Sanai Health Industry Group Company Limited
三愛健康產業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 1889)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

Revenue increased by 2.5% to RMB64.1 million

Gross loss was RMB0.4 million

Gross loss margin was 0.6%

Loss for the year was RMB230 million

Loss per share was RMB7.7 cents

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sanai Health Industry Group Company Limited ("**Sanai Health Industry**" or the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2018 ("**the year**" or "**the year under review**"), together with the comparative figures of the year ended 31 December 2017.

The Group's financial information for the year ended 31 December 2018 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 2018

	Notes	2018 RMB'000	2017 RMB'000
Revenue	5	**64,123**	62,534
Cost of sales and services rendered		**(64,475)**	(119,311)
Gross loss		**(352)**	(56,777)
Other income		**43,413**	1,057
Gain on disposal of subsidiaries		**196,613**	746
Distribution costs		**(799)**	(4,739)
Administrative expenses		**(58,896)**	(39,528)
Finance costs	6(a)	**(15,975)**	(12,695)
Impairment loss on property, plant and equipment		**(146,001)**	(683,326)
Impairment loss on land use rights		**(1,197)**	(27,558)
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)
Written off of property, plant and equipment		**–**	(66)
Written off of inventories		**(9,877)**	(4,544)
Impairment loss on other receivables		**(189,649)**	(2,540)
Impairment loss on trade receivables		**(972)**	–
Loss before taxation	6	**(183,692)**	(1,034,856)
Income tax	7	**(46,063)**	(116,888)
Loss for the year attributable to owners of the Company		**(229,755)**	(1,151,744)
Other comprehensive income/(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		**267**	(530)
Other comprehensive income/(loss) for the year, net of income tax		**267**	(530)
Total comprehensive loss for the year attributable to owners of the Company		**(229,488)**	(1,152,274)
Loss per share			
– Basic and diluted	9	**RMB(7.7) cents**	RMB(47.8) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 *RMB'000*	2017 *RMB'000*
Non-current assets			
Property, plant and equipment		**30,489**	191,263
Land use rights		**3,827**	7,714
Deposits for acquisition of non-current assets		**59,100**	–
Other intangible assets		**28,507**	–
Finance lease receivables		**9,027**	29,878
Deferred tax assets		**–**	49,740
		130,950	278,595
Current assets			
Inventories		**10,914**	39,369
Trade and other receivables	*10*	**108,127**	83,079
Tax recoverable		**302**	302
Finance lease receivables		**91,305**	42,982
Financial assets at fair value through profit or loss		**6,387**	–
Loan receivables		**–**	25,000
Cash and cash equivalents		**17,745**	61,725
		234,780	252,457
Current liabilities			
Trade and other payables	*11*	**48,437**	13,916
Secured bank loans	*12*	**233,792**	281,942
Current taxation		**1,221**	1,435
		283,450	297,293
Net current liabilities		**(48,670)**	(44,836)
Total assets less current liabilities		**82,280**	233,759
Non-current liabilities			
Deposits received		**5,722**	4,640
Deferred tax liabilities		**5,031**	9,894
		10,753	14,534
Net assets		**71,527**	219,225
Capital and reserves			
Share capital	*13*	**28,601**	27,009
Reserves		**42,926**	192,216
Total equity attributable to owners of the Company		**71,527**	219,225

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL

Sanai Health Industry Group 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 2018 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 2018, the Group incurred a net loss of RMB229,755,000 (2017: RMB1,151,744,000), and as of that date, the Group had net current liabilities of RMB48,670,000 (2017: net current liabilities of RMB44,836,000). 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 forecasted operating cash outflows for the year ending 31 December 2019. 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 ("HKFRSs")

The Group has applied the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Properties

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

HKFRS 15 “Revenue from Contracts with Customers”

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

– Sale of pharmaceutical products

– Provision of finance leasing services

– Sales of goods for general trading

The Group has performed an assessment on the impact on the adoption of HKFRS 15 and concluded that no material financial impact exists, and therefore no adjustment to the opening balance of accumulated losses as at 1 January 2018 is required.

Accounting policies and the effects resulting from application of HKFRS 15 are disclosed in the Company’s 2018 annual report.

HKFRS 9 “Financial Instruments”

In the current year, the Group has applied HKFRS 9 “Financial Instruments” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies and the effects resulting from application of HKFRS 9 are disclosed in the Company's 2018 annual report.

Impairment under ECL model

Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually with outstanding significant balances and collectively using a provision matrix for the remaining balances, which is grouped based on shared credit risk characteristics and the historical observed default rates adjusted for forward-looking estimates that is available without undue costs or effort.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including other receivables and cash and cash equivalents, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

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.

Segment results

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:

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 2018 and 2017 is set out below.

	Pharmaceutical products		Finance leasing		Other general trading		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Reportable segment revenue from external customers	**6,099**	30,152	**5,299**	3,115	**52,725**	29,267	**64,123**	62,534
Reportable segment profit/(loss) (adjusted EBITDA)	**(24,287)**	(7,105)	**3,701**	1,885	**(5,423)**	(828)	**(26,009)**	(6,048)

Note:

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

5. REVENUE FROM GOODS AND SERVICES

Disaggregation of revenue

	Pharmaceutical products		Finance leasing		Other general trading		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Types of goods and services								
Sales of goods								
– Pharmaceutical products	**6,099**	26,188	**–**	–	**–**	–	**6,099**	26,188
– Pharmaceutical related software	**–**	1,026	**–**	–	**–**	–	**–**	1,026
– Other goods for general trading	**–**	–	**–**	–	**34,858**	29,267	**34,858**	29,267
– Fitness equipment	**–**	–	**–**	–	**3,565**	–	**3,565**	–
– Electric appliances	**–**	–	**–**	–	**13,727**	–	**13,727**	–
– Other software	**–**	–	**–**	–	**575**	–	**575**	–
Provision of consultancy services	**–**	2,938	**–**	–	**–**	–	**–**	2,938
Finance lease interest income	**–**	–	**5,299**	3,115	**–**	–	**5,299**	3,115
	6,099	30,152	**5,299**	3,115	**52,725**	29,267	**64,123**	62,534
Timing of revenue recognition								
A point in time	**6,099**	26,188	**–**	–	**52,725**	29,267	**58,824**	55,455
Over time	**–**	3,964	**5,299**	3,115	**–**	–	**5,299**	7,079
	6,099	30,152	**5,299**	3,115	**52,725**	29,267	**64,123**	62,534

Note:

i) The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 *(See Note 3)*.

6. LOSS BEFORE TAXATION

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

		2018	2017
		RMB'000	*RMB'000*
(a)	**Finance costs**		
	Interest on bank borrowings	**15,915**	12,695
(b)	**Other items**		
	Depreciation of property, plant and equipment	**14,765**	80,225
	Amortisation of other intangible assets	**–**	797
	Amortisation of land use rights	**2,256**	865
	Auditor's remuneration	**1,652**	1,427
	Unrealised loss on financial assets through profit or loss	**1,789**	–
	Exchange (gain)/loss, net	**(6,503)**	3,016
	Operating lease payments in respect of rented premises	**1,399**	1,159

7. INCOME TAX

	2018	2017
	RMB'000	*RMB'000*
Current tax		
PRC Enterprise Income Tax ("EIT")	**918**	575
Hong Kong Profits Tax	**267**	159
Deferred taxation	**44,878**	116,154
	46,063	116,888

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% (2017: 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 2018 (2017: 16.5%).

8. DIVIDENDS

The Directors do not recommend the payment of final dividend for both years ended 31 December 2018 and 2017.

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 RMB229,755,000 (2017: RMB1,151,744,000) and the weighted average number of 2,980,305,788 ordinary shares (2017: 2,408,020,719 ordinary shares) in issue during the year.

b) Diluted loss per share

For the year ended 31 December 2018, 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.

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.

The calculation of diluted loss per share is based on the loss attributable to owners of the Company of 229,755,000 (2017: RMB1,151,744,000) and the weighted average number of 2,980,305,788 (2017: 2,408,020,719) ordinary shares in issue during the year.

10. TRADE AND OTHER RECEIVABLES

The Group normally grants credit terms of 30 to 180 days (2017: 60 to 90 days) to its customers. Included in trade and other receivables are trade receivables of RMB22,902,000 (2017: RMB23,420,000), and their ageing analysis at the end of the reporting period, presented based on the invoice date is as follows:

	2018	2017
	RMB'000	*RMB'000*
0 to 30 days	**305**	10,229
31 to 60 days	**4,835**	1,164
61 to 90 days	**256**	6,650
91 to 120 days	**721**	1,884
121 to 365 days	**15,377**	3,460
Over 365 days	**1,408**	33
	22,902	23,420

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 RMB1,159,000 (2017: RMB4,101,000), and their ageing analysis based on the invoice date is as follows:

	2018	2017
	RMB'000	*RMB'000*
0 to 30 days	**55**	1,357
31 to 60 days	**–**	165
61 to 90 days	**–**	469
91 to 120 days	**–**	536
121 to 365 days	**146**	1,574
Over 365 days	**958**	–
	1,159	4,101

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:

	2018	2017
	RMB'000	*RMB'000*
Secured bank loans	**233,792**	281,942

At 31 December 2018, the Group has defaulted in the repayment of all of its secured bank loans and repayment of loan principals and payment of related interests totaling to approximately RMB248,311,000 were not made in accordance with the agreed repayment schedules pursuant to the loan agreements. One of the banks had disposed of certain assets pledged by the Group as security for its facilities under a mandatory auction. The proceeds from the auction approximately to RMB32,895,000 will be set-off against certain overdue bank loans. Remaining pledged assets were sold at RMB78,000,000 in another auction conducted in March 2019 (2017: approximately RMB120,042,000 interest bearing loans were expired whereas the Group 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 were due for repayment within one year).

13. SHARE CAPITAL

	2018		2017	
	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	**2,872,123**	**27,009**	2,256,773	21,762
Exercise of share options	**195,100**	**1,592**	164,000	1,415
Placing of new shares	**–**	**–**	451,350	3,832
At end of the year	**3,067,223**	**28,601**	2,872,123	27,009

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.

14. SUBSEQUENT EVENT

i) On 28 March 2019, the Group entered into an agreement with an independent third party (the "1st Vendor"), that the 1st Vendor agreed to sell, and the Group agreed to acquire, the entire equity interest of Fujian Zhixin Medicine Company Limited at consideration of RMB2,000,000. The acquisition is not yet completed as at the date of this announcement.

ii) On 28 March 2019, the Group entered into an agreement with an independent third party (the "2nd Vendor"), that the 2nd Vendor agreed to sell, and the Group agreed to acquire, the entire equity interest of Zentrogene Bioscience Laboratory Limited at consideration of HK$19,500,000. The acquisition is not yet completed at the date of this announcement.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Disclaimer of opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for disclaimer of opinion

1. Scope limitation – Recoverability of trade and other receivables

Included in trade and other receivables as at 31 December 2018 were trade receivables of RMB22,902,000 and other receivables of RMB14,270,000 from several debtors. The outstanding receivables were past due and remained outstanding up to the date of this report. The directors of the Company considered that no impairment provision should be made upon their assessment of the recoverability of the individual debtor balances based on the information available and current circumstances. However, we were unable to obtain satisfactory evidence to ascertain if the information available to the directors of the Company are appropriate for their assessment or that the current circumstances referred to by the directors of the Company are relevant to their assessment of impairment provision on trade and other receivables. Consequently, we were unable to satisfy ourselves regarding the valuation of the receivable balances as at 31 December 2018, and to determine whether any adjustment on allowance for credit loss against these receivables was necessary. Any adjustments to the conclusion on the recoverability of these receivables would affect the net assets of the Group as at 31 December 2018 and the Group's net loss for the year ended 31 December 2018, and the related disclosures in the financial statements.

2. Scope limitation – Multiple uncertainties relating to going concern

As described in note 2(b) to the consolidated financial statements, the Group reported a net loss attributable to the owners of the Company of RMB229,755,000 during the year ended 31 December 2018. As at the same date, the Group's current liabilities exceeded current assets by RMB48,670,000. In addition, the Group's total current bank borrowings amounted to RMB233,792,000 whereas its cash and cash equivalents amounted to RMB17,745,000 only. Moreover, during the year, loan principal repayments and related interests payments of RMB248,311,000 were not made in accordance with the repayment schedules pursuant to the borrowing agreements and as a result, the Group has defaulted in complying with the bank facilities covenants and the bank therefore have the right to demand immediate repayment of the entire outstanding balances together with outstanding interests and any penalties stipulated in the bank facilities agreement. One of the banks had disposed of the assets pledged by the Group as security for its facilities under a mandatory auction. These conditions, together with other matters described in note 2(b) to the consolidated financial statements, indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The directors have been undertaking certain measures as set out in note 2(b) to the consolidated financial statements to improve the Group's liquidity and financial position. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) whether the ongoing external facilities will continue to be available to the Group and (ii) whether the Group is able to generate adequate cash flows from its operations, the achievability of which depends on the market environment. Since there are no satisfying evidence for us to verify the availability of such future financing and the viability of the Group's business operations, we disclaim our opinion in this respect. If these ongoing facilities and internal funds are not forthcoming, the Group would be unable to meet its financial obligations as and when they fall due, and would then be unable to continue as a going concern.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results:

The Group had recorded a loss of RMB229.75 million in 2018, which is approximately 80.05% less as compared with that of 2017 (loss of RMB1,151.7 million). This year's loss was mainly due to the continuous 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 2017 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 increased by 2.54% to RMB64.12 million. The total loss after tax was RMB229.75 million, among which, the one-off extraordinary loss was RMB189.64 million and the depreciation amount was RMB14.76 million.

Pharmaceutical Products Business

During the year under review, the pharmaceutical products segment recorded a revenue of RMB6.10 million, accounting for approximately 9.51% of the Group's total revenue.

Other General Trading Business

The Group commenced other general trading business in 2017. Any trading other than pharmaceutical products are included into this segment. During the year under review, other general trading segment recorded a revenue of RMB52.72 million, accounting for approximately 82.22% of the Group's total revenue. During the year ended 31 December 2018, the trading products mainly included electronic components, electric appliances, and fitness equipment.

Finance Leasing Business

The Group commenced its finance leasing business in China in 2017. The Group targeted at industrial manufacturers, hospitals and health industry related entities as its customers to expand its finance leasing business. For the year ended 31 December 2018, revenue generated by this segment amounted to approximately RMB5.30 million, accounting for approximately 8.27% of the Group's total revenue. Short-term lease receivables and long-term lease receivables were RMB91.31 million and RMB9.03 million respectively.

BUSINESS PROSPECTS

Pharmaceutical products business:

Although the Company has disposed of Fuzhou Pharmaceutical Company*（福州藥業有限公司）engaging in pharmaceutical production, in the meantime, all of the land assets, plants and most of the production equipment of another company – Fujian Sanai Pharmaceutical Co., Ltd.*（福建三愛藥業有限公司）have been auctioned by the court, pharmaceutical products business is still the principal business of the Company and continues to develop. Fujian Yongchun Pharmaceutical Company Limited*（福建永春製藥有限公司）, is a high-tech enterprise in Fujian Province. Located in Yongchun County, Quanzhou City, Fujian Province, it occupies an area of 32,330 sq.m. with a gross floor area for the plants of approximately 8,311.58 square metres, in which the GMP workshop has an area of 3,581 square metres. Fujian Yongchun owns 5 drug registration series（藥品批准文號）and produces 5 types of oral medicine, including Yangpi San（養脾散）, Sanqi panax notoginseng capsules（三七膠囊）and phentolamine mesylate tablets（甲磺酸酚妥拉明片）. It will become the new base for pharmaceutical production of the Company which intends to transfer part of the production of oral pharmaceutical products of Fujian Sanai Pharmaceutical Co. Ltd.*（福建三愛藥業有限公司）to Fujian Yongchun in order to expand the production scale of the oral pharmaceutical products of Fujian Yongchun.

Fujian Sanai Pharmaceutical Co. Ltd.*（福建三愛藥業有限公司）currently retains 120 drug registration series（藥品批准文號）and part of the uncollateralized equipment. As Fujian Sanai Pharmaceutical Co. Ltd.* still has huge bank liabilities, its major assets were auctioned by the court on 15 March 2019, resulting in a drastic change in operating foundation. The management of the Company is still in the course of discussion for various possibilities to deal with Fujian Sanai Pharmaceutical Co. Ltd*（福建三愛藥業）, including but not limited to disposal, restructuring and liquidation.

On 29 March 2019, the Company obtained the Medical Operations Permit (Wholesale), Medical Operation Quality Management System Certifications (GSP) and Food Operations Permit through the acquisition of Fujian Zhixin Pharmaceutical Company Limited*（福建至信醫藥有限公司）(“Fujian Zhixin”). In the future, the Company will act as a sales agent nationwide for the herbal medical materials, Chinese herbal medicine, Chinese patent medicine, chemical drug preparations, antibiotic preparations, biochemical pharmaceuticals, biological products, healthcare products and food products. The capacity of the Company on pharmaceutical sales will be stepped up by the acquisition of such pharmaceutical company. Not only can the Company sell our pharmaceuticals through the sales network of Fujian Zhixin*（福建至信）, but also act as a sales agent to sell pharmaceuticals and healthcare products from other pharmaceutical companies.

Zhejiang Sanai Biotechnology Company Limited*（浙江三愛生物科技有限公司）, a wholly-owned subsidiary of the Company, launch a project on a plant factory at the end of 2018, in which an indoor plant cultivation factory with an area of approximately 2000 square metres will be constructed, where it will adopt LED lighting and automatic water circulatory system to cultivate a high value-added medicinal herb called Taiwan anoectochilus（金線蓮藥材）on stereoscopic cultivation racks. The expected total investment of such project is about RMB30 million. The model of plant factory is an emerging planting method with an advantage of producing quality medicinal herbs in a stable output. Upon implementation of the project, the Company can provide high quality fresh herb of Taiwan anoectochilus as well as pharmaceuticals and food products containing Taiwan anoectochilus to the market in the future, which is expected to generate favourable economic benefits.

Precision Medicine Business:

Genetic testing: The Company has cooperated with Yangtz Delta Region Institute of Tsinghua University in Zhejiang for a precision medicine research and development centre. The Group is committed to developing in the realms of precision testing, genome editing, cell therapy, regenerative medicine and the research and development of targeted drugs to conduct research and product development, and provision of services. The Company recently acquired a biotechnology company which is primarily engaged in the provision of services including genetic testing and molecular diagnostic testing. The biotechnology company operates a laboratory with a legal business license in Hong Kong, providing services comprising non-invasive prenatal diagnosis (NIPD), tumor genetic screening, DNA testing and paternity testing. Genetic testing is a prerequisite for precision medicine. On this basis, the Company will further expand businesses in the field of precision medicine.

General Trading Business:

The Company will gradually reduce the sales of trading products in the future and will focus to deploy its capital mainly for business development of the pharmaceutical and precision medicine sectors.

Finance leasing business: Since its establishment and development in 2017, Union Development Finance Lease (Shenzhen) Company Limited*（聯合發展融資租賃（深圳）有限公司）, an indirect wholly-owned subsidiary of the Company, has achieved initial results and continued to contribute operating profits to the Group. In the future, on the basis of a stabilized business platform, the Company will develop leasing services of medical devices and rehabilitation equipment which is complimentary to the Group's existing pharmaceutical products business.

Financial Review

For the year ended 31 December 2018, the Group achieved a total revenue of RMB64.12 million, representing an increase of 2.54% as compared to RMB62.53 million in 2017, and gross loss margin was 0.55% (2017: gross loss margin 91%). The Group recorded a loss attributable to owners of the Company of RMB229.75 million (2017: loss of RMB1,151.74 million). Loss for the year decreased due to significantly less amount of impairment loss on goodwill, property, plant and equipment, land use right and amount due from an associate as compared with 2017. The basic loss per share was RMB7.7 cents (2017: RMB47.8 cents).

Liquidity, Financial Resources and Capital Structure

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB17.75 million (2017: approximately RMB61.73 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 normal operating loss incurred by the Group.

As at 31 December 2018, the Group's secured bank loans which were secured by land use rights and property, plant and equipment amounted to approximately RMB233.79 million (2017: RMB281.94 million). The loans were denominated in Renminbi, carried interest at fixed rates ranging from 4.6% to 6.3% (2017: 4.6% to 6.3% respectively) per annum and are repayable within 1 year. During the year, the Group did not use any financial instruments for hedging purpose.

Pursuant to the Company's announcements dated 8 January 2019 and dated 22 March 2019 respectively, the certain pledge properties have been sold at the total price of RMB78,000,000 during an auction conducted by the People's Court of Jianyang District, Nanping City（南平市建陽區人民法院）on 15 March 2019, the proceeds of which, net of reasonable auction expenses to be charged by the People's Court of Jianyang District Nanping City, will be wholly used to settle part of the secured bank loans of RMB233.79 million as mentioned above.

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 395% as at 31 December 2018 (2017: approximately 135.0%).

Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2018, 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 2018, 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 2018, the Company had no significant acquisition of investment.

On 27 December 2018, pursuant to the announcement on "disposal of shares of a subsidiary", the Company has disposed of 100% shareholding interests in "Hong Kong Sanai Health Care Products Company Limited" and its 100% owned PRC subsidiary "Fuzhou Sanai Pharmaceutical Company Limited" wholly to an independent third party.

Number and Remuneration of Employees

For the year ended 31 December 2018, the Group employed approximately 230 employees (2017: 285 employees) with a staff cost of approximately RMB13.04 million (2017: approximately RMB17.02 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 2018, there was no significant capital expenditure of the Group for property, plant and equipment (2017: approximately RMB204.51 million).

Dividend

The Board does not recommend payment of any final dividend for the year ended 31 December 2018 (31 December 2017: 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 2018, they had fully complied with the required standards as set out in the Model Code.

Share Options Scheme

On 24 May 2018 and 30 May 2018, 115,400,000 and 118,000,000 share options (the "Share Options") were granted to grantees respectively. On 7 June, 8 June, 14 June and 19 June 2018, an aggregate of 195,100,000 Share Options were exercised by grantees under the share option scheme of the Company adopted on 16 June 2017 (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 2018**	**Granted during the year**	**Cancelled or lapsed during the year**	**Exercised during the year**	**At 31 December 2018**	**Date of grant**	**Exercise period**	**Exercise price** *(HK$)*	**Closing price of the shares immediately before the date of grant** *(HK$)*
Employees in aggregate	–	227,400,000	–	(191,100,000)	36,300,000	24 May and 30 May 2018	24 May 2018 to 29 May 2023 *(Note)*	0.32 and 0.335	0.32 and 0.335
Non-employees in aggregate	–	6,000,000	–	(4,000,000)	2,000,000	30 May 2018	30 May 2018 to 29 May 2023 *(Note)*	0.335	0.335
	–	233,400,000	–	(195,100,000)	38,300,000				

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

Annual General Meeting

The 2019 annual general meeting of the Company (the "AGM") will be held on 28 June 2019 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 Tuesday 25, June 2019 to Friday 28, June 2019 (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 Monday, 24 June 2019.

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 2018 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 are independent 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 2018.

Publication of Final Results and Annual Report

The 2018 annual report containing all the information required by the Listing Rules will be 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.

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

Hong Kong, 31 March 2019

As at the date of this announcement, the Board comprises 3 executive directors, namely, Mr. Chen Chengqing (Chairman), Ms. Hung Hoi Lan and Professor Zhang Rongqing, 1 non-executive director, namely, Mr. Xiu Yuan and 4 independent non-executive directors, namely, Mr. Wang Zihao, Mr. Tu Fangkui, Mr. Long Jun and Mr. Chan Chung Yin, Victor.

* *for illustrative purpose only*