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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 2020

FINANCIAL HIGHLIGHTS

- Revenue from continuing operations for the year ended 31 December 2020 increased by approximately 48.32% to approximately RMB121.40 million (2019: approximately RMB81.85 million).
- Gross profits from continuing operations for the year ended 31 December 2020 was approximately RMB30.92 million (2019: approximately RMB2.11 million).
- Gross profit margin from continuing operations for the year ended 31 December 2020 was approximately 25.47% (2019: approximately 2.58%).
- Profit for the year ended 31 December 2020 amounted to approximately RMB11.49 million (2019: approximately RMB108.48 million).
- Basic and diluted earnings per share attributable to owners of the Company for the year ended 31 December 2020 was approximately RMB0.2 cents (2019: earnings approximately RMB3.5 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 2020 (“**the year**” or “**the year under review**”), together with the comparative figures of the year ended 31 December 2019.

The Group’s financial information for the year ended 31 December 2020 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

For the year ended 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Continuing operations			
Revenue	5	121,404	81,854
Cost of sales and services rendered		<u>(90,483)</u>	<u>(79,742)</u>
Gross profits		30,921	2,112
Other income and other gain, net	6	799	2,678
Distribution costs		(2,909)	(248)
Administrative and other expenses		(11,933)	(25,602)
Finance costs	7(a)	—	(27)
Written-off of inventories		(225)	(1,505)
Impairment loss on goodwill		—	(12,914)
Impairment loss on other receivables		—	(2,174)
Impairment loss on intangible assets		—	(2,377)
		<u>16,653</u>	<u>(40,057)</u>
Profit/(loss) before income tax		16,653	(40,057)
Income tax (expenses)/credit	10	(5,161)	444
		<u>11,492</u>	<u>(39,613)</u>
Discontinued operation			
Profit for the year from discontinued operation		—	<u>148,093</u>
Profit for the year	7(b)	11,492	<u>108,480</u>
Attributable to:			
Owners of the Company			
— Profit/(loss) from continuing operations		6,422	(39,141)
— Profit from discontinued operation		—	<u>148,093</u>
Profit attributable to owners of the Company		6,422	<u>108,952</u>
Non-controlling interests			
— Profit/(loss) from continuing operations		5,070	<u>(472)</u>
Profit/(loss) attributable to non-controlling interests		5,070	<u>(472)</u>
		<u>11,492</u>	<u>108,480</u>
Earnings/(loss) per share			
Basic and diluted (RMB cents)	12		
— from continuing and discontinued operations		<u>0.2</u>	<u>3.5</u>
— from continuing operations		<u>0.2</u>	<u>(1.3)</u>
— from discontinued operation		—	<u>4.8</u>

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2020

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit for the year	<u>11,492</u>	<u>108,480</u>
Other comprehensive income/(loss):		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>2,467</u>	<u>(473)</u>
Total comprehensive income for the year	<u><u>13,959</u></u>	<u><u>108,007</u></u>
Attributable to:		
— Owners of the Company	<u>8,889</u>	108,479
— Non-controlling interests	<u>5,070</u>	<u>(472)</u>
	<u><u>13,959</u></u>	<u><u>108,007</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		10,272	10,750
Right-of-use assets		4,531	4,660
Goodwill		–	–
Prepayments, deposits and other receivables		–	23,705
Intangible assets		36,855	38,824
Deferred tax assets		–	1,555
Finance lease receivables		–	98,095
		51,658	177,589
CURRENT ASSETS			
Inventories		14,025	4,329
Trade and other receivables	<i>13</i>	123,696	66,589
Tax recoverable		29	17
Finance lease receivables		98,095	–
Financial assets at fair value through profit or loss		517	651
Cash and cash equivalents		2,630	4,195
		238,992	75,781
CURRENT LIABILITIES			
Trade and other payables	<i>14</i>	82,033	62,249
Tax payables		5,011	984
		87,044	63,233
NET CURRENT ASSETS		151,948	12,548
TOTAL ASSETS LESS CURRENT LIABILITIES		203,606	190,137
NON-CURRENT LIABILITIES			
Deferred tax liabilities		2,081	2,571
NET ASSETS		201,525	187,566
CAPITAL AND RESERVES			
Share capital		28,601	28,601
Reserves		160,294	151,405
Equity attributable to owners of the Company		188,895	180,006
Non-controlling interests		12,630	7,560
TOTAL EQUITY		201,525	187,566

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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 were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 1 February 2007. The address of the registered office of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. The principal place of business of the Company is Unit 5, 7/F., Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries collectively referred to as the Group.

Reference to the announcement dated 24 January 2020, the trading of ordinary shares of the Company on the Stock Exchange has been suspended with effect from 24 January 2020. In view of the Listing (Review) Committee Decision, the Company is required to re-comply with Rule 13.24 of the Listing Rules and resume trading within a period of 18 months from the date of suspension. Should the Company fail to do so by the expiry of the 18-month period, the Stock Exchange will proceed with cancellation of the Company’s listing.

Reference to the announcement dated 8 January 2021, the Company received a letter from the Stock Exchange on 6 January 2021 in relation to resumption guidance for the Company including (i) demonstrate its compliance with Rule 13.24 of the Listing Rules; (ii) publish all outstanding financial results and address any audit modifications; and (iii) re-comply with Rules 3.10, 3.10A, 3.21 and 3.25 of the Listing Rules. The Stock Exchange may modify the Resumption Guidance that have been given and/or give further guidance if the Company’s situation changes. Under Rule 6.01A of the Listing Rules, the Stock Exchange may cancel the Company’s listing if trading in the Company’s shares has been suspended for 18 continuous months, expiring on 23 July 2021.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has adopted all the new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. HKFRSs comprise Hong Kong Financial Reporting Standard (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current year and prior years.

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

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance (“CO”).

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss which are carried at their fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise the judgements in the process of applying the accounting policies.

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 of the Company (the “Board”) (the chief operating decision maker) for the purposes of resources allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

- (i) Pharmaceutical products: development, manufacturing, marketing and sales of pharmaceutical products, sales of pharmaceutical related software and provision of consultancy services;
- (ii) Finance leasing: provision of finance leasing services;
- (iii) Other general trading: trading of goods other than pharmaceutical products; and
- (iv) Genetic testing and molecular diagnostic services: provision of genetic testing and molecular diagnostic services.

(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, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual 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 borrowings and “depreciation and amortisation” is regarded as including impairment losses on non-current assets. To arrive at adjusted earnings/(loss), the Group’s earnings/(loss) are further adjusted for items not specifically attributed to individual segments, such as directors’ and auditors’ remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted profit/(loss), the Board is provided with segment information concerning revenue, interest income, depreciation, amortisation, impairment losses, finance costs and additions to non-current segment assets used by segments in their operations.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

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 2020 and 2019 is set out below.

For the year ended 31 December 2020

	Continuing operations				Total RMB'000
	Pharmaceutical products RMB'000	Finance leasing RMB'000	Other general trading RMB'000	Genetic testing and molecular diagnostic services RMB'000	
Reportable segment revenue from external customers	<u>44,965</u>	<u>6,605</u>	<u>63,999</u>	<u>5,835</u>	<u>121,404</u>
Reportable segment profit (adjusted EBITDA)	<u>17,222</u>	<u>6,048</u>	<u>1,441</u>	<u>311</u>	<u>25,022</u>
Interest income from bank deposits	1	-	-	-	1
Depreciation and amortisation for the year	(3,304)	(6)	(30)	(276)	(3,616)
Written-off of inventories	(225)	-	-	-	(225)
Reportable segment assets	55,649	113,126	64,751	1,667	235,193
Additions to non-current segment assets during the year	546	-	17	515	1,078
Reportable segment liabilities	<u>(25,403)</u>	<u>(13,995)</u>	<u>(15,218)</u>	<u>(2,814)</u>	<u>(57,430)</u>

For the year ended 31 December 2019

	Discontinued operation		Continuing operations			Total RMB'000
	Pharmaceutical products RMB'000	Pharmaceutical products RMB'000	Finance leasing RMB'000	Other general trading RMB'000	Genetic testing and molecular diagnostic services RMB'000	
Reportable segment revenue from external customers	28	41,565	6,656	31,231	2,402	81,882
Reportable segment (loss)/profit (adjusted EBITDA)	(1,192)	1,247	1,447	(10,162)	(831)	(9,491)
Interest income from bank deposits	–	1	–	3	–	4
Interest expense	(4,162)	–	–	–	–	(4,162)
Depreciation and amortisation for the year	–	(2,450)	(3)	(13)	(448)	(2,914)
Written off of inventories	–	(240)	–	(1,265)	–	(1,505)
Impairment loss on:						
— other receivables	(320)	–	(1,034)	(1,140)	–	(2,494)
— trade receivables	(1,664)	–	–	–	–	(1,664)
— intangible assets	–	–	–	–	(2,377)	(2,377)
— goodwill	–	–	–	–	(12,914)	(12,914)
Reportable segment assets	–	36,647	106,749	52,240	1,287	196,923
Additions to non-current segment assets during the year	–	27,561	–	106	16,229	43,896
Reportable segment liabilities	–	(18,019)	(12,583)	(3,799)	(199)	(34,600)

Note:

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

(b) Reconciliations of reportable segment revenues, profit or loss, assets and liabilities

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue		
Reportable segment revenue from external customers	121,404	81,882
Elimination of discontinued operations	—	(28)
	<hr/>	<hr/>
Consolidated revenue from continuing operations	121,404	81,854
	<hr/> <hr/>	<hr/> <hr/>
Profit or loss		
Reportable segment profit/(loss) derived from		
Group's external customers	25,022	(9,491)
Other income	95	45,259
Depreciation and amortisation	(3,624)	(2,914)
Finance costs	—	(4,189)
Impairment losses on non-current assets	—	(15,291)
Impairment losses on trade receivables	—	(1,664)
Impairment losses on other receivables	—	(2,494)
Unallocated head office and corporate other revenue and net income	704	113,847
Unallocated head office and corporate expenses		
— staff cost (including director's emoluments)	(2,548)	(3,928)
— others	(2,996)	(11,099)
Elimination of discontinued operation	—	(148,093)
	<hr/>	<hr/>
Consolidated profit/(loss) before income tax for the year from continuing operations	16,653	(40,057)
	<hr/> <hr/>	<hr/> <hr/>
	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Assets		
Reportable segment assets	235,193	196,923
Financial assets at fair value through profit or loss	517	651
Unallocated head office and corporate assets		
— intangible assets	28,507	28,507
— others	26,433	27,289
	<hr/>	<hr/>
	54,940	55,796
	<hr/>	<hr/>
Consolidated total assets	290,650	253,370
	<hr/> <hr/>	<hr/> <hr/>
Liabilities		
Reportable segment liabilities	(57,430)	(34,600)
Deferred tax liabilities	(2,081)	(2,571)
Unallocated head office and corporate liabilities	(29,614)	(28,633)
	<hr/>	<hr/>
Consolidated total liabilities	(89,125)	(65,804)
	<hr/> <hr/>	<hr/> <hr/>

(c) Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services.

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of pharmaceutical products	44,965	41,593
Genetic testing and molecular diagnostic services	5,835	2,402
Sales of other goods for general trading	63,999	31,231
Finance leasing income	6,605	6,656
Elimination of discontinued operation (<i>note 9</i>)	–	(28)
	<hr/>	<hr/>
Revenue from continuing operations	<u>121,404</u>	<u>81,854</u>

(d) Geographic information

(i) Revenue from external customers

The following sets out information about the geographical location of the Group's revenue from external customers, based on the location at which the services were provided or the goods delivered.

	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Hong Kong	5,838	3,003
The PRC	61,407	73,308
Europe	47,405	3,337
Others	6,754	2,234
Elimination of discontinued operation (<i>note 9</i>)	–	(28)
	<hr/>	<hr/>
Revenue from continuing operations	<u>121,404</u>	<u>81,854</u>

(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.

(e) Information about major customers

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Sales of pharmaceutical products		
— Customer A [#]	22,765	6,710
— Customer B [*]	—	21,739
— Customer C [*]	—	9,044
	<u>22,765</u>	<u>37,493</u>
Sales of other goods for general trading		
— Customer D [*]	—	20,619
— Customer E [#]	35,171	—
	<u>35,171</u>	<u>20,619</u>

[#] Customer A and customer E did not contribute over 10% of the Group's revenue for the year ended 31 December 2019, the figure shown was for comparative purpose only.

^{*} Customer B, customer C and customer D did not contribute over 10% of the Group's revenue for the year ended 31 December 2020, the figure shown was for comparative purpose only.

5. REVENUE

The principal activities of the Group are the development, manufacturing, marketing and sales of pharmaceutical products, other general trading, provision of finance leasing services and provision of genetic testing and molecular diagnostic services.

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers		
Sales of goods		
— Pharmaceutical products	44,965	41,593
— Other goods for general trading	63,999	31,231
Provision of genetic services and molecular diagnostic services	5,835	2,402
	<u>114,799</u>	<u>75,226</u>
Revenue from other sources		
Finance leasing interest income	6,605	6,656
	<u>121,404</u>	<u>81,882</u>
Representing:		
Continuing operations	121,404	81,854
Discontinued operation (<i>note 9</i>)	—	28
	<u>121,404</u>	<u>81,882</u>

The revenue from contracts with customers of the Group during the year ended 31 December 2020 are recognised at a point in time (2019: at a point in time).

For sales of pharmaceutical products and products other than pharmaceutical products, revenue is recognised when control of goods has transferred, being when the goods have been accepted by customers (acceptance) after goods delivered to the specific location or picked up by customers. Following acceptance, the customers have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bear the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 180 days upon acceptance.

The Group provides genetic services and molecular diagnostic services to the customers. Genetic services and molecular diagnostic services income is recognised when the genetic services and molecular diagnostic services is rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the service.

6. OTHER INCOME AND OTHER GAIN, NET

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Bank interest income	1	4
Bond interest income	578	576
	<hr/>	<hr/>
Total interest income	579	580
(Loss)/gain on disposal of property, plant and equipment and right-of-use assets	(24)	43,277
Gain on bargain purchase (<i>note 8</i>)	–	754
Exchange gain, net	35	1,073
Sundry income	89	271
Government subsidies*	120	–
	<hr/>	<hr/>
	799	45,955
	<hr/> <hr/>	<hr/> <hr/>
Representing:		
Continuing operations	799	2,678
Discontinued operation (<i>note 9</i>)	–	43,277
	<hr/>	<hr/>
	799	45,955
	<hr/> <hr/>	<hr/> <hr/>

* Government subsidies are awarded to the Group by the government authority. No conditions have been applied on such government subsidies from the government authority.

7. PROFIT FOR THE YEAR

Profit for the year is arrived at after charging:

	2020 RMB'000	2019 RMB'000
a) Finance costs		
Interest on bank borrowings	–	4,162
Other interest expense	–	27
	<u>–</u>	<u>4,189</u>
Total interest expenses	<u>–</u>	<u>4,189</u>
Representing:		
— Continuing operations	–	27
— Discontinued operation (note 9)	–	4,162
	<u>–</u>	<u>4,189</u>
b) Other items		
Continuing operations		
Depreciation of property, plant and equipment [#]	1,526	1,009
Amortisation of intangible assets	1,969	1,809
Depreciation of right-of-use assets	129	96
Directors' emoluments	1,423	1,884
Other staff costs		
— Contributions to defined contribution retirement plans	152	117
— Salaries, wages and other benefits	7,769	5,397
Total staff costs [#]	<u>9,344</u>	<u>7,398</u>
Auditor's remuneration	1,423	3,627
Loss on financial assets at fair value through profit or loss	–	422
Expenses relating to short-term leases	1,401	1,606
Cost of inventories [#]	<u>88,166</u>	<u>78,831</u>
Discontinued operation (note 9)		
Other staff costs		
— Salaries, wages and other benefits	–	1,076
Total staff costs [#]	<u>–</u>	<u>1,076</u>
Cost of inventories [#]	<u>–</u>	<u>279</u>

[#] Cost of inventories includes approximately RMB6,905,000 (2019: RMB4,144,000) relating to staff costs, depreciation and amortisation which amount is also included in the respective total amounts disclosed separately above.

8. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2019

(a) *Acquisition of Fujian Yongchun Pharmaceutical Company Limited (“Fujian Yongchun”)*

On 25 October 2018, the Group entered into a sales and purchase agreement with an independent third party to acquire 51% equity interest in Fujian Yongchun at a consideration of RMB7,650,000 which shall be settled by cash. The principal activities of Fujian Yongchun are production, development and sales of pharmaceutical products in the PRC. The management considers that such acquisition will enable the Group to increase new manufacturing bases of pharmaceutical products and enrich product categories as well as expand sales network. The acquisition was completed on 28 March 2019.

The consideration amounted to RMB7,650,000 has not yet settled as at 31 December 2020.

(b) *Acquisition of Fujian Zhixin Medicine Co., Limited (“Fujian Zhixin”)*

On 29 March 2019, the Group entered into a sales and purchase agreement with an independent third party to acquire the entire equity interest in Fujian Zhixin at a consideration of RMB2,000,000 which shall be settled by cash. The principal activities of Fujian Zhixin are sales of pharmaceutical products in the PRC. The management considers that such acquisition will enable the Group to enrich product categories as well as expand sales network. The acquisition was completed on 1 April 2019.

(c) *Acquisition of Zentrogene Bioscience Laboratory Limited (“Zentrogene”)*

On 29 March 2019, the Group entered into a sales and purchase agreement with an independent third party to acquire the entire equity interest in Zentrogene at a consideration of HKD19,500,000 (approximately RMB16,673,000) which shall be settled by cash. The principal activities of Zentrogene are provision of genetic testing and molecular diagnostic services in Hong Kong. The management considers that such acquisition will enable the Group to develop its precision medicine. The acquisition was completed on 1 April 2019.

Portion of the consideration amounted to approximately RMB2,763,000 had been settled by cash during the year ended 31 December 2019. The Group had settled the remaining portion of the consideration amounted to approximately RMB13,910,000 through a non-cash transaction.

The following summarises the total consideration and the fair value of assets acquired and liabilities assumed and goodwill arising from the acquisition of Fujian Yongchun, Fujian Zhixin and Zentrogene at their acquisition dates:

	(a) Fujian Yongchun As at 28 March 2019 <i>RMB'000</i>	(b) Fujian Zhixin As at 1 April 2019 <i>RMB'000</i>	(c) Zentrogene As at 1 April 2019 <i>RMB'000</i>	Total <i>RMB'000</i>
Net assets acquired:				
Property, plant and equipment	9,280	105	550	9,935
Right-of-use assets	4,756	–	–	4,756
Intangible assets	11,753	16	2,717	14,486
Deferred tax assets	1,555	–	–	1,555
Inventories	679	176	–	855
Trade and other receivables	33	4,860	954	5,847
Tax recoverable	–	–	106	106
Cash and cash equivalents	487	35	388	910
Trade and other payables	(9,212)	(3,149)	(508)	(12,869)
Deferred tax liabilities	(2,938)	–	(448)	(3,386)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total identifiable net assets at fair value	16,393	2,043	3,759	22,195
Non-controlling interest	(8,032)	–	–	(8,032)
Goodwill	–	–	12,914	12,914
Gain on bargain purchase on acquisition* (<i>note 6</i>)	(711)	(43)	–	(754)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total consideration	<u>7,650</u>	<u>2,000</u>	<u>16,673</u>	<u>26,323</u>

* The Group recognised a gain on bargain purchase of approximately RMB754,000 in the business combination. The gain is included in other income and other gain, net (note 6).

9. DISCONTINUED OPERATION AND DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2019

(a) Disposal of Wuyi International Pharmaceutical (Hong Kong) Company Limited (“Wuyi HK”) and Fujian Sanai Pharmaceutical Company Limited (“Fujian Sanai”)

On 30 April 2019, the Group disposed of the entire equity interest of Wuyi HK and Fujian Sanai with consideration of approximately RMB9,000 where Wuyi HK engaged in investment holding and Fujian Sanai engaged in investment holding, develop, manufacture, marketing and sales of pharmaceutical products. Wuyi HK did not carried out any business during the period. The disposal was completed on 30 April 2019 (“2019 Disposal Date”) and the Group discontinued its development, manufacturing, marketing and sales of pharmaceutical products business under Fujian Sanai.

(b) Disposal of Hong Kong Liumai Medical Group Company Limited (“HK Liumai”) and Fujian Liumai Medical Services Co., Limited (“Fujian Liumai”)

On 1 December 2019, the Group disposed of the entire equity interest of HK Liumai and Fujian Liumai with consideration of HK\$1. The disposal was completed on 1 December 2019. HK Liumai and Fujian Liumai did not carry out business before the disposal date.

(a) Analysis of the profit from the discontinued operation

	2019 RMB'000
Profit for the year from discontinued operation	35,939
Gain on disposal of subsidiaries (note 9(b))	112,154
	<u>148,093</u>
	Period from 1 January 2019 to 2019 Disposal Date Fujian Sanai RMB'000
Revenue	28
Cost of sales and services rendered	(279)
	<u>(251)</u>
Gross loss	(251)
Other income and other gain/losses, net	44,274
Distribution costs	(7)
Administrative and other expenses	(1,931)
Finance costs	(4,162)
Impairment loss on trade receivables	(1,664)
Impairment loss on other receivables	(320)
	<u>(320)</u>
Profit before income tax	35,939
Income tax expenses	–
	<u>–</u>
Profit for the year from discontinued operation	<u>35,939</u>

Profit before income tax from discontinued operation for the year ended 31 December 2019 stated in consolidated statement of cash flow included gain on disposal of subsidiaries.

(b) Disposal of subsidiaries

	As at 1 December 2019	At 2019 Disposal Date	2019 Total
	HK Liukai & Fujian Liukai RMB'000	Wuyi HK & Fujian Sanai RMB'000	2019 Total RMB'000
Net liabilities disposed of			
Property, plant and equipments	–	8	8
Inventories	–	2,032	2,032
Trade and other receivables	–	84,488	84,488
Tax recoverable	–	302	302
Amount due from group companies	–	2,239	2,239
Cash and cash equivalents	–	30	30
Trade and other payables	(163)	(30,061)	(30,224)
Secured bank loans	–	(165,989)	(165,989)
Deferred tax liabilities	–	(5,031)	(5,031)
	(163)	(111,982)	(112,145)
Gain on disposal of subsidiaries	163	111,991	112,154
Total consideration	–	9	9

10. INCOME TAX EXPENSES/(CREDIT)

	2020 RMB'000	2019 RMB'000
Current tax		
PRC Enterprise Income Tax (“EIT”)	4,096	371
Deferred taxation	4,096	371
	1,065	(815)
	5,161	(444)
Representing:		
— Continuing operations	5,161	(444)

For the PRC subsidiaries of the Group, PRC EIT is calculated at 25% (2019: 25%) in accordance with the relevant laws and regulations in the PRC.

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the years ended 31 December 2020 and 2019. No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2020 and 2019 as the Group did not generate any assessable profits arising in Hong Kong during the years ended 31 December 2020 and 2019.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

11. DIVIDENDS

The directors do not recommend the payment of any dividend for the year ended 31 December 2020 and 2019.

12. EARNINGS/(LOSS) PER SHARE

The calculation of basis earnings/(loss) per share attributable to the owners of the Company are based on the following data:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Profit/(loss) for the year attributable to the owners of the Company for the purpose of basis earnings/(loss) per share		
— From continuing operations	6,422	(39,141)
— From discontinued operation	—	148,093
	<u>6,422</u>	<u>108,952</u>
Number of shares	<i>'000</i>	<i>'000</i>
Weighted average number of ordinary shares for the purpose of basis earnings/(loss) per share	<u>3,067,223</u>	<u>3,067,223</u>

For the year ended 31 December 2020 and 2019, the dilutive earnings/(loss) per share was the same as the basic earnings/(loss) per share as the impact of share options had an anti-dilutive effect.

13. TRADE AND OTHER RECEIVABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade receivables	23,244	13,351
Less: Provision for loss allowance (<i>note b</i>)	(68)	(68)
	<u>23,176</u>	<u>13,283</u>
Other receivables	29,146	17,270
Investment in bond issued by a private company	10,946	11,622
Amount due from a related company	2	2
Prepayments and deposits	60,326	46,868
Other PRC tax receivables	100	1,249
	<u>123,696</u>	<u>90,294</u>
Represented by:		
Current	123,696	66,589
Non-current	–	23,705
	<u>123,696</u>	<u>90,294</u>

Notes:

- (a) The Group normally grants credit terms of 30 to 180 days (2019: 30 to 180 days) to its customers.

As of the end of the reporting period, the ageing analysis of trade receivables at the end of the reporting period, presented based on the invoice date and net of allowance for doubtful debts is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 30 days	6,452	5,333
31 to 60 days	5,050	1,553
61 to 90 days	4,126	316
91 to 120 days	3,540	802
121 to 365 days	945	3,527
Over 365 days	3,063	1,752
	<u>23,176</u>	<u>13,283</u>

- (b) Reconciliation of loss allowance for trade receivables:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
At 1 January	68	972
Increase in loss allowance for the year	–	1,664
Decrease due to disposal of subsidiaries	–	(2,568)
	<u>68</u>	<u>68</u>
At 31 December	<u>68</u>	<u>68</u>

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and invoice date ageing. The expected credit losses also incorporate forward looking information.

	Within 30 days	31 to 60 days	61 to 90 days	91 to 120 days	121 to 365 days	Over 365 days	Total
At 31 December 2020							
Weighted average expected loss rate	-	-	-	-	-	2%	0.3%
Receivable amount (<i>RMB'000</i>)	6,452	5,050	4,126	3,540	945	3,131	23,244
Loss allowance (<i>RMB'000</i>)	-	-	-	-	-	68	68
At 31 December 2019							
Weighted average expected loss rate	-	-	-	-	-	4%	1%
Receivable amount (<i>RMB'000</i>)	5,333	1,553	316	802	3,527	1,820	13,351
Loss allowance (<i>RMB'000</i>)	-	-	-	-	-	68	68

14. TRADE AND OTHER PAYABLES

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Trade payables	9,736	6,303
Payroll and welfare payables	1,828	1,553
Accrued expenses	6,547	8,836
Other payables	46,684	36,424
Other PRC tax payables	466	229
Contract liabilities	10,972	3,104
Deposits received	5,800	5,800
	<u>82,033</u>	<u>62,249</u>

The aged analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Within 30 days	4,866	3,941
31 to 60 days	1,006	239
61 to 90 days	3,517	54
91 to 120 days	75	33
121 to 365 days	114	1,992
Over 365 days	158	44
	<u>9,736</u>	<u>6,303</u>

15. SHARE CAPITAL

	Number of ordinary shares ('000)	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	<u>3,067,223</u>	<u>30,672</u>
	2020	2019
	RMB'000	RMB'000
Shown in the consolidated and Company's statement of financial position at 31 December	<u>28,601</u>	<u>28,601</u>

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 share rank equally with regard to the Company's residual assets.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

The following is an extract of the independent auditor’s report on the Group’s consolidated financial statements for the year ended 31 December 2020.

“Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

1. Limited accounting books and records of subsidiaries disposed

As disclosed in note 12 to the consolidated financial statements, the disposal of Wuyi International Pharmaceutical (Hong Kong) Company Limited and Fujian Sanai Biotechnology Limited (“**2019 Disposal Companies**”) have been completed on 30 April 2019 (“**2019 Disposal Date**”). Due to the insufficiency of supporting documentation and explanations for accounting books and records in respect of 2019 Disposal Companies for the year ended 31 December 2019, we were unable to carry out audit procedures to satisfy ourselves as to whether (i) the income and expenses for the year ended 31 December 2019 included in the profit for the year from discontinued operation amounted to approximately RMB148,093,000; (ii) the assets and liabilities as at 2019 Disposal Date and (iii) the accuracy of the disclosures in relation to 2019 Disposal Companies as included in the consolidated financial statements of the Group, have been accurately recorded and properly accounted for in the consolidated financial statements.

2. Provision for litigation

Due to the uncertainties in relation to the litigation as disclosed in note 38 to the consolidated financial statements, we have been unable to obtain supportable evidence for us to assess whether provision of litigation of RMBnil as at 31 December 2020 and 2019 are fairly stated and the profit or loss effect on the provision of litigation for the year ended 31 December 2020 and 2019 are properly stated.

Any adjustments to the figures as described from points 1 to 2 above might have a consequential effect on the Group’s consolidated financial performance and its consolidated cash flows for the year ended 31 December 2020 and 2019 and the consolidated financial position of the Group as at 31 December 2020 and 2019, and the related disclosures thereof in the consolidated financial statements.”

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2020 (the “**Reporting Period**”), the Group was principally engaged in four businesses: (i) pharmaceutical products business; (ii) finance leasing business; (iii) other general trading business; and (iv) genetic testing and molecular diagnostic services. The major business are stated as below:

Pharmaceutical Products Business

Since the acquisition of Fujian Yongchun Pharmaceutical Company Limited* (福建永春製藥有限公司) (“**Fujian Yongchun**”) and Fujian Zhixin Medicine Co., Limited* (福建至信醫藥有限公司) (“**Fujian Zhixin**”) in 2019, the Company continued to develop its core business, pharmaceutical products business.

Fujian Yongchun is located in Yongchun County, Quanzhou City, Fujian Province. It occupies a site area of 32,330 square metres with a gross floor area of 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) in the PRC 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 became one of the important bases for pharmaceutical production of the Group.

The Group aims to increase its market share by further promoting the core products and other products of Fujian Yongchun. To achieve this goal, the Group plans to adjust its current market position. In particular, the Group plans to enhance its sales and promotional strategies through different channels so as to strengthen its market penetration. The Group will continue to expand its sales team to explore the traditional medicine market by sales via drugstore chains and other channels. The Group will also fully leverage on its existing sales team to increase its sales through distributors.

Fujian Zhixin possesses the Medical Operations Permit (Wholesale), Medical Operation Quality Management System Certifications (GSP) and Food Operations Permit. The Group acts 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. Since the acquisition of Fujian Zhixin in 2019, not only the Group can sell its pharmaceutical products through the sales network of Fujian Zhixin, but can also act as a sales agent to sell pharmaceuticals and healthcare products for other pharmaceutical companies.

During the Reporting Period, the revenue derived from pharmaceutical products business increased by approximately 8.1% to approximately RMB44.97 million (2019: approximately RMB41.59 million).

Finance Leasing Business

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 been engaging in finance leasing business since 2017. The revenue derived from finance leasing business for the Reporting Period was approximately RMB6.61 million (2019: RMB6.66 million).

Leveraging on the business platform, the Company will also develop leasing services of medical devices and rehabilitation equipment which is complimentary to the Group's existing pharmaceutical products business.

Other General Trading Business

The Group operates other general trading business, including the trading of pharmaceutical related apparatus and products such as masks and oxygen machine, etc.. During the Reporting Period, other general trading business recorded a revenue of approximately RMB64.00 million (2019: approximately RMB31.23 million), representing a significant increase of approximately 104.93%. The increase was mainly attributable to the trading of masks and oxygen machines which had high demand due to the outbreak of COVID-19 pandemic in 2020.

Genetic Testing and Molecular Diagnostic Services

The Group has acquired the equity interests in Zentrogene Bioscience Laboratory Limited (“**Zentrogene**”) on 1 April 2019 which primarily engages in the provision of genetic testing and molecular diagnostic services. Zentrogene operates a laboratory with the relevant 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. During the Reporting Period, the revenue generated from genetic testing and molecular diagnostic services amounted to approximately RMB5.84 million (2019: RMB2.40 million), representing an increase of 143.33%. The significant increase was due to the fact that Zentrogene only contributed the nine month of revenue to the Group for the financial year ended 31 December 2019 and partly Zentrogene has established cooperative relationships with new business partners in Shenzhen which contributed to a growth in revenue in 2020.

FINANCIAL REVIEW

For the year ended 31 December 2020, the Group has a total revenue of approximately RMB121.40 million from its continuing operations, representing an increase of approximately 48.32% as compared to approximately RMB81.85 million in 2019, and the gross profit margin from the continuing operation was approximately 25.47% (2019: gross profit margin approximately 2.58%). The Group recorded a profit attributable to owners of the Company of approximately RMB6.42 million (2019: approximately RMB108.95 million). Profit attributable to owners of the Company for the Reporting Period dropped significantly as compared to that of 2019 which was due to the fact that the profit for the year 2019 was mainly generated from the one-off gain on disposal of subsidiaries which amounted to approximately RMB112.15 million. The basic and diluted earnings per share was approximately RMB0.2 cents (2019: basic and diluted earnings per share was approximately RMB3.5 cents).

Liquidity, Financial Resources and Capital Structure

As at 31 December 2020, the Group had cash and cash equivalents of approximately RMB2.63 million (2019: approximately RMB4.20 million) and most cash and cash equivalents were denominated in Renminbi and Hong Kong dollars.

During the Reporting Period, the Group did not use any financial instruments for hedging purpose.

The Group had reviewed the capital structure by using gearing ratio. The gearing ratio represents the total debt, which includes trade and other payables of the Group, divided by total equity of the Group. The gearing ratio of the Group was approximately 40.71% as at 31 December 2020 (2019: approximately 33.18%).

Exposure to Fluctuation in Exchange Rates

For the year ended 31 December 2020, the Group conducted most of its business transactions 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 2020, 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 during the Reporting Period. The management, however, will monitor and consider hedging foreign currency exposure should the need arise.

THE STOCK EXCHANGE’S NOTICE TO SUSPEND TRADING IN THE COMPANY’S SHARES

The Company received a letter dated 24 May 2019 from the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), which served a notice that the Stock Exchange considered that the Company has failed to maintain a sufficient level of operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value could be demonstrated under Rule 13.24 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) to warrant the continued listing of the shares of the Company (the “**Shares**”). The Stock Exchange has therefore decided to suspend trading in the Shares under Rule 6.01(3) of the Listing Rules and proceed with cancellation of the listing of the Company under 6.01A(1) of the Listing Rules (the “**Decision**”).

The Company was required to re-comply with Rule 13.24 of the Listing Rules and would have a remedial period of 18 months to re-comply with the Listing Rules. If the Company failed to do so by the expiry of the 18-month period (i.e. 23 November 2020), the Stock Exchange would proceed with cancellation of the listing of the Company.

After seeking professional advice, on 4 June 2019, the Company had submitted a written request to the listing committee (the “**Listing Committee**”) of the Stock Exchange for the Decision to be referred to the Listing Committee for review pursuant to Rule 2B.06(1) of the Listing Rules.

The Board emphasized that the Group was undergoing a period of transformation. The Group has terminated its business with continued losses and disposed of its assets with substantial net liabilities for the interests of the Company and shareholders as a whole. The Board will use its best efforts to improve the Group’s overall performance in the future.

On 6 September 2019, the Company has received a letter from the Listing Committee setting out its decision on the review application (the “**Decision Letter**”). According to the Decision Letter, the Listing Committee decided to uphold the Decision to suspend trading in the Shares. The trading in the Shares was suspended and the Company would be required to resume trading within a period of 18 months from the date of the suspension. If the Company failed to do so, the Stock Exchange would proceed with cancellation of listing of the Company.

After seeking professional advice, the Company submitted a written request to the Listing (Review) Committee (“**Listing (Review) Committee**”) of the Stock Exchange for the Decision to be referred to the Listing (Review) Committee for review (the “**2nd Review Request**”) pursuant to Rule 2B.06(2) of the Listing Rules.

On 23 January 2020, the Company had received a reply from the Listing (Review) Committee that they had decided to uphold the decision of the Listing Committee. The Company was required to re-comply with Rule 13.24 of the Listing Rules and resume trading within a period of 18-month period, if the Company failed to do so by the expiry of the 18-month period, the Stock Exchange would proceed with cancellation of the listing of the Company.

By way of letters to the Company dated 12 February 2020, 7 April 2020 and 18 January 2021, the Stock Exchange imposed the following resumption guidance for the Company:

- (i) Demonstrate its compliance with Rule 13.24 of the Listing Rules;
- (ii) Publish all outstanding financial results and address any audit modifications; and
- (iii) Re-comply with Rules 3.10, 3.10A, 3.21 and 3.25 of the Listing Rules.

For further details, please refer to the announcements of the Company dated 26 May 2019, 28 May 2019, 4 June 2019, 9 September 2019, 16 September 2019, 24 January 2020, 12 February 2020, 7 April 2020, 23 April 2020, 24 July 2020, 23 October 2020, 18 January 2021, 22 April 2021 and 12 July 2021 respectively.

CAPITAL COMMITMENTS, CONTINGENCIES AND CHARGES ON ASSETS

As at 31 December 2020, the Group did not have any other significant capital commitment (2019: nil).

Save as disclosed in this announcement, the Group did not have any other significant contingent liabilities as at the date of this announcement.

As at 31 December 2020, there was no land use rights and property, plant and equipment (2019: nil) which had been pledged as security for the borrowings of the Group.

SIGNIFICANT ACQUISITIONS AND DISPOSAL OF INVESTMENTS

There was no significant acquisition and disposal of investments held during the Reporting Period.

EQUITY FUND RAISING ACTIVITIES

The Company did not have any equity fund raising activity during the Reporting Period.

NUMBER AND REMUNERATION OF EMPLOYEES

For the year ended 31 December 2020, the Group employed approximately 68 employees (2019: 69 employees) with total staff cost of approximately RMB9.34 million (2019: approximately RMB7.40 million) from continuing operations. The Group determined staff remuneration in accordance with the 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 years ended 31 December 2020 and 31 December 2019, there was no significant capital expenditure of the Group for property, plant and equipment.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2020 (31 December 2019: 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 2020, they had fully complied with the required standards as set out in the Model Code.

SHARE OPTION 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:

Category of participant	Number of share options					Date of grant	Exercise period	Closing price of the shares immediately before the date of grant	
	At 1 January 2020	Granted during the year	Cancelled or lapsed during the year	Exercise during the year	At 31 December 2020			Exercise price HK\$	HK\$
Employees in aggregate	34,800,000	-	-	-	34,800,000	24 May and 30 May 2018	24 May 2018 to 29 May 2023 (Note)	-	-
Non-employees in aggregate	2,000,000	-	-	-	2,000,000	30 May 2018	30 May 2018 to 29 May 2023 (Note)	-	-
	<u>36,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,800,000</u>				

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

EVENTS AFTER THE REPORTING PERIOD

Save for the events disclosed below, there was no other major subsequent events occurred since the Reporting Period up to 30 April 2021. Please refer to the Company's annual report 2020 for events subsequent to 30 April 2021.

Litigation

The Company has received a civil judgement (the "**Judgement**") dated 22 December 2020 issued by 北京市第四中級人民法院 (the No. 4 Intermediate People's Court of Beijing*) (the "**Court**") in relation to a litigation (the "**Litigation**") brought by 北京市文化科技融資租賃股份有限公司 (Beijing Cultural Technology Finance Lease Company Limited*, the "**Plaintiff**") against, among others, (a) the Company; (b) Fujian Sanai, the disposal of which was completed in April 2019; (c) Lin Ouwen, a former executive Director; and (d) Lin Min, a former executive Director.

The Plaintiff first filed a statement of claim (the "**Statement of Claim**") with the Court on 30 August 2018, whereby, among others, the Plaintiff alleged that (i) Fujian Sanai, a then subsidiary of the Company, had entered into a finance lease agreement (the "**Finance Lease Agreement**") with the Plaintiff on 21 March 2016, pursuant to which the Plaintiff agreed to lease certain assets to Fujian Sanai for a term of 36 months with a total leasing cost of RMB134,954,600 and an interest rate of 8.3%; (ii) each of the Company, Lin Ouwen, who was a then executive Director, and Lin Min, entered into a guarantee agreement with the Plaintiff respectively to provide joint guarantee (the "**Guarantee**") for the debts owed by Fujian Sanai under the Finance Lease Agreement; and (iii) Fujian Sanai had failed to pay the rent payable under the Finance Lease Agreement since 20 August 2017, and the Company, Lin Ouwen and Lin Min had failed fulfill their obligations as guarantors. The Statement of Claim was received by the Company in July 2019.

As such, the Plaintiff demanded, among others, that (i) Fujian Sanai immediately pay to the Plaintiff the unpaid due rent in the amount of RMB33,855,032.69 with the default interest accrued thereon, undue rent in the amount of RMB47,592,982.21, default payment in the amount of RMB4,759,298.22 (being 10% of the undue rent), the legal fees in the amount of RMB800,000, the retention purchase price of RMB100 and the cost incurred in relation to the Litigation; and (ii) the Company, Lin Ouwen and Lin Min be jointly liable for the debts owed by Fujian Sanai under the Finance Lease Agreement.

The Plaintiff also submitted to the Court a copy of the alleged minutes of the Board meeting (the "**Board Meeting**") held on 22 March 2016 on which resolutions (the "**Resolutions**") were passed to approve, inter alia, the provision of the Guarantee by the Company. However, only two of the then Directors, Lin Ouwen and Lin Qingping, were shown to have attended and voted on the Resolutions.

Pursuant to the Judgement, among other things, Fujian Sanai shall, within ten days of the Judgement, pay to the Plaintiff the unpaid due rent under the Finance Lease Agreement in the amount of RMB33,855,032.69 with the default interest accrued thereon, the accelerated due rent under the Finance Lease Agreement in the amount of RMB47,592,982.21, the default payment in the amount of RMB4,759,298.22, the retention purchase price of RMB100, the legal fees in the amount of RMB800,000, the announcement fees in the amount of RMB2,650, the preservation insurance fees in the amount of RMB175,636.06 and the preservation fees in the amount of RMB5,000 (collectively the “**Litigation Amount**”); and the Company, Lin Ouwen and Lin Min shall be jointly liable for the Litigation Amount, and they are entitled to claim against Fujian Sanai after discharging of such joint liabilities.

The Company has lodged an appeal (the “**Appeal**”) against the Judgement to 北京市高級人民法院 (the Higher People’s Court of Beijing*) on 22 January 2021.

Pursuant to the Appeal, the Company has pleaded to 北京市高級人民法院 (the Higher People’s Court of Beijing*) to rule that the Finance Lease Agreement and the Guarantee were invalid, and to reject all of the Plaintiff’s claims.

For further details, please refer to the announcements of the Company dated 18 January 2021 and 4 February 2021.

Outbreak of COVID-19 pandemic

After the COVID-19 pandemic outbreak in early 2020, a series of precautionary and control measures have been and continued to be implemented in the PRC and worldwide. The outbreak of the COVID-19 pandemic in the PRC and the subsequent quarantine and travel restrictions measures imposed by the PRC Government in early 2020 have had a certain impact on the operations of the Group including suspension of factory operation for a period of time during 2020.

At present, the Group’s operation is generally stable. The Group will continue to pay close attention to the development of, and the disruption to business and economic activities caused by, the COVID-19 pandemic outbreak and evaluate its impact on the financial position, cash flows and operating results of the Group.

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.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B of the Listing Rules, the changes of information of the Directors since the date of the Company's 2020 Interim Report are set out below:

With effect from 24 November 2020, Mr. Wang Zihao resigned as an independent non-executive Director and ceased to be the chairman of each of the audit committee and the remuneration committee of the Company and a member of the nomination committee of the Company due to his intention to pursue other business opportunities. Further details were disclosed in the Company's announcement dated 24 November 2020.

With effect from 30 November 2020, Mr. Long Jun resigned as an independent non-executive Director and ceased to be a member of each of the audit committee, the remuneration committee and the nomination committee of the Company due to his intention to devote more time to his personal commitments. Further details were disclosed in the Company's announcement dated 30 November 2020.

With effect from 31 December 2020, Professor Zhu Yi Zhun was been appointed as an independent non-executive Director, a member of each of the audit committee, the remuneration committee and the nomination committee of the Company. Further details were disclosed in the corresponding announcement dated 31 December 2020.

COMPLIANCE WITH 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 ("**CG Code**") contained in Appendix 14 to the Rules (the "**Listing Rules**") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the year ended 31 December 2020, except for deviation from provision A.2.1, A.2.7, A.6.7, E.1.2 and A.5.1. The Company also failed to comply with Rule 3.10, 3.10A, 3.21 and 3.25 of the Listing Rules.

In respect of the code provision A.2.1 of the CG Code, the roles of chairman (the "**Chairman**") and chief executive officer ("**CEO**") of the Company shall be separated and shall not be performed by the same individual. The Board considered that vesting the roles of the 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 on the Board, all of them are independent from the Company and the Board believes that there is a sufficient check and balance in the Board. 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.

Code provision A.2.7 of the CG Code stipulates that the chairman should at least annually hold meetings with the non-executive directors (including independent non-executive Directors) without the presence of the executive directors. During the Reporting Period, Mr. Chen Chengqing (“**Mr. Chen**”), the Chairman did not hold any meeting with the non-executive Directors of the Company without presence of the executive Directors. However, Mr. Chen has effective communication with the non-executive Directors from time to time.

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. All independent non-executive Directors and the non-executive Director did not attend any general meetings since the annual general meeting of the Company held on 17 June 2019 since the Company had not convened any annual general meeting subsequent to 17 June 2019.

Code provision E.1.2 stipulates that the chairman of the Board should attend the annual general meeting and should invite the chairman of the audit. Remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend. All Directors have not attended any general meetings since the annual general meeting of the Company held on 17 June 2019 since the Company had not convened any annual general meeting subsequent to 17 June 2019.

Following the resignation of Mr. Tu Fangkui as an independent non-executive Director, member of the Audit Committee, member of the remuneration Committee and member of the Nomination Committee of the Company on 30 June 2020, the Company had only two independent non-executive Directors, namely Mr. Wang Zihao (“**Mr. Wang**”) and Mr. Long Jun (“**Mr. Long**”), and failed to meet the requirements of having: (a) at least three independent non-executive directors on the Board under Rule 3.10(1) of the Listing Rules; (b) independent non-executive directors who represent at least one-third of the Board under Rule 3.10A of the Listing Rules; (c) the Audit Committee comprising only non-executive directors with a minimum of three members under Rule 3.21 of the Listing Rules; (d) the Remuneration Committee comprising a majority of independent non-executive directors under Rule 3.25 of the Listing Rules; and (e) the Nomination Committee comprising a majority of independent non-executive directors under code provision A.5.1 of the CG Code contained in Appendix 14 to the Listing Rules.

Following the resignation of Mr. Wang as an independent non-executive Director, the chairman of each of the audit committee and remuneration committee, and member of the nomination committee of the Company on 24 November 2020, the Company only had one independent non-executive Directors, which further failed to meet the requirement that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules.

Following the resignation of Mr. Long as an independent non-executive Director, a member of each of the audit committee, remuneration committee and nomination committee of the Company on 30 November 2020, the Company did not have any independent non-executive Director.

Upon the appointment of Professor Zhu as an independent non-executive Director of the Company on 31 December 2020, the Board had one independent non-executive Director; the Audit Committee comprised one independent non-executive Director; the Nomination Committee comprised two executive Directors, namely Mr. Chen (Chairman) and Professor Zhang Rongqing (“**Professor Zhang**”), and one independent non-executive Director, namely Professor Zhu; and the Remuneration Committee comprised two executive Directors, namely Mr. Chen and Professor Zhang, and one independent non-executive Director, namely Professor Zhu. The Company continued to deviate from the Listing Rules as stated above.

Appointment of Independent Non-Executive Directors

On 3 February 2021, Mr. Khor Khie Liem Alex (“**Mr. Khor**”) has been appointed as an independent non-executive Director, chairman of each of the audit committee and the remuneration committee, and a member of the nomination committee. Further details were disclosed in the Company’s announcement dated 3 February 2021.

On 25 June 2021, Mr. Zhang Ruigen (“**Mr. Zhang**”) has been appointed as an independent non-executive Director, a member of each of the audit committee, the remuneration committee and the nomination committee. Further details were disclosed in the Company’s announcement dated 25 June 2021.

Upon the appointments of Mr. Khor and Mr. Zhang, (i) the Board has three independent non-executive Directors, namely, Professor Zhu Yi Zhun (“**Professor Zhu**”), Mr. Khor and Mr. Zhang which is in compliance with Rule 3.10(1) of the Listing Rules; (ii) the independent non-executive Directors represent at least one-third of the Board in compliance with Rule 3.10A of the Listing Rules; (iii) the Audit Committee comprising three independent non-executive Directors, namely Mr. Khor (chairman), Professor Zhu and Mr. Zhang and is in compliance with Rule 3.21 of the Listing Rules; (iv) the Audit Committee has at least one of the independent non-executive directors who must have appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules; (v) the Remuneration Committee comprises a majority of independent non-executive directors and is chaired by an independent non-executive Director and is in compliance with Rule 3.25 of the Listing Rules; and (vi) the Nomination Committee comprises a majority of independent non-executive directors and is chaired by the chairman of the Board and is in compliance with code provision A.5.1 of the Corporate Governance Code in Appendix 14 to the Listing Rules.

As mentioned in the paragraph above, the Company has complied with Rules 3.10, 3.10A, 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of the CG Code as stated above after the appointment of the aforesaid two independent non-executive Directors on 3 February 2021 and 25 June 2021 respectively.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Upon specific enquiries made by the Company, all Directors have confirmed that they have fully complied with the required standards as set out in the Model Code throughout the Reporting Period.

AUDITORS

The consolidated financial statements for the year ended 31 December 2020 have been audited by ZHONGHUI ANDA CPA Limited (“**Zhonghui Anda**”). Zhonghui Anda has been appointed by the Directors as auditor of the Company on 23 February 2021. Zhonghui Anda will retire, and being eligible, offer themselves for re-appointed at the forthcoming annual general meeting. A resolution for its reappointment as auditor of the Company will be proposed.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group’s consolidated statement of financial position as at 31 December 2020, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group’s auditor, Zhonghui Anda, to the amounts set out in the Group’s audited consolidated financial statements for the year ended 31 December 2020. The work performed by Zhonghui Anda 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 Zhonghui Anda on the preliminary announcement.

AUDIT COMMITTEE

An audit committee has been established by the Company to review the financial reporting process, risk management and internal control systems of the Group. The audit committee of the Company currently comprises three independent non-executive Directors, namely Mr. Khor Khie Liem Alex, Prof. Zhu Yi Zhun and Mr. Zhang Ruigen, while Mr. Khor Khie Liem Alex is the chairman of the audit committee.

The annual results of the Company for the year ended 31 December 2020 and this announcement has been reviewed by the Audit Committee before presented to the Board for approval. The Audit Committee was of the opinion that the preparation of the annual results for the year ended 31 December 2020 complied with the applicable accounting standards and requirements as well as the Listing Rules.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual results announcement are published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.1889hk.com) and the 2020 annual report of the Company will be dispatched to the shareholders of the Company and published on the Company's and the Stock Exchange's websites in due course.

ACKNOWLEDGEMENT

The Group would like to extend its 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, the Group would like to take this opportunity to thank our shareholders and all other stakeholders for their continuous support and confidence in us.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on Friday, 24 January 2020 and will remain suspended until the Company fulfills the Resumption Conditions.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the shares of the Company.

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

Hong Kong, 16 July 2021

As at the date of this announcement, the Board comprises five executive directors, namely, Mr. Chen Chengqing (Chairman), Mr. Gao Borui, Mr. Yuan Chaoyang, Professor Zhang Rongqing and Mr. She Hao, one non-executive director, namely, Mr. Xiu Yuan and three independent non-executive directors, namely, Professor Zhu Yi Zhun, Mr. Khor Khie Liem Alex and Mr. Zhang Ruigen.

* *for identification purposes only*