

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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
IN RELATION TO
ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET

THE ACQUISITION

The Board is pleased to announce that after the Stock Exchange trading hours on 12 October 2023, the Purchaser (a wholly-owned subsidiary of the Company), the Company, the Vendor and the Guarantor entered into the Agreement, pursuant to which the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Share at the Consideration of HK\$146,000,000, which shall be satisfied by the issue of the Promissory Note by the Company to the Vendor.

The Sale Share represents the entire equity interest in the Target. The Target Group is principally engaged in the research and development and sale of functional foods for the prevention of cardiovascular and cerebrovascular diseases.

Upon Completion, members of the Target Group will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the accounts of the Group.

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 subject to the reporting and announcement requirements under the Listing Rules.

INTRODUCTION

The Board is pleased to announce that after the Stock Exchange trading hours on 12 October 2023, the Purchaser (a wholly-owned subsidiary of the Company), the Company, the Vendor and the Guarantor entered into the Agreement, pursuant to which, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Share, at the Consideration of HK\$146,000,000.

Principal terms of the Agreement are summarised below.

THE AGREEMENT

Date

12 October 2023

Parties

- (i) the Vendor;
- (ii) the Guarantor guaranteeing the performance of the obligations of the Vendor under the Agreement;
- (iii) the Purchaser, a wholly-owned subsidiary of the Company; and
- (iv) the Company.

The Vendor is a company incorporated in Samoa with limited liability. It is wholly owned by the Guarantor and is principally engaged in investment holding.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and the Guarantor are Independent Third Parties.

Assets to be acquired

Pursuant to the Agreement, the Purchaser has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Sale Share free from all encumbrances and third party rights, and together with all rights and benefits accrued thereto as at the Completion Date. The Sale Share represents the entire equity interest in the Target as at the Completion Date.

The Target Group is principally engaged in the research and development and sale of functional foods for the prevention of cardiovascular and cerebrovascular diseases. Further information of the Target Group is disclosed in the section headed "Information of the Target Group" below.

Consideration

The Consideration is HK\$146,000,000 and shall be satisfied by the Company by way of issuing the Promissory Note to the Vendor on the Completion Date.

In the event that the Profit Guarantee is not achieved, the Consideration shall be adjusted downwards by the Adjusted Amount as further discussed in the section headed “Profit Guarantee and Adjusted Amount” below.

The Consideration is determined between the Purchaser and the Vendor after arm’s length negotiations taking into consideration (i) the business prospect of the Target Group; and (ii) the Profit Guarantee as detailed below. The Consideration represents approximately 9.1 and 3.4 times forward price-to-earnings ratio over the 2024 Guaranteed Profit and the 2025 Guaranteed Profit respectively. The Guaranteed Profits of RMB55 million (equivalent to approximately HK\$58.9 million) represents approximately 40.3% of the Consideration. In light of the above, the Board considers that the Consideration is fair and reasonable.

Promissory Note

Principal terms of the Promissory Note are summarised below.

Issuer:	The Company
Principal amount:	HK\$146,000,000
Interest:	The Promissory Note shall not carry any interest.
Maturity:	The Promissory Note shall mature on the Maturity Date, being 27 February 2026 or the 14 th Business Day after the issue of the Audited Accounts for the 2025 Actual Profit, whichever is later. The Company shall settle the principal amount of the Promissory Note on the Maturity Date subject to the Guarantor paying the Adjusted Amount (if any) to the Company simultaneously.
Transferability:	The Promissory Note is not transferrable.

Profit Guarantee and Adjusted Amount

Pursuant to the Agreement, the Guarantor has irrevocably guaranteed to the Purchaser and the Company that the 2024 Actual Profit shall be not less than the 2024 Guaranteed Profit of RMB15 million (equivalent to approximately HK\$16.1 million) and the 2025 Actual Profit shall be not less than the 2025 Guaranteed Profit of RMB40 million (equivalent to approximately HK\$42.8 million) respectively.

The Guaranteed Profits were determined based on the projection prepared by the Target Group taking into account the projected sales amount of approximately RMB47 million and approximately RMB123 million for the two years ending 31 December 2024 and 2025 respectively. The projected growth in sales for the year ending 31 December 2025 is estimated after taking into account the expected growth in demand of the Products (as defined below), the potential growth in market share of the Products and the expected expansion of distribution channels of the Target Group. The Board has also carefully examined the operating cost structure of the Target Group, including but not limited to the production costs, selling and distribution expenses, administrative expenses and research and development expenses, and considers the projections prepared by the Target Group are reasonable.

In the event that the Actual Profits is less than the Guaranteed Profits, the Guarantor shall pay the Adjusted Amount to the Company calculated in accordance with the following formula:

$$\text{Adjusted Amount} = \text{Consideration} \times \frac{(\text{Guaranteed Profits} - \text{Actual Profits})}{\text{Guaranteed Profits}}$$

The Actual Profits shall be determined based on the Audited Accounts which shall be issued within two (2) months after each of the financial years ending 31 December 2024 and 2025.

The Guarantor shall pay the Adjusted Amount (if any) to the Company simultaneously with the settlement of the Promissory Note on the Maturity Date.

In the event that the Actual Profits is less than RMB8,000,000 (equivalent to approximately HK\$8,560,000), the Purchaser shall have the right (but not the obligation) to terminate the Agreement with immediate effect, save as otherwise provided for therein (the “**First Exit Clause**”).

If the Actual Profits is nil or negative, the Agreement and all the obligations of the Purchaser and the Company thereunder shall immediately cease and terminate, save as otherwise provided for therein (the “**Second Exit Clause**”, together with the First Exit Clause, the “**Exit Clauses**”).

If any of the Exit Clauses is triggered (and only when the Purchaser exercises the right to terminate the Agreement in the case of the First Exit Clause is triggered), (a) the Company shall cancel the Promissory Note; and (b) the Purchaser shall return the Sale Share to the Vendor. Such return of the Sale Share to the Vendor may or may not constitute a notifiable transaction of the Company and the Company will comply with the relevant requirements under the Listing Rules as and when appropriate.

Conditions precedent

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

- (i) the Vendor being the registered and beneficial owner of the Sale Share free from encumbrances of any nature;
- (ii) the Vendor and the Guarantor’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 Vendor and the Guarantor 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 the Target Group from the date of the Agreement up to and including the Completion Date;
- (iv) the Target Group not having any debts or other contingent liabilities from the date of the Agreement up to and including the Completion Date, save as disclosed in the Management Accounts and the Completion Accounts;
- (v) the Vendor 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 or approvals from relevant government or regulatory agencies or any other person (including obtaining the approval or confirmation of no opinion from the Stock Exchange on the relevant announcement and/or circular of 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 Target Group;
- (viii) the Vendor and/or the Target Group having 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 the Target Group;
- (ix) 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 shareholders, directors, supervisors and legal representative and senior management, and having confirmed the same in writing to the Vendor;
- (x) the Target Group having obtained all licenses, approvals, registrations, authorisations and consents necessary to operate their business, and all such licenses, approvals, registrations, licenses, authorisations and consents being in force and remaining in effect;
- (xi) the PRC Co owning and continuing to own the Patent and the Patent Assignment Agreement being valid and continuing to be valid;
- (xii) (a) the appointment letters entered into between the PRC Co and Dr. Huang Yining (“**Dr. Huang**”), Mr. Ding Wenhui and Ms. Guo Xiaohui as technical consultants; (b) the Production Agreement; and (c) the Sales Contract being valid and continuing to be valid;
- (xiii) the Target having obtained and provided its original certificate of incumbency and certificate of good standing or certificate of guarantee of quality to the Purchaser, and all such certificates being valid and continuing to be valid; and
- (xiv) any other matters to be dealt with in due diligence.

Save for conditions (ii), (iii), (iv), (viii) (x), (xi), (xii) and (xiii) which are waivable in writing by the Purchaser at its sole discretion, all other conditions are not waivable by any parties to the Agreement.

If any of the above conditions is not fulfilled (or waived, as the case may be) in accordance with the terms and conditions of the Agreement on or before 31 October 2023 (or such other date as agreed by the parties in writing), the Agreement and all responsibilities and obligations of the parties to the Agreement shall cease and terminate, except as otherwise provided therein.

Completion

Completion shall take place on the 10th Business Day after all the aforesaid conditions have been fulfilled (or waived, as the case may be) or such other date as agreed by the parties in writing.

Upon Completion, members of the Target Group will become an indirect wholly-owned subsidiary of the Company and the financial results of the Target Group will be consolidated into the accounts of the Group.

Other salient terms

If the Group receives a statutory demand or a winding-up petition from any other creditor (including but not limited to banks and financial institutions) before the Maturity Date, it will be regarded as a cross-default event under the Agreement.

If a cross-default event occurs, the Vendor shall have the right to claim against the Purchaser based on the principal amount of the Promissory Note and shall have the same rights as other unsecured creditors of the Company as permitted by applicable law (including attending creditors meetings held in connection with the winding-up proceedings or scheme of arrangement of the Company).

In the event that a cross-default event occurs, the Vendor and the Purchaser shall jointly appoint an independent valuer as soon as practicable to evaluate the valuation of the Target Group as at the date of such cross-default event (the “**Target Valuation**”). After determining the Target Valuation, the Consideration shall be revised to the Target Valuation or HK\$146,000,000, whichever is lower. The revised Consideration shall be final and binding on the parties to the Agreement and payable at a time to be agreed between the parties but in any event no later than the Maturity Date. Following the payment of the revised Consideration by the Purchaser, all liabilities and obligations of the Purchaser and the Company under the Agreement regarding payment of the Consideration and the Promissory Note shall cease immediately; and the obligations of the Guarantor regarding the Profit Guarantee and the Adjusted Amount shall also cease immediately.

INFORMATION OF THE TARGET GROUP

The Target is a company incorporated in the BVI with limited liability and is wholly owned by the Vendor as at the date of the Agreement. Its principal asset is the entire equity interest in the HK Co.

The HK Co is a company incorporated in Hong Kong with limited liability and was acquired by the Target on 6 October 2023. Its principal asset is the entire equity interest in the PRC Co.

The PRC Co is a company established in the PRC on 22 February 2022 with limited liability and was acquired by the HK Co on 8 October 2023. It is principally engaged in the research and development and sale of functional foods for the prevention of cardiovascular and cerebrovascular diseases. It possesses the Patent for the recipe of a betaine (甜菜鹼) product for prevention of cardiovascular diseases, which was jointly developed by Institute of Chemistry of Chinese Academy of Sciences and Peking University First Hospital. The PRC Co has retained Dr. Huang, one of the inventors of the recipe, and two other experts as technical consultants for product research and development. Dr. Huang is a director, a professor and a doctoral advisor of the Department of Neurology of Peking University First Hospital, and is an expert in treating neurological diseases, especially the cerebrovascular diseases.

The Target Group plans to use the Patent for the production and sale of a functional food product namely 多維寧 (Duoweining*) for prevention of cardiovascular diseases in the PRC. It also plans to produce and sell a food thickener product namely 順寧 (Shunning*) (together with Duoweining, the “**Products**”) in the PRC. The relevant laboratory tests have been passed and the Products are qualified for mass production. In this regard, the Target Group has entered into the Production Agreement to outsource the production of the Products to 吉林敖東健康科技有限公司 (Jilin Aodong Health Science Co., Ltd) (“**Jilin Aodong**”). Jilin Aodong is a subsidiary of 吉林敖東藥業集團股份有限公司 (Jilin Aodong Pharmaceutical Group Co., Ltd) (a pharmaceutical company listed on the Shenzhen Stock Exchange) and is principally engaged in the research and development, manufacture and sale of healthcare food and products. Pursuant to the Production Agreement, the Target Group will provide the Patent and the required raw materials and packaging materials and Jilin Aodong will charge a processing fee for the production of the Products. Commercial production is expected to take place in or around end of 2023.

The Target Group has also entered into the Sales Contract with 吉林海通製藥有限公司 (Jilin Haitong Pharmaceutical Co., Ltd.*) (“**Jilin Haitong**”) for the sale of the Products. Jilin Haitong, a company engaged in the research and development, manufacture and sales of Chinese and Western patent medicines, intends to distribute the Products through the sales channels of one of its major shareholders namely 吉藥控股集團股份有限公司 (Ji Yao Holding Group Co., Ltd.), which is a pharmaceutical company listed on the Shenzhen Stock Exchange. Pursuant to the Sales Contract, Jilin Haitong plans to purchase certain amount of Duoweining and Shunning during the year ending 31 December 2024. Based on the indicative sales price of Duoweining and Shunning in the Sales Contract, the planned sales amount of Duoweining and Shunning amounts to approximately RMB47 million in aggregate, which approximates the projected sales of the Target Group for 2024. With a view to expanding its sales network and capturing market share, the Target Group is also in discussions with other parties for distribution of the Products via online (e-commerce platforms) and offline channels (such as social healthcare institutions, pharmacies and drug stores).

Financial information

The Target and the HK Co did not have any material operations and hence did not record any material profit or loss for the two years ended 31 December 2021 and 2022. As at 31 August 2023, the Target recorded unaudited net assets of approximately HK\$8 and the HK Co recorded unaudited net liabilities of approximately HK\$0.2 million.

Set out below is the unaudited financial results of the PRC Co since the date of its establishment (being 22 February 2022) up to 31 December 2022:

	Since the date of establishment up to 31 December 2022 <i>(RMB)</i>
Loss before and after tax	1,231

As the Products have yet to commence commercial production, the PRC Co did not record any revenue and material profit or loss since its date of establishment up to 31 December 2022. As at 31 August 2023, the PRC Co recorded unaudited net assets of approximately RMB3.9 million (equivalent to approximately HK\$4.2 million).

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally 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.

The Group has been seeking different opportunities and exploring possible investment targets to expand the Medical Distribution Business and diversify its business mix in order to maximise the return to the Shareholders. Taking into account the business prospect of the Target Group, in particular, the possession of the Patent, the Directors are of the view that the Acquisition provides a prime opportunity for the Group to invest in the Target Group, which will allow the Group to broaden its source of income. Despite the Target Group has yet to commence commercial production of the Products, the Board considers that sufficient safeguards are in place, including but not limited to the Profit Guarantee and the Exit Clauses stipulated under the Agreement.

Having considered that above, the Board is of the view that the terms of the Agreement, including the Consideration, are fair and reasonable, and the Acquisition in the interests of the Company and the Shareholders as a whole.

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 subject to the reporting and announcement requirements under the Listing Rules.

DEFINITIONS

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

“2024 Actual Profit”	the audited net profit after tax of the Target Group for the year ending 31 December 2024 as shown in the Audited Accounts
“2024 Guaranteed Profit”	the net profit after tax of the Target Group of not less than RMB15 million for the year ending 31 December 2024 guaranteed by the Guarantor
“2025 Actual Profit”	the audited net profit after tax of the Target Group for the year ending 31 December 2025 as shown in the Audited Accounts
“2025 Guaranteed Profit”	the net profit after tax of the Target Group of not less than RMB40 million for the year ending 31 December 2025 guaranteed by the Guarantor
“Acquisition”	the proposed acquisition of the Sale Share by the Purchaser pursuant to the terms and conditions of the Agreement
“Actual Profits”	the aggregate of the 2024 Actual Profit and the 2025 Actual Profit
“Adjusted Amount”	the amount (if any) payable by the Guarantor to the Company in the event that the Profit Guarantee is not achieved
“Agreement”	the sale and purchase agreement dated 12 October 2023 entered into among the Purchaser, the Company, the Vendor and the Guarantor in relation to the Acquisition

“Audited Accounts”	the audited financial statements of the Target Group to be prepared in accordance with Hong Kong Financial Reporting Standards for each of the two years ending 31 December 2024 and 2025
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“Business Day”	any day (excluding Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business
“Company”	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 management accounts of the Target Group for the period from 1 September 2023 and up to the Completion Date
“Completion Date”	the date of Completion
“Consideration”	the consideration for the Acquisition of HK\$146,000,000 under the Agreement (subject to adjustment as discussed in the section headed “Profit Guarantee and Adjusted Amount”)
“Director(s)”	the director(s) of the Company, from time to time
“Group”	the Company and its subsidiaries
“Guaranteed Profits”	the aggregate of the 2024 Guaranteed Profit and the 2025 Guaranteed Profit
“Guarantor”	Ms. Ma Xiaoming, who owns the entire equity interest in the Vendor and is the guarantor guaranteeing the performance of the obligations of the Vendor under the Agreement

“HK Co”	International Eternal Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Target as at the date of the Agreement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its connected persons (as defined under the Listing Rules)
“Management Accounts”	the unaudited management accounts of the PRC Co for the period from 22 February 2022 to 31 August 2023 and those of the HK Co for the period from 1 January 2021 to 31 December 2022, and the unaudited proforma consolidated management accounts of the Target Group for the period from 1 January 2022 to 31 August 2023
“Maturity Date”	27 February 2026 or the 14 th Business Day after the issue of the Audited Accounts for the 2025 Actual Profit, whichever is later
“Patent”	the patent possessed by the PRC Co for the recipe of a betaine product under the Invention Patent Certificate issued by the State Intellectual Property Office
“Patent Assignment Agreement”	the patent assignment agreement dated 1 August 2022 entered into between the PRC Co and 北京偉航基業投資顧問有限公司 (Beijing Weihang Jiye Investment Consulting Company Limited*) in relation to the assignment of the Patent to the PRC Co
“PRC”	the People’s Republic of China, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Co”	深圳市偉航奕寧生物科技有限公司(Shenzhen Weihang Yining Biotechnology Co., Ltd.*), a company established in the PRC with limited liability and a wholly-owned subsidiary of the HK Co as at the date of the Agreement

“Production Agreement”	the production agreement dated 8 October 2023 entered into among the HK Co, the PRC Co and Jilin Aodong for the commercial production of the Products
“Profit Guarantee”	the profit guarantee irrevocably given by the Guarantor in favour of the Purchaser and the Company in respect of the Guaranteed Profits
“Promissory Note”	the promissory note to be issued by the Company to the Vendor as consideration for the Acquisition in accordance with the Agreement
“Purchaser”	Long Heng Investments Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
“Sale Share”	one ordinary share of the Target, representing the entire equity interest in the Target
“Sales Contract”	the sales contract dated 9 October 2023 entered into between the HK Co and Jilin Haitong for the sale of the Products
“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”	Jinmei Developments Limited, a company incorporated in the BVI with limited liability and wholly owned by the Vendor as at the date of the Agreement
“Target Group”	the Target, the HK Co and the PRC Co
“Vendor”	Ever True Ventures Limited, a company incorporated in the Samoa with limited liability and is the sole beneficial owner of the entire equity interest in the Target as at the date of the Agreement

“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, 12 October 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 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\$1.07. 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*