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.

Sanai Health Industry Group Company Limited
三愛健康產業集團有限公司

(Formerly known as Wuyi International Pharmaceutical Company Limited
武夷國際藥業有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1889)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

Revenue decreased by 76% to RMB62.5 million

Gross loss was RMB56.8 million

Gross loss margin was 91%

Loss for the year was RMB1,152 million

Loss per share was RMB47.8 cents

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sanai Health Industry Group Company Limited (formerly known as Wuyi International Pharmaceutical Company Limited) ("**Sanai Health Industry**" or the "**Company**") announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017 ("**the year**" or "**the year under review**"), together with the comparative figures of the year ended 31 December 2016.

The Group's financial information for the year ended 31 December 2017 in this announcement was prepared on the basis of the consolidated financial statements which have been reviewed by the Company's independent auditor and the Company's audit committee. The Group has agreed with the auditor as to the contents of this results announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Revenue	5	**62,534**	263,025
Cost of sales		**(119,311)**	(245,062)
Gross (loss)/profit		**(56,777)**	17,963
Other income		**1,803**	14,196
Net loss on disposal of property, plant and equipment		–	(7)
Distribution costs		**(4,739)**	(15,478)
Administrative expenses		**(39,528)**	(82,781)
Finance costs	6(a)	**(12,695)**	(2,117)
Impairment loss on property, plant and equipment	6(c)	**(683,326)**	(316,841)
Impairment loss on land use rights	6(c)	**(27,558)**	(15,261)
Impairment loss on investment in an associate	6(c)	**(4,795)**	–
Impairment loss on amount due from an associate	6(c)	**(89,915)**	–
Impairment loss on goodwill	6(c)	**(107,055)**	–
Impairment loss on intangible assets	6(c)	**(3,121)**	–
Written off on property, plant and equipment	6(c)	**(66)**	(89,931)
Written off on inventories	6(c)	**(4,544)**	(13,036)
Impairment loss on other receivables	6(c)	**(2,540)**	–
Share of results of an associate		–	(105)
Loss before taxation	6	**(1,034,856)**	(503,398)
Income tax	7	**(116,888)**	107,140
Loss for the year attributable to owners of the Company		**(1,151,744)**	(396,258)
Other comprehensive loss for the year, net of income tax		–	–
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(530)**	–
Other comprehensive loss for the year, net of income tax		**(530)**	–
Total comprehensive loss for the year attributable to owners of the Company		**(1,152,274)**	(396,258)
Loss per share			
– Basic and diluted	9	**RMB(47.8) cents**	RMB(20.0) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
Non-current assets			
Property, plant and equipment		**191,263**	750,373
Land use rights		**7,714**	36,137
Goodwill		–	107,055
Interest in an associate		–	4,795
Other intangible assets		–	3,918
Finance lease receivables		**29,878**	–
Deferred tax assets		**49,740**	169,736
		278,595	1,072,014
Current assets			
Inventories		**39,369**	14,133
Trade and other receivables	*10*	**83,079**	112,280
Tax recoverable		**302**	336
Finance lease receivables		**42,982**	–
Financial assets at fair value through profit or loss		–	41,977
Loan receivables		**25,000**	–
Cash and cash equivalents		**61,725**	147,547
		252,457	316,273
Current liabilities			
Trade and other payables	*11*	**13,916**	49,546
Secured bank loans	*12*	**281,942**	85,600
Current taxation		**1,435**	988
		297,293	136,134
Net current (liabilities)/assets		**(44,836)**	180,139
Total assets less current liabilities		**233,759**	1,252,153
Non-current liabilities			
Deposits received		**4,640**	–
Deferred tax liabilities		**9,894**	13,736
		14,534	13,736
Net assets		**219,225**	1,238,417
Capital and reserves			
Share capital	*13*	**27,009**	21,762
Reserves		**192,216**	1,216,655
Total equity attributable to owners of the Company		**219,225**	1,238,417

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

1. GENERAL

Sanai Health Industry Group Company Limited (formerly known as: Wuyi International Pharmaceutical Company Limited) (the "Company") was incorporated in the Cayman Islands on 21 March 2006 and registered as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Cayman Companies Law") and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 February 2007. The addresses of the registered office and principal place of business of the Company are Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands and Unit 1309, 13/F, West Tower, Shun Tak Centre, Sheung Wan, Hong Kong respectively. The principal activities of its principal subsidiaries are the development, manufacturing, marketing and sales of pharmaceutical products, sales of pharmaceutical related software, provision of consultancy services, general trading and provision of finance leasing services.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The HKICPA has issued certain new and revised HKFRSs which are first effective or available for early adoption for the current accounting period of the Company and its subsidiaries (the "Group"). Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in an associate.

Items included in the financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except for per share data. RMB is the Company's functional and the Group's presentation currency.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise set out.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Going Concern basis

During the year ended 31 December 2017, the Group incurred a net loss of RMB1,151,744,000 (2016: RMB396,258,000), and as of that date, the Group had net current liabilities of RMB44,836,000 (2016: net current assets of RMB180,139,000). These conditions, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The directors of the Company have taken steps to improve the Group's liquidity and solvency position, having regard to the following: (i) an expected ability and successfully refinance interest-bearing bank borrowings in aggregate of RMB167,542,000 as at 31 December 2017 and (ii) the availability of loan facilities of HK$150,000,000 (equivalent to approximately RMB120,000,000) granted by a non-banking financial institution in Hong Kong in April 2018; and (iii) the forecasted operating cash outflows for the year ending 31 December 2018. The directors are of the opinion that the Group will be able to generate sufficient funds to meet its financial obligations when they fall due in the foreseeable future. Accordingly, the consolidated financial statements of the Group have been prepared on a going concern basis.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken by the directors as described above.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise and to classify non-current assets and liabilities as current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised loss
Amendments to HKFRS 12	As part of annual improvements to HKFRSs 2014-2016 cycle

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4. SEGMENT INFORMATION

The Group manages its businesses by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Board (the chief operating decision maker) for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Pharmaceutical products: development, manufacturing, marketing and sales of pharmaceutical products, sales of pharmaceutical related software and provision of consultancy services;

(b) Finance leasing: provision of finance leasing services; and

(c) Other general trading: trading of goods other than pharmaceutical products.

As an effort to diversify the business of the Group, the Group has commenced the business of finance leasing and other general trading during the year ended 31 December 2017 and thus the results of these two new segments are included in the segment reporting.

a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Board monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of financial assets at fair value through profit or loss and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit/(loss) is “adjusted earnings/(loss) before interest, taxes, depreciation and amortisation”, where “interest” is regarded as including interest income from bank deposits and interest exposure on bank and other borrowings and “depreciation and amortisation” is regarded as including impairment losses on non-current assets and trade and other receivables. The Group’s earnings/(loss) are further adjusted for items not specifically attributed to individual segments, such directors’ and auditors’ remuneration and other head office or corporate administration costs.

The accounting policies of the reportable segments are the same as the Group’s accounting policies.

Information regarding the Group's reportable segments as provided to the Board for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	Pharmaceutical products		Finance leasing		Other general trading		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
		(re-presented)		(re-presented)		(re-presented)		(re-presented)
Reportable segment revenue from external customers	**30,152**	263,025	**3,115**	N/A	**29,267**	N/A	**62,534**	263,025
Reportable segment profit/(loss) (adjusted EBITDA)	**(7,105)**	(78,477)	**1,885**	N/A	**(828)**	N/A	**(6,048)**	(78,477)
Interest income from bank deposits	**265**	1,877	**1**	N/A	**–**	N/A	**266**	1,877
Interest expense	**(12,695)**	(2,117)	**–**	N/A	**–**	N/A	**(12,695)**	(2,117)
Depreciation and amortisation for the year	**(81,887)**	(75,920)	**–**	N/A	**–**	N/A	**(81,887)**	(75,920)
Written off on property, plant and equipment	**–**	(89,931)	**–**	N/A	**–**	N/A	**–**	(89,931)
Written off on inventories	**(4,544)**	(13,036)	**–**	N/A	**–**	N/A	**(4,544)**	(13,036)
Impairment loss on:								
– plant and equipment	**(683,326)**	(316,841)	**–**	N/A	**–**	N/A	**(683,326)**	(316,841)
– goodwill	**(107,055)**	–	**–**	N/A	**–**	N/A	**(107,055)**	–
– investment in an associate	**(4,795)**	–	**–**	N/A	**–**	N/A	**(4,795)**	–
– due from an associate	**(89,915)**	–	**–**	N/A	**–**	N/A	**(89,915)**	–
– intangible assets	**(3,121)**	–	**–**	N/A	**–**	N/A	**(3,121)**	–
– land use rights	**(27,558)**	(15,261)	**–**	N/A	**–**	N/A	**(27,558)**	(15,261)
– other receivables	**(2,540)**	–	**–**	N/A	**–**	N/A	**(2,540)**	–
Reportable segment assets	**290,187**	1,131,787	**74,374**	N/A	**59,945**	N/A	**424,506**	1,131,787
Additions to non-current segment assets during the year	**204,513**	435,477	**–**	N/A	**–**	N/A	**204,513**	435,477
Reportable segment liabilities	**(290,130)**	(133,443)	**(6,615)**	N/A	**(2,416)**	N/A	**(299,161)**	(133,443)

Note:

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year.

b) Geographic Information

(i) Revenue from external customers

The following is an analysis of geographical location of the Group's revenue from external customers, based on the location at which the services were provided or the goods delivered.

	Revenues from external customers	
	2017	2016
	RMB'000	*RMB'000*
		(re-resented)
Hong Kong	**25,178**	–
PRC (place of domicile)	**37,356**	263,025
	62,534	263,025

(ii) Non-current assets

No non-current assets information is presented for the Group's geographical location, as over 90% of the Group's non-current assets (excluding deferred tax assets) are located in the PRC.

c) Information about major customers

Revenue of approximately RMB22,900,000 (2016: RMB11,364,000) are derived from a single external customer. These revenue are attributable to approximately 37% (2016: 4%) of total revenue from external customers.

5. REVENUE

The principal activities of the Group are the development, manufacturing, marketing and sales of pharmaceutical products, sales of pharmaceutical related software, provision of consultancy services, other general trading and provision of finance leasing services.

The amount of each significant category of revenue recognised during the year are as follow:

	2017	2016
	RMB'000	*RMB'000*
Sales of pharmaceutical products	**26,188**	262,742
Sales of pharmaceutical related software	**1,026**	–
Finance leasing interest income	**3,115**	–
Trading of electronic components and other products	**29,267**	–
Provision of consultancy services	**2,938**	283
	62,534	263,025

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	2017 *RMB'000*	2016 *RMB'000*
(a) Finance costs		
Interest on bank borrowings	**12,695**	2,117
(b) Staff costs		
Directors' and chief executive officer's emoluments	**1,179**	2,926
Other staff costs		
– Contributions to defined contribution retirement plans	**1,544**	4,143
– Salaries, wages and other benefits	**14,299**	26,106
Total staff costs *#	**17,022**	33,175
(c) Other items		
Depreciation of property, plant and equipment *#	**80,225**	74,794
Amortisation of other intangible assets	**797**	66
Amortisation of land use rights	**865**	1,234
Auditor's remuneration	**1,427**	1,609
Net loss on disposal property, plant and equipment	**–**	7
Impairment loss on property, plant and equipment	**683,326**	316,841
Impairment loss on land use rights	**27,558**	15,261
Impairment loss on investment in an associate	**4,795**	–
Impairment loss on amount due from an associate	**89,915**	–
Impairment loss on goodwill	**107,055**	–
Impairment loss on intangible assets	**3,121**	–
Impairment loss on other receivables	**2,540**	–
Written off on property, plant and equipment	**66**	89,931
Written off on inventories	**4,544**	13,036
Equity-settled share-based payment expenses	**–**	19,916
Exchange loss/(gain), net	**3,016**	(2,984)
Operating lease payments in respect of rented premises	**1,159**	1,025
Cost of inventories#	**118,976**	244,906
Research and development costs *	**2,199**	4,135

\# Cost of inventories includes approximately RMB80,263,000 (2016: approximately RMB76,401,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

* Research and development costs includes approximately RMB2,098,000 (2016: approximately RMB3,972,000) relating to staff costs and depreciation which amount is also included in the respective total amounts disclosed separately above.

7. INCOME TAX

	2017	2016
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT")	**575**	–
Hong Kong Profits Tax	**159**	–
Deferred taxation	**116,154**	(107,140)
	116,888	(107,140)

a) In accordance with the relevant laws and regulations in the PRC, one of the PRC subsidiaries of the Group, Fujian Liumai Medical Services Co., Ltd. ("Fujian Liumai") is exempted from PRC EIT for two years ended 31 December 2016 and 2017, followed by a 50% reduction for the next three years ending 31 December 2018 to 31 December 2020. For other PRC subsidiaries of the Group, PRC EIT is calculated at 25% (2016: 25%) in accordance with the relevant laws and regulations in the PRC.

b) Hong Kong Profits Tax have been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong subsidiaries for the year ended 31 December 2017 (2016: No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong for the year).

8. DIVIDENDS

The Directors do not recommend the payment of final dividend for both years ended 31 December 2017 and 2016.

9. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB1,151,744,000 (2016: RMB396,258,000) and the weighted average number of 2,408,020,719 ordinary shares (2016: 1,983,786,200 ordinary shares) in issue during the year.

b) Diluted loss per share

For the year ended 31 December 2017, diluted loss per share was the same as the basic loss per share as there is no dilutive potential ordinary shares outstanding.

For the year ended 31 December 2016, no adjustment has been made to the basis loss per share amount presented as the impact of the share options had anti-dilutive effect on the basic loss per share amount presented.

The calculation of diluted loss per share is based on the loss attributable to owners of the Company of 1,151,744,000 (2016: RMB396,258,000) and the weighted average number of 2,408,020,719 (2016: 1,983,786,200) ordinary shares in issue during the year.

10. TRADE AND OTHER RECEIVABLES

The Group normally grants credit terms of 60 to 90 days (2016: 60 days) to its customers. Included in trade and other receivables are trade receivables of RMB23,420,000 (2016: RMB3,414,000), and their ageing analysis at the end of the reporting period, presented based on the invoice date is as follows:

	2017	2016
	RMB'000	*RMB'000*
0 to 30 days	**10,229**	1,648
31 to 60 days	**1,164**	1,766
61 to 90 days	**6,650**	–
91 to 120 days	**1,884**	–
121 to 365 days	**3,460**	–
Over 365 days	**33**	–
	23,420	3,414

Management closely monitors the credit quality of trade receivables and considers that no impairment allowance is necessary as the balance are still considered fully recoverable. The Group does not hold any collateral over these balances.

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of RMB4,101,000 (2016: RMB22,000), and their ageing analysis based on the invoice date is as follows:

	2017	2016
	RMB'000	*RMB'000*
0 to 30 days	**1,357**	22
31 to 60 days	**165**	–
91 to 120 days	**469**	–
121 to 365 days	**536**	–
Over 365 days	**1,574**	–
	4,101	22

All of the trade and other payables are expected to be settled within one year or are repayable on demand.

12. SECURED BANK LOANS

The analysis of the carrying amount of secured bank loans is as follows:

	2017	2016
	RMB'000	*RMB'000*
Secured bank loans	**281,942**	85,600

At 31 December 2017, included in interest-bearing bank loans of approximately RMB120,042,000 has been expired. Subsequent to the end of the reporting period, the Group has carried out discussion with the banks in respect of renewal of bank loans for another one year. All of the other interest-bearing bank loans are due for repayment with one year (2016: All interest-bearing bank loans are carried at amortised cost and the amount due is based on the scheduled repayment date as stipulated in the respective loan agreements).

13. SHARE CAPITAL

	2017		2016	
	No. of shares		No. of shares	
	('000)	***RMB'000***	*('000)*	*RMB'000*
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At beginning of the year	**2,256,773**	**21,762**	1,880,773	18,527
Exercise of share options	**164,000**	**1,415**	–	–
Placing of new shares	**451,350**	**3,832**	376,000	3,235
At end of the year	**2,872,123**	**27,009**	2,256,773	21,762

The owners of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The following is the extract of the Independent Auditor's Report from the external auditors of the Company:

Material Uncertainty Related to Going Concern

We draw attention to note 2(b) to the consolidated financial statements which indicates that the Group incurred a net loss of approximately RMB1,151,744,000 during the year ended 31 December 2017, and the Group had net current liabilities of RMB44,836,000 as of 31 December 2017. These conditions, along with other matters as set forth in note 2(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review:

The pharmaceutical industry in the PRC has undergone drastic improvements in 2017, including the implementation of the two-invoice system (兩票制), introduction of the consistency evaluation (一致性評價) and the intensive implementation of policies such as zero mark-up of medicines by hospitals and drug concentration procurement. Throughout the year 2017, national-level and local competent authorities successively promulgated over 2000 policies and executive orders relating to the healthcare and pharmaceutical industries. The introduction of such policies represented the national regulatory escalation on the pharmaceutical industry, which imposed higher requirements on the enterprises of the pharmaceutical industry and also accelerated the increase of industry concentration. Enterprises were faced with challenges in various aspects including research and development of pharmaceutical products, market network and capital strength as the disadvantages of some of them were amplified. The two-invoice system and drug concentration procurement were the policies with greater impact on the industry. The introduction of the two-invoice system covered the whole country and it required that only one dealer or distributor could handle the sales of pharmaceutical products from manufacturers to ultimate customers, and the original channels were forced to narrow, and manufacturers must possess ability for direct customer service. It also required that the customers of the dealers must be end customers such as hospitals and clinics. The system of drug concentration procurement required that the Company could only be granted the right of sales for its pharmaceutical products after winning the tenders in the district, and local hospitals could then purchase the tender-winning pharmaceutical products through the procurement platform, while the increase of terminal marketing required marketing implementation by the enterprises. In particular, the volume and price of many pharmaceutical products decreased due to the reduction of catalogue content for procurement of pharmaceutical products by each of provinces and cities for controlling medical insurance spending, and many pharmaceutical products lost chances to enter the market as they could not be included in the catalogue content. The Food and Drug Administration increased efforts on unannounced inspections in 2017, and the production of many enterprises were suspended for rectification as required by the regulatory units.

Review of Results:

The results of operations of the Group had a larger decrease in 2017 as compared with that of 2016. In particular, the decrease was due to the adverse impacts on the Group by the external policies and environment, and the impact of suspended production as plants were damaged by the natural disaster at the end of 2016 and the impact of a failure of smooth transfer and operation concepts within the Group arising from the process of handover of job duties between new and old management.

During the reporting period, the total revenue of the Company decreased by 76% to RMB62.5 million. The total loss after tax was RMB1,152 million, among which, the one-off extraordinary loss was RMB923 million, the depreciation amount was RMB80 million and the reversed deferred tax assets was RMB116 million.

The existing members of the Board of the Company were appointed in 2017, and new Directors needed time to get familiar with the business and history of the Group during the process of handover. As such, the substantial changes in a subsidiary and an associate company could not be properly handled in a timely manner. The Group completed the acquisition of Fujian Liumai Medical Services Company Limited ("Fujian Liumai") in 2016. Fujian Liumai is an information services company and has greater differences in terms of business model as compared with the Group's existing business model of production of pharmaceutical products. The Group relied on its existing team for management after the acquisition. Two of the key management personnel of Fujian Liumai passed away and resigned respectively in 2017 and the team had substantial changes. As the information industry has fast-changing development, products may lose their competitiveness once they could not keep the development pace with the industry. As the Group was under great pressure for its own pharmaceutical results, it was unable to put more resources on Fujian Liumai for its recovery, thus Fujian Liumai's sales results was far below expectation. The management decided to carry out evaluation on the future business prospects of Fujian Liumai at the end of the year and engaged valuers for impairment test of goodwill.

Fuzhou Sanai, a wholly-owned subsidiary of the Group, and an independent third party jointly formed Antu County Guanghui Chinese Medicine Technology Development Company Limited* (安圖縣廣匯中藥材科技有限公司) ("Antu Guanghui"), an associate company, in 2016, and invested an accumulated amount of approximately RMB98.00 million in the associate company for the plantation of the Chinese herb, Perilla. In 2017, as the Company was informed that Perilla Oil Capsule was not included in the National Reimbursement Drug List, the sales volume of Perilla Oil Capsule had an obvious drop and the demand for perilla seeds by the Company had a substantial decrease. For minimising losses, Fuzhou Sanai issued a letter to the associate company to request the termination of the cooperative plantation agreement and the refund of investment amount. Such request had not received a positive response. After lengthy negotiation, the managements of Fuzhou Sanai determined to take legal actions after discussion with the management of the Group for protecting the Company's rights, and will initiate legal proceedings against, and not exclude the possibility of making application with the court for liquidation of, Antu Guanghui. The management of the Group determined to make a full impairment on the investment amount in the associate company at the end of the year so as to reflect the potential risk of loss.

Pharmaceutical Products Business

During the year under review, the pharmaceutical products segment remained as the largest income contributor of the Group. This segment recorded a revenue of RMB30.2 million, accounting for approximately 48.2% of the Group's total revenue. The gross loss amounted to RMB61.2 million, with a gross loss margin of 202.9%.

Sales of pharmaceutical products

During the year under review, the Group mainly sold 39 different types of pharmaceutical products, and the business generated a revenue of approximately RMB26.2 million, accounting for approximately 41.9% of the Group's total revenue. The decrease in sales of pharmaceutical products is mainly due to the following:

1. As affected by the typhoon and damaged underground pipelines at the end of 2016, the plants suspended production for repairing and such repairing work completed until the beginning of 2017. During such period, there was shortage of supply of the Group's major products. As additional time was needed to resume production and sales after the completion of the repairing work, the Company lost certain major customers during such period and led to the decrease in sales.

2. Production units for oral products were renovated since 2016. Although the renovation was completed in early 2017, production did not commence until mid-2017 when the GMP Certification was obtained, which resulted in a few months' suspension period of oral products production in 2017, the sale results therefore declined.

3. In early 2017, National Health and Family Planning Commission ("NHFPC") officially announced the Implementing Opinions on Carrying out the "Two-Invoices System". The "Two-Invoices System" was gradually implemented throughout the country. The implementation of such system has affected the sale model of pharmaceutical companies significantly. The Group has lost certain major distributor and shifted the focus to direct participation in tender process for drug purchase. Certain products were not successful in tenders. Meanwhile, as prices of certain raw materials increased significantly due to their supply falling short of demand, the Group has suspended the production and sale of certain products.

4. The Perilla Oil Capsule, being one of the major products of the Group, was not able to be listed in the National Medical Insurance Directory, instead, competitive products such as pitavastatin was listed in the National Medical Insurance Directory successfully. As a result, the Group's market was diluted, which led to the decrease of sale of the Perilla Oil Capsule. As such, the Group decided to quit the perilla planting project of the associate company and asked the associate company to refund the investment, yet the associate company did not respon to the request. Therefore the Group made impairment on the investment. Meanwhile, in order to standardize the internal production unit and prevent cross contamination between each production unit and production line, the Group decided to separate the perilla oil production line from production lines of other products. Production of Perilla Oil was suspended during the rectification period, thus sales of Perilla Oil decreased in the second half of 2017.

5. In order to improve quality of medicine safety, the Group performed rectification on certain production units on October 2017. The rectification works has impact on the production and sale of the Group for the second half of 2017 and led to decrease in sales.

The main reason of recording a gross loss was that the fixed costs of cost of sales such as depreciation, amortization and salaries did not decrease along with the decreased revenue, in which depreciation and salaries amounted to RMB76,374,000 and RMB3,889,000 respectively.

Sales of softwares and provision of consultancy services

During the year under review, the business generated a revenue of approximately RMB4.0 million, accounting for approximately 6.3% of the Group's total revenue. The revenue was mainly from Fujian Liumai. After the completion of its acquisition in December 2016, Fujian Liumai became one of the Company's subsidiaries. Due to changes in the management of Fujian Liumai during the year, the product lags behind similar products in the market, and the revenue during the year is not good as expected.

Based on the abovementioned, impairment indicator existed in relation to the Pharmaceutical Products Business and an impairment review has been carried out. In performing the impairment test, the Board had also made reference to a valuation performed by an independent professional valuer. As a result, impairment on property, plant and equipment and land use right and goodwill has been made.

Other General Trading Business

The Group commenced other general trading business during the year. Any trading other than pharmaceutical products are included into this segment. During the year under review, other general trading segment recorded a revenue of RMB29,267,000, accounting for approximately 46.8% of the Group's total revenue. The gross profit amounted to RMB1,200,000, with a gross profit margin of 4.1%. During the year ended 31 December 2017, the trading products mainly included electronic components and condoms.

Finance Leasing Business

The Group commenced its finance leasing business in China during the year. The Group targeted industrial manufacturers, hospitals and health industry related entities as its customers to expand its finance leasing business. For the year ended 31 December 2017, turnover generated by this segment amounted to approximately RMB3.1 million, accounting for approximately 5.0% of the Group's total revenue. Short-term lease receivables and long-term lease receivables were RMB42.98 million and RMB29.88 million respectively.

BUSINESS PROSPECTS

Pharmaceutical products business: The changes in the pharmaceutical policies in the PRC and the continuous increase in the requirements on the pharmaceutical products from the market imposed greater development pressure on the Group's business of pharmaceutical products. The Group will re-examine its own advantages and disadvantages and utilize its strengths and overcome the weaknesses so as to strive to improve the results with active innovation. The pharmaceutical industry in the PRC still has a growth rate which is higher than the gross domestic product (GDP) and extensive rooms for development. Although the Company's results in the pharmaceutical sector is unsatisfactory, the management is optimistic about the Company's foundation in the pharmaceutical field, as the Company has stronger production capacity demonstrated by the modernized GMP pharmaceutical plants and diversified production lines covering glass bottle infusion solution, plastic bottle infusion solution, soft bag infusion solution, ampoule injection, granules, syrup and tablets. The Group will firstly improve and optimize the products with potential among the existing products. At the same time, it will further extend and expand the series of products with an aim to focus on the new demand and new hot spots of the market. Currently, the middle aged and elderly people attach increasing importance to the prevention of diseases and pay attention to healthcare, and the demand for healthcare products including nutrients, Chinese medicinal drinks and meal drinks has rapid growth. The Company could fully utilize the existing production capacity to gradually develop and product these types of products so as to expand the source of revenue and share the fixed costs at the same time. Among the existing product lines of the Company, it will enhance the local distribution services for the intravenous infusion solution products so as to secure more market shares in Fujian Province. The Group will re-design the packaging of granules and syrup products and upgrade the brand image of the Company for better and convenient use by the customers.

Finance leasing business: After a year of establishment and development, Union Development Finance Lease (Shenzhen) Company Limited* (聯合發展融資租賃(深圳)有限公司), an indirectly wholly-owned subsidiary, under the Group has achieved initial results and begun to contribute continuous operating profits to the Group. In 2018, the leasing company will gradually explore direct leasing of medical devices and rehabilitation equipment for consumers and acquiring customers and providing customers with relevant health management and rehabilitation services by leveraging on online information platforms and the establishment of healthcare services stations by way of self-operated and franchised businesses in communities in the PRC. This model of leasing combined with service is in line with the consumption trend of leasing instead of buying and will bring a large number of potential pharmaceutical customers for the Group and benefit the Company to carry out secondary sales of medicines and health products through combination with the Group's pharmaceutical business.

Precision medicine: Zhejiang Sanai Biotechnology Company Limited* (浙江三愛生物科技有限公司), an indirectly wholly-owned subsidiary, under the Group and Yangtze Delta Region Institute of Tsinghua University in Zhejiang officially began to set up Tsinghua Yangtze Delta Region Sanai Precision Medicine Research and Development Center in November 2017, and relevant work has been carried out. The Group firmly believes that biotechnology and precision medicine are the main ways and tools to cure human diseases in the future. The Group will have close cooperation with scientific research teams in precise detection, genome editing, cell therapy, regenerative medicine and the research and development of targeted drugs to introduce capital and market resources for the project teams, striving to turn scientific research achievements into the Group's products to benefit the society.

Embracing the Internet: China's Internet development is ahead of the world. With the popularization of the mobile internet, traditional industries are constantly being revolutionized, new models are emerging continuously, the product life cycle of enterprises is becoming shorter, the demand of customers is more personalized, and the external environment of enterprises is changing rapidly. Under this context, the management understands profoundly that only by embracing changes and the internet with a positive attitude can we win the opportunity for the development of the Group, thus driving the flow of technology, capital, talent and logistics with information flow. The pharmaceutical industry is a relatively traditional and conservative industry and enormous market opportunities will exist in the pharmaceutical industry with the use of internet. At this stage, if the Group can seize opportunities to make changes and use the internet to realize innovations in technology, product and marketing, there will be a chance for the Group to change the predicament that it's confronted with. The Group will invest resources to develop mobile applications and WeChat programs to achieve online leasing of medical devices and instruments and online sales of medical care products. Blockchain technology is also a significant technological innovation of the internet, as it provides a credible, open and secure data storage and interactive network for business communities. For the health industry, blockchain technology can be applied to the storage and use of genetic and medical data. Through decentralized anonymous storage by using the blockchain technology, the genetic information can only be viewed, used and analyzed with personal permission. The Group will continue to pay attention to such emerging technologies and invest resources to carry out relevant projects in due course.

E-commerce: The Group notes that the varieties of overseas health food are rich while developing its own brand of healthcare products business, and notices that the healthcare products from Australia, Japan and Germany are especially popular in the domestic citizens. However, these overseas healthcare products are imported by way of general trading which required registration and filing (usually taking 3 to 5 years) in accordance with the regulatory requirements of the China Food and Drug Administration. Domestic customers purchase these healthcare products mainly through overseas travelling or cross-border e-commerce platforms. In particular, as a free trade port, Hong Kong has natural advantages for commencing cross-border e-commerce. Its unique geographical location and taxation system also attracts many customers from the Mainland to purchase pharmaceutical products, healthcare products and cosmetic products. In 2018, the Hong Kong government even mentioned in the budget to invest HK$250 million in assisting enterprises to capture the opportunities from the One Belt One Road and Guangdong-Hong Kong-Macao Bay Area and emphasize on the development of e-commerce and reserve HK$5 billion for rebuilding Air Mail Centre of Hong Kong International Airport. The Group will capture the opportunities and combine with the geographical advantage of Hong Kong to finance the establishment of e-commerce platforms and physical shops in Hong Kong with the Group's internal resources, and search for overseas quality healthcare products and maternal and child supplies so as to satisfy the needs of the domestic customers and tourists travelling to Hong Kong. The Group hopes to bring the advanced technologies and business models to Hong Kong to build a leading local cross-border shopping mall in Hong Kong by combining with the new retail technologies and the internet third party payment services.

Open organization: The development of enterprises cannot rely only on internal growth. In the era of internet, it's even more important to establish a collaboration with external resources of enterprises, set up partner teams and ecosystems in their own sub-sectors and build an open and ecological organization of the team partner system, which is in line with the characteristics of the times and reflects the features of the industry and the Group. In order to build an ecological enterprise, the first thing we need to do is to reform ideas, establish business core values and define the mission of the enterprise. The Group will create a "three love culture", namely, love life, love nature and love society, and take this culture as the code of conduct of the Company to unify employees, partners and organization members that recognize the core values of the enterprise, thus forming a corporate cultural atmosphere featuring shared resources and benefits and teams advancing together. The Group will connect suppliers, distributors and consumers through the construction of information network, achieve the internal products and projects of the enterprise through external resources outside the organization and share achievements with participants. The Group will focus on building core brands and culture and open products, research and development, production, sales and other functions on a gradual basis, thus creating a mutually-built, win-win and shared new business form.

Financial Review

For the year ended 31 December 2017, the Group achieved a total revenue of RMB62.5 million, declining by 76% as compared to RMB263.0 million in 2016, and gross loss margin was 91% (2016: gross profit margin 7%). The Group recorded a loss attributable to owners of the Company of RMB1,152.5 million (2016: RMB396.3 million). Loss for the year increased due to impairment loss on goodwill, property, plant and equipment, land use right, amount due from an associate and a reversal of deferred tax asset. The basic loss per share was RMB47.8 cents (2016: RMB20.0 cents).

Liquidity, Financial Resources and Capital Structure

As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB61.7 million (2016: approximately RMB147.5 million) and most cash and cash equivalents were denominated in Renminbi and Hong Kong dollars. The decrease in cash and cash equivalents during the year under review was mainly due to the increase of capital expenditure of the Group. As at 31 December 2017, the Group's secured bank loans which were secured by land use rights and property, plant and equipment amounted to approximately RMB281.9 million (2016: RMB85.6 million). The loans were denominated in Renminbi, carried interest at fixed rates ranging from 4.6% to 6.3% (2016: 4.6% to 4.8% respectively) per annum and are repayable within 1 year. During the year, the Group did not use any financial instruments for hedging purpose.

The Group reviewed the capital structure by using gearing ratio. The gearing ratio represents the total debt, which includes trade and other payables and secured bank loans of the Group, divided by total equity of the Group. The gearing ratio of the Group was approximately 135.0% as at 31 December 2017 (2016: approximately 10.9%).

Fund Raising Activity

On 13 October 2017, in order to enlarge the shareholder base and the capital base of the Company as well as to strengthen the Group's financial position for future development of the Group, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a best effort basis, 451,350,000 new ordinary shares of the Company of HK$0.01 each to not less than six independent placees at HK$0.24 per new share to be placed under the placing. The above placing was completed on 6 November 2017 and the net proceeds amounted to approximately RMB88.7 million (equivalent to HK$104.4 million, representing a net placing price of HK$0.23 per placing share). As at 31 December 2017, approximately RMB34.8 million of the net proceeds was being applied as registered capital of the newly set up subsidiaries within the Group, with the remaining as cash deposits in financial institutions in Hong Kong.

On 13 October 2017, being the date of the placing agreement, the closing price of the Company's shares was HK$0.295 per share as quoted on the Stock Exchange. Details of the placing are set out in the announcement of the Company published on 13 October 2017.

Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2017, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. As at 31 December 2017, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. Therefore, the Group was not exposed to any material interest and exchange risks.

Significant Acquisitions and Disposal of Investments

For the year ended 31 December 2017, the Company had no significant acquisitions and disposal of investment.

The Number and Remuneration of Employees

For the year ended 31 December 2017, the Group employed approximately 285 employees (2016: 355 employees) with a staff cost of approximately RMB17,022,000 (2016: approximately RMB33.2 million). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on a regular basis.

Capital Expenditure

For the year ended 31 December 2017, capital expenditure of the Group for property, plant and equipment and for the construction and development of existing factory located in Fujian Province for its own use in its ordinary and usual course of business amounted to approximately RMB204,508,000 (2016: approximately RMB435,500,000).

Dividend

The Board does not recommend payment of any final dividend for the year ended 31 December 2017 (31 December 2016: Nil).

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's own code for securities transactions by its Directors. In addition, the Company has made specific enquiries with all Directors and all Directors confirmed that during the year ended 31 December 2017, they had fully complied with the required standards as set out in the Model Code.

Litigation

On 27 March 2018, Fuzhou Sanai initiated a litigation (the "Litigation") against Antu Guanghui as Fuzhou Sanai sought to terminate the cooperative cropping contract entered into on 4 November 2016 and requested Antu Guanghui to refund the investment (with interests) in the sum of RMB98.756 million, and pay the costs of the Litigation. The Litigation was accepted by the Intermediate People's Court of Fozhou City, Fujian Province, China on 30 March 2018.

As at the date of this announcement, the Litigation has not yet proceeded to trial. The Company will make further announcements in due course to inform shareholders and potential investors of the Company of any further significant development in the Litigation.

Share Options Scheme

On 25 May 2017 and 31 July 2017, 82,000,000 share options (the "Share Options") were exercised on each date by grantees under the share option scheme of the Company adopted on 8 January 2007 (the "Share Option Scheme"). The following table discloses movements in the Share Options during the year:

	Number of share options								
Category of participant	At 1 January 2017	Granted during the year	Cancelled or lapsed during the year	Exercised during the year	At 31 December 2017	Date of grant	Exercise period	Exercise price *(HK$)*	Closing price of the shares immediately before the date of grant *(HK$)*
Non-employees in aggregate	164,000,000	–	–	(164,000,000)	–	14 October 2016	14 October 2016 to 13 October 2021 *(Note)*	0.32	0.31
	164,000,000	–	–	(164,000,000)	–				

Note: The Share Options are not subject to any vesting period.

The Share Option Scheme expired on 31 January 2017. The Company has adopted a new share option scheme (the "New Share Option Scheme") for, among others, the senior management and employees on 16 June 2017, which serves as incentives or rewards to attract, retain and motivate staff. During the year, no share options were granted by the Company under the New Share Option Scheme.

Annual General Meeting

The 2018 annual general meeting of the Company (the "AGM") will be held on Friday, 29 June 2018 and the notice of AGM will be published and despatched in the manner as required by the Listing Rules in due course.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 21 June 2018 to Friday, 29 June 2018 (both days inclusive). In order to be qualified for attending the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 20 June 2018.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the year.

Compliance of the Corporate Governance Code

The Company is committed to achieving a high standard of corporate governance practice, such that the interests of the Company's shareholders, customers, employees as well as the long term development of the Company can be safeguarded.

The Company has complied with the provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "Code") during the year ended 31 December 2017 to ensure that the Company is up to the requirements as being diligent, accountable and professional, except for deviation from provision A.2.1 of the Code in respect of separation of the roles of chairman and chief executive officer ("CEO") of the Company. The Board considered that vesting the roles of Chairman and the CEO in the same person facilitates the execution of the Company's business strategies and maximizes effectiveness of its operations. On the other hand, there are three independent non-executive Directors in the Board, all of them possess adequate independence and therefore the Board considers the Company has achieved balance of and provided sufficient protection to its interests and the interests of its shareholders. The Board shall review the structure from time to time and shall consider the appropriate adjustment should suitable circumstances arise.

Audit Committee

An audit committee comprising three independent non-executive Directors has been established by the Company to review the financial reporting process, risk management and internal control systems of the Group. The audit committee had reviewed the annual results of the Group for the year ended 31 December 2017.

Scope of Work of Crowe Horwath (HK) CPA Limited

The figures in respect of the results announcement of the Group for the year ended 31 December 2017 have been reviewed and agreed by the Group's auditor, Crowe Horwath (HK) CPA Limited, as the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Crowe Horwath (HK) CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Crowe Horwath (HK) CPA Limited on this announcement.

Publication of Final Results and Annual Report

The 2017 annual report containing all the information required by the Listing Rules will be made available on our Company's website at www.1889hk.com and the Stock Exchange's website at www.hkexnews.hk in due course.

Acknowledgement

I would like to offer the Board's sincere gratitude to the management team and all other employees for their hard work and dedication. Their excellence and commitment are of vital importance in enhancing the Company's sustainability. Finally, I would like to take this opportunity to thank our shareholders and all other stakeholders for their continuous support and confidence in us.

Resumption of trading

At the request of the Company, trading in the shares of the Company was suspended with effect from 9:00 a.m. on 3 April 2018 pending publication of this announcement. Application has been made to the Stock Exchange for resumption of trading in the shares of the Company with effect from 9:00 a.m. on 23 April 2018.

By Order of the Board
Sanai Health Industry Group Company Limited
Chen Chengqing
Chairman

Hong Kong, 20 April 2018

As at the date of this announcement, the Board comprises three executive Directors, namely, Mr. Chen Chengqing (Chairman), Ms. Hung Hoi Lan and Professor Zhang Rongqing, and three independent non-executive Directors, namely, Mr. Tu Fangkui, Mr. Wang Zihao and Mr. Long Jun.

* *for illustrative purpose only*