



CHINA HEALTH GROUP INC.

中國醫療集團有限公司

(Carrying on business in Hong Kong as “萬全醫療集團”)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 08225)

THIRD QUARTERLY REPORT 2020

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of China Health Group Inc. (the “Company”) collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”) of the Stock Exchange for the purpose of giving information with regard to the Company and its subsidiaries (together, the “Group”). The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.



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FINANCIAL HIGHLIGHTS

1. The Group achieved a turnover of RMB51,457,000 for the nine months ended 30 September 2020 (the “Period”) representing an increase of approximately 29.91% compared with the corresponding period of 2019.
2. The Group achieved profit before taxation of about RMB37,023,000 for the nine months ended 30 September 2020 representing an increase of approximately 102.58% compared with the corresponding period of 2019.
3. Basic earnings per share are approximately RMB3.30 cents for the nine months ended 30 September 2020, representing an increase of approximately 118.54% compared with the corresponding period of 2019.
4. The Board does not recommend the payment of any interim dividends for the nine months ended 30 September 2020.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of Directors (the “Board”) is here to present the condensed unaudited consolidated third quarterly results of the Company and its subsidiaries (collectively, the “Group”) for the nine months ended 30 September 2020, together with the comparative condensed unaudited consolidated figures for the corresponding period in 2019:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the nine months ended 30 September 2020

	Notes	Unaudited		Unaudited	
		Three months ended 30 September		Nine months ended 30 September	
		2020	2019	2020	2019
		RMB'000	RMB'000	RMB'000	RMB'000
Turnover	4	9,434	8,198	51,457	39,609
Cost of sales		<u>(3,695)</u>	<u>(3,867)</u>	<u>(12,835)</u>	<u>(9,766)</u>
Gross profit		5,739	4,331	38,622	29,843
Other income	5	10,262	(22)	10,325	1
Administrative expenses	6	<u>(4,502)</u>	<u>(4,331)</u>	<u>(11,886)</u>	<u>(11,503)</u>
Profit from operations		11,499	(23)	37,061	18,340
Finance costs		<u>(12)</u>	<u>(21)</u>	<u>(38)</u>	<u>(65)</u>
Profit before taxation		11,487	(43)	37,023	18,276
Income tax	8	<u>(735)</u>	<u>(437)</u>	<u>(4,224)</u>	<u>(3,266)</u>
Profit for the year		<u>10,752</u>	<u>(480)</u>	<u>32,799</u>	<u>15,010</u>
Attributable to :					
equity holders of the Company		10,752	(480)	32,799	15,010
Minority interests		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit for the year		<u>10,752</u>	<u>(480)</u>	<u>32,799</u>	<u>15,010</u>
Earnings per share (cent)					
- basic	7	1.08	-0.05	3.30	1.51
- diluted	7	1.08	-0.05	3.30	1.51

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

As of 30 September 2020

	Share Based		Special reserve	Capital reserve	Statutory reserve	Statutory	Retained earnings	Non- controlling interests	Total					
	Share Capital	payment reserve				enterprise fund				RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	88,673	3,920	6,039	6,231	9,620	6,986	(92,281)	-	29,188					
Profit for the period	-	-	-	-	-	-	15,010	-	15,010					
At 30 September														
2019	88,673	3,863	6,039	6,231	9,620	6,986	(77,271)	-	44,198					
At 1 January 2020	88,673	2,894	6,039	6,231	12,738	6,986	(66,581)	-	56,980					
Profit for the period	-	-	-	-	-	-	32,799	-	32,799					
At 30 September														
2020	88,673	2,894	6,039	6,231	12,738	6,986	(33,782)	-	89,779					

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2020

1. Corporate information

The Company was incorporated in the Cayman Islands on 21 May 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is 4th Floor, PO Box 2804, Scotia Centre, George Town, Grand Cayman, Cayman Islands and its principal place of business is Boda Building, 28 Beiqing Road, Life Science Park, Zhongguancun, Changping District, Beijing, China. The Company has had its shares listed on GEM of the Stock Exchange of Hong Kong Limited since 10 July 2003. The Company is an investment holding company. The principal activities of its subsidiaries are to provide fully integrated pharmaceutical services including clinical research services, post marketing surveillance, real-world study, medical science events, medical marketing and product promotion service, and other medical services. The Company is focusing on building itself into a group corporation providing comprehensive terminal medical service under international architecture.

2. Adoption of new and revised international financial reporting standards

In the current year, the Company has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Company's accounting policies, presentation of the Company's financial statements and amounts reported for the current year and prior years except as stated below.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. Accounting policies and basis of preparation

These unaudited condensed financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and disclosure requirements of the Hong Kong Companies Ordinance. These consolidated

financial statements also comply with the applicable disclosure provisions of the Rules Governing the listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”).

The accounting policies adopted in the preparation of these unaudited condensed financial statements are consistent with those followed in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2019 except for the changes in accounting policies, if required, in adopting new or revised HKFRSs and interpretations that are first effective for accounting periods beginning on or after 1 January 2020.

These unaudited condensed consolidated financial statements are presented in Renminbi (“RMB”) and it is also the functional currency of the Company.

4. Revenue

The Company is principally engaged in providing research, development, medical science events and clinical registry. Breakdown of the revenue from all services is as follows:

	Unaudited three months ended 30 September 2020		Unaudited nine months ended 30 September 2020	
	RMB'000	RMB'000	RMB'000	RMB'000
Provision of contracted pharmaceutical development services (PDS)		4,717	849	4,717
Provision of post marketing surveillance, real-world study, medical science events, and medical marketing (PMS)	9,434	3,481	50,608	34,478
Other medical services				414
	<u>9,434</u>	<u>8,198</u>	<u>51,457</u>	<u>39,609</u>

The turnover for the Period increases 29.91% compared with the corresponding period of 2019. Moreover, turnover for the three months ended 30 September 2020 increased 15.08% compared with the corresponding period of 2019. Revenue from clinical research services has not been confirmed during the period. During the period, the income of related parties was RMB14,962,000, accounting for 29.08% of the total income.

5. Other income

During the period, the other income increased significantly, mainly due to the sale of three wholly-owned subsidiaries with transfer price of RMB1,655,000 and transfer income of RMB10,224,000.

6. Administrative expenses

	Unaudited		Unaudited	
	Three months ended 30 September	2019	Nine months ended 30 September	2019
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Administrative expenses	4,502	4,331	11,886	11,503

Administrative expenses increased about 3.33% compared with the corresponding period of 2019.

7. Earnings per share

Basic earnings per share is calculated by dividing the unaudited net profit approximately RMB32,799,000 (2019: RMB15,010,000) attributable to owners of the Group by the weighted average number of approximately 993,975,820 ordinary shares of the Company for the Quarter (2019: 992,771,660 Shares).

The calculation of the diluted earnings per share for the Period is same as basic earnings per share which based on unaudited profit attributable to ordinary equity shareholders. The weighted average number of ordinary shares of the Company is approximately 993,975,820 Shares (2019: 992,771,660 Shares).

8. Income Taxes

No Hong Kong profit taxes has been provided for, as the Group had no estimated assessable profits in Hong Kong for the Period (the corresponding period: Nil).

"PRC" Enterprise Income Tax has been calculated on the estimated assessable profit for the Period according to the relevant laws and regulations. The applicable income tax rate is ranging from 9% to 25% as at 30 September 2019 (the Last Year Period: 15%-25%). During the Period, some subsidiaries of the Company are eligible for tax incentives due to their location and industry. These subsidiaries are subject to a preferential tax rate of 9%.

Taxation of other overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

	Unaudited three months ended 30 September		Unaudited Nine months ended 30 September	
	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Chinese Income Tax				
-current period	<u>735</u>	<u>437</u>	<u>4,224</u>	<u>3,266</u>

9. Dividends

The Board does not recommend the payment of any dividend for the Period (2019: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSSINESS REVIEW

In terms of scientific research services, the Group's "RWS Wanquan center" is to re-screen and Group existing drugs through real clinical research of big data to find the best treatment. The Group established a biological sample testing laboratory, equipped with Waters UPLC-MS/MS.xevo TQS, which is officially open to the public. The laboratory mainly serves clinical research, especially the clinical research experiment of antiviral drugs.

The Company proposes two models in the epidemic situation and the new era of medical treatment. 1. "Research based treatment RWS therapy model" is to carry out clinical and big data research on Five specialty clinical through real world clinical research, guide drug treatment in the research, and obtain medical big data guidance research in the treatment. 2. The D-CRCO model (Digital-Clinical Research Commercialization Organization) is a digital clinical research promotion platform. It uses big data clinical research to precisely enable the commercialization of products. These two models will redefine research-based treatment and research-based promotion to replace traditional treatment and commercialization.

In terms of big data medical services, we have established research digital special area medical diagnosis with many top medical institutions in Beijing, Shanghai, Guangzhou and other places, as well as the top 100 chain and digital medical groups such as Gaoji medical, haiwangxingchen, micro medical group and miaozhou medical group, such as yuequit smoking research and treatment specialty, Hein psychological research and treatment specialty, baimin fever and cough research and treatment specialty, disease resistance and treatment specialty poison research and treatment areas will play an important role in the epidemic and post epidemic era.

Around the core treatment field, we have built a digital medical terminal service complex under the Internet architecture, forming a closed-loop system from scientific research to rehabilitation.

1. From hospital big data clinical research to digital scientific research product promotion service.
2. To jointly build digital research clinical research specialty.
3. To self-supporting O2O special specialty medical diagnosis.
4. To explore rehabilitation medical and tourism medical services.

FINANCIAL REVIEW

The Group achieved a turnover of RMB51,457,000 during the Period, representing an increase of approximately 29.91% compared with that in the corresponding period of last year. The increase in turnover is mainly due to the introduction of new customers during the Period.

The consolidated turnover included approximately RMB50,608,000 derived from the post marketing surveillance, real-world clinical research, medical science and medical market services (PMS), amounted to 98.35% of the total revenue.

Total consolidated other income for the Period and the corresponding period last year were approximately RMB10,325,000 and approximately RMB1,000 respectively. The increase in other income is mainly due to the sale of three wholly-owned subsidiaries with transfer price of RMB1,655,000 and transfer income of RMB10,224,000.

Total consolidated administrative expenses and staff costs for the Period and the corresponding period last year were approximately RMB11,886,000 and approximately RMB11,503,000 respectively.

The Group recorded a profit before taxation of approximately RMB37,023,000 for the Period, as compared with profit before taxation of approximately RMB18,276,000 in the corresponding period last year. Net profits for the Period and the corresponding period last year were approximately RMB32,799,000 and approximately RMB15,010,000 respectively. The increase in net profit is mainly due to business growth and the sale of three loss making companies.

PROSPECTS

With the change of business model of Chinese pharmaceutical enterprises, CHG has assumed the responsibility of replacing traditional CSO model with CRO and CSO model combination. The Group has continuously invested in enhancing its market promotion ability and expanding its market network. It has launched a value-added business model in the local market, focusing on treatment products in the whole value chain, with CHG and its sub-brands Xienwanquan, Baimin Wanquan, Jianshou Wanquan and Yuejie Yan. The Board will also review and assess of potential project or investment according to reliable principles, in order to improve the group business performance and return to shareholders.

DIVIDENDS

The Board does not recommend the payment of any interim dividends for the Period (2019: Nil).

SIGNIFICANT INVESTMENTS

Save as disclosed in this report, there was no significant investment during the Period (31 December 2019: Nil).

CONTINGENT LIABILITIES

As of 30 September 2020, the Group did not have any contingent liabilities (31 December 2019: Nil).

FUTURE PLANS FOR SIGNIFICANT INVESTMENTS OR CAPITAL ASSETS

Other than those disclosed in the Company's public announcements, the Group does not have any other plans for significant investments or capital assets.

FOREIGN EXCHANGE EXPOSURE

During the Period, the Group's transactions were substantially denominated in RMB. The Group closely monitors its foreign currency risk from time to time and will use appropriate hedging when necessary.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares for the nine months ended 30 September 2020.

COMPETING INTERESTS

None of the Directors or the substantial shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) has interests in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group during the Period and up to the date of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2020, the interests or short positions of the Directors or chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.46 of the GEM Listing Rules to be notified to the Company and the Stock Exchange, will be as follows:

Long positions in shares and underlying shares of the Company

Name of Directors	Capacity/ Nature of interests	Number of ordinary shares held/ interested	Number of underlying shares held/ interested pursuant to share options	Total number of shares	Approximate percentage of the total number of issued shares of the Company
GUO Xia	Beneficial Owner	114,701,941	9,150,000	123,851,941	12.44%
	Interest in a controlled corporation	590,716,637 (note)	-	590,716,637	59.35%
SONG Xuemei	Beneficial owner	326,500	250,000	576,500	0.06%
SU Yi	Beneficial owner	-	220,000	220,000	0.02%
NI Binhui	Beneficial owner	-	100,000	100,000	0.01%

Note: According to information available to the Company, 349,368,873 Shares were beneficially owned by Winsland Agents Limited, a company wholly owned by Mr. GUO Xia. 91,915,181 Shares were beneficially owned by Bright Excel Assets Limited, a company wholly owned by Venturepharm Holdings Inc., approximately 49.00% of its shares were held Winsland Agents Limited and approximately 47.63% were held by Mr. GUO Xia. 149,432,583 Shares were beneficially owned by Venturepharm Holdings Inc. As such, Mr. GUO Xia is deemed to be interested in the above companies under the SFO.

Saved as disclosed above, as at 30 September 2020, none of the Directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the required standard of dealings by Directors as referred to in Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware, as at 30 September 2020, other than the Directors or chief executives of the Company whose interests or short positions are disclosed under the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and any Associated Corporations" above, the following person has an interest or short position in the Shares or underlying Shares which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO, and who were expected, directly or indirectly, to be interested in 5% or more of the Shares are listed as follows:

Long Positions in the Shares

Name of Shareholders	Capacity/ Nature of interests	Number of ordinary shares held/ interested	Approximate percentage of the total number of issued shares of the Company
Winsland Agents Limited	Beneficial Owner	349,368,873	35.10%
	Interest in a controlled corporation	241,347,764 (note)	24.25%
Bright Excel Assets Limited	Beneficial owner	91,915,181	9.23%
Venturepharm Holdings Inc.	Beneficial owner	149,432,583	15.01%
	Interest in a controlled corporation	91,915,181 (note)	9.23%

Note: According to information available to the Company, 91,915,181 Shares were beneficially owned by Bright Excel Assets Limited, a company wholly owned by Venturepharm Holdings Inc., approximately 49.00% of its shares were held Winsland Agents Limited and approximately 47.63% were held by Mr. GUO Xia. As such, Winsland Agents Limited and Venturepharm Holdings Inc. are deemed to be interested in the Shares owned by Bright Excel Assets

Limited under the SFO, and Winsland Agents Limited is deemed to be interested in the Shares owned by Venturepharm Holdings Inc. under the SFO.

Saved as disclosed above, as at 30 September 2020, the Directors were not aware of any other person (other than the Directors or chief executives as disclosed in the paragraph headed “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and any Associated Corporations” above) who had, or deemed to have, interests or short positions in the shares, underlying Shares which has to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under Section 336 of the SFO.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the heading “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation” above and “Share Option Scheme” below, at no time during the Period was the Company, its holding company, or any of its subsidiaries or associated corporations, a party to any arrangement that would enable the Directors and chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

CORPORATE GOVERNANCE

The Company’s corporate governance practices are based on the principles and the code provisions as set out in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 15 to the GEM Listing Rules. The principles adopted by the Company emphasis a quality board, transparency and accountability to shareholders. In the opinion of the Board, the Company has complied with the Code for the nine months ended 30 September 2020, with the exception for the following deviations:

Under code provision A.2.1, the responsibilities between chairman and chief executive officer should be separated. However, the chief executive officer of the Company has not yet been appointed. Currently, the day-to-day management of the Company’s business is handled by the executive directors and senior management, who take the responsibility to run the Group’s business and to implement the Group’s strategy so as to achieve the overall commercial objectives of the Company.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no

less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transaction by Directors during the Period.

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") was established with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company's annual reports and accounts, half-yearly reports and quarterly reports and internal control system of the Group and provide advice and comments to the Board. The Audit Committee has three members comprising the three independent non-executive Directors, namely Mr. QIU Rui, Dr. NI Binhui and Mr. ZHEN Ling. Mr. QIU Rui is the chairman of the Audit Committee.

The Audit Committee has reviewed the financial statements of the Group for the nine months ended 30 September 2020 pursuant to the relevant provisions contained in the code provisions and was of the opinion that the preparation of such statements complied with applicable accounting standards and that adequate disclosure has been made in respect thereof.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained a sufficient public float.

By Order of the Board
China Health Group Inc.
GUO Xia
Chairman

Beijing, 13 November, 2020

As at the date hereof, the Board comprises two executive Directors, being Mr. GUO Xia and Dr. SONG Xuemei; one non-executive Director, being Mr. SU Yi; and three independent non-executive Directors, being Mr. QIU Rui, Dr. NI Binhui and Mr. ZHEN Ling.