Bo'ai Hospital（安平博愛醫院）(the "Hospital") is a private Class II general hospital located in Anping County, Hebei Province, the PRC, and has been operating for over 21 years.

The Hospital was proposed to be transformed into a for-profit medical institution from a privately-run not-for-profit medical institution. The Target Company has been established under the name of 安平康融醫院有限公司 (transliterated as Anping Kangrong Hospital Co., Ltd.) on 12 February 2019.

The in-principle approval for the Hospital to be renamed and to be transformed from a privately-run not-for-profit medical institution to a for profit medical institution has been obtained, the transformation of the Hospital to a for-profit medical institution has not yet been legally completed pending for practicing license or certificate to issued by the local medical authority or governmental body. The Target Company is currently in the progress of application of such license/certificate to be issued by the local medical authority or governmental body. Upon Completion, the Target Company will continue to hold and to legally own all assets and liabilities of the Hospital.

The address of the registered office of the Hospital is No. 3, Xinying Street, Anping County, the PRC. The scope of business of the Hospital is clinical medicine, pediatrics, surgery, gynecology, traditional Chinese medicine and ENT. The Historical Financial Information is presented in Renminbi ("RMB"), unless otherwise stated.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 April 2018, including HKFRS 9 Financial Instruments, HKFRS 15 Revenue from Contracts with Customers and HKFRS 16 Leases, throughout the Relevant Periods.

The Historical Financial Information has been prepared under the historical cost convention.

New and revised HKFRSs in issue but not yet effective

At the date of this report, the following new standards and amendments to HKFRSs have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]

1 Effective for annual periods beginning on or after a date to be determined

2 Effective for annual periods beginning on or after 1 January 2021

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

4 Effective for annual periods beginning on or after 1 January 2020

The Directors anticipate that application of the new HKFRSs and amendments to HKFRSs will have no material impact on the Hospital's Historical Financial Information in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance. The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Hospital takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets". A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

3.1 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Hospital are measured using the currency of the primary economic environment in which the Hospital operates (the "functional currency"). The financial statements are presented in RMB, which is the Hospital's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets are included in other comprehensive income.

3.2 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Hospital and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All repairs and maintenance are charged in profit or loss during the Relevant Years in which they are incurred.

When the leases are classified as operating leases, the premiums paid to acquire leasehold land and prepaid land lease payments are recorded as prepayment for operating lease, and are amortised on a straight-line basis over the period of the leases and prepaid land lease payments. Where there is impairment, the impairment is expensed immediately in profit or loss.

When the leases are classified as finance leases, the land interest is accounted for as below:

- If the related property interest is held for own use, that land interest is accounted for as property, plant and equipment.

- If the related property interest is held to earn rentals and/or for capital appreciation, that land interest is accounted for as an investment property.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements and right-of-use assets	10 years or over the lease term, whichever is shorter
Furniture, fixtures and equipment	5 years
Medical equipment	6 years
Software	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each date of statement of financial position. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with carrying amounts and are recognised within "Other income" in the statement of comprehensive income.

3.3 Financial assets

Recognition and derecognition

Financial assets are recognised when and only when the Hospital becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) the Hospital's contractual rights to future cash flows from the financial asset expire or (ii) the Hospital transfers the financial asset and either (a) the Hospital transfers substantially all the risks and rewards of ownership of the financial asset, or (b) the Hospital neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but it does not retain control of the financial asset.

If the Hospital retains substantially all the risks and rewards of ownership of a transferred financial asset, the Hospital continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

If the Hospital neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Hospital recognises the financial asset to the extent of its continuing involvement and an associated liability for the amounts it may have to pay.

Classification and measurement

Financial assets (except for trade receivables without a significant financing component) are initially recognised at their fair value plus, in the case of financial assets not carried at FVPL, transaction costs that are directly attributable to the acquisition of the financial assets. Such trade receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income ("Mandatory FVOCI"); (iii) equity investment measured at fair value through other comprehensive income ("Designated FVOCI"); or (iv) measured at fair value through profit or loss ("FVPL").

The classification of financial assets at initial recognition depends on the Hospital's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless the Hospital changes its business model for managing them, in which case all affected financial assets are reclassified on the first day of the first annual reporting period following the change in the business model (the "reclassification date").

1) Financial assets measured at amortisied cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

(i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

2) Financial assets at FVPL

These investments include financial assets that are not measured at amortised cost or FVOCI, including financial assets held for trading, financial assets designated upon initial recognition as at FVPL, and financial assets resulting from a contingent consideration arrangement in a business combination to which HKFRS 3 applies and financial assets that are otherwise required to be measured at FVPL. They are carried at fair value, with any resultant gain and loss recognised in profit or loss, which includes any dividend or interest earned on the financial assets.

A financial asset is classified as held for trading if it is:

(i) acquired principally for the purpose of selling it in the near term;

(ii) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking on initial recognition; or

(iii) a derivative that is not a financial guarantee contract or not a designated and effective hedging instrument.

Derivatives embedded in a hybrid contract in which a host is an asset within the scope of HKFRS 9 are not separated from the host. Instead, the entire hybrid contract is assessed for classification.

Financial assets are designated at initial recognition as at FVPL only if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases.

3) Financial assets at Designated FVOCI

Upon initial recognition, the Hospital may make an irrevocable election to present subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 applies in other comprehensive income. The classification is determined on an instrument-by-instrument basis.

These equity investments are subsequently measured at fair value and are not subject to impairment. Dividends are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other gains or losses are recognised in other comprehensive income and shall not be subsequently reclassified to profit or loss.

The Hospital's financial assets at designated FVOCI included all available-for-sales financial assets. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

3.4 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3.5 Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the statement of financial position, bank overdrafts are shown in current liabilities.

3.6 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of statement of financial position in the country where its group companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the combined financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of statement of financial position and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income liability where the timing of the reversal of the temporary difference is controlled by the Hospital and it is probable that the temporary difference will not reverse in the foreseeable future.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3.7 Provisions

Provisions are recognised when the Hospital has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.8 Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Hospital as lessee

Short-term leases

The Hospital applies the short-term lease recognition exemption to leases of properties that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Hospital recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Hospital; and
- an estimate of costs to be incurred by the Hospital in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Hospital is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Hospital presents right-of-use assets in "property, plant and equipment", the same line item as that within which the corresponding underlying assets would be presented if they were owned.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Hospital recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Hospital uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Hospital; and
- payments of penalties for terminating a lease, if the lease term reflects the Hospital exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Hospital recognises the right-of-use assets and the related lease liabilities, the Hospital first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Hospital applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

3.9 Revenue and income recognition

Under HKFRS 15, the Hospital recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Hospital's performance as the Hospital performs;
- the Hospital's performance creates and enhances an asset that the customer controls as the Hospital performs; or
- the Hospital's performance does not create an asset with an alternative use to the Hospital and the Hospital has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A receivable represents the Hospital's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Hospital's performance in transferring control of goods or services.

4. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

4.1 Financial risk factors

The Hospital's activities expose it to a variety of financial risks: credit risk and liquidity risk. The Hospital's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Hospital's financial performance.

Risk management is carried out by management under the direction of the directors. Management reviews and approves principles for overall risk management, as well as policies and procedures covering specific areas, such as credit risk. These policies and procedures enable management to make strategic and informed decision with regard to the operations of the Hospital.

(a) Credit risk

The Hospital is exposed to credit risk in relation to its accounts and other receivables and cash at bank and on hand. The carrying amounts of accounts and other receivables and cash at bank and on hand represent the Hospital's maximum exposure to credit risk in relation to financial assets.

The Hospital has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Hospital reviews the recoverability of these receivables at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Hospital considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Hospital compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;

- actual or expected significant changes in the operating results of the debtor/customer;

- significant increases in credit risk on other financial instruments of the same customer;

- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Hospital and changes in the operating results of the customer.

Details of expected credit losses is provided in Note 14.

For deposits and other receivables, management makes periodic collective assessments as well as individual assessment on their recoverability based on historical settlement records and past experience. The directors of the Hospital believe that there is no material credit risk inherent in the Hospital's outstanding balance of deposits and other receivables.

Cash is deposited in financial institutions with high credit quality and the Hospital does not expect any significant counterparty risk. Moreover, credit limits are set for individual counterparties and periodic reviews are conducted to ensure that the limits are strictly followed.

(b) Liquidity risk

The Hospital measures and monitors its liquidity through the maintenance of prudent ratios on the liquidity structure of the overall assets, liabilities, loans and commitments of the Hospital. The Hospital also maintains a healthy level of liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the ordinary course of business.

The table below analyses the Hospital's financial liabilities into relevant maturity groupings based on the remaining period at the date of statement of financial position to the contractual maturity dates. The amounts disclosed in the table below are the contractual undiscounted cashflows.

	On demand	Less than 1 year	More than 1 year but within 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2016				
Trade payables	–	1,601	–	1,601
Other payables and accrual expenses	–	400	–	400
Amount due to operator	464	–	–	464
Borrowings	–	–	2,000	2,000

	On demand	Less than 1 year	More than 1 year but within 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017				
Trade payables	–	3,454	–	3,454
Other payables and accrual expenses	–	810	–	810
Amount due to operator	1,949	–	–	1,949
Borrowings	–	–	3,581	3,581
Obligation under finance leases	–	840	2,210	3,050

	On demand	Less than 1 year	More than 1 year but within 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018				
Trade payables	–	7,472	–	7,472
Other payables and accrual expenses	–	1,104	–	1,104
Amount due to operator	4,499	–	–	4,499
Borrowings	–	2,000	4,086	6,086
Obligation under finance leases	–	1,932	4,120	6,052

	On demand	Less than 1 year	More than 1 year but within 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 March 2019				
Trade payables	–	8,969	–	8,969
Other payables and accrual expenses	–	82	–	82
Amount due to operator	5,595	–	–	5,595
Borrowings	–	2,000	4,086	6,086
Obligation under finance leases	–	2,089	3,801	5,890

4.2 Capital risk management

The Hospital's objectives when managing capital are to safeguard the Hospital's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, management of the Hospital may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Management monitors the Hospital's capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash at bank and on hand. Total capital is calculated as "Total equity", as shown in the statement of financial position, plus net debt.

As at 31 December 2016, 2017, 2018 and 31 March 2019, the current ratio (defined as total current assets divided by current liabilities) of the Hospital were approximately 1.60 times, 0.54 times, 0.29 times and 0.23 times respectively and the gearing ratio, being the ratio of the total liabilities to total assets, was approximately 0.64 times, 1.02 times, 1.75 times and 1.44 times respectively.

4.3 Fair value estimation

(a) Financial asset

(i) Fair value hierarchy

This section explains the judgements and estimates made in determining the fair values of the financial instruments that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Hospital has classified its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level as follows:

There were no transfers between levels 1, 2 and 3 for recurring fair value measurements during the year.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Hospital is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs are not based on observable market data, the instrument is included in level 3.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Hospital makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Provision for impairment of accounts receivables

For accounts receivables, the Hospital applies the simplified approach to provide for expected credit losses as prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all account's receivables. Management's judgement is involved in making these assumptions and selecting the inputs to the impairment calculation, based on the Hospital's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 4.1 (a).

(b) Estimated write-downs of inventories to net realisable value

The Hospital writes down inventories to net realisable value based on an assessment of the reliability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgement and estimates. Where the expectations are different from the original estimates, such differences will impact the carrying value of inventories in the period in which such estimates have been changed.

(c) Income taxes

The Hospital is subject to income taxes in various jurisdictions. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. SEGMENT INFORMATION

The Hospital's operating segment is operating its owned hospitals. Since this is the only operating segment of the Hospital, no further analysis thereof is presented. The Hospital's operation and operating assets are substantially located in the PRC. Accordingly, no geographical segment information is presented.

Geographical information

The Hospital's revenue is all derived from the PRC based on the location of goods delivered and all of the Hospital's non-current assets are located in the PRC by physical location of assets.

Revenue from major customers

No revenue is derived from a single customer of the Hospital which amounted for over 10% of the Hospital's total revenue.

7. OTHER INCOME

	For the three months ended 31 March 2019 RMB'000	2018 RMB'000 (unaudited)	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2016 RMB'000
Bank interest income	1	–	3	6	1
Sundry income	2	14	86	112	566
	3	14	89	118	567

8. FINANCE COSTS

	For the three months ended 31 March 2019 RMB'000	2018 RMB'000	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2016 RMB'000
Interest on finance leases	77	55	348	–	–
Interest on other borrowings	152	94	505	225	31
Interest on lease liabilities	48	53	201	154	–
	277	202	1,054	379	31

9. (LOSS)/PROFIT BEFORE TAX

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

	For the three months ended 31 March 2019 RMB'000	2018 RMB'000 (unaudited)	For the year ended 31 December 2018 RMB'000	For the year ended 31 December 2017 RMB'000	For the year ended 31 December 2016 RMB'000
Depreciation of property, plant and equipment	574	253	2,203	768	347
Depreciation of right-of-use of assets	268	268	1,071	625	–
Loss on disposal of property, plant and equipment	–	–	58	–	11
Staff costs					
– Salaries, wages and other benefits	1,840	1,402	6,363	5,269	4,986
– Contribution to defined contribution retirement Plans	270	126	743	399	–
Cost of inventories recognised as an expense	2,926	1,642	7,419	6,833	6,822

10. INCOME TAX

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the EIT rate of the PRC subsidiaries is 25% during the reporting period unless subject to tax concession set out below.

In order to implement the Notice of the General Office of the State Council on Forwarding the Guiding Opinions on the Reform of Urban Medicine and Health System by the Department of State Council Reform Office (Guo Ban Fa 2000 No. 16), to promote the development of China's medical and health undertakings, with the approval of the State Council, The relevant tax policy notices of medical and health institutions are as follows:

For tax policy on non-profit medical institutions, the income from medical services obtained by non-profit medical institutions in accordance with the price stipulated by the state shall be exempted from various taxes.

11. DIVIDENDS

No dividend was paid or declared by the Hospital during the Relevant Periods.

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvement	Furniture, fixtures and equipment	Medical equipment	Software	Construction in progress	Right-of-use assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST:							
At 1 January 2016	–	1,299	2,195	–	–	–	3,494
Addition	83	263	74	1,625	–	–	2,045
Written off	–	–	(78)	–	–	–	(78)
At 31 December 2016 and 1 January 2017	83	1,562	2,191	1,625	–	–	5,461
Addition	1,232	104	3,263	180	1,183	4,910	10,872
At 31 December 2017 and 1 January 2018	1,315	1,666	5,454	1,805	1,183	4,910	16,333
Addition	894	321	4,902	–	1,265	–	7,382
Transferred from construction in progress	2,218	–	230	–	(2,448)	–	–
Written off	–	(461)	(84)	–	–	–	(545)
At 31 December 2018 and 1 January 2019	4,427	1,526	10,502	1,805	–	4,910	23,170
Addition	126	1	349	–	–	–	476
At 31 March 2019	4,553	1,527	10,851	1,805	–	4,910	23,646
ACCUMULATED DEPRECIATION:							
At 1 January 2016	–	925	1,184	–	–	–	2,109
Provided for the year	2	60	271	14	–	–	347
Disposal	–	–	(67)	–	–	–	(67)
At 31 December 2016 and 1 January 2017	2	985	1,388	14	–	–	2,389
Provide for the year	68	81	448	171	–	625	1,393

	Leasehold Improvement	Furniture, fixtures and equipment	Medical equipment	Software	Construction in progress	Right-of-use assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2017 and 1 January 2018	70	1,066	1,836	185	–	625	3,782
Provide for the year	318	144	1,546	195	–	1,071	3,274
Disposal	–	(415)	(72)	–	–	–	(487)
At 31 December 2018 and 1 January 2019	388	795	3,310	380	–	1,696	6,569
Provide for the period	126	35	368	45	–	268	842
At 31 March 2019	514	830	3,678	425	–	1,964	7,411
NET CARRYING AMOUNT:							
At 31 March 2019	4,039	697	7,173	1,380	–	2,946	16,235
At 31 December 2018	4,039	731	7,192	1,425	–	3,214	16,601
At 31 December 2017	1,245	600	3,618	1,620	1,183	4,285	12,551
At 31 December 2016	81	577	803	1,611	–	–	3,072

Construction in progress as at 31 December 2017 mainly represents building under construction for improvement purpose and for use as a hospital.

13. INVENTORIES

	At as 31 March 2019	At as 31 December 2018	At as 31 December 2017	At as 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Pharmaceuticals	1,930	1,752	802	1,487
Medical consumables	188	172	182	291
	2,118	1,924	984	1,778

14. ACCOUNTS RECEIVABLES

	At as 31 March 2019	At as 31 December 2018	At as 31 December 2017	At as 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Accounts receivables	1,778	1,230	641	618

No credit period granted to the Hospital's customers. An aged analysis of the accounts receivables as at the end of the reporting period, based on the invoice date, are as follows:

	At as 31 March 2019 *RMB'000*	At as 31 December 2018 *RMB'000*	At as 31 December 2017 *RMB'000*	At as 31 December 2016 *RMB'000*
Within 1 month	1,166	955	641	454
1 – 3 months	612	275	–	164
Over 3 months	–	–	–	–
	1,778	1,230	641	618

Aging of accounts receivables which are past due but not impaired:

	As at 31 March 2019 *RMB'000*	As at 31 December 2018 *RMB'000*	As at 31 December 2017 *RMB'000*	As at 31 December 2016 *RMB'000*
Within 90 days	1,778	1,230	641	618
91 – 180 days	–	–	–	–
Over 180 days	–	–	–	–
	1,778	1,230	641	618

The Hospital applied simplified approach to provide for ECL prescribed by HKFRS 9. The management of the Hospital assessed the ECL for accounts receivables individually at the end of reporting period. No impairment allowance for accounts receivables were provided since the loss given default and exposure at default are low based on historical credit loss experience. The management has also assessed all available forward-looking information, including but not limited to expected growth rate of the industry and expected subsequent settlement, and concluded that there has been no significant increase in credit risk.

15. PREPAYMENT, DEPOSITS OTHER RECEIVABLES

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Prepayment	–	76	9	–
Deposits	3	–	6	6
Other receivables	514	720	275	28
	517	796	290	34

The carrying amounts of deposits and other receivables approximated their fair values due to their short maturity at the reporting date. For the year ended 31 December 2016, 2017, 2018 and three months ended 31 March 2019, there was no provision for impairment on these receivables.

The maximum exposure to credit risk as of the reporting date was the carrying value of each type of receivables mentioned above. The Hospital did not hold any collateral as security as of each reporting date.

16. CASH AND BANK BALANCES

Cash at banks carry interest at prevailing market rates per annum as at 31 December 2016, 2017, and 2018 and 31 March 2019.

17. TRADE PAYABLES

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	8,969	7,472	3,454	1,601

Majority of payment term with supplier are within three to eighteen months. The carrying amounts of trade payables approximate their fair values. An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date are as follow:

	As at 31 March 2019	**As at 31 December 2018**	**As at 31 December 2017**	**As at 31 December 2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 months	854	9	80	575
1 – 3 months	2,049	16	269	122
Over 3 months	6,066	7,447	3,105	904
	8,969	7,472	3,454	1,601

18. OTHER PAYABLES, ACCRUED EXPENSES AND DEPOSIT RECEIVED

	As at 31 March 2019	**As at 31 December 2018**	**As at 31 December 2017**	**As at 31 December 2016**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other payables *(Note)*	–	–	205	–
Accruals	82	1,104	605	400
Deposit received	512	426	451	93
	594	1,530	1,261	493

Note:

The carrying amounts of other payables approximate their fair values.

19. AMOUNTS DUE TO OPERATOR

The amounts due are unsecured, interest-free and have no fixed repayment terms.

20. OTHER BORROWINGS

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Other borrowings	6,086	6,086	3,581	2,000

Note:

All balances as at 31 December 2016, 2017, 2018 and 31 March 2019, there were payables to operator. The Hospital does not require any collateral over these balances.

The following table presented the schedule repayments set out in the loan agreements:

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	2,000	2,000	–	–
After one year but within two years	2,746	1,581	2,000	–
After two years but within five years	1,340	2,505	1,581	2,000
More than five years	–	–	–	–
	6,086	6,086	3,581	2,000

Other borrowing carried interest at a fixed rate of 10% per annum as at 31 December 2016, 2017, 2018 and 31 March 2019.

The obligation is classified as:

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liability	2,000	2,000	–	–
Non-current liability	4,086	4,086	3,581	2,000
	6,086	6,086	3,581	2,000

21. LEASE LIABILITIES

The remaining contractual maturities of the Hospital's lease liabilities are as follows:

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liability	1,153	1,153	1,153	–
Non-current liability	1,961	2,212	3,210	–
	3,114	3,365	4,363	–

	At 31 March 2019		At 31 December 2018		At 31 December 2017	
	Present value of the minimum lease payment	Total minimum lease payment	Present value of the minimum lease payment	Total minimum lease payments	Present value of the minimum lease payment	Total minimum lease payments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Not later than 1 year	1,200	1,200	1,200	1,200	1,200	1,200
Later than 1 year and not later than 5 years	2,100	2,100	2,400	2,400	3,600	3,600
	3,300	3,300	3,600	3,600	4,800	4,800
Less: total future interest expenses		(186)		(235)		(437)
Present value of lease obligations		3,114		3,365		(4,363)

Total cash outflow for leases

Amounts included in the statement of cash flows for lease rentals paid comprise the following:

	For the three months ended 31 March		For the year ended 31 December	For the year ended 31 December	For the year ended 31 December
	2019	2018	2018	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
With in operating cash flows	268	268	1,071	625	–
With in financing cash flows	300	300	1,200	700	–
Total cash outflow for leases	568	568	2,271	1,325	–

22. OBLIGATION UNDER FINANCE LEASES

The Hospital's finance leases payable are as follows:

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current liability	2,089	1,932	840	–
Non-current liability	3,801	4,120	2,210	–
	5,890	6,052	3,050	–

	At 31 March 2019		At 31 December 2018		At 31 December 2017	
	Present value of the minimum lease payment	Total minimum lease payment	Present value of the minimum lease payment	Total minimum lease payments	Present value of the minimum lease payment	Total minimum lease payments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Not later than 1 year	2,089	2,356	1,932	2,216	840	840
Later than 1 year and not later than 5 years	3,801	4,140	4,120	4,520	2,210	2,210
	5,890	6,496	6,052	6,736	3,050	3,050
Less: total future interest expenses		(606)		(684)		–
Present value of lease obligations		5,890		6,052		3,050

Note:

Including in the balances as at 31 March 2019, 31 December 2018 and 2017, there were approximately RMB2,910,000, RMB2,910,000 and RMB3,050,000 payable to operator.

23. CAPITAL FUND

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Ordinary share issued and fully paid:	3,850	3,850	3,850	3,850

24. COMMITMENTS

Commitments under operating leases as lessee

The Hospital had future aggregate minimum lease payments under various non-cancellable operating leases as follows:

	As at 31 March 2019	As at 31 December 2018	As at 31 December 2017	As at 31 December 2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	1,200	1,200	1,200	–
In the second to fifth years inclusive	2,100	2,400	3,600	–
Over five years	–	–	–	–
	3,300	3,600	4,800	–

25. CONTINGENT LIABILITIES

The Hospital did not have material contingent liabilities as at 31 December 2016, 2017, 2018 and 31 March 2019.

26. SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Hospital in respect of any period subsequent to 31 March 2019 and up to the date of this report. No dividend or distribution has been declared or made by the Hospital in respect of any period subsequent to 31 March 2019.

Financial highlights

The financial results of the Hospital during the three financial years ended 31 December 2016, 2017 and 2018 and the three months ended 31 March 2019 (the "**Review Period**") are set out below:

	For the year ended 31 December			For the three months ended 31 March
	2016	2017	2018	2019
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	13,916	14,005	16,030	5,468
Gross profit	3,427	1,414	1,199	457
Net profit/(loss) before taxation	769	(3,026)	(6,575)	(2,251)
Net profit/(loss) after taxation	769	(3,026)	(6,575)	(2,251)

Revenue

The revenue of the Hospital for the year ended 31 December 2017 amounted to approximately RMB14.01 million which is comparable to that for the year ended 31 December 2016 of approximately RMB13.92 million. After the Management Company took over the management of the Hospital following the signing of the 2016 Agreement, it strived to improve the services of the Hospital, as a result of which the number of out-patient and in-patient visitors increased and revenue increased to approximately RMB16.03 million for the year ended 31 December 2018, representing an increase of approximately 14.5% from that for the year ended 31 December 2017. Growth in revenue continued for the three months ended 31 March 2019, which amounted to approximately RMB5.47 million, representing an increase by 61.1% over the same period in 2018.

Results

The Hospital recorded net profit after tax of RMB0.77 million for the year ended 31 December 2016, and net loss after tax of RMB3.03 million and RMB6.58 million for each of the two years ended 31 December 2017 and 2018 respectively. The losses incurred by the Hospital in 2017 and 2018 were mainly due to (i) increase in staff costs as there were more costs on recruitment of external experts and specialists to provide more specialty treatments; (ii) increase in depreciation and amortization charges as new equipment were bought since 2017; (iii) the government policy of setting price ceiling on drugs (as explained below) which effectively led to a decrease of drug fees charged to patients; (iv) the management fee, interests on the Loan and rental expenses for the Properties payable to the Management Company after it took over the management of the Hospital since October 2016. The additional costs were incurred mainly as an initiative to upgrade the services and hardware of the Hospital following the Management Company's engagement as manager and operator. As a result of the increased costs as explained above, the gross profit margin of the Hospital dropped from approximately 24.6% in 2016 to 10.1% in 2017 and 7.5% in 2018. The gross profit margin for the three months ended 31 March 2019 improved slightly to 8.4%.

During the Review Period, the amounts of management fee, interest expenses on the Loan and rental expenses on the Properties recorded by the Hospital, which were determined based on the terms of the 2016 Agreement, the Loan Agreement and the Rental Agreement respectively, were as follows:

	Year ended 31 December			**For the three months ended 31 March**
	2016	**2017**	**2018**	**2019**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Management fee	432.9	539.7	961.8	328.1
Interest expense on the Loan	31.2	225.4	504.6	152.2
Rental expense	–	700.0	1,200.0	300.0

Out of the amounts above, the Hospital had settled RMB1.0 million of the rental expenses and RMB0.28 million of the management fees. As the Hospital was loss making and had not been able to generate sufficient cashflow from its operations, it had not settled the aforesaid fees in full and it is not expected that the fees would be settled prior to Completion. No penalty is charged to the Hospital for late payment of the aforesaid fees and expenses.

Pursuant to《關於全面推開公立醫院綜合改革工作的通知》國衛体改發〔2017〕22號 ("Issue No. 22 – Notice on Overall Implementation of Comprehensive Reform of Public Hospitals, National Health Service Reform (2017)*), all public hospitals are refrained from charging excessive fees on drugs provided to patients (except for traditional Chinese medicines) and price ceilings are applied to the fees of drugs. Such policy was implemented across all public hospitals in September 2017. As a result, the percentage of drug fees as a percentage to total revenue of the Hospital decreased in 2018. In order to mitigate the effect of such policy on the performance of the Hospital, the Management Company implemented measures such as negotiating bulk purchase discounts with suppliers to lower the average costs of drugs as well as upgrading medical equipment of the Hospital to provide better services to patients.

Financial position

As at 31 December 2016, total assets of the Hospital amounted to RMB7.16 million which were mainly made up of (i) cash and bank balances of approximately RMB1.66 million; (ii) inventories of approximately RMB1.78 million and (iii) property, plant and equipment of approximately RMB3.07 million.

As at 31 December 2017, total assets of the Hospital amounted to RMB17.23 million which were mainly made up of (i) property, plant and equipment of approximately RMB12.55 million; (ii) cash and bank balances of approximately RMB2.77 million; and (iii) inventories of approximately RMB0.98 million. During the year, new medical equipment amounted to approximately RMB3.26 million were purchased to upgrade the facilities of the Hospital. In addition, the Hospital incurred approximately RMB2.42 million to renovate the Properties. The Hospital also recorded the right-of-use assets relating to the Properties of approximately RMB4.91 million based on the terms of the Rental Agreement.

As at 31 December 2018, total assets of the Hospital amounted to RMB22.01 million which were mainly made up of (i) property, plant and equipment of approximately RMB16.60 million; (ii) inventories of approximately RMB1.92 million; (iii) accounts receivables of RMB1.23 million; and (iv) cash and bank balances of approximately RMB1.45 million. During the year, new medical equipment amounted to approximately RMB4.90 million were purchased to upgrade the facilities of the Hospital. In addition, the Hospital incurred approximately RMB2.16 million to complete the renovation works of the Hospital.

As at 31 March 2019, total assets of the Hospital amounted to approximately RMB21.00 million, which were mainly made up of (i) property, plant and equipment of RMB16.24 million; (ii) inventories of RMB2.12 million; and (iii) accounts receivables of RMB1.78 million. The accounts receivables related to receivables from insurance companies for fees claimed by patients for use of services of the Hospital, which are normally settled within one to three months. The increase in accounts receivables during the Review Period was in line with the increase in revenue of the Hospital. The increase in inventory balance during the Review Period was due to the bulk purchase measures mentioned in the paragraph headed "Results" above.

As at 31 December 2016, total liabilities of the Hospital amounted to RMB4.56 million which were mainly made up of (i) borrowings of approximately RMB2.00 million; and (ii) trade payables of approximately RMB1.60 million.

As at 31 December 2017, total liabilities of the Hospital amounted to RMB17.66 million which were mainly made up of (i) trade payables of approximately RMB3.45 million; (ii) amount due to operator of RMB1.95 million; (iii) borrowings of approximately RMB3.58 million; and (iv) lease liabilities of RMB4.36 million. The increase in liabilities was principally due to the drawdown of the Loan to finance the acquisition of medical equipment and renovation of the Hospital during the year and the lease liabilities relating to the Properties of approximately RMB4.36 million recorded based on the terms of the Rental Agreement.

As at 31 December 2018, total liabilities of the Hospital amounted to RMB29.01 million which were mainly made up of (i) trade payables of approximately RMB7.47 million; (ii) amount due to operator of approximately RMB4.50 million; (iii) obligations under finance lease of approximately RMB6.05 million; (iv) borrowings of approximately RMB6.09 million; and (v) lease liabilities of approximately RMB3.37 million. The increase in liabilities was principally due to the drawdown of the Loan and finance lease arrangements made to finance the acquisition of medical equipment and renovation of the Hospital during the year.

As at 31 March 2019, total liabilities of the Hospital amounted to approximately RMB30.25 million, which were mainly made up of (i) trade payables of RMB8.97 million; (ii) amount due to operator of RMB5.60 million; (iii) other borrowings of RMB6.09 million; (iv) obligation under finance lease of RMB5.89 million; and (v) lease liabilities of approximately RMB3.11 million.

The amount due to operator represented the accrued interest expenses, rental expenses and management fees payable to the Management Company. The balance increased during the Review Period as the Hospital did not have sufficient cashflow from its operations to pay such fees. Trade payables are mainly outstanding balances for the purchase of drugs and pharmaceutical consumables. As the demand for hospital services increased, the purchase of drugs and pharmaceutical consumables also increased, resulting in an increase in trade payables during the Review Period. Secondly, in the past few years, the Hospital had invested in fixed assets, equipment procurement, information system, renovation and environmental protection, which utilised the cash resources of the Hospital. Accordingly the Hospital tried to delay settlement of trade payables resulting in an increase in trade payables balance during the Review Period. The credit periods granted by the trade creditors of the Hospital ranged from three to 18 months. The amounts of trade payables which were overdue as at 31 December 2016, 2017 and 2018 and 31 March 2019 were minimal. Based on the information provided by the Vendors, there was no penalty on the Hospital for overdue trade payables and all the overdue amounts have been settled as at the Latest Practicable Date. The obligations under finance lease were related to the lease arrangements for medical equipment purchased during the Review Period, and were due to the Group as well as Independent third Parties.

Liquidity and financial resources

As of 31 December 2016, 2017 and 2018 and 31 March 2019, the Hospital recorded total liabilities of approximately RMB4.56 million, RMB17.66 million, RMB29.01 million and RMB30.31 million respectively. As of 31 December 2016, 2017 and 2018, the Hospital had net assets of approximately RMB2.60 million, net liabilities of approximately RMB0.42 million and RMB7.00 million respectively. As of 31 March 2019, the Hospital had net liabilities of approximately RMB9.25 million.

As of 31 December 2016, 2017 and 2018 and 31 March 2019, the Hospital had cash and bank balances of approximately RMB1.66 million, RMB2.77 million, RMB1.45 million and RMB0.35 million respectively.

The Hospital had borrowings of approximately RMB2.00 million, RMB3.58 million, RMB6.09 million and RMB6.09 million respectively as at 31 December 2016, 2017 and 2018 and 31 March 2019. The Hospital's gearing ratio (calculated by dividing total borrowings by total assets) were 27.93%, 20.78%, 27.66% and 28.98% as at 31 December 2016, 2017 and 2018 and 31 March 2019 respectively.

Treasury policies

During the Review Period, the Hospital has no specific treasury policies.

Charge of assets

The Hospital did not have any charge on assets during the Review Period and as at 31 March 2019.

Significant investments, material acquisition and disposal

The Hospital did not have any significant investments, material acquisition and disposal during the Review Period.

Foreign exchange exposures

During the Review Period, the Hospital's operations were mainly located in the PRC and its assets, liabilities and transactions were mainly denominated in RMB. As such, the impact of fluctuations in foreign currency on the Hospital was minimal.

The Hospital did not enter into any financial instruments for hedging purposes during the Review Period. The Hospital will constantly review the economic situation and its foreign exchange risk profile, and will consider appropriate hedging measures in the future as it may become necessary.

Contingent liability

As at 31 December 2016, 2017 and 2018 and 31 March 2019, the Hospital did not have any outstanding material contingent liabilities.

Capital commitment

As at 31 December 2016, 2017 and 2018 and 31 March 2019, the Hospital did not have any significant non-cancellable capital commitment or operating lease commitment.

Employee and remuneration policy

As at 31 December 2016, 2017 and 2018 and 31 March 2019, the Hospital employed a total of 112, 101, 118 and 107 employees respectively. The Hospital recorded employee benefit expenses of approximately RMB4.1 million, RMB5.4 million and RMB7.3 million for the years ended 31 December 2016, 2017 and 2018 respectively and RMB2.1 million for the three months ended 31 March 2019, which were made up of (i) wages, salaries and bonuses; and (ii) contribution to retirement plans. The increase in staff costs was principally due to the hiring of additional consultants and specialists to provide specialty medical services during the Review Period to improve the service offerings of the Hospital.

The employees of the Hospital in the PRC are members of a state-managed pension obligations operated by the PRC government. The Hospital is required to contribute a specified percentage of payroll costs as determined by respective local government authority to the pension obligations to fund the benefits. With respect to the retirement benefits scheme, the Hospital is required to make the specified contributions under the scheme. The staff recruitment and promotion of the Hospital are primarily based on individuals' merits, relevant experiences, development potentials for the positions offered and performance. Staff remuneration and benefits policies, which are formulated by reference to the market, are competitive and performance-based.

Dividends

No dividend was paid or declared by the Hospital during the Relevant Period.

A. INTRODUCTION TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative and unaudited pro forma financial information of the Group ("**Unaudited Pro Forma Financial Information**"), including the unaudited pro forma consolidated statement of assets and liabilities of the Group, which have been prepared on the basis of the notes set out below for the purpose of illustrating the effect of (i) the Acquisition and the deposit paid for the Potential Transfer; and (ii) completion of the Potential Transfer on the Group's financial information, as if they had taken place on 31 March 2019.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had (i) the Acquisition and the deposit paid for the Potential Transfer; and (ii) the Potential Transfer been completed as at 31 March 2019 or at any future dates.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules. The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix I to this circular, the accountants' report of the Hospital as set out in Appendix II to this circular and other financial information included elsewhere in this circular.

B. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

	The Group as at 31 March 2019 (audited) HK$'000 (Note 1)	The Hospital as at 31 March 2019 (audited) HK$'000 (Note 2)	Subtotal HK$'000	The Acquisition and the payment of deposit: Pro forma adjustment HK$'000	Note	The Acquisition and the payment of deposit: Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 March 2019 HK$'000	Completion of Potential Transfer: Pro forma adjustment HK$'000	Note	Completion of Potential Transfer: Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 March 2019 HK$'000
Non-current assets									
Property, plant and equipment	331	18,508	18,839	14,442		33,281			33,281
Intangible assets	14,692	–	14,692	(14,692)	5	–			–
Investment properties	17,800	–	17,800	(17,800)		–			–
Loan receivables	25,362	–	25,362	(4,779)	7	20,583			20,583
Deposit paid	–	–	–	2,052	3	2,052	(2,052)	8	–
Goodwill	–	–	–	12,169	4, 6	12,169			12,169
Total non-current assets	58,185	18,508	76,693			68,085			66,033
Current assets									
Inventories	164	2,415	2,579			2,579			2,579
Trade and factoring loan receivables	32,796	2,027	34,823	(8,283)	7	26,540			26,540
Prepayment, deposits and other receivables	26,073	589	26,662			26,662			26,662
Loan and interest receivables	68,089	–	68,089	(3,272)	7	64,817			64,817
Cash and bank balances	29,934	399	30,333	(6,840)	3	23,493			23,493
Total current assets	157,056	5,430	162,486			144,091			144,091
Total assets	215,241	23,938	239,179			212,176			210,124
Current liabilities									
Trade payables	4,363	10,225	14,588			14,588			14,588
Other payables, accrual expenses and deposit received	73,168	677	73,845			73,845			73,845
Amount due to operator	–	6,378	6,378	(6,378)	7	–			–

	The Group as at 31 March 2019 (audited) HK$'000 (Note 1)	The Hospital as at 31 March 2019 (audited) HK$'000 (Note 2)	Subtotal HK$'000	The Acquisition and the payment of deposit: Pro forma adjustment HK$'000	Note	The Acquisition and the payment of deposit: Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 March 2019 HK$'000	Completion of Potential Transfer: Pro forma adjustment HK$'000	Note	Completion of Potential Transfer: Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 31 March 2019 HK$'000
Other borrowings	–	2,280	2,280	(2,280)	7	–			–
Obligation under finance leases	–	2,381	2,381	(1,596)	7	785			785
Lease liabilities	–	1,314	1,314	(1,314)	7	–			–
Tax payables	5,665	–	5,665			5,665			5,665
Total current liabilities	83,196	23,255	106,451			94,883			94,883
Net current assets/(liabilities)	73,860	(17,825)	56,035			49,208			49,208
Total assets less current liabilities	132,045	683	132,728			117,293			115,241
Non-current liabilities									
Other borrowings	–	4,658	4,658	(4,658)	7	–			–
Lease liabilities	–	2,236	2,236	(2,236)	7	–			–
Obligation under finance lease	–	4,333	4,333	(1,721)	7	2,612			2,612
Total non-current liabilities	–	11,227	11,227			2,612			2,612
Total liabilities	83,196	34,482	117,678			97,495			97,495
Net assets/(liabilities)	132,045	(10,544)	121,501			114,681			112,629

C. NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The audited consolidated statement of assets and liabilities of the Group as at 31 March 2019 is extracted, without adjustments, from the published annual report of the Company for the year ended 31 March 2019.

2. The consolidated statement of assets and liabilities of the Hospital as at 31 March 2019 is extracted from the accountants' report on the Hospital as set out in Appendix II (the "**Accountants' Report**") to this circular, after foreign exchange translation at the exchange rate of RMB1 to HK$1.14 to conform with the presentation currency format of the Group, which is the prevailing exchange rate on 31 March 2019.

3. The adjustment reflects the consideration for the Acquisition to be satisfied by the Company. Pursuant to the Agreement, the consideration for the Acquisition would be satisfied by cash of approximately HK$4,788,000. A deposit of HK$2,052,000 is paid for the Potential Transfer.

4. The identifiable assets and liabilities of the Hospital acquired by the Group will be accounted for in the consolidated financial statements of the Enlarged Group at their fair values under acquisition accounting in accordance with Hong Kong Financial Reporting Standard 3 Business Combinations ("**HKFRS 3**"). For the purpose of the Pro Forma Financial Information, the pro forma fair values of the identifiable assets and liabilities are assumed to be equal to the carrying values of the recognised assets and liabilities of the Hospital as at 31 March 2019, hence the allocation of the purchase price to the identifiable assets and liabilities acquired is based on the carrying values of the recognised assets and liabilities of the Hospital as at 31 March 2019, calculated as follows:

		HK$'000
Total consideration as determined per note 3 above for the acquisition of 70% equity interest of the Hospital		4,788
Carrying values of the identifiable tangible net liabilities of the Hospital as at 31 March 2019		10,544
Non-controlling interest		(3,163)
Pro forma goodwill	*Note*	12,169

For the purpose of the Unaudited Pro forma Financial Information, non-controlling interest is determined based on their proportionate share in the pro forma fair values of the Hospital's identifiable net assets.

Note:

Actual goodwill or gain on bargain purchase arising from the Acquisition will be determined based on the fair values of the identifiable tangible and intangible assets and liabilities of the Hospital and the aggregate fair value of the total consideration at the actual completion date. When the actual transaction takes place, the fair values may be determined to be different from their carrying value, which consequently may result in a financial effect which is materially different from the above.

Since the fair values of the identifiable assets and liabilities of the Hospital as at the completion date may be different from the above, the resulting amount of goodwill at the date of acquisition may be different from the pro forma goodwill shown above. If the recoverable amount of the Hospital (the group of cash-generating units to which the goodwill will be allocated) is below its carrying amount as at the completion date, the related goodwill will be impaired.

5. With reference to the 2016 Agreement and the Share Purchase Agreement, the operating rights will continue to be valid until Completion whereby the Company's rights and obligations will be governed by the new memorandum and articles of the Target Company after Completion.

   The Company confirms that pursuant to the 2016 Agreement and the Share Purchase Agreement, there will be no adjustment or refund of the consideration of RMB15,000,000 paid under the 2016 Agreement by Mr. Sang and Mr. Han to the Company or the Management Company under the circumstances that there is an early termination of operation rights.

6. For the purpose of the preparation of the Unaudited Pro Forma Financial Information, the Directors have assessed whether the goodwill will be impaired as at 31 March 2019 on a pro forma basis in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets" and concluded that there is no indication of impairment of the goodwill arising from the Acquisition as at 31 March 2019 because its recoverable amount is not below its carrying amount, and the Company's reporting accountants has agreed with the relevant assessments. The Company will adopt consistent accounting policies, principal assumptions and valuation methods as used in the Unaudited Pro Forma Financial Information to assess impairment of the goodwill arising from the Acquisition in future financial statements.

7. To eliminate the balances of receivables and payables between the Group and the Hospital upon completion of the Acquisition.

8. The adjustment reflects the transfer of the Remaining Interest by Mr. Sang to the Purchaser had taken place on 31 March 2019.

D. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report on the unaudited pro forma financial information received from the reporting accountants, Elite Partners CPA Limited, Certified Public Accountants, Hong Kong, for the purpose of inclusion in this circular.

elite partners
CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
China Health Group Limited
Unit 801, 8/F
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

Dear Sirs,

We have completed our assurance engagement to report on the compilation of the unaudited pro forma financial information of China Health Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 31 March 2019 and related notes as set out in Appendix IV-2 to IV-3 of the circular dated 25 September 2019 issued by the Company (the "Circular") (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix III-8 to III-9 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed acquisition of 70% equity interest of Anping Kangrong Hospital Company Limited ("Hospital") (the "Acquisition") and the possible acquisition of the remaining 30% equity interest of the Hospital (the "Potential Transfer") on the Group's financial position as at 31 March 2019 as if the Acquisition and the Potential Transfer had taken place at 31 March 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's annual report for the year ended 31 March 2019 as set out in the published annual report of the Company dated 28 June 2019. Information about the Hospital's financial position has been extracted by the Directors from the audited financial information of the Hospital as at 31 March 2019 as set out in its accountants' report included in Appendix II to the Circular.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline ("AG") 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectively, professional competence and due care, confidentiality and professional behavior. Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Acquisition and the Potential Transfer on unadjusted financial information of the Group as if the Acquisition and the Potential Transfer had been undertaken at an earlier date selected for purpose of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Acquisition and the Potential Transfer would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Acquisition and the Potential Transfer, and to obtain sufficient appropriate evidence about whether:

– the related pro forma adjustments give appropriate effect to those criteria; and

– the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the Acquisition and the Potential Transfer in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong, 25 September 2019

Chan Wai Nam, William
Practising Certificate Number: P05957

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS OF DIRECTORS

At the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), to be notified to the Company and the Stock Exchange were as follows:

Interest in shares of the Company

Name of director/ chief executive	Capacity	Interests in shares (other than pursuant to share options)	Interests in underlying shares pursuant to share options	Total interest in shares/underlying shares	Percentage of shares and underlying shares to issued shares
Mr. Zhang Fan *(Note 1)*	Through personal & corporate interest	1,173,074,000 (L)	4,000,000 (L)	1,177,074,000 (L)	28.43%
Treasure Wagon Limited *(Note 1)*	Beneficial owner	1,160,000,000 (L)	–	1,160,000,000 (L)	28.02%
Mr. Chung Ho *(Note 2)*	Beneficial owner	–	30,000,000 (L)	30,000,000 (L)	0.72%
Mr. Wang Jingming *(Note 2)*	Beneficial owner	19,968,000 (L)	3,000,000 (L)	22,968,000 (L)	0.55%
Mr. Xing Yong	Beneficial owner	1,398,000 (L)	4,000,000 (L)	5,398,000 (L)	0.13%
Mr. Jiang Xuejun *(Note 4)*	Beneficial owner	–	4,000,000 (L)	4,000,000 (L)	0.10%
Mr. Weng Yu *(Note 2)*	Beneficial owner	–	3,000,000 (L)	3,000,000 (L)	0.07%
Mr. Huang Lianhai *(Note 3)*	Beneficial owner	–	3,000,000 (L)	3,000,000 (L)	0.07%
Mr. Du Yanhua *(Note 4)*	Beneficial owner	–	3,000,000 (L)	3,000,000 (L)	0.07%
Mr. Lai Liangquan *(Note 4)*	Beneficial owner	–	3,000,000 (L)	3,000,000 (L)	0.07%
Mr. Xiao Zuhe *(Note 4)*	Beneficial owner	–	3,000,000 (L)	3,000,000 (L)	0.07%

Remark: (L): Long position

Notes:

1. Mr. Zhang Fan is interested in 1,177,074,000 shares/underlying shares through personal interest and corporate interest. Mr. Zhang Fan is chairman of the Board and an executive Director. Treasure Wagon Limited is a company incorporated in Samoa and the entire issued share capital of which is owned by Mr. Zhang Fan.

2. Each of Mr. Chung Ho, Mr. Wang Jingming and Mr. Weng Yu is an executive Director.

3. Mr. Huang Lianhai is a non-executive Director of the Company.

4. Each of Mr. Jiang Xuejun, Mr. Du Yanhua, Mr. Lai Liangquan and Mr. Xiao Zuhe is an independent non-executive Director.

Save as disclosed above, as of the Latest Practicable Date, so far as was known to the Directors or chief executives of the Company, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein, or (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

3. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the interests or short positions of the persons (not being Directors or chief executives of the Company) in the Shares and underlying Share or any associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and/or required to be entered into the register maintained by the Company pursuant to section 336 of the SFO were as follows:

Name of substantial shareholders	Capacity	Interests in Shares	Interests in underlying Shares pursuant to equity derivatives	Total interests in Shares and underlying Shares	Approximate percentage of Shares and underlying Shares held to issued Shares as at Latest Practicable Date
Treasure Wagon Limited *(Note 1)*	Beneficial owner	1,160,000,000 (L)	–	1,160,000,000 (L)	28.02%
Speedy Brilliant Investments Limited *(Note 2)*	Beneficial owner	276,510,000 (L)	–	276,510,000 (L)	6.68%
Mr. Zhou Disun *(Note 2)*	Beneficial owner	276,510,000 (L)	–	276,510,000 (L)	6.68%

Remark: (L): Long position

Notes:

1. Treasure Wagon Limited is a company incorporated in Samoa and the entire issued share capital of which is owned by Mr. Zhang Fan who is Chairman of the Board and Executive Director of the Company.

2. Speedy Brilliant Investments Limited is wholly owned by Mr. Zhou Disun.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, the Company has not been notified by any persons (other than a Director or chief executive of the Company) who had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO, or who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group.

4. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, none of the Directors was interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2019 (being the date to which the latest published audited financial statements of the Group were made up).

(b) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, which was subsisting and was significant in relation to the business of the Enlarged Group.

(c) Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the Shares, underlying Shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

5. EXPERT AND CONSENT

The following is the name and qualification of the expert who has given opinions contained in this circular:

Name	Qualification
Elite Partners CPA Limited	Certified Public Accountants

Elite Partners CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusions of its reports and/or references to its names in the form and context in which they respectively appear.

6. EXPERT'S INTEREST

Elite Partners CPA Limited has confirmed that as at the Latest Practicable Date:

(a) it did not have any shareholding interest, whether direct or indirect, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group; and

(b) it did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 March 2019 (being the date to which the latest published audited consolidated financial statements of the Group were made up).

7. SERVICE CONTRACTS

At the Latest Practicable Date, none of the Directors had entered or was proposing to enter into any service contract with any member of the Enlarged Group which is not expiring or terminable by the employer within one year without payment of compensation other than statutory compensation.

8. LITIGATION

On 12 September 2016, the Company received a statutory demand (the "**Statutory Demand**") from Li Hong Holdings Limited ("**Li Hong**") in respect of repayment of dividend payable on redeemable convertible cumulative preference shares in the sum of US$4.0 million (equivalent to approximately HK$30.9 million) (the "**Alleged Outstanding Sum**"). Such amount has been included in other payables and accrued expenses in the Company's consolidated balance sheet as at 31 March 2016. An originating summons (the "**Originating Summons**") under action number HCMP2593/2016 has been issued by the Company (as plaintiff) against Li Hong (as defendant) on 27 September 2016. Pursuant to the Originating Summons, the Company sought, amongst others, the following reliefs against Li Hong: (1) an order that Li Hong be restrained from presenting any petition for the winding-up of the Company based on the Alleged Outstanding Sum; and (2) costs.

A hearing took place on 30 September 2016 at the High Court of Hong Kong (the "**Court**"), during which Li Hong has undertaken not to file a winding-up petition against the Company based on the Alleged Outstanding Sum and the Company has undertaken (i) to pay the sum of US$4.0 million or its equivalent into the Court within 21 days from the date of the hearing, which was so paid on 19 October 2016; and (ii) to comply with any order the Court may make if the Court later finds that Li Hong's undertaking has caused loss to Li Hong or any other party and decides that Li Hong or that other party should be compensated for that loss. On 8 February 2017, another Court hearing took place and it was ordered, among other things, that (i) Li Hong be restrained from presenting any petition for the winding-up of the Company based on the Alleged Outstanding Sum; and (ii) the sum of US$4.0 million or its equivalent paid into the Court be released to the Company. Pursuant to the reasons for judgment handed down by the Court dated 29 March 2017, it was concluded that the Company has shown that there is bona fide dispute of the Alleged Outstanding Sum on substantial grounds and the presentation of a winding-up petition by Li Hong would be an abuse of process. The Court further commented that new information filed for the Company lend credence to the Company's case that the loan note dated 1 August 2015 to Li Hong (the "**Loan Note**") was in fact issued by the Company pursuant to a backdoor arrangement made or participated in by Dr. Li Zhong Yuan ("**Dr. Li**", a former Director) for his benefit, though not necessarily for his sole or exclusive benefit, and that Li Hong was nominee for the purpose of receiving the Loan Note. As stated in the judgment, it follows that it must at least be open to serious argument that the Loan Note is not enforceable by Li Hong against the Company, because the issue of the Loan Note by the Company to Dr. Li's nominee (i.e. Li Hong) would involve a breach of fiduciary duty on Dr. Li's part of which Li Hong had knowledge. It was also mentioned in the judgment that Li Hong clearly does not have a valid cause of action against the Company based on a letter dated 31 July 2015 issued by Capital Foresight Limited ("**Capital Foresight**") and/or an agreement dated 23 November 2012 between the Company and Capital Foresight (the "**Capital Foresight Agreement**") being alleged evidence for the Statutory Demand as Li Hong is not a party to either of those documents and neither of those documents give rise to any contract or claim enforceable by Li Hong against the Company. Details of the above have been set out in the announcements of the Company dated 28 September 2016, 3 October 2016 and 30 March 2017 (the "**Litigation Announcements**").

Further to the Statutory Demand and upon internal investigation, the Company believes that the US$4.0 million as set out in the Litigation Announcements belongs to the Company on the following grounds: (1) that the Capital Foresight Agreement executed by Dr. Li, a then executive director and chairman of the Company and removed on 18 June 2016, was purportedly entered into in breach of Dr. Li's fiduciary duties and without authority, and Capital Foresight was knowingly complicit in this arrangement; (2) that the Loan Note issued by the Company (under its former name China Healthcare Holdings Limited), executed by Dr. Li purportedly on behalf of the Company in favour of Li Hong was purportedly entered into in breach of Dr. Li's fiduciary duties, without authority and inconsistent with the Company's articles of association; and (3) the Capital Foresight Agreement and the Loan Note were and are void or voidable and unenforceable. On this basis, on 7 November 2017, a writ of summons under action number HCA2549/2017 has been issued in the Court by the Company against Dr. Li as 1st defendant, Capital Foresight as 2nd defendant and Li Hong as 3rd defendant (together, the "**Defendants**"). Pursuant to the writ, the Company sought, amongst others, the following reliefs against the Defendants: (i) a declaration that the Capital Foresight Agreement executed by Dr. Li is void or voidable and unenforceable; and (ii) a declaration that the Loan Note is void or voidable and unenforceable, as announced in the announcement of the Company dated 8 November 2017. Following that announcement, an acknowledgement of service and a statement of claim were filed in December 2017. Pursuant to a Court order, this action has been consolidated with the action described below.

On 24 November 2017 and in connection with the Statutory Demand, the Company received a writ of summons dated 9 November 2017 claiming for an order directing the Company to forthwith issue in favour of Capital Foresight or its nominee a promissory note of US$4.0 million pursuant to the Capital Foresight Agreement, or alternatively US$4.0 million, interest and costs. Pursuant to a Court order, this action has been consolidated with the action described above.

In connection with the consolidated action and up to 31 March 2019, the parties have filed their respective pleadings with the Court. On 2 April and 7 May 2019, the Company issued a summons against the Defendants and a third party individual for discovery of documents relevant to the consolidated action. The third party discovery action is set to be heard on 20 December 2019. On 8 May 2019, the 1st defendant sought leave to adduce a legal opinion from a Bermuda legal expert. On 8 July 2019, the Court ordered the parties to the consolidated action to jointly report the progress of the expert direction application to the Court within a specified period. On 12 September 2019, the Court further ordered the parties' Bermuda legal experts to induce expert evidence on Bermuda law issues and to exchange reports, and prepare and lodge a joint statement addressing questions on which the experts have reached or failed to reach a common opinion and reasons for disagreement and their views. The Company will keep the Shareholders informed of the latest developments by making further announcement(s) as and when appropriate.

Save as disclosed above, at the Latest Practicable Date, there was no litigation or claim of material importance that is known to the Directors to be pending or threatened against any member of the Enlarged Group.

9. COMPETING INTERESTS OF DIRECTORS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective close associates had any interest in any businesses which competes or is likely to compete, either directly or indirectly, with the business of the Group.

10. MATERIAL CONTRACTS

The following contracts have been entered into by the Enlarged Group (not being a contract entered into in the ordinary course of business) within two years immediately preceding the date of this circular and is or may be material:

(a) on 14 November 2017, the Company entered into a cooperation framework agreement with 東方資產管理(中國)有限公司 (Orient Asset Management (China) Co., Ltd., "**Orient Asset**") in relation to long-term cooperation between the parties including establishment of a fund with fund size of RMB500 million and a term of 5 years and objectives to invest in general and specialized hospitals with unique local strengths. Orient Asset is a wholly owned subsidiary of China Orient Asset Management (International) Holding Limited, which is a wholly-owned subsidiary of China Orient Asset Management Co., Ltd., which in turn is owned by the Ministry of Finance of the PRC and the National Council for Social Security Fund as to 98% and 2%, respectively. Further details of the framework agreement were set out in the announcement of the Company dated 14 November 2017. There was no actual cooperation after signing of cooperation framework agreement and the Company does not expect any future cooperation due to the changes in the senior management of Orient Asset;

(b) on 9 December 2017, the Company, 北京中衛康融醫院管理有限公司 (Beijing Kangrong Hospital Management Company Limited) ("**Beijing Kangrong**", a wholly-owned subsidiary of the Company), 岳陽市巴陵醫院有限公司 ("**Yueyang City Baling Hospital Company Limited**") ("**Baling Hospital**") and all the owners of Baling Hospital (the "**Owners**") entered into an agreement, pursuant to which (i) Beijing Kangrong shall be granted the right to management of Baling Hospital for the period of one year from 1 January 2018; and (ii) the Company shall have an exclusive right during the period of 6 months from the date of the agreement to perform due diligence review on and negotiate with the Owners on the possible acquisition of a 51% equity interest in Baling Hospital, details of which are set out in an announcement of the Company dated 10 December 2017. The right to management of Baling Hospital discontinued on 31 December 2018 in accordance with the terms of the aforesaid agreement and the Company did not proceed with the acquisition of the 51% equity interest in Baling Hospital;

Further, pursuant to the agreement, Beijing Kangrong shall pay a sum of RMB3.0 million (equivalent to approximately HK$3.5 million) as a security deposit (the "**Security Deposit**"). In the event the net profit of Baling Hospital for the year ending 31 December 2018 exceeds RMB3.0 million, Beijing Kangrong and the Owners shall be entitled to the profits in excess of RMB3.0 million on a 80:20 ratio and the Security Deposit shall be returned to Beijing Kangrong in full. If the net profit of Baling Hospital for the year ending 31 December 2018 is less than RMB3.0 million, Beijing Kangrong shall bear the shortfall which shall be deducted from the Security Deposit. Any remaining balance of the Security Deposit after the aforesaid deduction shall be returned to Beijing Kangrong. Details of the above were disclosed in the announcement of the Company dated 12 December 2017. Beijing Kangrong has applied for arbitration to seek for agreement of the amount of loss that should be borne by Beijing Kangrong and the refund of the Security Deposit;

(c) on 25 March 2018, the Company, 深圳市北科融匯生命科技有限公司 (Shenzhen Beike Ronghui Life Technology Company Limited) ("**Beike Ronghui Life Technology**") and 深圳市融匯仁和投資管理有限公司 (Shenzhen Ronghui Renhe Investment Management Company Limited) ("**Ronghui Renhe Investment Management**") entered into a strategic cooperation agreement, pursuant to which the parties agreed to cooperate in the following areas: (i) develop research centre for life sciences; (ii) consider the application of life sciences technology in the hospitals managed by the Group; and (iii) explore capital raising opportunities to fund the development of life sciences business. The parties are still identifying suitable cooperation target and no concrete plan has been agreed upon;

(d) on 11 September 2018, the Company and a trustee entered into the subscription agreement in respect of the subscription by the trustee of 100,000,000 new Shares (the "**Subscription Shares**") at a subscription price of HK$0.10 per Share. The gross proceeds and net proceeds from the subscription are HK$10 million and HK$9,600,000 (representing HK$0.096 per subscription share) respectively, which will be used for the Group's future business development, investment and general working capital purposes. The Subscription Shares are held by the trustee on trust for 25 persons who are employees and/or consultants of members of the Group. The subscription was completed on 19 August 2019. Details of the subscription were disclosed in the announcements of the Company dated 11 September 2018 and 19 August 2019;

(e) on 1 November 2018, the Company entered into a strategic cooperation agreement with 湖南鈞麒私募股權基金管理有限公司 (Hunan Junlin Private Equity Fund Management Co., Ltd.) in relation to the formation of an investment fund (the "**Fund**"). Pursuant to the agreement, the Group intends to invest not more than RMB25 million (equivalent to approximately HK$28 million) into the Fund, representing an approximately 33.3% limited partnership interest in the Fund, for the purpose of funding potential acquisition of a hospital in Hunan, the PRC. As the acquisition did not materialise and no other suitable targets have been identified so far, the Company had not contributed the capital as limited partner in the Fund;

(f) the Share Purchase Agreement and its supplemental agreements; and

(g) on 18 July 2019, the Purchaser, 灤平紅十字醫院 (Luanping Red Cross Hospital*), 灤平縣鴻福養老護理院 (Luanping Hongfu Elderly Care and Attention Home*) (together, the "**LP Hospital**") and 郝萌萌 (Hao Mengmeng*) ("**Ms. Hao**") entered into an agreement, pursuant to which the parties agreed, among other things, to terminate the agreement dated 30 March 2017 entered into among the Company, the LP Hospital and Ms. Hao (as supplemented by a supplemental agreement dated 14 September 2017) in relation to the management right over the LP Hospital.

11. GENERAL

(a) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

(b) The principal place of business of the Company in Hong Kong is Unit 801, 8/F, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Tengis Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) The company secretary of the Company is Mr. Tsui Siu Hung Raymond, who is a fellow member of the Association of the Chartered Certified Accountants and a fellow member of the HKICPA.

(e) This circular is in both English and Chinese. In the event of inconsistency, the English text shall prevail over the Chinese text.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Unit 801, 8/F, China Insurance Group Building, 141 Des Voeux Road Central, Hong Kong from the date of this circular and up to and including 18 October 2019, which is the date of the SGM:

(a) the memorandum of association of the Company and the Bye-laws;

(b) the accountant's report on the Hospital from Elite Partners CPA Limited, the text of which is set out in Appendix II to this circular;

(c) the report on the unaudited pro forma financial information of the Enlarged Group from Elite Partners CPA Limited, the text of which is set out in Appendix III to this circular;

(d) the written consent referred to in the section headed "Expert and Consent" in this appendix;

(e) each of the material contracts referred to in the section headed "Material Contracts" in this appendix;

(f) the annual reports of the Company for the two years ended 31 March 2018 and 2019; and

(g) this circular.

China Health Group Limited
中國衛生集團有限公司

(Carrying on business in Hong Kong as CHG HS Limited)
(Incorporated in Bermuda with limited liability)
(Stock Code: 673)

NOTICE IS HEREBY GIVEN THAT the special general meeting (the "**SGM**") of China Health Group Limited (the "**Company**") will be held at Conference Room, 12th Floor, Haiwang Xingchen Building, at the junction of Hou Hai Bin Road and Dong Bin Road, Nanshan District, Shenzhen, China at 11:00 a.m. on 18 October 2019, for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolution as ordinary resolution.

Unless otherwise defined, capitalised terms used in this notice shall have the same meanings as those defined in the circular of the Company dated 25 September 2019.

ORDINARY RESOLUTION

"**THAT**

(a) the conditional share purchase agreement dated 28 December 2018 (the "**Share Purchase Agreement**") (a copy of which has been marked "A" and is produced to the SGM and signed by the chairman of the SGM for identification purpose) entered into among the Purchaser, Mr. Sang and Mr. Han (as vendors) and the Hospital in relation to the Acquisition for a total consideration of RMB4.2 million (equivalent to approximately HK$4.79 million) and the Potential Transfer for a total consideration of RMB1.8 million (equivalent to approximately HK$2.05 million) (as supplemented by the supplemental agreements dated 20 June 2019, 31 July 2019 and 24 September 2019 respectively, a copy of each of the supplemental agreements has been marked "B", "C" and "D" respectively and is produced to the SGM and signed by the chairman of the SGM for identification purpose) and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one or more director(s) of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents (and to affix the common seal of the Company thereon, if necessary) which he/they consider necessary, desirable or expedient to implement or give effect to the Share Purchase Agreement (as supplemented by the supplemental agreements dated 20 June 2019, 31 July 2019 and 24 September 2019 respectively) and the transactions contemplated thereunder (including but not limited to the Acquisition and the Potential Transfer)."

By order of the Board
China Health Group Limited
Zhang Fan
Chairman of the Board and Executive Director

Hong Kong, 25 September 2019

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business in Hong Kong:
Unit 801, 8/F,
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

Notes:

1. All resolutions at the SGM will be taken by poll (except where the chairman decides to allow a resolution relating to a procedural or administrative matter to be voted on by a show of hands) pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The results of the poll will be published on the websites of Hong Kong Exchanges and Clearing Limited and the Company in accordance with the Listing Rules.

2. Any Shareholder of the Company entitled to attend and vote at the SGM is entitled to appoint another person as his proxy to attend and vote in his stead. A Shareholder who is the holder of two or more Shares in the Company may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a Shareholder of the Company.

3. In the case of joint holders of Shares, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders are present at the SGM, personally or by proxy, that one of the said persons so present whose name stands first in the register in respect of such Shares shall alone be entitled to vote in respect thereof.

4. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Delivery of any instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the SGM or any adjournment thereof and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. In order to establish entitlements to attend and vote at the SGM, the register of members of the Company will be closed from 15 October 2019 to 18 October 2019, both days inclusive, during which period no transfer of the shares of the Company can be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 14 October 2019.

As at the date of this notice, the Board comprises four executive Directors, namely, Mr. Zhang Fan (chairman), Mr. Chung Ho, Mr. Wang Jingming, and Mr. Weng Yu; four non-executive Directors, namely, Mr. Xing Yong, Mr. Huang Lianhai, Mr. Zhang Dawei and Mr. Mr. Wang Yongming; and four independent non-executive Directors, namely, Mr. Xiao Zuhe, Mr. Jiang Xuejun, Mr. Du Yanhua and Mr. Lai Liangquan.