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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)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO DISCLOSEABLE TRANSACTION

Reference is made to the announcement of China Health Group Limited dated 12 October 2023 (the "**Announcement**") in relation to the acquisition of 100% equity interest in Jinmei Developments Limited. Capitalised terms used herein have the same meanings as those defined in the Announcement unless otherwise specified.

The Company wishes to provide the following supplemental information in relation to the Acquisition:

Management team

Ms. Ma Xiaoming (i.e. the Guarantor and the sole shareholder of the Vendor) is and will continue to be the chairman of the Target Group after Completion. She is also the chairman of Weihang Yining Health Care Centre（偉航奕寧健康管理中心）(a professional management institute launched by top clinical experts from Peking University First Hospital and Peking Union Medical College Hospital) and has more than 20 years of management experience in companies listed in the PRC and Hong Kong involving mergers and acquisitions, IPO, pre-IPO advisory, business planning, tax planning, financing, etc..

The operational general manager of the Target Group is Mr. Xie Jianqiu. He has about 20 years of experience in the production and sale of modified starch and a deep understanding of the application of modified starch in different industries including the pharmaceutical industry. He is also in charge of the sales department.

The R&D team is led by Professor Huang Yining ("**Professor Huang**"), who is the chief physician of the Department of Neurology of Peking University First Hospital and is an expert in treating neurological diseases, especially cerebrovascular diseases. Members of the R&D team also include two technical experts from Peking University First Hospital (namely Mr. Ding Wenhui and Ms. Guo Xiaohui) and two technical consultants from the Institute of Chemistry of Chinese Academy of Sciences. Mr. Ding Wenhui and Ms. Guo Xiaohui are the chief physicians of the Department of Cardiovascular Internal Medicine and the Department of Endocrinology of Peking University First Hospital, respectively. The R&D team primarily focuses on the research and development of products for the prevention and treatment of cerebrovascular diseases.

Each of the procurement, finance and administration departments is also led by management team members with relevant experience.

R&D capability

Professor Huang has been leading a joint research team from Tsinghua University, the Institute of Chemistry of Chinese Academy of Sciences and Peking University First Hospital for the research and development of national key scientific research projects. The joint R&D team currently possesses more than 80 patents in the medical treatment and medical materials areas.

In order to establish a long-term collaborative relationship with the Institute of Chemistry of Chinese Academy of Sciences, the PRC Co and the Institute of Chemistry of Chinese Academy of Sciences have entered into a memorandum of cooperation, pursuant to which the Institute of Chemistry of Chinese Academy of Sciences will provide national-level scientific research results in the field of medical health (including application technologies in medical treatment and medical materials) while the PRC Co will serve as an incubation platform for the transformation of such scientific research results to achieve industrialisation and commercialisation. Under the same conditions, the PRC Co shall have the priority to acquire the patents and technical secrets of the relevant scientific research results from the Institute of Chemistry of Chinese Academy of Sciences at a consideration to be agreed by both parties with reference to the prevailing market price. The parties are in discussions of acquiring another patent from the Institute of Chemistry of Chinese Academy of Sciences. A definitive patent transfer agreement will be entered into between the parties if it materialises.

The Company believes that such long-term collaboration with the Institute of Chemistry of Chinese Academy of Sciences will provide a priority channel to the Target Group for the transformation of scientific research results into future product development.

Products

The Patent is for a recipe of a betaine product and was jointly developed by the Institute of Chemistry of Chinese Academy of Sciences and Peking University First Hospital. It was acquired by a company controlled by the Guarantor, which was then transferred to the Target Group. The Target Group's R&D team then carried out the relevant laboratory tests on the recipe and successfully developed the functional food product namely Duoweining for prevention of cardiovascular diseases, which targets patients with Hyperhomocysteinaemia (高同型半胱氨酸血症) or high blood pressure. It has also developed another food thickener product namely Shunning, which targets stroke patients or elderly people with dysphagia (吞咽困難).

Similar products with similar effects in the market are mainly imported from overseas. The Company believes the Products have great potential to replace imported products as their physical and chemical properties and efficacy are able to meet the standards of imported products and will be widely available through offline and online sales channels.

Production and sales

As disclosed in the Announcement, the Target Group will outsource the production of the Products to Jilin Aodong by providing the Patent (i.e. the recipe) and the required raw materials and packaging materials. This enables the Target Group to avoid substantial capital investment in setting up its own production facilities and to dedicate its resources to the R&D of new products and developing the distribution channel of the Products.

The Products will be sold as functional food (功能性食品) initially, which are not subject to any regulatory approval/registrations with the National Medical Products Administration. Subject to market response and further analysis, the Target Group may consider making an application to the National Medical Products Administration for Duoweining to be sold as a healthcare food (保健食品), which will generally take 12-24 months to be approved.

The Target Group will focus on developing long-term relationships with distributors with well-established online and offline sales channels in different regions in the PRC. In addition to the sales contract with Jilin Haitong for the distribution of products through the sales channels of Ji Yao Holding Group Co., Ltd., the Target Group has also secured another sales contract with 吉林亞泰醫藥產業園管理有限公司 (Jilin Yatai Pharmaceutical Industrial Park Management Co., Ltd.*) ("**Jilin Yatai**") which plans to purchase a certain amount of Duoweining and Shunning during the year ending 31 December 2024. Jilin Yatai is a large-scale pharmaceutical company in the PRC which distributes healthcare products through clinical academic promotion, hospitals, retail chain pharmacies, and social healthcare institutions spanning 30 provinces and cities and more than 290 regions in the PRC. Based on the intended sale price, the planned sales amount of the Products under the sales contract with Jilin Yatai amounts to approximately RMB30 million.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Jilin Haitong and Jilin Yatai and their respective ultimate beneficial owners are third parties independent of (i) the Company and its connected persons; and (ii) the Vendor and the Guarantor.

Although the planned sales amounts under the sales contracts with Jilin Haitong and Jilin Yatai (collectively, the "**Sales Contracts**") are not legally binding nor committed orders, it is the normal market practice of the industry that the planned sales amounts as indicated in the Sales Contracts will form part of the annual sales plan of the distributors and will be implemented in the individual sales order to be placed by the distributors with the Target Group. Accordingly, the Board considers the Sales Contracts to be relevant in ascertaining the achievability of the projected sales.

The Target Group is also in discussions with other parties for the distribution of the Products through other e-commerce platforms, social healthcare institutions, pharmacies and drug stores.

Based on the current plan to outsource production to other manufacturers and conduct sales through distributors, the Target Group will be operating an asset-light business model without significant capital investment in fixed assets. With the credit periods granted by suppliers for payments of raw materials, production costs and other expenses, it is expected that the current working capital available to the Target Group will be sufficient to support its operations initially and does not require capital injection by the Company after Completion. When the business becomes more stable and its track record has been built up, the Target Group may consider obtaining credit lines from commercial banks to support its business development.

Guaranteed Profits

The Guaranteed Profits were set as a baseline for determining the initial Consideration incorporating an adjustment mechanism such that the actual Consideration payable by the Group will be based on the Actual Profits and the pre-agreed P/E ratio. The Guaranteed Profits were determined based on the financial projections (the "**Financial Projections**") prepared by the Target Group taking into account the projected sales amount, estimated production costs and expenses for the year ending 31 December 2024 and 2025. Set out below is a summary of the Financial Projections:

	For the year ending 31 December	
	2024	**2025**
Estimated market size of betaine products *(Note 1)*	RMB6,863 million	RMB8,630 million
Expected market share of Duoweining *(Note 2)*	0.5%	1.2%
Sales of Duoweining	**RMB34 million**	**RMB103 million**
Estimated market size of food thickener products *(Note 3)*	RMB2,432 million	RMB2,664 million
Expected market share of Shunning *(Note 2)*	0.5%	0.7%
Sales of Shunning	**RMB13 million**	**RMB20 million**
Total sales of the Products	**RMB47 million**	**RMB123 million**

	For the year ending 31 December	
	2024	**2025**
Less: cost of sales *(Note 4)*	(RMB10 million)	(RMB23 million)
Gross profit	RMB37 million	RMB100 million
Less:		
Operating expenses *(Note 5)*	(RMB17 million)	(RMB44 million)
Tax expenses *(Note 6)*	(RMB5 million)	(RMB14 million)
Net profit	**RMB15 million**	**RMB42 million**

Notes:

1. *Based on (i) the estimated number of Hyperhomocysteinaemia patients in the PRC of approximately 388 million in 2024 and 407 million in 2025 derived from the population in the PRC with reference to government statistics and incidence rate of such disease of approximately 27.5% in 2024 and 28.9% in 2025 with reference to an article published on China Medical Tribune entitled "罕見病診療指南－－高同型半胱氨酸血症（心腎系統罕見病）(Guidelines for Diagnosis and Treatment of Rare Diseases – Hyperhomocysteinemia (Rare Diseases of the Cardiorenal System*)"; (ii) the proportion of such patients (i.e. 2% in 2024 and 2.4% in 2025) who will consume such products with annual dosage amount of 365 grams based on the R&D team's clinical experience; and (iii) the intended sale price of the product.*

2. *Estimated based on the Target Group's management expectation.*

3. *Based on (i) the estimated number of stroke patients in the PRC of approximately 18 million with reference to the industry data set out in the prospectus of a PRC pharmaceutical company listed on the Main Board of the Stock Exchange and approximately 51% of stroke patients having dysphagia with reference to a survey report entitled "中國特定人群吞咽功能障礙的流行病學調查報告 (Prevalence of Dysphagia in China: an Epidemiology Survey of 6102 Participants)"; (ii) the estimated number of elderly people in the PRC having dysphagia of approximately 69 million in 2024 and 72 million in 2025 derived from the population aged 60 or above in the PRC with reference to government statistics and 25% of elderly people having dysphagia with reference to an article entitled "中國老年人吞咽障礙患病率的 Meta 分析 (The Prevalence of Dysphagia among Chinese Older Adults: a Meta-analysis)" and taking into account R&D team's clinical experience; (iii) the proportion of such patients (i.e. 10% in 2024 and 11% in 2025 for stroke patients and 5% for elderly people in 2024 and 2025) who will consume such products with annual dosage amount (i.e. 5,475 grams for stroke patients and 1,095 grams for elderly people) based on the R&D team's clinical experience; and (iv) the intended sale price of the product.*

4. *Estimated based on the actual production costs (including costs of raw materials, packaging materials and processing costs) of the samples for laboratory tests of the Products.*

5. *Estimated based on the historical operating expenses (including selling and distribution, administration, research and development, finance, and sales tax and surcharges) of five PRC-listed companies engaging in the manufacture, sale and research and development of functional and/or healthcare food or products in the PRC identified by the Target Group (namely By-health Co., Ltd. (stock code: 300146.SZ), Dong-E-E-Jiao Co., Ltd. (stock code: 000423.SZ), Xiamen Kingdomway Group Company (stock code: 002626.SZ), Shanghai Jiaoda Onlly Co., Ltd. (stock code: 600530.SH) and Weihai Baihe Biology Technological Co., Ltd. (stock code: 603102.SH)), which on average represented about 35% of sales. As they are principally engaged in the same line of business as the Target Group, they are considered to be reasonable reference for estimation of the Target Group's operating expenses.*

6. *Based on the PRC Enterprise Income Tax at a rate of 25%.*

The projected sales for 2024 under the Financial Projections have only taken into account the planned sales amount of approximately RMB47 million under the sales contract with Jilin Haitong, but not those under the sales contract with Jilin Yatai which was secured after the signing of the Agreement. Having considered that the aggregate planned sales amount under the Sales Contract amounting to approximately RMB77 million, the Board is of the view that the projected sales for 2024 is potentially attainable. The projected growth in sales for 2025 is primarily attributable to the estimated growth in the market size of betaine products by approximately 25.7% mainly due to the estimated increase in proportion of patients consuming betaine products from 2.0% to 2.4% (particularly after approval of a betaine product by the Food and Drug Administration of the United States for treatment of Homocystinuria (高胱胺酸尿症)), and the potential growth in market shares as illustrated in the table above as the Products build up their reputation and the sales and distribution channels of the Target Group expand.

The Board has also made enquiries with the management of the Target Group about the estimated costs of sales and operating expenses, the details of which set out above. Based on the above, the Board is of the view that the 2024 Guaranteed Profit of RMB15 million and the 2025 Guaranteed Profit of RMB40 million are potentially achievable.

The Financial Projections prepared by the Target Group are regarded as profit forecast under Rule 14.61 of the Listing Rules. The Board has reviewed the bases and assumptions upon which the Financial Projections are based, and considered the letter from the Company's auditors, Elite Partners CPA Limited ("**Elite Partners**"), confirming that the Financial Projections, so far as the arithmetical calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions as set out in the Financial Projections. Based on the above, the Board is of the view that the Financial Projections were made after due and careful enquiry. The letters from Elite Partners and the Board have been set out in Appendix I and Appendix II to this announcement, respectively.

Consideration

The Board acknowledges that the Target Group was newly established without track record and the Products have yet to commence commercial production, and is fully aware of the risks involved. Accordingly, the Company has negotiated with the Vendor for a consideration at a lower pricing multiple. Despite the Consideration being substantially larger than the unaudited net asset value of the PRC Co as at 31 August 2023 of approximately RMB3.9 million, the Board is of the view that the value of the Target Group (including the Patent) should primarily be derived from the future prospects of the Target Group and therefore the Company did not perform a valuation on the Patent. In fact, the Consideration only represents approximately 5.0 times forward P/E ratio over the average of the 2024 Guaranteed Profit and the 2025 Guaranteed Profit (i.e. RMB27.5 million) and approximately 3.4 times forward P/E ratio over the 2025 Guaranteed Profit of RMB40 million, which are well below the average P/E of approximately 13.7 times of three comparable companies identified by the Company. The comparable companies were identified based on the following selection criteria: (i) listed in Hong Kong with market capitalisation below HK$1 billion (which was set with reference to the Consideration and to capture sufficient comparable companies); (ii) principally engaged in the research and development, manufacture and sale of functional and/or healthcare food or products and/or medicines in the Greater China; and (iii) recorded net profits for the latest financial year. Details of the comparable companies are set out below:

Company name	**Stock code**	**Market capitalisation as at the date of the Agreement** *(HK$' million)*	**Net profits attributable to shareholders** *(HK' million)*	**P/E as at the date of the Agreement**
JBM (Healthcare) Limited	2161	960.2	57.1	16.8
Lee's Pharmaceutical Holdings Limited	950	747.8	51.3	14.6
Pak Fah Yeow International Limited	239	508.0	30.0	16.9
Sanai Health Industry Group Company Limited	1889	195.8	31.3	6.3
		Average P/E		13.7

If the Company were to acquire the Target Group after the Products have been launched to the market successfully and demonstrated a proven track record, the Consideration is expected to be much higher, not to mention the risk that the Company might not be able to secure the acquisition opportunity as there might be competitive offers from other bidders. The Consideration in the form of the Promissory Note which will only reach maturity on 27 February 2026 or the 14th Business Day after the issue of the Audited Accounts for the 2025 Actual Profit will not impose an immediate financial burden on the Company.

Adjustment mechanism and exit clauses

The Company has negotiated for the adjustment mechanism of the Consideration and the Exit Clauses as part of the terms of the Agreement. The Board considers such protective clauses to be sufficient in safeguarding the Company's interest in the event the Target Group or the Products do not perform as expected. Given that (i) the Guarantor will be obliged to pay the Adjusted Amount to the Company in the event that the Guaranteed Profits are not met; and (ii) the Exit Clauses are triggered in the event that the Actual Profits are significantly lower than the Guaranteed Profits, the Board is of the view that it will be appropriate for the Guarantor to remain as the chairman of the Target Group and continue to oversee the management of the Target Group after Completion as her management role and interest in the Target Group will be aligned.

As mentioned in "Production and sales" above, it is expected that the current working capital available to the Target Group will be sufficient to support its operations initially and does not require capital injection by the Company after Completion. As such, there is no concern about the recovery of capital already injected or investment already made into the Target Group after Completion if the Second Exit Clause is triggered.

Based on the above, the Board is of the view that the terms of the Acquisition are fair and reasonable and in the interests of the Company and its shareholders as a whole.

Listing Rules implications

The Company would like to clarify that the Exit Clauses are part of the terms of the Agreement and therefore the relevant Listing Rules requirements for the potential return of the Sale Share to the Vendor have already been complied with under the current discloseable transaction.

This announcement is supplemental to and should be read in conjunction with the Announcement. Save as specified herein, the above supplemental information does not affect other information and contents set out in the Announcement.

Expert and consent

The qualifications of the expert who has given its statement in this announcement is as follows:

Name	**Qualification**
Elite Partners	Certified Public Accountants

As at the date of this announcement, Elite Partners does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities in any member of the Group. It has given and has not withdrawn its written consent to the publication of this announcement with inclusion of its letter and all references to its name in the form and context in which they respectively appear.

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

Hong Kong, 15 November 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 purpose only*

Appendix I – Letter from Elite Partners

The following is the text of a letter received from the Company's auditors, Elite Partners CPA Limited, for inclusion in this announcement.

15 November 2023

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,

China Health Group Limited (the "Company")
and its subsidiaries (collectively referred to herein as the "Group")
Comfort letter on the Financial Projections

We have been engaged to report on the arithmetical calculations of the Financial Projections of Jinmei Developments Limited (the "**Target Company**") and its subsidiaries (the "**Target Group**") (the "**Financial Projections**") used in relation to the acquisition of 100% equity interest in the Target Company.

The Financial Projections are regarded as a profit forecast under paragraph 61 of Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibility for the Financial Projections

The Directors of the Company are solely responsible for the Financial Projections, which were prepared by the directors of the Target Company in accordance with the bases and assumptions as set out in the Financial Projections. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of the Financial Projections and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

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 Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Management 1 "Quality Management 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 Accountant's Responsibility

Our responsibility is to report, as required by paragraph 62(2) of Chapter 14 of the Listing Rules, on the arithmetical calculations of the Financial Projections.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the Financial Projections, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions as set out in the Financial Projections. We have re-performed the arithmetical calculations and compared the compilation of the Financial Projections with the bases and assumptions.

We are not reporting on the appropriateness and validity of the bases and assumptions on which the Financial Projections are based and our work does not constitute any valuation of the Target Group or an expression of an audit or review opinion on the Financial Projections.

The Financial Projections do not involve the adoption of accounting policies. The Financial Projections depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 62(2) of Chapter 14 of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

Opinion

Based on the foregoing, in our opinion, the Financial Projections, so far as the arithmetical calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions as set out in the Financial Projections.

Yours faithfully,

Elite Partners CPA Limited
Certified Public Accountants
Hong Kong

Appendix II – Letter from the Board

15 November 2023

Listing Division
The Stock Exchange of Hong Kong Limited
12/F, Two Exchange Square
8 Connaught Place
Central
Hong Kong

Dear Sirs,

Discloseable transaction in relation to the acquisition of 100% equity interest in Jinmei Developments Limited

We refer to the announcements of the China Health Group Limited (the "**Company**") dated 12 October 2023 and 15 November 2023 in relation to the captioned transaction (the "**Announcements**"). Capitalised terms used herein shall have the same meaning as those defined in the Announcements unless otherwise specified.

We refer to the Financial Projections prepared by the Target Group which are regarded as profit forecast under Rule 14.61 of the Listing Rules. We have reviewed the bases and assumptions upon which the Financial Projections are based, and considered the letter from the Company's auditors, Elite Partners CPA Limited, confirming that the Financial Projections, so far as the arithmetical calculations are concerned, have been properly compiled in all material respects in accordance with the bases and assumptions as set out in the Financial Projections. Based on the above, we are of the view that the Financial Projections were made after due and careful enquiry.

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