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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)*

**DISCLOSEABLE TRANSACTION**  
**RELATING TO THE ACQUISITION OF 51% EQUITY INTEREST**  
**IN THE TARGET COMPANY**  
**INVOLVING THE ISSUE OF SHARES UNDER GENERAL MANDATE**

Reference is made to the announcement of the Company dated 2 December 2022 in respect of the cooperation framework agreement entered into between the Company and the PRC Company.

The Board is pleased to announce that on 6 February 2023 (after trading hours), the Purchaser and the Vendors entered into the Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire and the Vendors have conditionally agreed to sell, the Sale Shares, at the Consideration of HK\$153,000,000, which shall be satisfied by (i) the issue of the Promissory Notes in the aggregate amount of HK\$47,125,000; and (ii) the allotment and issue of up to 87,500,000 Consideration Shares at the Issue Price of HK\$1.21 per Consideration Share by the Company to the Vendors, subject to the Adjustments (as defined below).

The Consideration Shares represent approximately 19.93% of the number of issued Shares as at the date of this announcement and represent approximately 16.62% of the number of issued Shares as enlarged by the allotment and issue of the Consideration Shares and assuming that there will be no change in the issued share capital of the Company save for the allotment and issue of the Consideration Shares and no Adjustments are made to the Consideration.

## **LISTING RULES IMPLICATIONS**

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 5% but are all less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

The Consideration Shares will be allotted and issued under the General Mandate.

**Completion is subject to the satisfaction of the conditions precedent to the Agreement and there is no assurance that such conditions precedent will be fulfilled. Therefore, the transactions contemplated under the Agreement may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares or any securities of the Company.**

## **INTRODUCTION**

Reference is made to the announcement of the Company dated 2 December 2022 in respect of the cooperation framework agreement entered into between the Company and the PRC Company in relation to the intended cooperation for distributing medical and health products.

The Board is pleased to announce that on 6 February 2023 (after trading hours), the Purchaser and the Vendors entered into the Agreement, pursuant to which, the Purchaser (a wholly-owned subsidiary of the Company) has conditionally agreed to acquire and the Vendors have conditionally agreed to sell, the Sale Shares, at the Consideration of HK\$153,000,000, which shall be satisfied by (i) the issue of the Promissory Notes in the aggregate amount of HK\$47,125,000; and (ii) the allotment and issue of up to 87,500,000 Consideration Shares at the Issue Price of HK\$1.21 per Consideration Share by the Company to the Vendors. The principal terms of the Agreement are summarised as follows:

## **THE AGREEMENT**

### **Date**

6 February 2023 (after trading hours)

### **Parties**

- (i) Double Bliss Investments Limited (being the First Vendor);
- (ii) Mr. Zhou Wang (being the Second Vendor);

- (iii) Alpha Success International Limited (being the Third Vendor);
- (iv) Ms. Tse Yuk Lan (being the First Vendor Guarantor);
- (v) Mr. Ho Pei Lin (being the Third Vendor Guarantor);
- (vi) Long Heng Investments Limited, a wholly-owned subsidiary of the Company (being the Purchaser); and
- (vii) the Company (being the Purchaser Guarantor).

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors and their ultimate beneficial owners and the Guarantors are Independent Third Parties.

### **Assets to be acquired**

Pursuant to the Agreement, the Vendor has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, the Sale Shares, which represent 51% of the issued share capital of the Target Company as at the Completion Date.

Further information of the Target Group has been disclosed in the section headed "Information of the Target Group" below.

### **Consideration**

The Consideration for the Sale Shares of HK\$153,000,000, subject to the Adjustments (as defined below), shall be satisfied by the Company in three (3) instalments in the following manner:

- (i) as to HK\$47,125,000 (the "**Completion Consideration**") by way of the issue of the First Promissory Note in the amount of HK\$23,562,500 and the Second Promissory Note in the amount of HK\$23,562,500 to the First Vendor on the Completion Date. The First Promissory Note shall carry nil interest and mature in 12 months; and the Second Promissory Note shall carry nil interest and mature in 24 months. The repayment amount of the Promissory Notes upon their maturity are subject to the Adjustments;
- (ii) as to HK\$52,937,500 (the "**First Consideration**") by way of the allotment and issue of up to 43,750,000 Consideration Shares (i.e. the First Consideration Shares) subject to the Adjustments at the Issue Price of HK\$1.21 per Consideration Share by the Company to each of the Vendors in proportion with their shareholding in the Target Company immediately prior to Completion within fourteen (14) days after the issue of the Audited Financial Statements for FY2024; and

- (iii) as to HK\$52,937,500 (the “**Second Consideration**”) by way of the allotment and issue of up to 43,750,000 Consideration Shares (i.e. the Second Consideration Shares) subject to the Adjustments at the Issue Price of HK\$1.21 per Consideration Share by the Company to each of the Vendors in proportion with their shareholding in the Target Company immediately prior to Completion within fourteen (14) days after the issue of the Audited Financial Statements for FY2025.

*Profit Guarantee and adjustments to the Consideration*

- (i) The Vendors jointly and severally guarantee to the Purchaser that the audited consolidated net profit after tax to be recorded by the Target Group for each of the Relevant Financial Years (the “**Actual Profit**”) shall be no less than the following amounts (the “**Guaranteed Profit**”):

<b>Relevant Financial Years</b>	<b>Guaranteed Profit</b> <i>RMB</i>
FY2024	35,000,000 (equivalent to approximately HK\$40,600,000)
FY2025	47,000,000 (equivalent to approximately HK\$54,520,000)

The Guaranteed Profit for FY2024 was determined based on the Sales Agreements already secured by the Target Group for FY2024 amounting to approximately RMB214 million (details of which are disclosed in the section headed “Information of the Target Group” below) and a projected gross profit margin of approximately 52.1% and net profit margin of approximately 18.5% (after value added tax (“**VAT**”)). The Board has carefully examined the purchase and selling prices of the Ximuming Products under the Exclusive Distribution Agreement and the Sales Agreements, and the operating cost structure of the Target Group, including but not limited to salary expenses, marketing expenses, selling and distribution expenses and administrative expenses; and made reference to industry ranges of expenses, gross profit margins and net profit margins of industry participants of the ophthalmic eye drop industry in the Industry Research Report, and considers the projected profit margins, which are within industry ranges, are reasonable. The Guaranteed Profit for FY2025 represents an increase of approximately 34.3% as compared to the Guaranteed Profit for FY2024. The increase was conservatively determined after having considered the potential growth in market share of the Ximuming Products and expected expansion of distribution channels and product offerings of the Target Group.

- (ii) The parties shall use their best efforts to ensure the Target Group issues the Audited Financial Statements for each of the Relevant Financial Years within two (2) months after the end of such Relevant Financial Year. The Audited Financial Statements shall be prepared in accordance with HKFRS.
- (iii) If the Actual Profit is equal to or higher than the Guaranteed Profit for FY2024, within fourteen (14) days after the date of the issue of the Audited Financial Statements for FY2024 the Purchaser shall (1) repay the entire principal of the First Promissory Note; and (2) allot and issue the First Consideration Shares at the Issue Price.
- (iv) If the Actual Profit is equal to or higher than the Guaranteed Profit for FY2025, within fourteen (14) days after the date of the issue of the Audited Financial Statements for FY2025 the Purchaser shall (1) repay the entire principal of the Second Promissory Note; and (2) allot and issue the Second Consideration Shares at the Issue Price.
- (v) If the Actual Profit is lower than the Guaranteed Profit for FY2024, the First Consideration will be adjusted downwards (the “**First Adjustment**”) in accordance with the following formula:–

$$\text{HK\$76,500,000} \times \frac{\text{Actual Profit for FY2024}}{\text{Guaranteed Profit for FY2024}}$$

The First Adjustment will be first applied to reduce the amount of the First Consideration Shares; and will be then applied to reduce the repayment amount of the First Promissory Note in the event that the reduction of all of the First Consideration Shares is insufficient to complete the First Adjustment.

- (vi) If the Actual Profit is lower than the Guaranteed Profit for FY2025, the Second Consideration will be adjusted downwards (the “**Second Adjustment**” together with the First Adjustment, the “**Adjustments**”) in accordance with the following formula:–

$$\text{HK\$76,500,000} \times \frac{\text{Actual Profit for FY2025}}{\text{Guaranteed Profit for FY2025}}$$

The Second Adjustment will be first applied to reduce the amount of the Second Consideration Shares; and will be then applied to reduce the repayment amount of the Second Promissory Note in the event that the reduction of all of the Second Consideration Shares is insufficient to complete the Second Adjustment.

- (vii) In the event that the Actual Profit for FY2024 is less than RMB12,000,000, the Purchaser has the right to reduce the First Consideration in accordance with the First Adjustment as mentioned in (v) above. Concurrently, the Purchaser shall have the right (but not the obligation) to terminate the Agreement with immediate effect, whereby (a) the Purchaser is not required to pay any Consideration to the Vendors (including repaying the Promissory Notes and issuing the Consideration Shares); and (b) the Purchaser shall return the Sale Shares to the Vendors (the “**Sale Shares Return**”) and any related costs shall be borne by the Vendors. Where the Sale Shares Return has been completed, the Agreement and the obligations of the Purchaser and the Purchaser Guarantor thereunder shall cease and determine, save as otherwise provided for therein (the “**First Exit Clause**”).
- (viii) For the avoidance of doubt, in the event that the Actual Profit for FY2024 is nil or negative, the Purchaser is not required to pay any Consideration to the Vendors (including repaying the Promissory Notes and issuing the Consideration Shares). Concurrently, the Agreement and all the obligations of the Purchaser and the Purchaser Guarantor thereunder shall immediately cease and determine, save as otherwise provided for therein (the “**Second Exit Clause**” together with the First Exit Clause, the “**Exit Clauses**”).

In the event the Purchaser exercises its rights under the Exit Clauses, the return of the Sale Shares to the Vendors may constitute a notifiable transaction of the Company and the Company will comply with the relevant requirements under the Listing Rules, as and when appropriate.

The Consideration (together with the Adjustments) was agreed after arm’s length negotiation between the Purchaser and the Vendors having taken into account among other things, the business prospects of the Target Group, as detailed in the section headed “Reasons and benefits of the Acquisition” below, and the Guaranteed Profit in respect of FY2024 and FY2025. The Consideration represents approximately 7.4 and 5.5 times forward price-to-earnings ratio over the Guaranteed Profit for FY2024 and FY2025 respectively. The aggregate Guaranteed Profit attributable to the Group for FY2024 and FY2025 of approximately RMB41.8 million represents approximately 31.7% of the total Consideration. In light of the above, the Board considers the Consideration to be fair and reasonable.

### **Consideration Shares**

The Issue Price of HK\$1.21 per Consideration Share represents:

- (i) a discount of approximately 19.3% to the closing price per Share of HK\$1.5000 as quoted on the Stock Exchange on the date of the Agreement;
- (ii) a discount of approximately 13.5% to the average closing price per Share of approximately HK\$1.3980 as quoted on the Stock Exchange for the five (5) consecutive trading days immediately preceding the date of the Agreement;

- (iii) a discount of approximately 2.5% to the average closing price per Share of approximately HK\$1.2407 as quoted on the Stock Exchange for the thirty (30) consecutive trading days immediately preceding the date of the Agreement; and
- (iv) a premium of approximately 749.7% over the unaudited consolidated net asset value per Share of approximately HK\$0.1424 per Share as at 30 September 2022 (based on the unaudited consolidated net asset value of the Group as at 30 September 2022 of approximately HK\$62,524,000 and 438,994,763 Shares in issue as at the date of this announcement).

The Issue Price was arrived after at arm's length negotiations between the Purchaser and the Vendors which has taken into account the prevailing market price of the Shares and the market conditions prior to the date of the Agreement.

The Consideration Shares represent approximately 19.93% of the number of issued Shares as at the date of this announcement and represent approximately 16.62% of the number of issued Shares as enlarged by the allotment and issue of the Consideration Shares and assuming that there will be no change in the issued share capital of the Company save for the allotment and issue of the Consideration Shares and no Adjustments are made to the Consideration.

The Consideration Shares will be allotted and issued pursuant to the General Mandate shall rank *pari passu* in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares.

The aggregate nominal value of the Consideration Shares is approximately HK\$87,500,000.

An application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

### **Conditions Precedent**

Completion is conditional upon the fulfilment of waiver (as the case may be) of the following conditions:

- (i) the Vendors being the registered and beneficial owners of the Sale Shares free from encumbrances of any nature;
- (ii) the Vendor's representations and warranties in the Agreement remaining true, accurate and not misleading from the date of the Agreement up to and including the Completion Date; and the Vendors having performed and complied with all the commitments, obligations and regulations that they are obliged to perform and abide by on or before the Completion Date;

- (iii) there being no material adverse effect on any member of the Target Group from the date of the Agreement up to and including the Completion Date;
- (iv) the members of the Target Group not having any debts or contingent liabilities from the date of the Agreement up to and including the Completion Date, save as disclosed in the Completion Accounts;
- (v) the Vendors having completed all necessary internal decision-making procedures (such as approval by the board of directors, etc.) with respect to the Agreement and the transactions contemplated thereunder, and obtained all necessary consents or approvals from relevant government or regulatory agencies or any other person (if applicable) for the transactions contemplated under the Agreement;
- (vi) the Purchaser and the Company having completed all necessary internal decision-making procedures (such as approval by the board of directors, etc.) with respect to the Agreement and the transactions contemplated thereunder, and obtained all necessary consents and/or approvals from relevant government or regulatory agencies (including obtaining the approval or confirmation of no opinion from the Stock Exchange on the relevant announcements and/or circulars of the Purchaser and the Company, if required);
- (vii) there being no laws or regulations, court rulings or judgments, arbitral awards, policies or orders of any government that prohibit or restrict any party to conduct the transactions contemplated under the Agreement; and no government agency has made any regulations, regulations or decisions or take any measures or actions that would prohibit, restrict or substantially delay the transactions contemplated under the Agreement or the continued operation of the members of the Target Group;
- (viii) the Vendors and/or relevant member of the Target Group have obtained the consent and/or approval from such other third parties as required pursuant to any contracts signed with such third parties which may restrict the change in shareholding of a member of the Target Group;
- (ix) the Listing Committee having approved the listing of, and permission to deal in, the Consideration Shares, and such listing and approval have not subsequently having been revoked prior to the allotment and issue of the share certificates in respect of the Consideration Shares;
- (x) the Purchaser and the Company being, at its sole and absolute discretion, satisfied with the results of its legal, financial and business due diligence on the Target Group and its respective shareholders and directors, and having confirmed the same in writing to the Vendors;



- (xi) the PRC Company having obtained all licenses, approvals, registrations, authorizations and consents necessary to operate its business, and all such licenses, approvals, registrations, licenses, authorizations and consents being in force and remaining in effect, including the Pharmaceutical Business Permit (《藥品經營許可證》) issued by the Market Supervision and Administration Bureau of Hubei Province (湖北省市場監督管理局);
- (xii) all medicines distributed and retailed by the PRC Company having obtained all the required licenses, approvals, registrations, authorizations and consents, and all the above licenses, approvals, registrations, authorizations and consents being valid and continuing to be valid, including having obtained the relevant licenses, approvals, registrations and consents in respect of pharmaceutical sales, including business license (《營業執照》), pharmaceutical production license (《藥品生產許可證》) or pharmaceutical operation preparation certificate (《藥品經營籌建證》), company power-of-attorney (公司委託書), quality assurance agreement (質保協議), medicine registration certificate (《藥品註冊證書》) and medicine registration number (藥號) for the Ximuming Products for which the PRC Company has the exclusive distribution rights pursuant to the Exclusive Distribution Agreement;
- (xiii) the Exclusive Distribution Agreement, the Supplemental Agreement and the Sales Agreements all being valid and continue remaining valid and in effect;
- (xiv) the Target Company having obtained and provided to the Purchaser an original certificate of incumbency and a certificate of good standing, both of which being valid and remaining valid; and
- (xv) any other matters to be dealt with in due diligence.

The Conditions Precedent (ii), (iii), (iv), (viii), (xi), (xii) and (xiii) are waivable in writing by the Purchaser at its sole discretion.

If any condition precedent is not fulfilled or waived in accordance with the terms and conditions of the Agreement on or before the Long Stop Date, the Agreement will cease to be effective and all responsibilities and obligations of the parties to the Agreement will cease and determine, except as otherwise provided therein.

## **Completion**

Completion shall take place on the tenth (10<sup>th</sup>) Business Day after all the Conditions Precedent have been fulfilled (or waived as the case may be) or such date that the Vendors and the Purchaser may otherwise agree in writing.

Upon Completion, the Target Company will be owned as to 51.00% by the Purchaser, 22.05% by the First Vendor, 17.15% by the Second Vendor and 9.80% by the Third Vendor. The Target Company will become an indirect non-wholly owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the accounts of the Group.

## **INFORMATION OF THE VENDORS**

### **The First Vendor**

The First Vendor is a company incorporated in Samoa with limited liability and whose sole shareholder is the First Vendor Guarantor. It is principally engaged in investment holding.

### **The Second Vendor**

Mr. Zhou Wang is the president of the PRC Company and has over 10 years of experience in the pharmaceutical distribution industry in the PRC. He previously worked for Fortune 500 pharmaceutical companies including GlaxoSmithKline, Schering-Plough, Merck and Bayer as well as Yabao Pharmaceutical Group Co. Ltd., a PRC pharmaceutical company listed on the Shanghai Stock Exchange (stock code: 600351) in the posts of regional manager, greater regional manager and director. His responsibilities included managing pharmacy retail chain channels, hospital channels and commercial channels. In the past six years, he has been establishing his own businesses, including pharmacy retail chain brands, health management companies, medical management companies, technology companies and cultural media companies.

### **The Third Vendor**

The Third Vendor is a company incorporated in Samoa with limited liability whose sole shareholder is the Third Vendor Guarantor. It is principally engaged in investment holding.

## **INFORMATION OF THE TARGET GROUP**

### **The Target Company**

The Target Company is a company incorporated in Samoa on 14 October 2022 with limited liability. It is beneficially owned as to 45% by the First Vendor; 35% by the Second Vendor; and 20% by the Third Vendor. It is the sole shareholder of the PRC Company. Its principal asset is its equity interest in the HK Company.

### **The HK Company**

The HK Company is a company incorporated in Hong Kong on 26 October 2022 with limited liability. It is a wholly-owned subsidiary of the Target Company and the sole shareholder of the PRC Company. Its principal asset is its equity interest in the PRC Company.

### **The PRC Company**

The PRC Company is a company incorporated in the PRC on 24 November 2022 with limited liability and a wholly-owned subsidiary of the HK Company. The PRC Company is principally engaged in the sales and distribution of medicines and related products in the PRC and is the exclusive distributor for the Ximuming Products in the PRC.

### **Business of the Target Group**

The Target Group was established for the conduct of distribution and marketing of pharmaceutical products in the PRC. The management team of the Target Group has more than 10 years of experience in the pharmaceutical distribution sector and had been in cooperation with different pharmaceutical research and development teams and manufacturers for the distribution and marketing of their pharmaceutical products, including a research and development team focused on developing ophthalmic eye drops in the PRC (the “**R&D Team**”). The R&D Team commenced marketing their first-generation eye drops in 2020. For the introduction of their second-generation eye drops in 2021, the management of the Target Group assisted the R&D Team for the distribution of the second-generation eye drops under the “Sinopharm Group” (國藥集團) brand and generated approximately RMB78 million in sales in 2021. The R&D Team established Gaoxi Pharmaceutical to roll out its third-generation eye drops, namely Ximuming Eye Drops, and the Target Group has been assisting Gaoxi Pharmaceutical to obtain the medicine registration of Ximuming Eye Drops in the PRC and the other necessary registrations and approvals.

As at the date of this announcement, the PRC Company holds a temporary approval for the registration and preparation for the operation of a pharmaceutical business (《准予籌建登記通知書》). During the preparatory phase, the PRC Company may operate a pharmaceutical business in strict accordance with the Quality Management Standard for Drug Distribution\* (《藥品經營品質管制規範》). The registration procedures for the PRC Company to obtain the Pharmaceutical Business Permit (《藥品經營許可證》) are in an advanced stage and the final inspection by the relevant authorities has been scheduled for early March 2023. As such, the Pharmaceutical Business Permit is expected to be issued to the PRC Company by the end of March 2023. At the same time, Gaoxi Pharmaceutical is applying for the pharmaceutical production license (《藥品生產許可證》) and the medicine registration certificate (《藥品註冊證》) and medicine registration number (藥號) in respect of Ximuming Eye Drops, which are expected to be issued on or before 20 March 2023. As set out in the section headed “The Agreement - Conditions Precedent” above, the PRC Company having obtained all of the requisite licenses, permits, certificates and registrations etc. is a condition precedent to the Completion and is not waivable.

The PRC Company has entered into the Exclusive Distribution Agreement with Gaoxi Pharmaceutical, pursuant to which the PRC Company obtained the long-term exclusive distribution rights of the Ximuming Products in the PRC. The Sales Agreements secured by the PRC Company in respect of the sales of Ximuming Eye Drops for the year ended 31 December 2023, when completed, represents in aggregate approximately RMB214 million in revenue for the Target Group.

#### *The Exclusive Distribution Agreement and Supplemental Agreement*

On 26 November 2022, the PRC Company and Gaoxi Pharmaceutical entered into the Exclusive Distribution Agreement, pursuant to which, Gaoxi Pharmaceutical granted the exclusive distribution rights of the Ximuming Eye Drops and the other Products to various channels including pharmacies, distributors, hospitals and e-commerce platforms in the PRC to the PRC Company for a period of up to ten years from 1 January 2023 to 31 December 2032, subject to the satisfaction of the purchase targets of RMB60 million, RMB90 million and RMB130 million for the three years ending 31 December 2023, 2024 and 2025 respectively (the “**Purchase Targets**”). If the Purchase Targets are not met, Gaoxi Pharmaceutical will have the right to terminate the Exclusive Distribution Agreement or as otherwise agreed between the parties to the agreement.

On 30 December 2022, the PRC Company and Gaoxi Pharmaceutical also entered into the Supplemental Agreement to define their mutual understanding in respect of their cooperation including, amongst others, timely communication of the results of any research and development of Gaoxi Pharmaceutical, changes in customer needs or in the market noted by the PRC Company, liaising with relevant government departments for product registration, brand development and marketing, assisting in fund raising and seeking out investors etc.

## *The Sales Agreements*

In December 2022 and January 2023, as the case may be, the PRC Company entered into the Sales Agreements with five companies operating retail pharmacy chains in the PRC in respect of the sales of Ximuming Eye Drops. The identities of the customers, supply period and target purchase amounts are set out below:

<b>Customer</b>	<b>Supply period</b>	<b>Target purchase amount RMB'million</b>
Jointown Pharmaceutical Group Co. Ltd. (九州通醫藥集團股份有限公司, a company listed on the Shanghai Stock Exchange with stock code: 600998)	1 April 2023 to 31 December 2023	94.3
Sinopharm Holdings Chongqing Co. Ltd.* (國藥控股重慶有限公司, a subsidiary of Sinopharm Group Co. Ltd., a company listed on the Stock Exchange with stock code: 1099)	1 April 2023 to 31 December 2023	50.3
Sichuan Hezong Medicine Easy-to-buy Pharmaceutical Co. Ltd. (四川合縱藥易購醫藥股份有限公司, a company listed on the Shenzhen Stock Exchange with stock code: 300937)	1 April 2023 to 31 December 2023	30.0
Yixintang Pharmaceutical Co. Ltd. (一心堂藥業集團股份有限公司, a company listed on the Shenzhen Stock Exchange with stock code: 002727)	1 January 2023 to 31 December 2023	19.6
ShuYu Civilian Pharmacy Corp. Ltd. (漱玉平民大藥房連鎖股份有限公司, a company listed on the Shenzhen Stock Exchange with stock code: 307017)	1 April 2023 to 31 December 2023	19.9
Total:		214.1

### ***Business and development plan***

The business plan of the PRC Company for the next three years will focus on the introduction of non-prescription or over-the-counter drugs which are fast-moving consumer goods into pharmacy retail chains, targeting a wider consumer base as compared to traditional medical institutions, so as to quickly gain market share and achieve rapid growth. The PRC Company aims to increase its product offerings from ophthalmic eye drops to other medicines and related products; and expand its traditional and non-traditional sales channels, including launching a pilot e-pharmacy platform, including the development of mobile apps and WeChat mini-programs, with comprehensive online-to-offline logistics support and warehouse facilities in Wuhan city.

### **FINANCIAL INFORMATION OF THE TARGET GROUP**

A summary of the unaudited consolidated financial information of the Target Group for the period from 14 October 2022, being the date of incorporation of the Target Company, up to 31 December 2022; and the month ended 31 January 2023 is set out below:

	<b>For the month ended 31 January 2023 <i>RMB'000</i> (Unaudited)</b>	<b>For the period from 14 October 2022 to 31 December 2022 <i>RMB'000</i> (Unaudited)</b>
Revenue	680	187
Profit/(loss) before and after tax	82	(158)

The unaudited consolidated net assets of the Target Group as at 31 January 2023 was approximately RMB1,941,000.

## REASONS AND BENEFITS OF THE ACQUISITION

The Group is primarily engaged in the distribution of medical equipment and consumables and provision of related services (the “**Medical Distribution Business**”), provision of hospital operation and management service and business factoring. It is committed to providing quality medical product distribution and services for a large customer base and has been, over the past years, seeking new opportunities to expand the coverage of the Medical Distribution Business. The Target Group is primarily engaged in the distribution and marketing of pharmaceutical and related products and is operated by an experienced management team. The Target Group has obtained long-term exclusive distribution rights to the Ximuming Products in the PRC and has already secured Sales Agreements for the supply thereof. The Target Group is also planning to expand its product offerings and distribution channels in order to achieve robust and sustainable growth. The Company considers that the Acquisition will allow it to further expand the coverage of its Medical Distribution Business and diversify its product portfolio from medical equipment to medicines.

The Company has engaged an independent research firm, Frost & Sullivan, to undertake the Industry Research Report on the ophthalmic eye drops market and ophthalmic eye drops distribution market in the PRC. It was noted in the Industry Research Report that the estimated size of the ophthalmic eye drops distribution market in the PRC in 2022 was approximately RMB15.95 billion and is expected to grow by a CAGR of approximately 10.0% to approximately RMB25.69 billion by 2027. The estimated size of the ophthalmic eye drops distribution market in the PRC for the years ending 31 December 2023 and 2024 are RMB18.83 billion and RMB20.56 billion, representing year-on-year growths of 8.8% and 9.2%, respectively. It was also noted in the Industry Research Report that the gross profit margins and net profit margins in the ophthalmic eye drops distribution market ranges from approximately 48% to 56% and 16% to 20% respectively.

In light of the above, the Board is of the view that the Guaranteed Profit of RMB35 million for FY2024 is reasonable and achievable as it represents a net profit margin (after VAT) of about 18.5% in FY2024 based on the expected revenue of approximately RMB214 million to be generated by the Target Group pursuant to the Sales Agreements, which is within the range of the abovementioned industry gross profit margin and net profit margin ranges respectively. The increase in the Guaranteed Profit for FY2025 of about 34% as compared to that of FY2024 is higher than the expected industry growth for 2024 of about 9.2%, however the Board considers that it is achievable having considered the business and development plan of the Target Group which will be in its initial growth phase, expanding its product offerings and distribution channels; and the growing market size of the ophthalmic eye drops distribution market.

The integration of resources and complementary advantages of both the Group and the Target Group is conducive to the rapid development of the Company and, given the long-term Exclusive Distribution Agreement and the Sales Agreements and business prospects of the Target Group, the Target Group is expected to generate new sustainable revenue streams for the Group. Despite the Target Group is newly set up, the Board considers that sufficient safeguards are in place, including but not limited to the Profit Guarantee; the delayed repayment of the Promissory Notes; and the Exit Clauses, which effectively minimizes the Company's risk exposure to the business and/or financial uncertainties in relation thereto. The Board is of the view that the terms of the Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

## EFFECT ON THE SHAREHOLDING STRUCTURE

For illustration purpose, assuming there being no other changes in the share capital of the Company from the date of this announcement up to the Completion Date, set out below are the shareholding structures of the Company (i) as at the date of this announcement; and (ii) immediately after the allotment and issue of the Consideration Shares assuming no Adjustments are made:

Shareholders	As at the date of this announcement		Immediately after the allotment and issue of the Consideration Shares assuming no Adjustments are made	
	No. of Shares	%	No. of Shares	%
<b>Directors</b>				
Mr. Zhang Fan	117,307,400	26.72	117,307,400	22.28
Mr. Wang Jingming	2,430,600	0.55	2,430,600	0.46
Mr. Xing Yong	139,800	0.03	139,800	0.03
<b>Subtotal</b>	<b>119,877,800</b>	<b>27.31</b>	<b>119,877,800</b>	<b>22.77</b>
<b>Vendors</b>				
The First Vendor	–	–	39,375,000	7.48
The Second Vendor	–	–	30,625,000	5.82
The Third Vendor	–	–	17,500,000	3.32
<b>Subtotal</b>	<b>–</b>	<b>–</b>	<b>87,500,000</b>	<b>16.62</b>
Other public Shareholders	319,116,963	72.69	319,116,963	60.61
<b>Total</b>	<b>438,994,763</b>	<b>100.00</b>	<b>526,494,763</b>	<b>100.00</b>



## LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 5% but are all less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting and announcement requirements under the Listing Rules.

The Consideration Shares will be allotted and issued under the General Mandate.

**Completion is subject to the satisfaction of the conditions precedent to the Agreement and there is no assurance that such conditions precedent will be fulfilled. Therefore, the transactions contemplated under the Agreement may or may not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares or any securities of the Company.**

## DEFINITIONS

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

“Acquisition”	the proposed acquisition of the Sale Shares by the Purchaser pursuant to the terms and conditions of the Agreement
“Agreement”	the sale and purchase agreement dated 6 February 2023 entered into between the Purchaser and the Vendors in relation to the Acquisition
“AGM”	the annual general meeting of the Company held on 30 September 2022
“Audited Financial Statements”	the audited consolidated financial statements of the Target Group for the Relevant Financial Years to be prepared in accordance with the HKFRS
“Board”	the board of Directors
“Business Day”	any day (excluding Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business

“CAGR”	compound annual growth rate
“Company” or “Purchaser Guarantor”	China Health Group Limited (stock code: 673), 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 in accordance with the terms of the Agreement
“Completion Accounts”	the unaudited consolidated management accounts of the Target Group for the period commencing on 1 February 2023 and up to the Completion Date and certified true by the existing directors of the Target Company
“Completion Date”	the tenth (10th) Business Day following the satisfaction or waiver, as the case may be, of the Conditions Precedent of the Agreement
“connected persons”	has the same meaning ascribed to it under the Listing Rules
“Consideration”	the consideration for the Acquisition, being HK\$153,000,000 pursuant to the Agreement
“Consideration Shares”	the First Consideration Shares and Second Consideration Shares
“Director(s)”	the director(s) of the Company, from time to time
“Exclusive Distribution Agreement”	the exclusive distribution agreement entered into between the PRC Company and Gaoxi Pharmaceutical dated 26 November 2022 for the exclusive right to distribute the Ximuming Products in the PRC for up to ten (10) years
“First Consideration Shares”	up to 43,750,000 new Shares to be issued to the Vendors at the Issue Price for settlement of the First Consideration in accordance with the Agreement
“First Promissory Note”	HK\$23,562,500 promissory notes with maturity of 12 months, to be issued to the Vendors for settlement of the Completion Consideration in accordance with the Agreement

“First Vendor”	Double Bliss Investments Limited, a company incorporated in Samoa with limited liability and the beneficial owner of 45% equity interest in the Target Company as at the date of the Agreement
“First Vendor Guarantor”	Ms. Tse Yuk Lan ( 謝玉蘭 ), the sole shareholder of the First Vendor, the guarantor of the First Vendor in respect of the Agreement
“FY2024”	the financial year ending 31 March 2024
“FY2025”	the financial year ending 31 March 2025
“General Mandate”	the general mandate granted to the Directors to allot, issue and deal in not more than 87,798,952 new Shares by the Shareholders at the AGM
“Group”	the Company and its subsidiaries
“Guarantor(s)”	the First Vendor Guarantor and the Second Vendor Guarantor
“Gaoxi Pharmaceutical”	Hubei Gaoxi Pharmaceutical Co. Ltd.* ( 湖北高錫藥業有限公司 ), a company incorporated in the PRC with limited liability
“HK Company”	Madison Health Holding Limited ( 泰康旺達控股有限公司 ), a wholly-owned subsidiary of the Target Company and the sole shareholder of the PRC Company
“HKFRS”	the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Price”	HK\$1.21 per Consideration Share
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons

“Industry Research Report”	the industry research report compiled by Frost & Sullivan on the ophthalmic eye drops market and ophthalmic eye drops distribution market in the PRC
“Listing Committee”	has the same meaning ascribed to it under the Listing Rules
“Long Stop Date”	28 April 2023, or other date as agreed in writing between the parties to the Agreement
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan
“PRC Company”	Wuhan Mingcheng Wangda Company Pharmaceutical Co. Ltd.* (武漢明誠旺達醫藥有限公司), a company incorporated in the PRC with limited liability and a wholly-owned subsidiary of the HK Company
“Profit Guarantee”	the profit guarantee jointly and severally given by the Vendors in favour of the Purchaser in respect of the guaranteed audited consolidated net profit after tax of the Target Group for each of the Relevant Financial Years pursuant to the Agreement
“Promissory Notes”	the First Promissory Note and Second Promissory Note
“Purchaser”	Long Heng Investments Limited (隆恆投資有限公司), a direct and wholly-owned subsidiary of the Company
“Sale Shares”	a total of 153,000 ordinary shares of the Target Company (of which 68,850, 53,550 and 30,600 shares are held by the First Vendor, Second Vendor and Third Vendor respectively), representing 51% of the total issue share capital of the Target Company as at the Completion Date

“Sales Agreements”	the agreements entered into between the PRC Company and (i) Jointown Pharmaceutical Group Co. Ltd. (九州通醫藥集團股份有限公司) dated 29 December 2022; (ii) Sinopharm Holdings Chongqing Co. Ltd.* (國藥控股重慶有限公司) dated 26 December 2022; (iii) Sichuan Hezong Medicine Easy-to-buy Pharmaceutical Co. Ltd. (四川合縱藥易購醫藥股份有限公司) dated 30 December 2022; (iv) Yixintang Pharmaceutical Co. Ltd. (一心堂藥業集團股份有限公司) dated 22 December 2022; and (v) ShuYu Civilian Pharmacy Corp. Ltd. (漱玉平民大藥房連鎖股份有限公司) dated 10 January 2023 in respect of the sales of Ximuming Eye Drops during the year ending 31 December 2023
“Second Consideration Shares”	up to 43,750,000 new Shares to be issued to the Vendors at the Issue Price for settlement of the Second Consideration in accordance with the Agreement
“Second Promissory Note”	HK\$23,562,500 promissory notes with maturity of 24 months, to be issued to the Vendors for settlement of the Completion Consideration in accordance with the Agreement
“Supplemental Agreement”	the supplemental agreement to the Exclusive Distribution Agreement dated 30 December 2022
“Second Vendor”	Mr. Zhou Wang (周旺), the beneficial owner of 35% equity interest in the Target Company
“Share(s)”	ordinary shares of par value HK\$1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Golden Alliance Limited, a company incorporate in Samoa with limited liability
“Target Group”	the Target Company and its subsidiaries

“Third Vendor”	Alpha Success International Limited, a company incorporated in Samoa with limited liability and the beneficial owner of 20% equity interest in the Target Company as at the date of the Agreement
“Third Vendor Guarantor”	Mr. Ho Pei Lin (何培林), the sole shareholder of the Third Vendor, the guarantor of the Third Vendor in respect of the Agreement
“Relevant Financial Years”	FY2024 and FY2025, and each a “ <b>Relevant Financial Year</b> ”
“Vendors”	the First Vendor, the Second Vendor and the Third Vendor
“Ximuming Products”	the products set out in the Exclusive Distribution Agreement, including 希目明滴眼劑 (“ <b>Ximuming Eye Drops</b> ”), 希目明眼貼, 希目明潤眼露, 希目明含片 and any other products which are developed by Gaoxi Pharmaceutical
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	renminbi, the lawful currency of the PRC
“%”	per cent.

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

Hong Kong, 6 February 2023

*As at the date of this announcement, the Board comprises two executive Directors, namely, Mr. Zhang Fan (Chairman) and Mr. Chung Ho; three non-executive Directors, namely, Mr. Xing Yong, Mr. Huang Lianhai and Mr. Wang Jingming; and three independent non-executive Directors, namely, Mr. Jiang Xuejun, Mr. Du Yanhua and Mr. Lai Liangquan.*

\* *For identification purposes only*