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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)

**(1) UPDATE ON DISCLOSEABLE TRANSACTION RELATING
TO THE ACQUISITION OF 51% EQUITY INTEREST
IN THE TARGET COMPANY;
(2) TERMINATION NOTICE; AND
(3) DISCLOSEABLE AND CONNECTED TRANSACTION RELATING
TO THE DISPOSAL OF A NON-WHOLLY OWNED SUBSIDIARY**

INTRODUCTION

Reference is made to the announcements of the Company dated 6 February 2023, 26 April 2023, 31 May 2023 and 16 June 2023 in relation to the acquisition of 51% equity interest in the Golden Alliance Limited involving the issue of shares under general mandate (the “**Announcements**”). Capitalised terms used herein have the same meanings as defined in the Announcements unless the context otherwise requires.

As disclosed in the Announcements, 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. Subsequently, the Completion took place on 16 June 2023.

Pursuant to the Agreement, the Vendors have jointly and severally guaranteed to the Purchaser that the Actual Profit shall be no less than the Guaranteed Profit. According to the Audited Financial Statements for FY2024 prepared by the Independent Auditor (details of which are disclosed in the section titled “AUDITED FINANCIAL STATEMENTS FOR FY2024”), the Target Group incurred a net loss of approximately RMB6,332,000 for the year ended 31 March 2024, i.e. the Actual Profit for FY2024 is RMB-6,332,000 (equivalent to approximately HK\$-6,838,560), falling short of the Guaranteed Profit for FY2024 and the specified amount (i.e. RMB12,000,000) under the Exit Clauses.

The Board announces that after careful consideration, the Purchaser decided to exercise the right to terminate under the Agreement with immediate effect under the Exit Clauses. On 23 April 2024 (after trading hours), the Purchaser issued the Termination Notice pursuant to terms of the Agreement.

AUDITED FINANCIAL STATEMENTS FOR FY2024

As disclosed in the Announcements, the parties are required to 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.

Elite Partners CPA Limited (the “**Independent Auditor**”) was appointed as the independent auditor for preparation of the Audited Financial Statements for FY2024.

The Board wishes to bring to the attention of the Shareholders that, according to the independent auditor’s report of the Audited Financial Statements for FY2024, the Independent Auditor do not express an opinion on the consolidated financial statements of the Target Group. The Independent Auditor has not been able to express an audit opinion because of the significance of the matters described in the Basis for Disclaimer of Opinion, which is summarised as follows:

The Target Group incurred a net loss of approximately RMB6,332,000 for FY2024, and as of 31 March 2024, the Target Group’s net liabilities was approximately RMB5,863,000. The Independent Auditor opines that these conditions along with other matters indicate that a material uncertainty exists that may cast significant doubt on the Target Company’s ability to continue as a going concern.

The Audited Financial Statements for FY2024 have been prepared on the assumption that the Target Group will continue as a going concern, the validity of which is dependent on the favourable outcomes of the steps being taken by the director of the Target Company. However, the Independent Auditor was unable to obtain sufficient audit evidence to assess the appropriateness and validity of the going concern assumption.

The Board is of the view that the Independent Auditor's disclaimer of opinion as described above will have no impact on the Purchaser's right to terminate under the Agreement with immediate effect under the Exit Clauses.

TERMINATION NOTICE

The principal terms of the Termination Notice are summarised as follows:

Date

23 April 2024 (after trading hours)

Parties

- Senders:**
- (i) Long Heng Investments Limited, a wholly-owned subsidiary of the Company (being the Purchaser of the Agreement); and
 - (ii) the Company (being the Purchaser Guarantor of the Agreement).
- Recipients:**
- (iii) Double Bliss Investments Limited (being the First Vendor of the Agreement);
 - (iv) Mr. Zhou Wang (being the Second Vendor of the Agreement);
 - (v) Alpha Success International Limited (being the Third Vendor of the Agreement);
 - (vi) Ms. Tse Yuk Lan (being the First Vendor Guarantor of the Agreement); and
 - (vii) Mr. Ho Pei Lin (being the Third Vendor Guarantor of the Agreement).

Assets to be disposed

Pursuant to the Agreement, in the event that the Purchaser exercises its rights under the Exit Clauses, the Purchaser shall, among others, return the Sale Shares to the Vendors and any related costs shall be borne by the Vendors.

Further information of the Target Group and the Sale Shares has been disclosed in the Announcements.

Consideration and Terms of Payment

As disclosed in the Announcements, the Agreement provides that in the event where the Actual Profit for FY2024 is less than RMB12,000,000 (including cases where the Actual Profit for FY2024 is nil or negative):–

- (i) the Purchaser has the right to reduce the First Consideration in accordance with the First Adjustment. Since the Actual Profit for FY2024 is negative, the First Consideration after First Adjustment is nil;
- (ii) concurrently, the Purchaser shall have the right (but not the obligation) to terminate the Agreement with immediate effect, whereby the Purchaser, among others, is not required to pay any Consideration to the Vendors (including repaying the Promissory Notes and issuing the Consideration Shares).

As mentioned above, the Target Group incurred a net loss of approximately RMB6,332,000 for FY2024. Given the substantial variance from the threshold of RMB12,000,000, the Purchaser elects to exercise its right to terminate under the Agreement with immediate effect by way of the Termination Notice, which allows the Company to mitigate potential further financial risks. The Board is of the view that (i) the Vendors and the Guarantors have not fulfilled its obligations under the Profit Guarantee and (ii) the decision to exercise such right to return the Sale Shares to the Vendors is fair and reasonable and in the interests of the Shareholders as a whole.

As a result, the Company shall no longer be obliged to issue any Consideration Shares and the Promissory Notes issued by the Company on the Completion Date shall be cancelled and nullified with immediate effect from the date of the Termination Notice, whereby the Purchaser and the Company shall be fully and absolutely discharged and released from all liabilities and obligations for the repayment of any amount of principal payable under the Promissory Notes.

For the avoidance of doubt, no payment has been made by the Company under the Promissory Notes as of the date of this announcement.

Sale Shares Return

Pursuant to the Agreement, where the Sale Shares Return has been completed, the Agreement and the obligations of the Purchaser and the Company thereunder shall cease and determine.

Upon the completion of the Sale Shares Return, Golden Alliance Limited will cease to be a subsidiary of the Company, and the Company will cease to hold any interest in the Target Group.

FINANCIAL INFORMATION OF THE TARGET GROUP

A summary of the audited consolidated financial information of the Target Group for FY2024, 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:

	For the year ended 31 March 2024 RMB'000 (Audited)	For the month ended 31 January 2023 RMB'000 (Unaudited)	For the period from 14 October 2022 to 31 December 2022 RMB'000 (Unaudited)
Revenue	–	680	187
Profit/(loss) before and after tax	(6,332)	82	(158)

The audited consolidated net liabilities of the Target Group as at 31 March 2024 was approximately RMB5,863,000.

REASONS AND BENEFITS OF THE DISPOSAL

As the Target Group incurred a net loss of approximately RMB6,332,000 for the year ended 31 March 2024 which had substantial variance from the Guaranteed Profit for FY2024, the Disposal enables the Company to mitigate potential further financial risks. Besides, the Disposal is beneficial to the Company in optimizing the allocation of resources which is conducive to the Group's ability to manage risks and achieve long-term stable and healthy development.

The Company expects that there is no gain or loss of the Disposal.

In light of the above, the Board (including independent non-executive Directors) considers the Disposal to be fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business, and in the interests of the Company and the Shareholders as a whole. No Director had a material interest in the transactions contemplated under the Disposal.

INFORMATION OF THE GROUP AND THE VENDORS

The Group is primarily engaged in the distribution of medical equipment and consumables and provision of related services, provision of hospital operation and management service and business factoring.

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.

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

LISTING RULES IMPLICATIONS

The return of the Sale Shares to the Vendors constitutes a disposal of assets of the Company under Chapter 14 of the Listing Rules (the “**Disposal**”).

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the Disposal are more than 5% but are all less than 25%, the Disposal 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.

Prior to the Sale Shares Return, the First Vendor owns, the First Vendor Guarantor indirectly owns and the Second Vendor owns 22.05%, 22.05% and 17.15% of the issued share capital of the Target Company, a subsidiary of the Company. Accordingly, the First Vendor, the First Guarantor and the Second Vendor are connected persons of the Company at the subsidiary level. Therefore, the Disposal also constitute a connected transaction under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.101 of the Listing Rules, as the Board has approved the Disposal and the independent non-executive Directors have confirmed that the terms of the Disposal are fair and reasonable and on normal commercial terms or better and the Disposal is in the interests of the Company and the Shareholders as a whole, the Disposal is exempt from the circular, independent financial advice and shareholders’ approval requirements.

By Order of the Board
China Health Group Limited
Zhang Fan

Chairman of the Board and Executive Director

Hong Kong, 23 April 2024

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.