**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)**

# SUPPLEMENTAL ANNOUNCEMENT IN RESPECT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Reference is made to the announcement of Sanai Health Industry Group Company Limited (the "**Company**", and its subsidiaries, the "**Group**") dated 31 March 2019 relating to the consolidated results of the Group for the year ended 31 December 2018 (the "**Results Announcement**"). Unless otherwise defined, capitalized terms used herein shall bear the same meanings as those defined in the Results Announcement.

The Board wishes to provide further information regarding the Results Announcement as follows:

## DISCLAIMER OF OPINION

As stated in the Results Announcement, the auditors of the Company do not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 as they have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion in relation to (i) the recoverability of trade and other receivables (the "**First Disclaimer**"); and (ii) the multiple uncertainties relating to going concern (the "**Second Disclaimer**").

## 1. Recoverability of trade and other receivables

As stated in the Results Announcement, 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 trade receivables of RMB22,902,000 represents the sale of pharmaceutical products and sales of products other than pharmaceutical products. In order to recover the outstanding trade receivables, the Company had:

(a) assigned designated staffs from the sales department of the Group to regularly follow up with the relevant customers on a bi-weekly basis, monitor the repayment status and negotiate the repayment time schedule from time to time. Upon negotiation, if any particular customer fails to repay as scheduled, the Company will issue a demand note to the relevant customer; and

(b) implemented a regular internal reporting procedure, whereupon the designated personnel responsible to follow up on the repayment of the outstanding receivables are required to prepare an internal bi-weekly summary and report the collection status to the management of the Company on regular basis. Upon receipt of the reporting, the management will assess the situation and determine whether further action, such as legal actions, is required to be taken in order to expedite the recoverability of the outstanding trade receivables so as to better protect the Company's interests.

As at the date of this announcement, all outstanding trade receivables have been recovered and no amount remained outstanding.

The other receivables in the amount of RMB14,270,000 represents an overpayment (the "**Overpayment**") made by the Company in relation to an acquisition of intangible assets, whereupon the purchase price was adjusted as a result of re-valuation of the intangible assets, as a result of which the vendor was required to refund the Overpayment in the amount of RMB14,270,000 on or before 30 June 2019. Subsequent to the publication of the Results Announcement, the Company has reached a settlement with the vendor and the amount of RMB14,270,000 has been settled on 26 June 2019.

As at the date of this announcement, no Overpayment remained outstanding.

Based on the aforesaid and on the assumption that the Company has no other issue arises during the year ending 31 December 2019 which may affect the view of the auditor to the contrary, the Company has discussed with the auditors and confirmed that, subject to the results of final audit, the First Disclaimer would be removed.

**2. Multiple uncertainties relating to going concern**

As stated in the Results Announcement, 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. The existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern (the "**Going Concern Issues**"). The auditors of the Company expressed the Second Disclaimer as there are no satisfying evidence provided for the auditors of the Company to verify the availability of such future financing and the viability of the Group's business operations.

Among the information requested, the auditors required the Company to provide further information in relation to any additional sources of financing from external parties and cashflow forecast for the year ending 31 December 2019 (the "**Cash Flow Forecast**"), together with the relevant assumptions and the respective supporting documents for verifying the availability of future financing and the viability of the Group's business operations. The Cash Flow Forecast, among others, made assumption on the Company's financing plan for the year ending 31 December 2019 as well as the Company's plan to enter into various acquisitions and disposal. However, prior to the publication of the Results Announcement, the Company was yet been able to obtain the external financing and the Company's planned acquisitions/disposal were still under negotiation. Accordingly, the relevant supporting documents to support the relevant assumptions adopted in the Cash Flow Forecast to demonstrate the viability of the Group's operations could not be provided to the auditors prior to the publication of the Results Announcement.

To address the Going Concern Issues, the Company has been proactively engaged in various measures to improve its cash position. Among which, the Company entered into agreement in April 2019 (as detailed in the announcement of the Company dated 30 April 2019) to dispose of a group of subsidiaries, including Wuyi International Pharmaceutical (Hong Kong) Company Limited and Fujian Sanai Pharmaceutical Company Limited (the "**Disposal**"). Prior to completion of the Disposal, the Disposal Group had contributed significant loss of approximately RMB84.4 million to the Group and had outstanding short-term loan amount of approximately RMB233.8 million. The Disposal completed in June 2019. Immediately upon completion of the Disposal, the Company no longer recorded a net loss and total bank borrowings reduced from RMB233.8 million to nil. As a result of the reduction of total bank borrowings, the liquidity of the Company has been significantly improved given that the Group no longer bear the short-term obligation for repayment of bank borrowings that was originally incurred by the disposed companies. As a result, the Going Concern Issues has been resolved.

Based on the aforesaid and on the assumption that the Company has no other issue arises during the year ending 31 December 2019 which may affect the view of the auditor to the contrary, the Company has discussed with the auditors and confirmed that, subject to the results of final audit, the Second Disclaimer would be removed.

## OTHERS

As stated in the Results Announcement, the Company recorded segment revenue of pharmaceutical products of RMB6.1 million for the year ended 31 December 2018, whilst the segment revenue of pharmaceutical products for the six-month ended 30 June 2018 amounted to of RMB24.1 million (the "**Discrepancy**").

The Company would like to supplement that the Discrepancy was due to the application of HKFRS 15 for the Group's annual results for the year ended 31 December 2018 resulting in a total of RMB20,958,216.42, being part of RMB24.1 million, which was originally classified as revenue was re-classified as commission income. Prior to the application of HKFRS 15, the management of the Company had concluded that revenue from contracts with customers should be recognized at the point in time when a customer obtains control of goods pursuant to HKAS 18. During the process of the final audit for the year ended 31 December 2018, the auditors indicated their view that certain revenue arising from Group's general trading business should be classified as commission income for certain general trading products on the grounds that upon application of HKFRS 15, the Company is considered as an agent for certain general trading products, the performance obligation is to arrange for the provision of such products as the Group did not obtain the control over the goods before passing on to customers. As a result of which, a total of RMB20,958,216.42 which was originally classified as revenue, after deduction the cost of sales, was re-classified and presented the net balance as commission income.

The additional information set out above does not affect other information contained in the Results Announcement and the contents of the Results Announcement remain unchanged.

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

Hong Kong, 8 July 2019

*As at the date of this announcement, the board of Directors comprises four executive directors, namely, Mr. Chen Chengqing (Chairman), Ms. Hung Hoi Lan, Professor Zhang Rongqing and Mr. Cheng Hok Kai, Frederick; one non-executive director, namely, Mr. Xiu Yuan and three independent non-executive directors, namely, Mr. Wang Zihao, Mr. Tu Fangkui, and Mr. Long Jun.*