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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)

VOLUNTARY ANNOUNCEMENT

- (1) GRANTING OF OPERATION RIGHT TO THE GROUP TO OPERATE
DINGNANG CHINESE MEDICINE HOSPITAL
AND
(2) CONTINUED SUSPENSION OF TRADING**

**GRANTING OF OPERATION RIGHT TO THE GROUP TO OPERATE DINGNANG
CHINESE MEDICINE HOSPITAL**

On 4 November 2016 (after trading hours), the Management Company (a wholly-owned subsidiary of the Company), Mr. Zheng and Dingnang Chinese Medicine Hospital entered into the Agreement, pursuant to which Dingnang Chinese Medicine Hospital conditionally agreed to grant and the Management Company conditionally agreed to accept an operation right to manage and operate Dingnang Chinese Medicine Hospital through the Management Company for a term of 15 years commencing on 1 November 2016. The Management Company will pay RMB3,000,000 (equivalent to HK\$3,420,000) to Dingnang Chinese Medicine Hospital on the date agreed in the Agreement.

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the grant of the right to operate Dingnang Chinese Medicine Hospital to the Management Company under the Agreement are less than 5%, the abovementioned transaction does not constitute a notifiable transaction under the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended from 9:00 a.m. on 4 July 2016 pending the publication of the annual results of the Company for the year ended 31 March 2016.

Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

This announcement is made by the Company on a voluntary basis. The purpose of this announcement is to keep the Shareholders and potential investors of the Company informed of the latest business development of the Group.

INTRODUCTION

On 4 November 2016 (after trading hours), the Management Company (a wholly-owned subsidiary of the Company), Mr. Zheng and Dingnang Chinese Medicine Hospital entered into the Agreement, pursuant to which Mr. Zheng and Dingnang Chinese Medicine Hospital conditionally agreed to grant and the Management Company conditionally agreed to accept an operation right to manage and operate Dingnang Chinese Medicine Hospital through the Management Company for a term of 15 years commencing on 1 November 2016. The Management Company will pay RMB3,000,000 (equivalent to HK\$3,420,000) to Dingnang Chinese Medicine Hospital on the date agreed in the Agreement. Summary of the principal terms of the Agreement, determined by the parties to the Agreement after arm's length negotiations, are as follows:

THE AGREEMENT

Date: 4 November 2016 (after trading hours)

Parties:

- (i) Zongwei Health Industries (Shenzhen) Co., Ltd. (中衛健康產業(深圳)有限公司), a company established in accordance with the laws of the PRC and wholly-owned by the Company;
- (ii) Zheng Ruiyuan (鄭瑞元) (“**Mr. Zheng**”); and
- (iii) Dingnang Chinese Medicine Hospital.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of Mr. Zheng, Dingnang Chinese Medicine Hospital and their respective associates are Independent Third Parties.

Operation Right

Pursuant to the Agreement, Dingnang Chinese Medicine Hospital conditionally agreed to grant and the Management Company conditionally agreed to accept an operation right to manage and operate Dingnang Chinese Medicine Hospital through the Management Company for a term of 15 years commencing on 1 November 2016. The Management Company will pay RMB3,000,000 (equivalent to HK\$3,420,000) to Dingnang Chinese Medicine Hospital in cash by means of the Group's internal resources. The aforesaid sum shall be utilised by Dingnang Chinese Medicine Hospital for Information system construction and purchase of medical equipment. The aforesaid sum payable by the Management Company to Dingnang Chinese Medicine Hospital was determined after arm's length negotiations and with reference to (i) the existing equipment, facilities and resources available by Dingnang Chinese Medicine Hospital; (ii) the internal analysis on the future business plan of Dingnang Chinese Medicine Hospital performed by the Company; and (iii) operating history of Dingnang Chinese Medicine Hospital. The aforesaid sum shall be payable by the Management Company to Dingnang Chinese Medicine Hospital within 20 Business Days from the date of the Agreement (or such later date mutually agreed by the parties to the Agreement) subject to the fulfillment of all conditions as set out in the section headed "Conditions precedent" in this announcement.

Once the right to operate and manage Dingnang Chinese Medicine Hospital has been granted to the Management Company, the Management Company will be responsible for the operation of Dingnang Chinese Medicine Hospital and will be entitled to a monthly operation and management income in an amount equal to 85% of the total monthly revenue generated from the business operation of Dingnang Chinese Medicine Hospital. Meanwhile, the Management Company will bear all expenses of Dingnang Chinese Medicine Hospital during the terms of management and operation of Dingnang Chinese Medicine Hospital but excluding (i) depreciation incurred from the existing equipment available as stipulated in the Agreement; and (ii) interest expenses arising from loan(s) obtained by Dingnang Chinese Medicine Hospital prior to the date of the Agreement.

Details of the right to operate and manage Dingnang Chinese Medicine Hospital are as follows:

- (i) Once the right to operate and manage Dingnang Chinese Medicine Hospital has been granted to the Management Company, the Management Company shall have the right to, in accordance with the hospital management model of the Company, adjust the hospital's existing internal management structure.
- (ii) Set up of hospital management committee as the decision making body of Dingnang Chinese Medicine Hospital which comprises 7 members, among which, 4 of them shall be appointed by the Management Company; 3 of them shall be appointed by Dingnang Chinese Medicine Hospital.

- (iii) The Management Company shall appoint the hospital dean and the head of finance department while Dingnang Chinese Medicine Hospital shall appoint the legal representative.

First right of refusal

Pursuant to the Agreement, in the event Mr. Zheng wishes to dispose of the whole or part of his registered capital in Dingnang Chinese Medicine Hospital, the Management Company shall have a right of first refusal to acquire those registered capital of Dingnang Chinese Medicine Hospital.

Conditions precedent

The cooperation under the Agreement is conditional upon the satisfaction or waiver by the parties through mutual agreement of all of the following conditions:

- (i) if required by the laws and relevant rules, all consents and approvals necessary for the signing or performance of the Agreement having been obtained and remaining full force and effect, including but not limited to the approvals, authorisations and consents of and filings with government authorities such as the hospital administration authority, the registration authority for private non-enterprise entities, the Stock Exchange and the foreign investment authority for the Management Company or the waiver from any of them;
- (ii) the due diligence on the legal, medical services and financial aspects of Dingnang Chinese Medicine Hospital having been completed to the satisfaction of the Management Company, and all material issues identified in the due diligence having been solved by Mr. Zheng or the solutions acceptable to the Management Company having been agreed to;
- (iii) since the signing of the Agreement up to the transfer of the right to operate and manage Dingnang Chinese Medicine Hospital, there having been no events, facts, conditions, changes or other circumstances that have had or are reasonably expected to have material adverse effects on the assets, liabilities or normal operation of Dingnang Chinese Medicine Hospital, nor there were any material adverse changes in the structure or status of the assets of Dingnang Chinese Medicine Hospital;
- (iv) the decision-making mechanism and management designation in respect of Dingnang Chinese Medicine Hospital having been agreed by the Management Company, Mr. Zheng and Dingnang Chinese Medicine Hospital in accordance with the Agreement, the confirmation of the amended articles of association of Dingnang Chinese Medicine Hospital by the Management Company, and completion of the changes in the Medical Institution Practice License and the Registration Certificate of Private Non- enterprise Entity;

- (v) the representations and warranties made by Mr. Zheng and Dingnang Chinese Medicine Hospital under the Agreement remaining fully true, complete and accurate, and all agreements or undertakings to be performed or complied with by Mr. Zheng and Dingnang Chinese Medicine Hospital on or before the completion date under the Agreement having been performed or complied with, without any breach of the Agreement.

INFORMATION ON DINGNANG CHINESE MEDICINE HOSPITAL

Dingnang Chinese Medicine Hospital is the only Grade IIA Chinese medicine hospital being rated by the Ministry of Health as medical, educational and medical research integrated Chinese medicine hospital in Dingnang County. Dingnang Chinese Medicine Hospital is currently a designated Chinese medicine hospital for the provision of comprehensive internal medication, surgical medication and traditional Chinese medication. Dingnang Chinese Medicine Hospital has a total building area of approximately 7,090 square metres with 120 beds. Currently it has approximately 147 employees.

REASONS FOR ENTERING INTO THE AGREEMENT

The Group is principally engaged in the provision of medical and healthcare services and B-to-C consumer services in the PRC.

Given that the Group will be responsible for the business operation of Dingnang Chinese Medicine Hospital since 1 November 2016 and taking into account the holding of the right to operate Dingnang Chinese Medicine Hospital will improve the Group's image in the medical and healthcare service industry and bring in revenue to the Group, the Directors are of the view that the terms of the Agreement are fair and reasonable and the entering into of the Agreement is in the interests of the Company and the Shareholders as a whole.

GENERAL

As the relevant applicable percentage ratios (as defined in the Listing Rules) in respect of the grant of the right to operate Dingnang Chinese Medicine Hospital to the Management Company under the Agreement are less than 5%, the abovementioned transaction does not constitute a notifiable transaction under the Listing Rules.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended from 9:00 a.m. on 4 July 2016 pending the publication of the annual results of the Company for the year ended 31 March 2016.

Shareholders and potential investors of the Company should exercise caution when dealing in the shares of the Company.

DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms shall have the following meanings:

“Agreement”	an agreement dated 4 November 2016 (after trading hours) entered into between the Management Company, Mr. Zheng and Dingnang Chinese Medicine Hospital in relation to the grant of the right to operate the Dingnang Chinese Medicine Hospital to the Management Company
“Dingnang Chinese Medicine Hospital”	Dingnang Chinese Medicine Hospital* (定南縣中醫院)
“associate(s)”	shall have the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	China Health Group Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Third Party(ies)”	third parties who are independent of, and not connected with, the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Company”	Zongwei Health Industries (Shenzhen) Co., Ltd. (中衛健康產業(深圳)有限公司), a company established in accordance with the laws of the PRC and wholly-owned by the Company

“PRC” or “China”	the People’s Republic of China, which, for the purposes of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary shares in the issued share capital of the Company with par value of HK\$0.1 each
“Shareholder(s)”	the holder(s) of shares
“%”	per cent

By order of the Board
China Health Group Limited
Weng Yu
Executive Director

Hong Kong, 7 November 2016

For the purposes of this announcement, unless otherwise stated, Renminbi was translated into Hong Kong dollars using the exchange rate of RMB1: HK\$1.14. The exchange rate is for illustration purposes only and does not represent that any amount has been, could have been or could be translated at such exchange rate or at all.

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Weng Yu, Mr. Wang Yongqing, Mr. Chung Ho and Mr. Wang Jingming; twelve non-executive directors, namely, Mr. Ying Wei, Mr. Zhang Song, Ms. Wei Changying, Mr. Pei Kewei, Mr. Xing Yong, Mr. Wang Zili, Ms. Wang Fang, Mr. Yang Cheng, Mr. Wang Xiaolin, Mr. Huang Bin, Mr. Wang Yuexiang and Ms. He Lijuan; and six independent non-executive directors, namely, Mr. Xiao Zuhe, Mr. Wang Qingyou, Mr. Zou Lian, Ms. Yang Huimin, Mr. Liang Qi and Mr. Xin Hua.

* *For identification purpose only*