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
IN RELATION TO
(1) ACQUISITION AGREEMENT IN RELATION TO ACQUISITION OF 51% EQUITY INTEREST IN THE TARGET COMPANY;
(2) PROVISION OF LOANS TO THE TARGET COMPANY;
AND
(3) REMEDIAL MEASURES

Reference is made to the announcements of the Company dated 2 December 2022 in respect of the Framework Agreement, 6 February 2023 in respect of the Acquisition Agreement, and 23 April 2024 in respect of the Termination and the Disposal.

As set out in the announcement dated 6 February 2023, the Acquisition was classified as a discloseable transaction of the Company for the purpose of the announcement. In assessing the size tests of the Acquisition, the Company had made an inadvertent oversight in the requirement of the aggregation rules under Rule 14.22 of the Listing Rules in respect of a loan that had been made to the PRC Company prior to the date of the Acquisition Agreement, i.e. the Initial Loan. Taking into account the Initial Loan, the Acquisition should have constituted a major transaction of the Company at the date of the Acquisition Agreement and been subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

Subsequent to the Acquisition Agreement, the Group provided the Additional Loans to the PRC Company prior to completion of the Acquisition on 16 June 2023. The Additional Loans, when aggregated with the Initial Loan and the Acquisition under Rule 14.22 of the Listing Rules, the classification of these three transactions together would remain as a major transaction of the Company.

As a result of the mistaken classification of the Acquisition, the Company had not disclosed the relevant information about the Initial Loan in the Acquisition Announcement. The information in respect of the Initial Loan, Additional Loans and other relevant information are set out below in this announcement.

THE ACQUISITION AGREEMENT

On 6 February 2023, the Purchaser and the Vendors entered into the Acquisition Agreement for the sale and purchase 51% aggregate equity interest in the Target Company.

PROVISION OF THE INITIAL LOAN AND ADDITIONAL LOANS

On 2 December 2022, the Company and the PRC Company entered into the Framework Agreement pursuant to which the parties intended to explore potential cooperation opportunities, details of which are set out in the announcement of the Company dated 2 December 2022. On 5 December 2022, the Group provided the Initial Loan of RMB4.0 million (equivalent to approximately HK$4.4 million) to the PRC Company.

Following the entering into of the Acquisition Agreement, during March to June 2023, Zhongwei Finance and the PRC Company entered into the Additional Loan Agreements for the provision of the Additional Loans in an aggregate amount of RMB4.7 million (equivalent to approximately HK$5.2 million) to the PRC Company.

LISTING RULES IMPLICATIONS

In light of the timing of the provision of the Initial Loan by the Group to the PRC Company prior to the date of the Acquisition Agreement, pursuant to Rule 14.22 of the Listing Rules, the Acquisition should have been aggregated with the provision of the Initial Loan for the purpose of the size test calculations. As one or more of the applicable percentage ratios in respect of the Acquisition, when aggregated with the Initial Loan, exceeded 25% but was less than 100%, the Acquisition should have been classified as a major transaction instead of a discloseable transaction.

The mistaken classification of the Acquisition was caused by an inadvertent oversight of the application of Rule 14.22 of the Listing Rules and, because of this, the Company had not disclosed the relevant information about the Initial Loan in the Acquisition Announcement.

Given that (i) the Acquisition and the Disposal had already been completed; and (ii) the grant of the Initial Loan and Additional Loans had already become effective, the Company will not convene a general meeting to seek ex-post facto approval from the Shareholders and, accordingly, no circular will be despatched in respect of the Acquisition and the Loans.

REMEDIAL MEASURES

In order to avoid the recurrence of similar events in the future, the following remedial measures have been/will be taken by the Group to ensure that the Listing Rules are strictly complied with:

(i) a training session on the requirements under Chapter 14 of the Listing Rules by a Hong Kong legal firm for the Directors, senior management and relevant staff of the Group has been conducted on 21 February 2025;

(ii) the Company has hired professional consultants to review its internal controls in respect of compliance with the Listing Rules and, subject to the results of such review, provide recommendations to enhance the Company's internal control procedures in this regard, with a view to ensuring an effective and sufficient internal control procedures for the Group. The review is expected to be completed and the findings and recommendations, if any, shall be provided to the board of Directors by 30 April 2025. Subject to their review thereof, the Directors shall implement the enhancements to the internal controls of the Group as appropriate. Further announcement(s) will be made by the Company upon completion of the internal control review of the Group; and

(iii) the Company will arrange regular training by a Hong Kong legal firm for the relevant staff in order to refresh their knowledge and skills and keep abreast of the Listing Rules requirements.

INTRODUCTION

Reference is made to the announcements of the Company dated 2 December 2022 in respect of the Framework Agreement, 6 February 2023 in respect of the Acquisition Agreement (the "**Acquisition Announcement**"), and 23 April 2024 in respect of the Termination and the Disposal.

As set out in the Acquisition Announcement, the Acquisition was classified as a discloseable transaction of the Company for the purpose of the announcement. In assessing the size tests of the Acquisition, the Company had made an inadvertent oversight in the requirement of the aggregation rules under Rule 14.22 of the Listing Rules in respect of a loan that had been made to the PRC Company prior to the date of the Acquisition Agreement, i.e. the Initial Loan. Taking into account the Initial Loan, the Acquisition should have constituted a major transaction of the Company at the date of the Acquisition Agreement and been subject to the reporting, announcement and shareholders' approval requirements under the Listing Rules.

Subsequent to the Acquisition Agreement, the Group provided the Additional Loans to the PRC Company prior to completion of the Acquisition on 16 June 2023. The Additional Loans, when aggregated with the Initial Loan and the Acquisition under Rule 14.22 of the Listing Rules, the classification of these three transactions together would remain as a major transaction of the Company.

As a result of the mistaken classification of the Acquisition, the Company had not disclosed the relevant information about the Initial Loan in the Acquisition Announcement. The information in respect of the Initial Loan, Additional Loans and other relevant information are set out below in this announcement.

Given that (i) the Acquisition and the Disposal had already been completed; and (ii) the grant of the Initial Loan and Additional Loans had already become effective, the Company will not convene a general meeting to seek ex-post facto approval from the Shareholders and, accordingly, no circular will be despatched in respect of the Acquisition and the Loans.

SUMMARY OF EVENTS

On 2 December 2022, the Company and the PRC Company entered into the Framework Agreement pursuant to which the parties intended to explore potential cooperation opportunities, details of which are set out in the announcement of the Company dated 2 December 2022. On 5 December 2022, the Group provided the Initial Loan of RMB4.0 million (equivalent to approximately HK$4.4 million) to the PRC Company.

On 6 February 2023, the Purchaser and the Vendors entered into the Acquisition Agreement for the sale and purchase of 51% aggregate equity interest in the Target Company, details of which are set out in the Acquisition Announcement. The Acquisition Agreement was subject to certain conditions precedent.

Due to unexpected delays, the Acquisition Agreement was not completed until 16 June 2023. In anticipation of the Company becoming the majority shareholder of the Target Group, on 5 March, 9 May, 23 May and 1 June 2023, the Group provided the Additional Loans to the PRC Company in the aggregate amount of RMB4.7 million (equivalent to approximately HK$5.2 million) to prepare the Target Group's operational readiness (details of which are set out in the section headed "Reasons for the Acquisition and provision of the Initial Loan and Additional Loans" below). Upon completion, the members of the Target Group, including the PRC Company, became indirect 51%-owned subsidiaries of the Company, and the Initial Loan and Additional Loans were recorded as intragroup transactions of the Group.

Between 16 June 2023 and 1 August 2023, the Group made further Shareholder's Loans to the PRC Company in the aggregate amount of RMB3.6 million (equivalent to approximately HK$3.9 million) for the business development and working capital needs.

The PRC Company failed to meet the profit targets set out in the Acquisition Agreement and, on 23 April 2024, the Purchaser exercised its Termination Right under the Acquisition Agreement and returned the Sale Shares to the Vendors, i.e. the Disposal. Pursuant to the Termination, (i) the Purchaser was not required to pay any Consideration to the Vendors (including repaying the Promissory Notes and issuing the Consideration Shares); and (ii) the Purchaser returned the Sale Shares to the Vendors, i.e. the Disposal. Upon completion of the Disposal, the members of the Target Group ceased to be subsidiaries of the Company and the financial results, assets and liabilities of the Target Group were no longer consolidated to the financial statements of the Group. Accordingly, the Loans were recorded as loans and interest receivable due from the PRC Company to the Group.

BACKGROUND OF THE INITIAL LOAN AND ACQUISITION

In September 2022, the Company became acquainted with the management of the PRC Company (the "**Target Management**"), which had over 10 years of experience in the pharmaceutical distribution sector. The Target Management had been in cooperation with different pharmaceutical research and development teams and manufacturers for distribution and marketing of their pharmaceutical products, including a research and development team focused on developing ophthalmic eye drops in the PRC (the "**Supplier Team**").

The Supplier Team had launched its first-generation eye drops in 2020. Subsequently, the Target Management had cooperated with the Supplier Team in launching its second-generation non-pharmaceutical eye drops in 2021. The Target Management was involved in the distribution of the second-generation of eye drops under the "Sinopharm Group (國藥集團)" brand name, with sales of about RMB78.0 million (equivalent to approximately HK$85.9 million).

Building on the successful launch of the second-generation products and with the support of the local government of Enshi City (a city in Hubei Province which is rich in selenium resources), the Target Management and the Supplier Team were prepared to have a closer business cooperation to develop and launch a third-generation eye drops – selenium-rich eye drops products in pharmaceutical form to be brand-named Ximuming Eye Drops（希目明滴眼劑）(i.e. the Products), by way of business alliance, whereby the Target Management would be the exclusive distributor and responsible for launching, marketing, distribution and sale of Ximuming Eye Drops and other ophthalmic Products, and the Supplier Team will be responsible for the development and production of the Products to be sold by the exclusive distributor. To this end, in November 2022, the Target Management formed the PRC Company to principally engage in distribution and marketing of the Products while the Supplier Team formed the Supplier to embark on the development and production of the Products.

On 26 November 2022, the PRC Company and the Supplier entered into the Exclusive Distribution Agreement, pursuant to which the Supplier granted to the PRC Company, among others, the exclusive rights to the Products and any other selenium-rich eye products developed by the Supplier for a period of 10 years commencing from January 2023 and up to December 2032.

In consideration of granting exclusive distribution rights for the Products, the PRC Company agreed to provide financial support to the Supplier in the form of loans in the aggregate amount of RMB5.0 million (equivalent to approximately HK$5.5 million) over a number of tranches. The purpose of these loans was to assist the Supplier in initiating its business operations, including establishing production facilities and working capital associated with manufacturing the Products. This arrangement aimed to ensure the Supplier had the necessary resources to meet production demands and fulfil its obligations under the Exclusive Distribution Agreement.

To explore potential cooperation opportunities, on 2 December 2022, the Company and the PRC Company entered into the Framework Agreement. On 5 December 2022, the Group entered into the Initial Loan Agreement to provide the Initial Loan to the PRC Company, detailed of which are set out in the section headed "Reasons for the Acquisition and provision of the Initial Loan and Additional Loans" below.

Subsequently on 6 February 2023, the Purchaser and the Vendors entered into the Acquisition Agreement, details of which are set out below.

THE ACQUISITION AGREEMENT

On 6 February 2023, the Purchaser and the Vendors entered into the Acquisition Agreement for the sale and purchase 51% aggregate equity interest in the Target Company.

Principal terms of the Acquisition Agreement

The principal terms and details of the Acquisition Agreement are set out in the Acquisition Announcement, a summary of which is set out below.

Date

6 February 2023

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（隆恒投資有限公司）, a direct and wholly-owned subsidiary of the Company (as the Purchaser); and

(vii) the Company (as the Purchaser Guarantor)

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of the Acquisition Agreement, the Vendors and their ultimate beneficial owners and the Vendor Guarantors were Independent Third Parties.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Vendors had conditionally agreed to sell, and the Purchaser had conditionally agreed to acquire, the Sale Shares, representing 51% of the issued share capital of the Target Company as at the completion of the Acquisition.

Consideration

The Consideration for the Sale Shares was HK$153,000,000, subject to certain adjustments pursuant to the terms and conditions of the Acquisition Agreement (the "**Adjustments**").

The Consideration would be satisfied by the Company in the following manner:

(i) as to HK$47,125,000 by way of the issue of the First Promissory Note and the Second Promissory Note in the amount of HK$23,562,500 and HK$23,562,500, respectively, to the First Vendor on the date of completion of the Acquisition. The First Promissory Note and Second Promissory Note shall mature in 12 and 24 months, respectively. The repayment amount of the Promissory Notes upon their maturity are subject to the Adjustments;

(ii) as to HK$52,937,500 by way of the allotment and issue of the First Consideration Shares, being up to 43,750,000 new Shares, subject to the Adjustments, at the Issue Price of HK$1.21 per share by the Company to the Vendors within fourteen (14) days after the issue of the audited consolidated financial Statements of the Target Group for the year ended 31 March 2024; and

(iii) as to HK$52,937,500 by way of the allotment and issue of the Second Consideration Shares, being up to 43,750,000 new Shares, subject to the Adjustments, at the Issue Price to the Vendors within fourteen (14) days after the issue of the audited consolidated financial statements of the Target Group for the year ending 31 March 2025.

Details of the Consideration, including, among others, the Promissory Notes, the Consideration Shares and the Issue Price, are set out in the Acquisition Announcement.

Profit guarantee and the Adjustments to the Consideration

Pursuant to the Acquisition Agreement, the Vendors jointly and severally guaranteed to the Purchaser that the audited consolidated net profit after tax to be recorded by the Target Group for each of the years ended 31 March 2024 and 2025 (the "**Actual Profit**") shall be no less than the following amounts (the "**Guaranteed Profit**"):

	Guaranteed Profit *RMB*
For the year ended 31 March 2024	35,000,000 (equivalent to approximately HK$38,500,000)
For the year ending 31 March 2025	47,000,000 (equivalent to approximately HK$51,700,000)

In the event that the Actual Profit for the year ended 31 March 2024 is less than RMB12,000,000, the Purchaser shall have the right (but not the obligation) to terminate the Acquisition Agreement with immediate effect, whereby (i) the Purchaser is not required to pay any Consideration to the Vendors (including repaying the Promissory Notes and issuing the Consideration Shares); and (ii) the Purchaser shall return the Sale Shares to the Vendors and any related costs shall be borne by the Vendors, i.e. the Termination. Where the return of the Sale Shares to the Vendors 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.

For the avoidance of doubt, in the event that the Actual Profit for the year ended 31 March 2024 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.

Details of the determination of the Guaranteed Profit and the mechanisms of the Adjustments are set out in the Acquisition Announcement.

Conditions precedent

Completion of the Acquisition was conditional upon fulfilment or waiver (as the case may be) of the conditions precedent to the Acquisition Agreement, details of which are set out in the Acquisition Announcement.

Completion

Completion shall take place on the tenth (10th) 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.

UNEXPECTED DELAY IN THE COMPLETION OF THE ACQUISITION AND BACKGROUND OF THE ADDITIONAL LOANS

Completion of the Acquisition was delayed due to unexpected delay in timely fulfilment of certain conditions precedent to the Acquisition Agreement including (i) the PRC Company obtaining the pharmaceutical business permit（藥品經營許可證）from 湖北省市場監督管理局 (Administration for Market Regulation of Hubei Province) (the "**PRC Company Business Permit Condition**"); and (ii) the Supplier obtaining the pharmaceutical production permit（藥品生產許可證）for the Products (the "**Supplier Production Permit Condition**").

At the time of the Acquisition Agreement, it was expected that both the PRC Company and the Supplier could obtain the relevant permits by end of March 2023 and completion of the Acquisition would take place thereafter. However, completion of the Acquisition was delayed as a result of the following:

(i) the approval process for the Supplier's pharmaceutical production permit took longer than originally anticipated, as the responsible government authorities required additional time to complete their review and inspection. Between April and May 2023, the authorities conducted inspections of the production line and the Products following a trial run, as part of the approval process for the Supplier as stipulated under the Supplier Production Permit Condition; and

(ii) regarding the PRC Company's pharmaceutical business permit, the approval process had been much delayed due to unforeseen change of executive policy of the local authority which governs the pharmaceutical distribution sector in Hubei subsequent to the date of the Acquisition Agreement. Under the new executive policy, the grant of pharmaceutical business permit involving operations without self-owned warehouse facilities had been temporarily suspended. However, the original business plan of the PRC Company was based on setting up of warehousing facilities in rental properties. In the circumstances, the executive policy change had delayed the application process for the PRC Company as stipulated under the PRC Company Business Permit Condition.

Delays in the completion of the Acquisition led to unforeseen challenges, including delays in the expected cash inflows from the operations of the Target Group and the Supplier. This unexpected situation created a financial shortfall that needed to be resolved to maintain momentum in setting up the necessary business infrastructure.

In anticipation of the Company becoming the majority shareholder of the Target Group, the Company considered it would be in the interest of the Group to ensure continued progress and support the Target Group and the Supplier in their preparation for operational readiness. Accordingly, during March to June 2023, the Group provided the Additional Loans in an aggregate amount of RMB4.7 million (equivalent to approximately HK$5.2 million) to the PRC Company.

On 15 June 2023, the pharmaceutical production permit was issued to the Supplier. This would allow the Supplier to manufacture, distribute and sell the Products. On the other hand, due to the executive policy change as mentioned above, the pharmaceutical business permit had yet to be issued to the PRC Company. In response to this, an alternative business model was adopted for the PRC Company under which the Supplier sold the Products directly to customers referred to them by the PRC Company and in return paid the PRC Company commission fee at the rate equivalent to the profit margin that the PRC Company would otherwise have obtained under the Exclusive Distribution Agreement.

Given the alternative business model made available to the PRC Company as mentioned above, the Group had decided to waive the PRC Company Business Permit Condition in order to proceed to completion of the Acquisition. On 16 June 2023, the Acquisition was completed and the PRC Company became an indirect 51%-owned subsidiary of the Company. The Initial Loan and Additional Loans were recorded as intragroup transactions of the Group.

INFORMATION OF THE TARGET GROUP AND THE PRC COMPANY

Details of the Target Group are set out in the Acquisition Announcement, a summary of which is set out below. Financial information of the Target Group is also set out in the Acquisition Announcement.

The Target Group comprised the Target Company, the HK Company and the PRC Company. The Target Company is a company incorporated in Samoa on 14 October 2022 with limited liability and the sole shareholder of the HK Company. The HK Company is a company incorporated in Hong Kong on 26 October 2022 with limited liability and the sole shareholder of the PRC Company. The PRC Company is a company incorporated in the PRC on 24 November 2022 with limited liability.

The PRC Company is based in Hubei, the PRC, and principally engaged in marketing and distribution of pharmaceutical products in the PRC, primarily selenium-rich eye drops products in pharmaceutical form under the brand name of Ximuming Eye Drops. It was the exclusive distributor of the Products which were manufactured by the Supplier under the Exclusive Distribution Agreement for the exclusive distribution right to the Products on 26 November 2022.

Since completion of the Acquisition, operation of the PRC Company had been operating under the alternative business model as mentioned above. The Products were launched in August 2023. Nevertheless, the Target Group failed to meet the Guaranteed Profit for the year ended 31 March 2024. On 23 April 2024, the Purchaser exercised its Termination Right to terminate the Acquisition Agreement and returned the Sale Shares to the Vendors, details of which are set out in the section headed "The Termination and the Disposal" below.

PROVISION OF THE INITIAL LOAN AND ADDITIONAL LOANS

The Initial Loan

Following the entering into of the Framework Agreement, as part of the initiatives to establish cooperation with the PRC Company, on 5 December 2022, Zhongwei Finance, a wholly-owned subsidiary of the Company, and the PRC Company entered into the Initial Loan Agreement for the provision of the Initial Loan of RMB4.0 million (equivalent to approximately HK$4.4 million) to the PRC Company. The purpose of the Initial Loan was to support the PRC Company in launching its business operations, including establishing business premises equipped with warehouse storage for pharmaceutical products, the implementation of an information technology system, and recruitment of qualified pharmaceutical personnel.

Set out below is a summary of the Initial Loan Agreement and its principal terms:

Parties

(i) Zhongwei Finance, a wholly-owned subsidiary of the Company, as the lender; and

(ii) the PRC Company, as the borrower.

Principal terms of the Initial Loan Agreement

Date of loan agreement	**Date of drawdown**	**Principal amount** *RMB*	**Interest rate** *per annum*	**Maturity date**
5 December 2022	6 December 2022	4,000,000	8%	5 June 2023

The Initial Loan was unsecured and unguaranteed.

The Additional Loans

Following the entering into of the Acquisition Agreement, in anticipation of the Company becoming the majority shareholder of the Target Group, the Company considered it would be in the interest of the Group to ensure continued progress and support the Target Group and the Supplier in their preparation for operational readiness. Accordingly, during March to June 2023, Zhongwei Finance and the PRC Company entered into the Additional Loan Agreements for the provision of the Additional Loans in an aggregate amount of RMB4.7 million (equivalent to approximately HK$5.2 million) to the PRC Company.

Set out below is a summary of the Additional Loan Agreements and their respective terms:

Parties

(i) Zhongwei Finance, a wholly-owned subsidiary of the Company, as the lender; and

(ii) the PRC Company, as the borrower.

Principal terms of the Additional Loan Agreements

Date of loan agreement	Date of drawdown	Principal amount *RMB*	Interest rate *per annum*	Maturity date
5 March 2023	6 March 2023	3,000,000	8%	5 September 2023
9 May 2023	9 May 2023	500,000	8%	8 November 2023
23 May 2023	23 May 2023	500,000	8%	22 November 2023
1 June 2023 *(Note)*	6 June 2023	700,000	8%	5 December 2023
	Total	**4,700,000**		

Note: Under the Additional Loan Agreement dated 1 June 2023, the Group agreed to provide the Additional Loan in the principal amount of RMB4.1 million to the PRC Company, of which RMB0.7 million was drawn down prior to the completion of the Acquisition and the remaining RMB3.4 million was drawn down after completion. Accordingly, the first drawdown of RMB0.7 million is included in the Additional Loans, and the subsequent drawdowns of RMB3.4 million is included in the Shareholder's Loans.

The Additional Loans were unsecured and unguaranteed.

REASONS FOR THE ACQUISITION AND PROVISION OF THE INITIAL LOAN AND ADDITIONAL LOANS

The Acquisition

The reasons for and benefits of the Acquisition are set out in the Acquisition Announcement, a summary of which is set out below.

The Target Group was primarily engaged in the distribution and marketing of pharmaceutical and related products and operated by an experienced management team. The Target Group had obtained long-term exclusive distribution rights to the Products in the PRC and had already secured sales agreements for the supply thereof. At the time, the Company considered that the Acquisition would allow it to further expand the coverage of its medical distribution business and diversify its product portfolio from medical equipment to medicines.

The integration of resources and complementary advantages of both the Group and the Target Group was considered to be conducive to the rapid development of the Company and the Target Group was expected to generate new sustainable revenue streams for the Group.

The Initial Loan

The circumstances leading to the provision of the Initial Loan are detailed in the section headed "Background of the Initial Loan and Acquisition" above.

The Directors considered the provision of the Initial Loan as a strategic initiative to meet the financial needs of both the PRC Company and the Supplier for setting up their business operations. The Initial Loan was intended to facilitate the timely commencement of manufacturing by the Supplier and distribution of the Products by the PRC Company. The six-month loan term was structured with the then expectation that the PRC Company would generate sufficient cash flow to repay the Initial Loan upon commencing operations. The terms of the Initial Loan Agreement were arrived at by the Group and the PRC Company after arm's length negotiations and were on normal commercial terms. Having considered the above at the material time, the Directors considered that the terms of the Initial Loan Agreement were fair and reasonable and the provision of the Initial Loan to the PRC Company was in the interest of the Company and the Shareholders as a whole.

The Additional Loans

The circumstances leading to the provision of the Additional Loans are detailed in the section headed "Unexpected delay in the completion of the Acquisition and background of the Additional Loans" above.

In considering the provision of the Additional Loans, the Directors had evaluated the circumstances surrounding the unexpected delays in the completion of the Acquisition, which had impacted the timeline for the planned mass-market launch of the Products. In the circumstances, in anticipation that the Target Group would soon become subsidiaries of the Group, the Directors had taken the view that it would be in the interests of the Group to keep the Target Group going and ready for commencement of its planned marketing and sale initiatives. The terms of the respective Additional Loan Agreements were arrived at by the Group and the PRC Company after arm's length negotiations and were on normal commercial terms. Having considered the above at the material time, the Directors considered that the terms of the respective Additional Loan Agreements were fair and reasonable and the provision of the respective Additional Loans to the PRC Company was in the interest of the Company and the Shareholders as a whole.

THE TERMINATION AND THE DISPOSAL

The Target Group recorded a net loss of approximately RMB6.3 million (equivalent to approximately HK$7.0 million) for the year ended 31 March 2024 primarily due to the delay in the launch of the Products which had adversely impacted the revenue of the PRC Company for the year. Considering the additional financing required to sustain the PRC Company's workforce and implement further marketing campaigns, the Company considered that retaining the Target Group would involve significant financial risks. After careful consideration at the material time, the Directors decided that exercising the Termination Right to terminate the Acquisition Agreement would be the most prudent course of action to safeguard the interests of the Company and its shareholders while minimising further financial burden. Accordingly, on 23 April 2024, the Purchaser exercised its Termination Right for the Termination.

Pursuant to the Termination, (i) the Purchaser was not required to pay any Consideration to the Vendors (including repaying the Promissory Notes and issuing the Consideration Shares); and (ii) the Purchaser returned the Sale Shares to the Vendors, i.e. the Disposal.

Upon completion of the Disposal, the Acquisition Agreement and the obligations of the Purchaser and the Purchaser Guarantor thereunder ceased and determined. The members of the Target Group were no longer subsidiaries of the Company and the financial results, assets and liabilities of the Target Group were no longer consolidated to the financial statements of the Group. Accordingly, the Loans were recorded as loans and interest receivable due from the PRC Company to the Group.

At the time of the Disposal, the Company noted the following:

(i) all of the Loans were due and payable due to the unexpected delay in completion of the Acquisition which led to unforeseen challenges, including delays in the expected cash inflows from the operations of the Target Group and the Supplier, as detailed in the section headed "Unexpected delay in the completion of the Acquisition and background of the Additional Loans" above;

(ii) as at 31 March 2024, the PRC Company recorded net liabilities of approximately RMB5.9 million (equivalent to approximately HK$6.5 million). This included the aggregate outstanding principal and interest in respect of the Loans of approximately RMB12.8 million (equivalent to HK$14.0 million). Excluding the Loans, the PRC Company would record imputed net assets of approximately RMB6.9 million (equivalent to approximately HK$7.5 million) as at such date;

(iii) the Target Group and the Supplier were continuing with their business initiatives; and

(iv) the Loans were unsecured and were provided to the PRC Company by the Group as a majority shareholder.

In light of the above, at the time of the Disposal, the Company considered, on balance, it should afford the PRC Company and the Supplier reasonable time for their operations to gain traction and generate business and sales in order to repay the Loans to the Group, before taking any drastic legal actions to force closing of the PRC Company.

Details of the Termination and the Disposal are set out in the announcement of the Company dated 23 April 2024.

STATUS OF THE LOANS

After completion of the Acquisition and up to 1 August 2023, the Group made further Shareholder's Loans to the PRC Company in the aggregate amount of RMB3.6 million (equivalent to approximately HK$3.9 million) for the business development and working capital needs. The Shareholder's Loans were unsecured and unguaranteed. These Shareholder's Loans were intragroup loans of the Group and did not constitute "transactions" under Chapter 14 of the Listing Rules.

As at 30 September 2024, the Loans comprised the Initial Loan, Additional Loans and Shareholder's Loans in the principal amounts of approximately RMB4.0 million (equivalent to approximately HK$4.4), RMB4.7 million (equivalent to approximately HK$5.2 million) and RMB3.6 million (equivalent to approximately HK$3.9 million), respectively, and amounted to approximately RMB12.3 million (equivalent to approximately HK$13.5 million) in aggregate. The outstanding interest accrued on the Loans amounted to approximately RMB1.0 million (equivalent to approximately HK$1.1 million).

Based on the unaudited financial information of the Group for the six months ended 30 September 2024, as at the period-end date, the carrying value of the Loans was approximately RMB6.4 million (equivalent to approximately HK$7.1 million) after provision for impairment.

As at the date of this announcement, all the Loans are due and payable as mentioned above. The Company remains committed to recovering the Loans and, depending on the progress of the business development of the PRC Company and the Supplier, the Company will consider taking necessary legal actions against the PRC Company for the recovery.

LISTING RULES IMPLICATIONS

As disclosed in the Acquisition Announcement, the Acquisition was classified as a discloseable transaction for the Company. Regrettably, it has come to the Company's attention that the Acquisition should have been classified as a major transaction on an aggregated basis taking into account the Initial Loan. Further details are set out below.

In respect of the Initial Loan

Following the entering into of the Framework Agreement, the Group provided the Initial Loan to the PRC Company on 5 December 2022. As none of the applicable percentage ratios (as defined under the Listing Rules) respect of the Initial Loan exceeded 5%, the provision of the Initial Loan by the Group to the PRC Company did not constitute a notifiable transaction for the Company at the material time and was not subject to the requirements under Chapter 14 of the Listing Rules.

In respect of the Acquisition

In light of the timing of the provision of the Initial Loan by the Group to the PRC Company prior to the date of the Acquisition Agreement, pursuant to Rule 14.22 of the Listing Rules, the Acquisition should have been aggregated with the provision of the Initial Loan for the purpose of the size test calculations. As one or more of the applicable percentage ratios in respect of the Acquisition, when aggregated with the Initial Loan, exceeded 25% but was less than 100%, the Acquisition should have been classified as a major transaction instead of a discloseable transaction.

The mistaken classification of the Acquisition was caused by an inadvertent oversight of the application of Rule 14.22 of the Listing Rules and, because of this, the Company had not disclosed the relevant information about the Initial Loan in the Acquisition Announcement.

In respect of the Additional Loans

As mentioned above, the Group provided the Additional Loans to the PRC Company between March and June 2023, prior to completion of the Acquisition on 16 June 2023. As the applicable percentage ratios in respect of the Additional Loans did not exceed 5%, the Additional Loans would not constitute a notifiable transaction of the Company, whether on a standalone basis or on an aggregated basis among these Additional Loans.

The Additional Loans, when aggregated with the Initial Loan and the Acquisition under Rule 14.22 of the Listing Rules, the classification of these three transactions (the "**Transactions**") together would remain as a major transaction of the Company.

Accordingly, the Transactions, when aggregated, were subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

Given that (i) the Acquisition and the Disposal had already been completed; and (ii) the grant of the Initial Loan and Additional Loans had already become effective, the Company will not convene a general meeting to seek ex-post facto approval from the Shareholders and, accordingly, no circular will be despatched in respect of the Acquisition and the Loans.

REMEDIAL MEASURES

The Company deeply regrets the non-compliance with the Listing Rules in respect of the Transactions and would like to stress that such non-compliance was an inadvertent oversight.

In order to avoid the recurrence of similar events in the future, the following remedial measures have been/will be taken by the Group to ensure that the Listing Rules are strictly complied with:

(i) a training session on the requirements under Chapter 14 of the Listing Rules by a Hong Kong legal firm for the Directors, senior management and relevant staff of the Group has been conducted on 21 February 2025;

(ii) the Company has hired professional consultants to review its internal controls in respect of compliance with the Listing Rules and, subject to the results of such review, provide recommendations to enhance the Company's internal control procedures in this regard, with a view to ensuring an effective and sufficient internal control procedures for the Group. The review is expected to be completed and the findings and recommendations, if any, shall be provided to the board of Directors by 30 April 2025. Subject to their review thereof, the Directors shall implement the enhancements to the internal controls of the Group as appropriate. Further announcement(s) will be made by the Company upon completion of the internal control review of the Group; (ii) and

(iii) the Company will arrange regular training by a Hong Kong legal firm for the relevant staff in order to refresh their knowledge and skills and keep abreast of the Listing Rules requirements.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings.

"Acquisition"	the acquisition of the Sale Shares by the Purchaser pursuant to the terms of the Acquisition Agreement
"Acquisition Agreement"	the sale and purchase agreement dated 6 February 2023 entered into between the Purchaser and the Vendors in relation to the Acquisition

"Additional Loans"	the four loans with principal amounts of RMB3.0 million (equivalent to approximately HK$3.3 million), RMB0.5 million (equivalent to approximately HK$0.6 million), RMB0.5 million (equivalent to approximately HK$0.6 million) and RMB0.7 million (equivalent to approximately HK$0.7 million) provided by Zhongwei Finance to the PRC Company pursuant to the Additional Loan Agreements
"Additional Loan Agreements"	the four agreements dated 5 March 2023, 9 May 2023, 23 May 2023 and 1 June 2023 entered into between Zhongwei Finance and the PRC Company in respect of the Additional Loans
"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
"Consideration"	the consideration for the Acquisition of HK$153,000,000 pursuant to the Acquisition Agreement
"Consideration Shares"	the First Consideration Shares and the Second Consideration Shares
"Director(s)"	the director(s) of the Company, from time to time
"Disposal"	the return of the Sale Shares by the Purchaser to the Vendors on 23 April 2024 pursuant to the Termination
"Exclusive Distribution Agreement"	the exclusive distribution agreement entered into between the PRC Company and the Supplier dated 26 November 2022 (as supplemented on 8 December 2022 and 30 December 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 Consideration in accordance with the Acquisition 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 Consideration in accordance with the Acquisition 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 Acquisition 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 Acquisition Agreement
"Framework Agreement"	the cooperation framework agreement entered into on 2 December 2022 between the Company and the PRC Company in relation to the intended cooperation for distributing medical and health products
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"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
"Independent Third Party(ies)"	third party(ies) independent of the Company and its connected persons
"Initial Loan"	the loan with principal amount of RMB4.0 million (equivalent to approximately HK$4.4 million) provided by Zhongwei Finance to the PRC Company pursuant to the Initial Loan Agreement
"Initial Loan Agreement"	the agreement dated 5 December 2022 entered into between Zhongwei Finance and the PRC Company in respect of the Initial Loan
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loans"	collectively, the Initial Loan, Additional Loans and the Shareholder's Loans
"PRC"	the People's Republic of China (excluding Hong Kong, Macau and Taiwan for the purposes of this announcement)

"PRC Company"	Wuhan Mingcheng Wangda 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
"Products"	the products set out in the Exclusive Distribution Agreement, including 希目明滴眼劑 (Ximuming Eye Drops), 希目明眼貼, 希目明潤眼露, 希目明含片 and any other products which are developed by the Supplier
"Promissory Notes"	the First Promissory Note and the Second Promissory Note
"Purchaser"	Long Heng Investments Limited (隆恒投資有限公司), a direct and wholly-owned subsidiary of the Company
"Sale Shares"	a total of 153,000 ordinary shares of the Target Company, representing 51% of the total issue share capital of the Target Company as at the completion of the Acquisition
"Second Consideration Shares"	up to 43,750,000 new Shares to be issued to the Vendors at the Issue Price for settlement of the Consideration in accordance with the Acquisition 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 Consideration in accordance with the Acquisition Agreement
"Second Vendor"	Mr. Zhou Wang (周旺), the beneficial owner of 35% equity interest in the Target Company as at the date of the Acquisition Agreement
"Share(s)"	ordinary shares of par value of HK$1.00 each in the share capital of the Company
"Shareholders"	holder(s) of the Share(s)
"Shareholder's Loans"	the loans with aggregate principal amount of RMB3.6 million (equivalent to approximately HK$3.9 million) provided by the Group to the PRC Company during the period from 16 June to 1 August 2023

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supplier"	Hubei Gaoxi Pharmaceutical Co. Ltd.* (湖北高硒藥業有限公司), a company incorporated in the PRC with limited liability
"Target Company"	Golden Alliance Limited, a company incorporated in Samoa with limited liability, and the sole shareholder of the HK Company
"Target Group"	the Target Company and its subsidiaries
"Termination"	the termination of the Acquisition pursuant to the exercise of the Termination Right by the Purchaser on 23 April 2024
"Termination Right"	the right of the Purchaser pursuant to the terms and conditions of the Acquisition Agreement to terminate the Acquisition Agreement with immediate effect and return the Sale Shares to the Vendors, and the Acquisition Agreement and all the obligations of the Purchaser and the Company thereunder shall immediately cease and determine
"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 Acquisition 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 Acquisition Agreement
"Vendors"	the First Vendor, Second Vendor and Third Vendor
"Vendor Guarantors"	the First Vendor Guarantor and the Third Vendor Guarantor
"Zhongwei Finance"	Zhongwei International Finance Lease (Shenzhen) Co., Ltd* (中衛國際融資租賃(深圳)有限公司), a wholly-owned subsidiary of the Company
"HK$"	Hong Kong dollar, 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
Chung Ho
Chief Executive officer and Executive Director

Hong Kong, 4 March 2025

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

For the purpose of this announcement, unless otherwise specified, the conversion of RMB into HK$ is based on the approximate exchange rate from RMB1.00 to HK$1.10. The exchange rate is adopted for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this rate or any other rate at all.

* *For identification purposes only*