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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

On 21 June 2016, the Company allotted and issued 200,000,000 Shares, representing the entire amount of the conversion shares of the HK\$30,000,000 convertible notes issued to Pacas by the Company pursuant to the Subscription Agreement dated 8 April 2014 (as subsequently amended), to Pacas pursuant to the Order.

References are made to:

- (i) the announcements of China Health Group Limited (the “**Company**”) dated 8 April 2014, 30 September 2014, 15 January 2015, 30 January 2015, 15 April 2015, 30 April 2015, 30 June 2015, 28 August 2015, 15 September 2015, 18 September 2015, 30 September 2015, 13 October 2015 and 3 November 2015 and the circular of the Company dated 19 October 2015 in relation to, among others, the Subscription of convertible notes by each of Zheng Hua and Pacas;
- (ii) the announcement of the Company dated 11 December 2015 in relation to, among others, a writ of summons issued by the Company against each of Mr. Chung, Zheng Hua and Pacas;
- (iii) the announcement of the Company dated 16 December 2015 in relation to, among others, a writ of summons issued by Pacas against the Company in relation to the Claim;
- (iv) the announcement of the Company dated 24 May 2016 in relation to, among others, the Judgment; and

- (v) the announcement of the Company dated 17 June 2016 in relation to, among others, the Order (collectively, the “**Announcements**”).

Capitalized terms used in this announcement have the same meanings as those defined in the Announcements unless the context requires otherwise.

According to the Order, the Company was ordered to allot and issue to Pacas shares in the share capital of the Company representing the entire amount of the conversion shares of the HK\$30,000,000 convertible notes issued to Pacas by the Company pursuant to the Subscription Agreement entered into between Pacas and the Company on 8 April 2014 (as subsequently amended) by 4:00 p.m. on 22 June 2016 (Wednesday) pursuant to the Judgment. The Company announced on 17 June 2016 that the then Directors expected significant changes to the Board would take place at the conclusion of the special general meeting of the Company held on 18 June 2016 and considered it more appropriate for the prospectively re-constituted Board after such meeting to make the necessary arrangements to comply with the Order, or to apply for a stay of execution and leave to appeal, or such other action to be taken, as the new Board may consider proper and desirable.

Following the special general meeting of the Company held on 18 June 2016, the Board was reconstituted and members of the Board are currently as follows:

Executive Directors: Mr. Weng Yu
Mr. Wang Yongqing
Mr. Chung Ho
Mr. Wang Jingming

Non-executive Directors: 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
Ms. He Lijuan

Independent non-executive Directors: Mr. Xiao Zuhe
Mr. Wang Qingyou
Mr. Zou Lian
Ms. Yang Huimin
Mr. Liang Qi
Mr. Xin Hua

After the reconstitution of the Board, the Board has taken immediate actions to comply with the Order and the Company allotted and issued 200,000,000 Shares, representing the entire amount of the conversion shares of the HK\$30,000,000 convertible notes issued to Pacas by the Company pursuant to the Subscription Agreement dated 8 April 2014 (as subsequently amended), to Pacas on 21 June 2016.

Full content of the Judgment and the Order are set out below for the Shareholders' information:

IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
ACTION NO. 2961 OF 2015

17 JUN 2016



BETWEEN

PACAS WORLDWIDE LIMITED

Plaintiff

and

CHINA HEALTH GROUP LIMITED (中國衛生集團有限公司)
(formerly known as China Healthcare Holdings Limited)

Defendant

BEFORE THE HONOURABLE MADAM JUSTICE MIMMIE CHAN
IN CHAMBERS (OPEN TO PUBLIC)

ORDER

UPON the application of the Plaintiff by way of Summons dated 26 May 2016 (the "**Summons**")

AND UPON reading the Affirmation of Yan Sherman Chuek Ning filed on 31 May 2016 and the 2nd Affirmation of Yan Sherman Chuek Ning filed on 16 June 2016

AND UPON hearing the Counsel for the Plaintiff and the Solicitors for the Defendant

IT IS ORDERED that:-

- (1) The Defendant do allot, issue and deliver 200,000,000 ordinary shares in its share capital by no later than 4:00 p.m. on 22 June 2016 pursuant to the

15
Judgment against the Defendant dated and entered on 18 May 2016;

(2) Penal notice against the Defendant and its Director(s) be endorsed; and

(3) Costs of this application be to the Plaintiff.

Dated the 17th day of June 2016

Registrar

PENAL NOTICE

HCA 2961 / 2015

If you (or any of you),

- (1) CHINA HEALTH GROUP LIMITED (中國衛生集團有限公司) (formerly known as China Healthcare Holdings Limited) (the named Defendant herein);
- (2) Jia Hong Sheng (賈虹生) (as a director of the Defendant herein);
- (3) Li Zhong Yuan (李重遠) (as a director of the Defendant herein);
- (4) Zhou Bao Yi (周寶義) (as a director of the Defendant herein);
- (5) Zhao Kai (趙愷) (as a director of the Defendant herein);
- (6) Mu Xiangming (穆向明) (as a director of the Defendant herein);
- (7) Jiang Bo (姜波) (as a director of the Defendant herein);
- (8) Yan Shi Yun (嚴世芸) (as a director of the Defendant herein);
- (9) Zhao Hua (趙華) (as a director of the Defendant herein),

neglect to obey this order or disobey this order, you (or any of you) may be held to be in contempt of court and liable to a process of execution to compel you (or any of you) to obey the same, and may be imprisoned, fined or have your assets seized.

Any other person who knows of this Order and does anything which helps or permits the above named persons to breach the terms of this Order may also be held in contempt of court and may be imprisoned, fined or have his/her assets seized.

Dated this 17th day of June 2016


ONC Lawyers
 Solicitors for the Plaintiff

IN THE HIGH COURT OF THE
 HONG KONG SPECIAL ADMINISTRATIVE REGION
 COURT OF FIRST INSTANCE
 ACTION NO. 2961 OF 2015

BETWEEN

PACAS WORLDWIDE LIMITED Plaintiff

and

CHINA HEALTH GROUP LIMITED Defendant
 (中國衛生集團有限公司) (formerly known as China Healthcare Holdings Limited)

ORDER

Filed this 17 day of June 2016



ONC Lawyers
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IN THE HIGH COURT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION
COURT OF FIRST INSTANCE
ACTION NO 2961 OF 2015

BETWEEN

PACAS WORLDWIDE LIMITED

Plaintiff

and

CHINA HEALTH GROUP LIMITED

(中國衛生集團有限公司)

(formerly known as China Healthcare Holdings Limited) Defendant

Before: Hon Mimmie Chan J in Chambers (Open to the Public)

Date of Hearing: 4 May 2016

Date of Judgment: 18 May 2016

J U D G M E N T

Background

1. This is the application made by Pacas Worldwide Limited (“PW”) for judgment to be summarily entered against China Health Group Limited (“Company”) under Order 86 RHC.

2. On 14 December 2015, PW issued these proceedings against the Company, to seek specific performance of a Convertible Note issued by the Company to PW (“Note”), that the Company should allot and issue shares to PW which represent the principal amount of the Note, of HK\$30 million. Alternatively, PW seeks damages in lieu of or in addition to specific performance.

3. The facts of the case do not appear to be disputed. The Company is listed on the Hong Kong Stock Exchange (“Exchange”), with its head office and principal place of business in Hong Kong. On 8 April 2014, PW entered into an agreement with the Company (“Agreement”), whereby the Company agreed to issue and PW agreed to subscribe for the Note in an aggregate principal amount of HK\$30 million in accordance with the terms of the Agreement. The Company further agreed to grant an option to PW, pursuant to which PW can request the Company to issue new tranches of convertible notes on the same terms and conditions of the Note, within a period of 12 months.

4. The Agreement recites PW’s acknowledgement that “on or around the date of” the Agreement, the Company will enter into another subscription agreement with a third party, pursuant to which the Company agreed to issue convertible notes to such third party in the aggregate principal amount of approximately HK\$195 million, subject to the same terms and conditions of the Agreement.

5. Under the Agreement, the closing or completion of the transaction contemplated under the Agreement (“Closing”) is expressed

B to be conditional upon various conditions (“**Conditions Precedent**”). B
C Such Conditions Precedent include: the Exchange granting listing of and C
D permission to deal in the shares of the Company (“**Shares**”) to be issued D
E upon the exercise of the rights attaching to the Note (“**Conversion**
F **Shares**”) (“**CP 1**”); the passing of an ordinary resolution at a general E
G meeting of the Company to approve the Agreement, the transactions F
H contemplated under the Agreement, and the Note (“**CP 2**”); the passing of G
I a directors’ resolution of the Company to approve the Agreement, the H
J transactions contemplated and the Note (“**CP 3**”); and “the completion of I
K the possible acquisition by the Company or its subsidiaries of certain J
L interests in companies which are principally engaged in provision of K
M healthcare services in the PRC” (“**CP 4**”). L

6. A series of supplemental agreements were entered into K
L between the parties for the purpose of extending the long stop date for L
M Completion under the Agreement, the last supplemental agreement M
N having been made on 18 September 2015, extending the long stop date to N
O 31 December 2015. Completion under the Agreement eventually took O
P place on 11 November 2015, when PW transferred HK\$30 million to the P
Q Company for subscription of the Note, which sum was accepted by the Q
R Company, and the Company issued a certificate dated 11 November 2015, R
S certifying that PW is the registered owner of the Note in the principal S
T aggregate amount of HK\$30 million. T

7. According to PW, its case is simple. Pursuant to the express R
S provisions of the Agreement, PW exercised its right to convert the entire S
T principal amount of the Note into 200 million Shares, at the Conversion T
U
V

B Price of HK\$0.15 per share specified under the Agreement, by serving a
C conversion notice on the Company on 4 December 2015. The Company
D refused to allot or issue the Conversion Shares to PW, and PW claims that
E the Company has no defence to PW's claim that the Company is in
breach of its obligations under the Note and the Agreement.

F 8. According to PW, damages are not an adequate remedy for
G the Company's breach, and specific performance should be granted
H instead. PW claims that 200 million Shares in the capital of the Company
I is not readily available in the market, due to its substantial quantity
J (which constitutes over 9.4% of the issued share capital of the Company).
K The costs and expenses of purchasing 200 million Shares of the Company
L on the market are very substantial and will exceed HK\$30 million, and
M are in any event uncertain due to the volatility of the stock market. PW
N claims that it will suffer prejudice, inconvenience and difficulties if it
should be required to purchase the 200 million Conversion Shares on the
market. Further, PW claims that it will be difficult to enforce any award
of damages against the Company, in view of its dire financial position.

O 9. The Defence of the Company is more uncertain.

P 10. The affirmation filed on behalf of the Company, in
Q opposition to PW's application for summary judgment, and the draft
R Defence relied upon by the Company, focus on: firstly, what the
S Company now claims to be suspicious features of the Agreement and the
T transactions under the Agreement ("**Transactions**"); secondly, the breach
U of fiduciary duties of the Company's director who was solely responsible
V

B for the negotiation of the Agreement and the Transactions (“Chung”), B
C and Chung’s exercise of his powers for an improper purpose; and further, C
D PW having acted in concert with a third party to acquire more than 30% D
E of the Shares of the Company, to circumvent the requirement to make a E
general offer for the Company as provided for under the Takeover Code.

F 11. The Company claims that there are so many suspicions F
G concerning PW’s claims, which (when properly ventilated and G
H investigated) will raise an arguable defence, such that PW must have H
I known or ought to have known of Chung’s breach of duties owed to the I
J Company. According to the Company, the action should proceed to trial, J
for discovery and cross-examination if nothing else.

K *Applicable legal principles* K

L 12. The principles for summary judgment are not in dispute. In L
M summary, the essential test at the summary stage is whether the M
N defendant’s assertions are believable, in the context of so much of the N
O background as is either undisputed or beyond reasonable dispute, and if O
P yes, whether such assertions can raise an arguable defence (*Re Safe Rich P*
Industries Ltd [1994] HKLY 183).

Q 13. In resisting summary judgment, a defendant must show that Q
R there are triable issues. It has to satisfy the court that it has a real or bona R
S fide defence, or a fair probability or reasonable grounds that a bona fide S
T defence exists (*Toy Major Trading Co Ltd v Plastic Toys Ltd* [2007] 3 T
U HKLRD 345). U
V

B 14. The sound reminder of Megarry VC in *Lady Anne Tennant v* B
C *Associated Newspapers Group Ltd* [1979] FSR 298 is also relevant to this C
D case:

D "A desire to investigate alleged obscurities and a hope that D
E something will turn up on the investigation cannot, separately E
F or together, amount to a sufficient reason for refusing to enter F
G judgment for the plaintiff."

G 15. Hence, a defendant must condescend upon particulars, and G
H should state clearly and concisely what the defences, and what facts are H
I relied upon to support it (para 14/4/4 Hong Kong Civil Procedure). I

I *Are there triable issues/an arguable defence?* I

J 16. On behalf of all the Company, Mr Chan SC emphasized that J
K considered as a whole, the evidence clearly suggests that Chung was in K
L breach of his duties as a director of the Company, in procuring PW and L
M the Company to enter into the Agreement for an improper purpose of M
N enabling PW and a third party, Zheng Hua Investment Ltd ("ZHI"), to act N
O in concert to seize control of the Company, through their acquisition of O
P Shares at undervalue for a substantial discount.

P 17. The Company claims that Chung had failed to inform the P
Q Company that PW and ZHI were related companies, and that Chung had Q
R failed to advise the Company that the conversion price for the Conversion R
S Shares under the Agreement was well below the prevailing market price, S
T when convertible notes are usually issued at a premium over the market T
U price. U
V

B 18. Mr Chan further points to what the Company now describes B
C as the suspicious and unusual features regarding the Agreement and the C
D Transactions. In gist, these are: D

E (1) PW had on 5 November 2015 transferred the HK\$30 million E
F payable on Completion under the Agreement, before CP 1 F
G had been complied with and before application for listing G
H approval was even made on 6 November 2015. H

I (2) PW entered into the Agreement for the Company's issue of I
J the Note, when it was PW's stated intention to become a J
K shareholder and to acquire Shares in the Company. The K
L Company claims that PW could have entered into a L
M subscription agreement for Shares in the Company instead. M

N (3) Notwithstanding that the Agreement involved the substantial N
O amount of HK\$30 million, PW did not engage any lawyers O
P to negotiate the terms of the Agreement and to protect PW's P
Q interests, but had simply accepted the Agreement prepared Q
R by the Company's lawyers. R

S (4) The Agreement conferred on PW an option to subscribe for S
T another tranche of convertible notes ("**Option**"), when the T
U future financial position of the Company was still unknown. U
V The Option was then cancelled by mutual agreement V
pursuant to the 7th Supplemental Agreement made between
PW and the Company on 13 October 2015.

(5) CP 4 provided for acquisitions to be made by the Company
or its subsidiaries on the Mainland ("**Acquisitions**"), and the
subscription under the Agreement was to raise funds for the

B Acquisitions. However, CP 4 did not specify in detail the B
C nature of the Acquisitions to be made, the identities of the C
D companies involved in the Acquisitions, nor the interests to D
E be acquired. E
F (6) CP 4 was waived by PW on 14 August 2015, without any F
G correspondence exchanged between Chung, the Company G
H and PW, and without any details as to the negotiations H
I leading to the waiver. I
J (7) ZHI had entered into an agreement with the Company on J
K 8 April 2014 (“ZHI Agreement”) on terms identical to K
L those under the Agreement, to provide for ZHI’s L
M subscription of Shares and for the issue by the Company of M
N convertible notes in an aggregate principal amount of N
O HK\$195 million. The same circumstances apply to ZHI O
P with regard to extensions of time for compliance with and P
Q eventual waiver of CP 4, and ZHI’s payment of Q
R HK\$195 million prior to compliance with CP 1, under the R
S ZHI agreement. S
T 19. Mr Chan argued on behalf of the Company that the above T
U features raise suspicions in PW’s case, and triable issues that PW and U
V ZHI were parties acting in concert, and that Chung was acting for the V
ulterior and improper purpose of enabling PW and ZHI to acquire control
of the Company.

20. I am unable to agree that the features referred to by the
Company can raise any arguable defence to PW’s claims.

The facts asserted

21. Dealing first with the allegedly suspicious features, most of them were matters to which parties in a commercial transaction may agree, for different reasons. PW has offered its reasons, as to why it did not engage lawyers, its payment made on assurances given by Chung after the shareholders' meeting, and why it decided commercially to agree to the cancellation of the Option, and to waive the CPs. The court would be slow to question, investigate or speculate on the myriad financial and commercial factors in the capital and/or stock markets, which may cause parties to decide on a course of action or to choose a particular option in a commercial deal, or to speculate as to why PW should have agreed to subscribe for Notes, instead of subscribing outright for Shares in the Company.

22. In this case, the reasons for the parties to enter into the various agreements should also be considered in the undisputed context and factual matrix, that the Company was at the material time of the transactions "facing a solvency problem" and was in financial distress, as it admitted. In the Announcement issued by the Company on 8 April 2014 ("**8 April Announcement**"), it stated its reasons for the issue of the Notes under the Agreements with PW and ZHI, as follows:

"As disclosed in the Company's interim report for the 6 months ended 30 September 2013, the Group was facing a solvency problem and the financial distress of the Group had adversely impacted its operating activities. The Group has been making every effort to work out a satisfactory solution for improving its financial position and has taken active steps to seek for viable assets and business that can improve the profitability of the Group. The Company is currently in discussions with an independent third party with respect to a possible acquisition of certain interests in companies which are principally engaged in

B the provision of healthcare services in the PRC. The Directors
C consider that the Subscription will provide strong capital
D support for the development of the Group's business and
E alleviate the solvency problem of the Group. The Subscription
F and the Grant of Options will also provide additional funding
G for financing potential acquisition activities of the Group.

E The Directors consider that the terms of the Subscription
F Agreements, which were arrived at after arm's length
G negotiations between the Company and the Subscribers, are fair
H and reasonable and in the interests of the Company and the
I Shareholders as a whole.

G The estimated net proceeds from the Subscription (after
H deducting all related expenses) of approximately HK\$224.4
I million is intended to be used for potential acquisition activities
J and general working capital of the Group. After deducting the
K expenses relating to the Subscription, the net conversion price
L for each Conversion Share is about HK\$0.150. The maximum
M net proceeds from the issue of the Option CN would be
N approximately HK\$224.4 million, which are intended to be
O used for general working capital and for future business
P development of the Group.” (Emphasis added)

L 23. Significantly, and as highlighted by PW, the fact that the
M Company would be entering into another subscription agreement with a
N third party, on identical terms, had been disclosed and was recited in the
O Agreement itself. The Company's execution of the Agreement with PW
P and of the separate agreement with ZHI was a fact openly and publicly
Q disclosed, as evidenced by the 8 April Announcement. The 8 April
R Announcement, the Circular and the letter from the board of directors of
S the Company (“**Board**”), both dated 19 October 2015 and relating to the
T special general meeting to be held on 3 November 2015 to consider the
U Agreement, referred to PW and ZHI as subscribers for the Notes and
V contained all the details of their subscription, including the amount of
Shares which would be issued and allotted to PW and ZHI pursuant to

B their Notes, and the shareholding structure of the Company before and
C after conversion of the Notes.

D 24. Further, and as also stressed by Counsel for PW, the Board
E all along had knowledge of all the allegedly suspicious features of the
F Agreement and the Transactions, and had affirmed and approved the
G Agreement and the Note. The Board publicly stated in the 8 April
H Announcement and in the Circular and letter from the Board to the
I shareholders of 19 October 2015 not only that the terms of the Agreement
J were fair, reasonable, and in the best interests of the Company, but also,
K that PW and ZHI were independent parties. The Board stated that
L “having made all reasonable inquiries”, and to the best of their knowledge,
M information and belief, PW and ZHI were independent of the Company
N and the connected persons of the Company, and further, were
O independent of each other in terms of beneficial ownership, finances and
P control, and that there was no relationship between PW and ZHI.

Q 25. It has been asserted by Jia, the current chairman and
R executive director of the Company, that Chung was in fact the only
S executive director who was stationed in Hong Kong and who was
T “exclusively responsible” for the Company’s capital markets and
U corporate finance matters. The draft Defence of the Company pleads that
V Chung was the only director handling the negotiations and documentation
for the Agreement and the Transactions. Nevertheless, as directors of the
listed Company, who have duties which they themselves owe to the
Company, it is astonishing for Jia and the other members of the Board to
suggest that they would, could, and did simply delegate and entrust

B Chung, not only with the negotiations of the Agreement and the Note, but
C also the consideration of the terms of the Agreement and the Note,
D whether such terms and conditions are reasonable, and whether the
E Agreement is indeed in the best interests of the Company. As directors,
F they have the duty, collectively and individually, to exercise independent
G judgment, and to acquire and maintain sufficient knowledge and
H understanding of the Company's business and the Transactions proposed
I to be entered into by the Company.

H 26. Nor is it credible that none of the other directors on the
I Board at the relevant time of the Agreement had any knowledge of the
J Agreement and the Transactions. Even on the evidence adduced by the
K Company, Chung had been in correspondence with Jia and Li (another
L executive director) in September 2015 in connection with the Agreement,
M Chung's communications with the Exchange regarding the Acquisitions,
N the funds to be raised under the Notes, and the Announcements to be
O made by the Company. The Company's Announcements concerning the
P Agreement, the Note and the Transactions were all issued in the name of
Q Zhao Bao Yi, another executive director of the Company. The Certificate
R of the Note itself was signed by Jia and Chung. Neither Zhao, Li nor Jia
S can purport to disavow the documents which they signed, or to profess
T ignorance of the contents of such documents which they signed.

R 27. In any event, all of the features now referred to by the
S Company as being so obviously unusual, and hence suspicious, were in
T existence at the time of the execution or the completion of the Agreement.
U There is no evidence of any of the directors on the Board having raised
V

any of such features for questioning, investigation, or even consideration. Jia merely states in his affirmation that it is only with the assistance of the Company's "current legal advisers" that the directors now believe that the features were "highly unusual and suspicious". As Leading Counsel for PW pointed out, there were solicitors acting for and advising the Company at the time when the Agreement was prepared and signed. If the features now highlighted were indeed so "highly unusual and suspicious", it would be surprising if they were not raised by the solicitors acting for the Company, and drawn to the attention of the Board at the relevant time. This suggests that the unusual features *had* been raised for the directors' consideration, and that the Board had agreed to these features after due consideration. It will be highly unfair if the Board should now be allowed, after the event, to retract all the statements which they had made in the Announcements and the Circular, and to resile from their considered decision when they are now persuaded that the Agreement may, commercially, be a bad deal.

28. Importantly, although Mr Chan has argued that the allegedly suspicious features show that there is a triable issue as to whether PW and ZHI were acting in concert at the relevant time, the Company has failed to establish how this can constitute a defence to the claims made by PW under the Agreement. Even if Chung had been acting in breach of his duties to the Company, as it is claimed, the Company has not been able to refer to any fact at all which can be said to support its bare assertion that PW had knowledge of Chung's improper motive, breach of duties, or lack of authority.

29. All that Jia has claimed is that the Board of directors now believe that the Transactions had the unusual and suspicious features outlined above, and were not “normal” transactions. Jia then goes on to state that “the evidence suggests” that Chung had exercised his powers for improper purposes (para 5.3 of Jia’s 1st affirmation). He refers to the same suspicious features outlined above, and then states in paragraph 5.7:

“Fourth, it was suggested that ZHI and (PW) are independent and are not acting in concert. At the time of the transactions, Chung represented to the Board that ZHI and (PW) were independent parties. However, as advised by (the Company)’s current legal advisers, I verily believe that this should not be so. It is inherently most improbable for (PW) to invest in the shares of (the Company) - when it knew that ZHI was to become the single largest majority shareholder of (the Company). In the light of the amount of the investment, (PW) and ZHI should be parties acting in concert.”

30. Jia also states in paragraph 5.10 of his affirmation:

“Sixth, whilst Chung told us that ZHI and (PW) are independent parties, I am advised and verily believe that this cannot be so. ZHI also knew and/or ought to have known that (the Company) was to enter into the (Agreement) on the basis of terms and conditions identical with those in the ZHI Agreement for the issue of convertible notes in the aggregate sum of HK \$30 million which could be converted into 200 million shares of (the Company) at the conversion price of HK\$0.15 per share.” (Emphasis added)

31. Throughout Jia’s affirmation, there is only his speculation that PW and ZHI “should not be” and “cannot be” independent parties. There is no claim of PW’s knowledge of any improper act, nor reference to any fact to show that PW had the relevant knowledge, apart from paragraph 11.2 of Jia’s affirmation, where he states:

“ZHI and (PW) must have known of Chung acting for improper purposes. Given the circumstances, ZHI and PW cannot be truly ‘independent’ with each other and they must be

regarded as 'concerted parties' for the purpose of the Takeovers Code."(Emphasis added)

32. In short, even if it was true that there were suspicious features in the Agreement or the Transactions, and/or that PW and ZHI were acting in concert, there are no facts which can support any claim, or from which it can be inferred, that PW knew or ought to have known that Chung was acting for an improper purpose, or that PW was acting in concert with ZHI. The Board had announced the fact of the Company entering into the Agreement, the terms of the Agreement and the Notes which were stated by the Board to be reasonable, and the Board had declared to the world that the Agreement and the Notes were in the interests of the Company. There would have been no basis whatsoever for PW to have questioned whether Chung (with whom PW had negotiated the Agreement) had the authority to enter into the Agreement, and the Note.

33. To put all matters beyond doubt, the shareholders of the Company had passed a resolution at the special general meeting on 3 November 2015, to approve, ratify and confirm the Agreement with PW, the agreement with ZHI and the Transactions contemplated thereunder, including the Note. The shareholders' resolutions and the poll results of the special general meeting were the subject matter of the Company's Announcement issued on 3 November 2015.

34. As PW emphasized, the Company has never convened any separate general meeting after November 2015, for the shareholders of the Company to withdraw their approval of the Agreement or the Note.

B 35. As for the alleged obscurity or suspicious features of the B
C execution of the agreement between the Company and 2 parties on the C
D Mainland (“**Tianjian Parties**”) for the establishment and operation of D
E hospitals in Tianjin (“**2015 Agreement**”), I fail to see how this can afford E
F an arguable defence for the Company. The Company alleges that Chung F
G had provided false and misleading information to the Board and to the G
H Exchange in relation to the execution of the 2015 Agreement, causing the H
I Company to issue an Announcement on 21 September 2015 that the 2015 I
J Agreement had been signed or concluded, when in fact, it was not the J
K case. The facts relied upon by the Company, to assert that the 2015 K
L Agreement had not been signed or concluded by the Tianjin Parties, have L
M not even been shown to be credible. The Tianjian Parties have jointly M
N issued a letter to the Company on 16 January 2016, confirming that the N
O 2015 Agreement had been signed by them on 20 September 2015. Even O
P if any false or misleading information had been given by or on behalf of P
Q the Company to the Exchange in relation to the 2015 Agreement or the Q
R Acquisitions, it has not been shown that this was due to any misleading R
S information provided by Chung, or that the Board did not have the S
T relevant knowledge of the true circumstances at the material time. Nor T
U has it been shown (or alleged) that PW knew of the falsity of the U
V information furnished to the Exchange, or the Company. V

Q *Whether there is an arguable defence* Q

R 36. As a matter of law, I agree with Mr Smith that whether the R
S Agreement and the Note can be enforced by PW in this case depends S
T simply on whether Chung had the actual authority to sign the Agreement T
U on behalf of the Company, and if he did not, whether he had the apparent U
V on behalf of the Company, and if he did not, whether he had the apparent V

B authority to do so, and if PW can rely on such apparent authority. B
C Mr Smith relies on para 3.349 of *Palmer's Company Law*, where the C
D learned author cited *Criterion Properties Plc v Stratford UK Properties* D
E [2004] 1 WLR 1846, and concluded that the validity of a transaction E
F entered into by a director in breach of his fiduciary duty to the company F
G turns on the question of whether the director was actually or apparently G
H authorized by the company to conclude an agreement of that nature. H
I It was pointed out that it was irrelevant whether the third party's conduct, in I
J seeking to hold the company to the transaction, was "unconscionable". J
K It is only where the third party dealing with the agent or director had actual K
L knowledge that the agent or director did not have actual authority, or if its L
M belief in the director's authority was dishonest or irrational, that the M
N transaction can be set aside (*Akai Holdings Ltd v Thanakharn Kasikorn* N
O *Thai Chamchat* (2010) 13 HKCFAR 479). In *Criterion Properties*, the O
P House of Lords considered that the question of the director's authority in P
Q the case could not be resolved on the appeal, and it was for that reason Q
R that the matter was allowed to go to trial. R
S
T
U
V

37. On the facts of this case, there is no question concerning
Chung's authority. The Board, and then the shareholders of the Company,
authorized and approved the Agreement and the Note. There are no facts
put forward by the Company which can adequately and credibly show
either that PW had knowledge of Chung's lack of authority or Chung's
improper motives, or that PW's directors were dishonest or irrational in
believing that the Board and the shareholders of the Company had
authorized and approved the Agreement, the terms and conditions of
which had been stated by the Board to be reasonable and in the best

B interests of the Company. On the facts and evidence available in this case, B
C to permit the Company and its current Board to avoid specific C
D performance of the Agreement and the Note, because of what they now D
E proclaim to be their belief and their unsubstantiated suspicions, would be E
F doing precisely that which was cautioned against by Megarry VC in *Lady F*
G *Anne Tennant v Associated Newspapers Group Ltd* [1979] FSR 298, ie G
H investigating alleged obscurities in the wishful hope only that something H
I will turn up on some investigation at trial. Without more concrete facts I
J and credible particulars, that cannot be the reason for refusing to enter J
K judgment. K

L *Conclusion and orders* L

M 38. In conclusion, I agree with Mr Smith that if there were M
N unusual features in the Transactions under the Agreement, they only N
O show that Chung, the directors on the Board and the Company's legal O
P advisers at the material time had failed to act diligently in discharge of P
Q their duties owed to the Company, to protect the best interests of the Q
R Company. It is for the Company to pursue any of its remedies against the R
S directors, but in the absence of any credible evidence that PW had S
T knowledge of the directors' breach of duties, or had acted irrationally and T
U dishonestly in accepting the approval of the Agreement by the Board and U
V the shareholders of the Company, there can be no arguable defence to V
PW's claims.

39. No arguments have been raised on behalf of the Company as
to why the Court should not exercise its discretion to award specific
performance of the Agreement. I accept PW's case that damages are

B inadequate in respect of the Company's breach of its obligations under
C the Agreement and the Note, and accordingly will order specific
D performance, as sought.

E 40. I grant summary judgment in terms of paragraph (1) of the
F draft minutes attached to the summons issued on 8 January 2016, with
G costs of the application and of the action to PW, with certificate for
H 2 Counsel.

I
J
K (Original signed)

L (Mimmie Chan)
M Judge of the Court of First Instance
N High Court

O Mr Clifford Smith SC and Mr Kerby Lau, instructed by ONC Lawyers,
P for the plaintiff

Q Mr Warren Chan SC and Mr Law Man Chung, instructed by Chiu &
R Partners, for the defendant

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

Hong Kong, 23 June 2016

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.