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 2023

FINANCIAL HIGHLIGHTS

— Revenue for the year ended 31 December 2023 decreased by approximately 30.59% to approximately RMB122.10 million (2022: approximately RMB175.92 million).

— Gross profit for the year ended 31 December 2023 was approximately RMB35.19 million (2022: approximately RMB91.68 million).

— Gross profit margin for the year ended 31 December 2023 was approximately 28.82% (2022: approximately 52.11%).

— Profit for the year ended 31 December 2023 amounted to approximately RMB13.37 million (2022: approximately RMB35.20 million).

— Basic and diluted earnings per share attributable to owners of the Company for the year ended 31 December 2023 was approximately RMB0.58 cent and approximately RMB0.51 cent respectively (2022: basic and diluted earnings approximately RMB0.95 cent and RMB0.89 cent respectively).

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 annual consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2023 (the "**Reporting Period**" or the "**Year Under Review**"), together with the comparative figures of the year ended 31 December 2022.

The Group's financial information for the year ended 31 December 2023 in this announcement was prepared on the basis of the consolidated financial statements which have been reviewed by 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

	Note	**2023**	2022
		RMB'000	*RMB'000*
Revenue	*5*	**122,098**	175,923
Cost of sales and services rendered		**(86,913)**	(84,248)
Gross profit		**35,185**	91,675
Other income	*6*	**536**	359
Distribution costs		**(780)**	(1,602)
Administrative and other operating expenses		**(15,390)**	(17,512)
Write-off of inventories		**(52)**	(164)
(Provision for) Reversal of impairment loss on trade receivables, net	*11*	**(1,514)**	807
Reversal of (Provision for) impairment loss on finance lease receivables, net	*12*	**3,914**	(4,135)
(Provision for) Reversal of impairment loss on other receivables		**(37)**	1,753
Equity-settled share-based payment expenses		**–**	(9,722)
Changes in fair value of convertible notes designated as financial liabilities at FVPL	*15*	**2,554**	(1,412)
Loss on disposal of subsidiaries		**–**	(2,484)
Finance costs	*7*	**(2,052)**	(1,792)
Profit before income tax	*7*	**22,364**	55,771
Income tax expenses	*8*	**(8,997)**	(20,574)
Profit for the year		**13,367**	35,197
Profit (Loss) for the year attributable to:			
Owners of the Company		**18,633**	29,217
Non-controlling interests		**(5,266)**	5,980
		13,367	35,197
Earnings per share	*10*		
Basic (RMB cent)		**0.58**	0.95
Diluted (RMB cent)		**0.51**	0.89

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2023	2022
	RMB'000	*RMB'000*
Profit for the year	**13,367**	35,197
Other comprehensive expenses:		
Item that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(803)**	(1,158)
Release of translation reserve upon disposal of subsidiaries	**–**	(847)
Total other comprehensive expenses	**(803)**	(2,005)
Total comprehensive income for the year	**12,564**	33,192
Total comprehensive income (expenses) for the year attributable to:		
Owners of the Company	**17,830**	27,212
Non-controlling interests	**(5,266)**	5,980
	12,564	33,192

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**2023** **RMB'000**	2022 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**6,508**	7,590
Right-of-use assets		**5,673**	5,589
Intangible assets		**2,454**	4,419
Finance lease receivables	*12*	**–**	9,788
		14,635	27,386
CURRENT ASSETS			
Inventories		**487**	438
Trade and other receivables	*11*	**25,947**	12,674
Tax recoverable		**32**	30
Finance lease receivables	*12*	**9,689**	322,257
Financial assets at FVPL		**176**	195
Cash and cash equivalents		**332,474**	21,839
		368,805	357,433
CURRENT LIABILITIES			
Trade and other payables	*13*	**43,317**	45,490
Interest-bearing borrowings	*14*	**7,697**	4,653
Lease liabilities		**796**	270
Convertible notes designated as financial liabilities at FVPL	*15*	**–**	65,089
Tax payables		**7,363**	11,084
		59,173	126,586
NET CURRENT ASSETS		**309,632**	230,847
TOTAL ASSETS LESS CURRENT LIABILITIES		**324,267**	258,233

	Note	2023 RMB'000	2022 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities		**771**	1,055
Convertible notes designated as financial liabilities at FVPL	*15*	**53,214**	-
Deferred tax liabilities		**611**	1,101
		54,596	2,156
NET ASSETS		**269,671**	256,077
CAPITAL AND RESERVES			
Share capital	*16*	**29,865**	29,742
Reserves		**234,584**	215,847
Equity attributable to owners of the Company		**264,449**	245,589
Non-controlling interests		**5,222**	10,488
TOTAL EQUITY		**269,671**	256,077

NOTES

1. GENERAL INFORMATION

Sanai Health Industry Group Company Limited (the "**Company**", together with its subsidiaries collectively referred to as the "**Group**") was incorporated in the Cayman Islands on 21 March 2006 and registered as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "**Cayman Companies Law**"). 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 consolidated financial statements are presented in Renminbi ("**RMB**"), which is the same as the functional currency of the Company. All amounts have been rounded to the nearest thousand, unless otherwise stated.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"), issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated 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 measurement basis used in the preparation of the consolidated financial statements is historical cost, except for financial assets at fair value through profit or loss ("**FVPL**") and convertible notes designated as financial liabilities at FVPL, which are stated at fair value.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2022 consolidated financial statements except for the adoption of the new/revised HKFRSs and effective from the current financial reporting period as detailed in Note 3.

3. ADOPTION OF NEW/REVISED HKFRSs

The Group has applied, for the first time, the following new/revised HKFRSs:

Amendments to HKAS 1	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules
HKFRS17	Insurance Contracts
Amendments to HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information

Amendments to HKAS 1: Disclosure of Accounting Policies

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies.

The amendments have no effect on the measurement, recognition or presentation of any items in the consolidated financial statements.

Amendments to HKAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

Amendments to HKAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of HKAS 12 so that it no longer applies to transactions that, on recognition, give rise to equal taxable and deductible temporary differences.

Amendments to HKAS 12: International Tax Reform — Pillar Two Model Rules

The amendments provide entities with temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's Pillar Two model rules. The Amendments also introduce targeted disclosure requirements to help investors understand an entity's exposure to income taxes arising from the rules.

HKFRS 17: Insurance Contracts

HKFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

The core of HKFRS 17 is the general measurement model where estimates are re-measured each reporting period. Under the model, contracts are measured based on discounted probability-weighted cash flows, an explicit risk adjustment for non-financial risk, and a contractual service margin representing the unearned profit of the contract which is recognised as revenue over the coverage period.

An optional, simplified premium allocation approach is permitted for certain types of contracts, such as short duration contracts.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts such as those with direct participation features. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin.

Amendment to HKFRS 17: Initial Application of HKFRS 17 and HKFRS 9 — Comparative Information

The amendment is a transition option relating to comparative information about financial assets presented on initial application of HKFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

The adoption of HKFRS 17 and the above amendments does not have any significant impact on the Group's consolidated financial statements.

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 executive directors of the Company, being identified as the chief operating decision maker (the "**CODM**"), 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.

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

(ii) Finance leasing segment: provision of finance leasing services; and

(iii) Genetic testing and molecular diagnostic services segment: provision of genetic testing and molecular diagnostic services.

Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the CODM 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 FVPL and other corporate assets. Segment liabilities include trade and certain other payables attributable to the activities of the individual segments. Convertible notes designated as financial liabilities at FVPL and other liabilities are not allocated to operating segments as these liabilities are managed on a corporate basis.

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 results is adjusted earnings before interest, income tax, depreciation and amortisation ("**Adjusted EBITDA**"), where "interest" includes interest income from bank and finance costs and "depreciation and amortisation" includes depreciation/amortisation of property, plant and equipment, right-of-use assets and intangible assets. To arrive at adjusted earnings, the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as remuneration of the Company's directors and auditor and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted profit or loss, the CODM is provided with segment information concerning revenue, interest income, depreciation, amortisation, write-off of inventories, impairment losses, finance costs and additions to non-current segment assets used by segments in their operations.

Information regarding the Group's reportable segments as provided to the CODM for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2023 and 2022 is set out below.

2023

	Pharmaceutical products *RMB'000*	Finance leasing *RMB'000*	Genetic testing and molecular diagnostic services *RMB'000*	Total *RMB'000*
Reportable segment revenue from external customers	**100,517**	**7,248**	**14,333**	**122,098**
Reportable segment profit (Adjusted EBITDA)	**19,818**	**10,355**	**3,665**	**33,838**
Reportable segment assets	**33,937**	**337,414**	**9,206**	**380,557**
Reportable segment liabilities	**16,492**	**1,919**	**7,126**	**25,537**
Other segment information *(Note)*:				
Bank interest income	**81**	**356**	**2**	**439**
Finance costs	**(57)**	**–**	**(24)**	**(81)**
Depreciation and amortisation	**(3,143)**	**(3)**	**(661)**	**(3,807)**
Write-off of inventories	**(52)**	**–**	**–**	**(52)**
Reversal of impairment loss on finance lease receivables, net	**–**	**3,914**	**–**	**3,914**
Provision for impairment loss on trade receivables, net	**(478)**	**–**	**(1,036)**	**(1,514)**
Provision for impairment loss on other receivables	**(37)**	**–**	**–**	**(37)**
Addition to non-current assets	**–**	**–**	**1,091**	**1,091**

2022

	Pharmaceutical products *RMB'000*	Finance leasing *RMB'000*	Genetic testing and molecular diagnostic services *RMB'000*	Total *RMB'000*
Reportable segment revenue from external customers	152,654	14,819	8,450	175,923
Reportable segment profit (Adjusted EBITDA)	70,896	9,631	3,191	83,718
Reportable segment assets	39,454	336,855	5,616	381,925
Reportable segment liabilities	19,269	11,199	4,678	35,146
Other segment information *(Note)*:				
Bank interest income	52	13	–	65
Finance costs	(28)	–	–	(28)
Depreciation and amortisation	(3,249)	(3)	(249)	(3,501)
Write-off of inventories	(164)	–	–	(164)
Provision for impairment loss on finance lease receivables	–	(4,135)	–	(4,135)
Reversal of (Provision for) impairment loss on trade receivables, net	858	–	(51)	807
Reversal of impairment loss on other receivables	1,753	–	–	1,753
Addition to non-current assets	–	–	27	27

Segment revenue reported above represents revenue generated from external customers. There were no significant inter-segment sales during the years ended 31 December 2023 and 2022.

Note:

Any difference between the total amounts set out in the above segment information and the amounts reported elsewhere in the consolidated financial statements represented the unallocated portion for the corporate office.

Reconciliation of reportable segment revenue, result, assets and liabilities

	2023	2022
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue from external customers	**122,098**	175,923
Total reportable segment profit (Adjusted EBITDA)	**33,838**	83,718
Other income	**445**	90
Depreciation and amortisation	**(4,062)**	(3,524)
Loss on disposal of subsidiaries	**–**	(2,484)
Finance costs	**(2,052)**	(1,792)
Unallocated head office and corporate expenses		
— staff costs (including directors' emoluments but excluding equity-settled share-based payment expenses)	**(3,769)**	(2,508)
— equity-settled share-based payment expenses	**–**	(9,722)
— change in fair value of convertible notes designated financial liabilities at FVPL	**2,554**	(1,412)
— others	**(4,590)**	(6,595)
Consolidated profit before income tax	**22,364**	55,771

	2023	2022
	RMB'000	*RMB'000*
Reportable segment assets	**380,557**	381,925
Financial assets at FVPL	**176**	195
Unallocated head office and corporate assets	**2,707**	2,699
Consolidated total assets	**383,440**	384,819

	2023	2022
	RMB'000	*RMB'000*
Reportable segment liabilities	**25,537**	35,146
Convertible notes designated as financial liabilities at FVPL	**53,214**	65,089
Deferred tax liabilities	**611**	1,101
Unallocated head office and corporate liabilities	**34,407**	27,406
Consolidated total liabilities	**113,769**	128,742

Geographic Information

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.

	2023	2022
	RMB'000	*RMB'000*
The PRC	**107,765**	167,473
Hong Kong	**14,333**	8,450
	122,098	175,923

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 are located in the PRC.

Information about major customers

Details of the customers (including entities under common control) individually accounting for 10% or more of total revenue of the Group during the reporting periods are as follows:

	2023	2022
	RMB'000	*RMB'000*
From pharmaceutical products segment		
Customer A	**40,604**	37,741
Customer B	***Note***	19,091
Customer C	**13,358**	*Note*

	2023	2022
	RMB'000	*RMB'000*
From genetic testing and molecular diagnostic services segment		
Customer D	**13,806**	*Note*

Note:

Customers B, C and D contributed less than 10% of revenue of the Group for the years ended 31 December 2023 and 2022, respectively.

5. REVENUE

The principal activities of the Group are the development, manufacturing, marketing and sales of pharmaceutical products, 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 reporting periods are as follows:

	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers within HKFRS 15		
— At a point in time		
Sales of pharmaceutical products	**100,517**	152,654
— Over time		
Provision of genetic services and molecular diagnostic services	**14,333**	8,450
	114,850	161,104
Revenue from other sources		
Finance leasing interest income	**7,248**	14,819
	122,098	175,923

For sales of 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 are rendered and there is no unfulfilled obligation that could affect the customer's acceptance of the service.

6. OTHER INCOME

	2023	2022
	RMB'000	*RMB'000*
Bank interest income	**445**	79
Rent concession received	**68**	–
Sales of raw materials	**–**	134
Sundry income	**23**	2
Government subsidies *(Note)*	**–**	144
	536	359

Note:

In the opinion of the management of the Group, there were no unfulfilled conditions or contingencies relating to these grants.

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	2023	2022
	RMB'000	*RMB'000*
Finance costs		
Interest on convertible notes	**1,683**	1,660
Interest on other borrowings	**287**	104
Finance charges on lease liabilities	**82**	28
	2,052	1,792
Staff costs		
Directors' emoluments	**1,881**	5,572
Other staff costs		
— Salaries, wages, allowances, bonus and benefits in kind	**8,834**	6,594
— Contributions to defined contribution retirement plan	**724**	642
— Equity-settled share-based payment expenses	**–**	5,644
	11,439	18,452

	2023	2022
	RMB'000	*RMB'000*
Other items		
Depreciation of property, plant and equipment	**1,171**	1,285
Amortisation of intangible assets (included in "Cost of sales and services rendered")	**1,965**	1,964
Depreciation of right-of-use assets	**926**	275
Changes in fair value of financial assets at FVPL, net	**19**	252
Auditor's remuneration	**1,537**	1,463
Expenses relating to short-term leases	**222**	540
Write-off of property, plant and equipment	**–**	31
Cost of inventories	**85,878**	82,134

Note:

Cost of inventories includes approximately RMB6,310,000 (2022: RMB5,402,000) relating to staff costs, depreciation and amortisation which amount is also included in the respective total amounts disclosed separately above.

8. INCOME TAX EXPENSES

	2023	2022
	RMB'000	*RMB'000*
Current tax		
Hong Kong Profits Tax	**555**	336
PRC Enterprise Income Tax ("**EIT**")	**8,932**	20,728
	9,487	21,064
Deferred taxation	**(490)**	(490)
	8,997	20,574

For the PRC subsidiaries of the Group, PRC EIT is calculated at 25% (2022: 25%) in accordance with the relevant laws and regulations in the PRC.

Under the two-tiered profits tax regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Accordingly, the Hong Kong Profits Tax of the qualifying group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

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

9. **DIVIDENDS**

The directors of the Company do not recommend the payment of any dividend for the years ended 31 December 2023 and 2022.

10. **EARNINGS PER SHARE**

The calculation of basic and diluted earnings per share attributable to the owners of the Company are based on the following data:

	2023	2022
	RMB'000	*RMB'000*
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	**18,633**	29,217
Change in fair value of convertible notes designated as financial liabilities at FVPL	**(2,554)**	1,412
Exchange difference on convertible notes designated as financial liabilities at FVPL	**1,543**	–
Interest on convertible notes	**1,683**	1,660
Profit for the year attributable to the owners of the Company for the purpose of diluted earnings per share	**19,305**	32,289
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,208,305**	3,068,636
Effect of conversion of convertible notes	**584,183**	540,394
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,792,488**	3,609,030

The computation of diluted earnings per share does not assume the exercise of the outstanding share options since the exercise price per share option was higher than the average share price of the Company for the years ended 31 December 2023 and 2022.

11. TRADE AND OTHER RECEIVABLES

	Note	**2023**	2022
		RMB'000	*RMB'000*
Trade receivables		**24,613**	6,149
Less: Provision for loss allowance	*(c)*	**(1,663)**	(149)
	(b)	**22,950**	6,000
Other receivables	*(d)*	**1,727**	5,944
Amount due from a related company	*(e)*	**3**	2
Deposits		**185**	183
Prepayments		**841**	419
Other PRC tax receivables		**241**	126
		25,947	12,674

Notes:

(a) At 31 December 2023 and 2022, all of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(b) The Group normally grants credit terms of 30 to 180 days (2022: 30 to 180 days) to its customers.

At the end of the reporting period, the ageing analysis of trade receivables presented based on the invoice date and net of loss allowance is as follows:

	2023	2022
	RMB'000	*RMB'000*
Within 30 days	**10,503**	1,647
31 to 60 days	**10,896**	979
61 to 90 days	**523**	911
91 to 120 days	**508**	203
121 to 365 days	**520**	552
Over 365 days	**–**	1,708
	22,950	6,000

(c) Reconciliation of loss allowance for trade receivables:

	2023	2022
	RMB'000	*RMB'000*
At 1 January	**149**	956
Increase (Decrease) in loss allowance, net	**1,514**	(807)
At 31 December	**1,663**	149

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 the ageing. The expected credit losses also incorporate forward looking information.

	Within 30 days	**31 to 60 days**	**61 to 365 days**	**Over 365 days**	**Total**
At 31 December 2023					
Weighted average expected loss rate	2.0%	2.0%	6.0%	100%	6.8%
Receivable amount (RMB'000)	**10,719**	**11,116**	**1,649**	**1,129**	**24,613**
Loss allowance (RMB'000)	**216**	**220**	**98**	**1,129**	**1,663**
At 31 December 2022					
Weighted average expected loss rate	–	–	–	8%	2.4%
Receivable amount (RMB'000)	1,647	979	1,666	1,857	6,149
Loss allowance (RMB'000)	–	–	–	149	149

The significant changes in loss allowance were contributed by the deterioration of the business environment in the PRC during the year ended 31 December 2023.

(d) Included in the other receivables of approximately RMB19,000 (2022: approximately RMB2,535,000) represents interest receivables from finance lease receivables.

(e) The amount due from a related company is unsecured, interest-free and has no fixed repayment term.

12. FINANCE LEASE RECEIVABLES

	Gross amount		Present value	
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Less than 1 year	**10,090**	336,209	**9,910**	326,270
Between 1 and 2 years	**–**	10,090	**–**	9,910
	10,090	346,299	**9,910**	336,180
Less: Unearned finance income	**(180)**	(10,119)	**–**	–
Present value of lease payments	**9,910**	336,180	**9,910**	336,180
Less: Loss allowances			**(221)**	(4,135)
			9,689	332,045
Analysed as:				
Current			**9,689**	322,257
Non-current			**–**	9,788
			9,689	332,045

At 31 December 2023 and 2022, the finance lease receivables are secured over the leased assets represented mainly by machineries and equipment.

The Group is not permitted to sell or repledge the collateral of finance lease receivables in the absence of approval by the lessee. All the Group's finance lease receivables are denominated in RMB, the functional currency of the relevant group entities.

The weighted average term of finance leases outstanding during the year ended 31 December 2023 is 1.6 years (2022: 1.4 years) and all the leases require repayment by installments. In the event the lessee breaches the lease contract, the Group has the right to use or sell the assets leased and to call for full or partial repayment of the outstanding balance of finance lease receivables. At the end of the finance lease term, the lessee will be able to purchase the leased assets at nominal price.

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 5.4% (2022: approximately 6.5%) per annum. The finance lease receivables at the end of the reporting period are neither past due nor impaired.

Reconciliation of loss allowance for finance lease receivables:

	2023	2022
	RMB'000	*RMB'000*
At 1 January	**4,135**	–
Amount recovered	**(3,769)**	–
(Decrease) increase in loss allowance	**(145)**	4,135
At 31 December	**221**	4,135

The Group applies the general approach under HKFRS 9 to provide for expected credit losses ("**ECL**") for all finance lease receivables. The following table details the risk profile of finance lease receivables at the end of the reporting period.

	2023	2022
	RMB'000	*RMB'000*
Total gross carrying amount — performing	**9,910**	336,180
Average loss rate	**2.23%**	1.24%
12-month ECL	**221**	4,135

At 31 December 2023, finance lease receivables with gross carrying amount of approximately RMB9,910,000 (2022: RMB336,180,000) categorised into "performing" under the Group's current credit risk grading framework and accordingly the loss allowance was measured at 12-month ECL.

The significant changes in loss allowance were contributed by significant changes in the gross carrying amounts of the balance because of finance lease receivables settled and originated during years ended 31 December 2023 and 2022, respectively.

13. TRADE AND OTHER PAYABLES

	Note	2023 RMB'000	2022 RMB'000
Trade payables		**9,250**	1,142
Payroll and welfare payables		**4,922**	4,417
Accrued expenses		**2,877**	2,993
Other payables		**22,626**	31,175
Other PRC tax payables		**935**	2,980
Contract liabilities		**366**	360
Interest payables	*(a)*	**1,751**	1,814
Amount due to a director	*(b)*	**590**	609
		43,317	45,490

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

	2023 RMB'000	2022 RMB'000
Within 30 days	**7,518**	833
31 to 60 days	**1,577**	5
61 to 90 days	**3**	5
91 to 120 days	**–**	40
121 to 365 days	**–**	107
Over 365 days	**152**	152
	9,250	1,142

Notes:

(a) Interest payables at 31 December 2023 included approximately RMB1,353,000 (2022: approximately RMB1,706,000) related to convertible notes and approximately RMB398,000 (2022: approximately RMB108,000) related to interest-bearing borrowings.

(b) The amount due to a director is non-trade in nature, unsecured, interest-free and repayable on demand.

14. INTEREST-BEARING BORROWINGS

	2023	2022
	RMB'000	*RMB'000*
Unsecured — current portion		
Other borrowings	**7,697**	4,653
Denominated in:		
HK$	**7,697**	4,653

The other borrowings of approximately RMB7,697,000 (2022: RMB4,653,000) are unsecured, carry fixed interest rate of 5% per annum and are repayable after 1 year from drawdown date.

15. CONVERTIBLE NOTES

On 13 January 2022, the Company, Fujian Sanai Biotechnology Limited* (福建三愛生物科技有限公司) ("**Fujian Sanai**") and Fujian Zhixin Medicine Co., Limited* (福建至信醫藥有限公司) ("**Fujian Zhixin**"), both being indirect wholly-owned subsidiaries of the Company (collectively as "**Obligors**") and two independent third parties being Mr. Zhi Shao Huan (支紹環) ("**Subscriber 1**") and Mr. Jiang Heng Guang (蔣恒光) ("**Subscriber 2**") (collectively as "**Subscribers**") entered into the subscription agreement, pursuant to which, on the terms and subject to the condition therein, the Company has agreed to issue, and the subscribers have agreed to subscribe for, the convertible notes in the aggregate principal amount of HK$72,000,000 (equivalent to approximately RMB63,677,000) which are convertible into the Company's ordinary shares at the conversion price of HK$0.119 per share (subject to adjustment).

As security for the due and punctual payment of the convertible notes and performance by the Company of its obligations under or arising out of the subscription agreement, the Company will execute the charges (the "**Share Charges**") in respect of 57% and 43% of the entire issued share capital of Sanai International Investment Company Limited, a direct wholly-owned subsidiary of the Company, to be executed by the Company in favour of the Subscriber 1 and Subscriber 2 respectively as security of the convertible notes. In addition, each of the Obligors will execute the charge (the "**Account Charges**") to be executed by the Obligors in favour of the Subscribers over the bank accounts in the name of the Obligors as a continuing security for payment and discharge of the outstanding principal amount of the convertible notes and performance by the Company pursuant to the subscription agreement.

Convertible notes with coupon interest rate of 3% per annum payable semi-annually in arrears will mature on the first anniversary of the issue date.

On 9 February 2022, convertible notes with an aggregate principal amount of HK$72,000,000 (equivalent to approximately RMB63,677,000) was successfully issued with maturity date of 8 February 2023.

The convertible notes were recognised as financial liabilities designated upon initial recognition at FVPL.

* *English name is translated for identification purpose only.*

On 3 March 2023, the Company entered into the supplemental deed (the "**Supplemental Deed**") with the Obligors and the Subscribers, pursuant to which, on the terms and subject to the conditions therein, the Company, the Obligors and the Subscribers conditionally agreed, among others, to amend the conversion price at HK$0.098 per share and extend the maturity date for 3 years to 9 February 2026 and make certain related changes under the convertible notes (the "**Proposed Amendments**"). The Subscribers have agreed to execute the deed of release in respect of the Account Charges upon satisfaction of the conditions precedent under the Supplemental Deed by the Subscribers as charges in favour of the Obligors as chargors to terminate the Account Charges and release the Obligors from their obligations under the Account Charges. The Share Charges remain fully effective and are not released or diminished by any provision of the Supplemental Deed.

On 20 March 2023, the Company has redeemed part of the convertible notes with principal amount of HK$12,000,000 (equivalent to approximately RMB10,864,000). The Proposed Amendments have become effective on 20 March 2023.

Details of the above have been disclosed in the Company's announcements dated 13 January 2022, 26 January 2022, 31 January 2022, 9 February 2022, 3 March 2023 and 20 March 2023.

In the opinion of the Group's management, the Proposed Amendments were not substantial modification as defined in HKFRS 9 since the discounted present value of the cash flows after the Proposed Amendments using the original effective interest rate is not more than 10% different from the discounted present value of the remaining cash flows under the original terms before the Proposed Amendments.

	2023	2022
	RMB'000	*RMB'000*
At beginning of the reporting period	**65,089**	–
Issue of convertible notes	**–**	63,677
Partial redemption	**(10,864)**	–
Changes in fair value (credited) charged to profit or loss	**(2,554)**	1,412
Exchange difference charged to profit or loss	**1,543**	–
At end of the reporting period	**53,214**	65,089

The fair value of the convertible notes is equal to the summation of the fair value of the liability component and conversion option component, calculated by using discounted cash flows and Binomial Option Pricing Model, respectively.

The fair value of the convertible notes at issue date and at 31 December 2023 and 2022 were determined with reference to a professional valuation conducted by an independent professional valuer and were categorised into the level 3 fair value hierarchy as defined in HKFRS 13.

Major parameters adopted in the calculation of the fair values of the convertible notes are summarised below:

	2023	2022
Share price	**HK$0.064**	HK$0.080
Share price volatility	**94.88%**	116.60%
Risk-free interest rate	**3.39%**	4.32%
Dividend yield	**0.00%**	0.00%
Discount rate	**7.40%**	7.88%
Period	**2.11 years**	0.11 year

The significant unobservable input used in the fair value measurement of the convertible notes is expected share price volatility. The fair value measurement is positively correlated to the expected share price volatility. An increase in the expected share price volatility, with all other variables held constant, would result in increase in fair value of the convertible notes at the end of the reporting period and decrease in the Group's profit for the reporting period. If the expected stock price volatility has been 5% (2022: 5%) higher with all other variables held constant, the Group's pre-tax profit for the year ended 31 December 2023 would be decreased by approximately RMB363,000 (2022: approximately RMB12,000).

16. SHARE CAPITAL

	Number of ordinary shares *('000)*	**Amount** *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2022, 31 December 2022, 1 January 2023 and 31 December 2023	10,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2022	3,067,223	30,672
Issue of shares upon exercise of share options *(Note)*	129,000	1,290
At 31 December 2022 and 1 January 2023	**3,196,223**	**31,962**
Issue of shares upon exercise of share options *(Note)*	14,000	140
At 31 December 2023	**3,210,223**	**32,102**

	2023 *RMB'000*	2022 *RMB'000*
Shown in the consolidated statement of financial position at 31 December	**29,865**	29,742

Note:

During the year ended 31 December 2023, a total of 14,000,000 (2022: 129,000,000) ordinary shares of HK$0.01 (2022: HK$0.01) each were issued upon exercise of 14,000,000 (2022: 129,000,000) share options at exercise price of HK$0.084 (2022: HK$0.084) per share option. The difference of approximately RMB907,000 (2022: RMB8,443,000) between the proceeds from exercise of share options of approximately RMB1,030,000 (2022: RMB9,584,000) (equivalent to approximately HK$1,176,000 (2022: HK$10,836,000)) and the nominal value of share capital of the Company issued of approximately RMB123,000 (2022: RMB1,141,000) (equivalent to approximately HK$140,000 (2022: HK$1,290,000)) was recognised in share premium reserve.

17. EVENT AFTER THE END OF THE REPORTING PERIOD

On 1 March 2024, Beijing Bafuluo Technology Co., Ltd.* (北京巴夫羅科技有限公司) ("**Beijing Bafuluo**"), a wholly-owned subsidiary of the Company, as the purchaser, entered into a sales and purchase agreement with an independent third party named Mr. Xie Haijing, as the vendor, to acquire 51% of equity interests in Beijing Hangyang Health Technology. Co., Ltd.* (北京航洋健康科技有限公司) ("**Beijing Hangyang**") at a consideration of RMB33.15 million which shall be settled by cash (the "**Beijing Hangyang Acquisition**"). The principal activities of Beijing Hangyang are research, production and sales of health products, functional foods and skincare products in the field of soft capsule dosage form. The Group's management considers that the Beijing Hangyang Acquisition will enable the Group to diversify the product portfolio, widen the geographical coverage of products and lower the concentration risk in the procurement of raw materials of the pharmaceutical and healthcare products business. The Beijing Hangyang Acquisition was not yet completed up to the date of approving the consolidated financial statements.

For further details, please refer to the announcements of the Company dated 1 March and 18 March 2024.

* *The English translation of the name is for reference only.*

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the draft independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2023.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "*Basis for Qualified Opinion*" section of our report, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2023, and of its financial performance and 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

Provision for litigation

Due to the uncertainties in relation to the litigation as disclosed in Note 38 to the consolidated financial statements, we were unable to obtain sufficient appropriate audit evidence to assess whether any provision should be provided in relation to the litigation at 31 December 2023 and 2022 and the profit or loss effect on any provision for the litigation should be reported for the years ended 31 December 2023 and 2022.

We were unable to determine whether any adjustments to the figures as described above were necessary which might have a consequential effect on the Group's financial performance and the elements making up its consolidated statement of changes in equity and its consolidated cash flow statement for the years ended 31 December 2023 and 2022 and the financial position of the Group at 31 December 2023 and 2022, and the related disclosures thereof in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2023 (the "**Reporting Period**"), the Group was principally engaged in three businesses: (i) pharmaceutical products business; (ii) finance leasing business; (iii) genetic testing and molecular diagnostic services. The three businesses are stated as below:

Pharmaceutical Products Business

Since the successful transfer of the production line of the Group from our 51%-owned subsidiary to our wholly-owned subsidiary in August 2022, the core production centre as well as the exclusive sales channel of the Group's own developed pharmaceutical products has been under control of our wholly-owned subsidiary during the Reporting Period. As such, the Group has been able to increase its share of profit generated from the sales of this segment as a significant portion of such profit is no longer required to be shared by the non-controlling interests of our 51%-owned subsidiary as in the past years. However, there is a very substantial increase in the general cost as well as a shortage in the volume of supply of traditional Chinese herbal materials in the PRC since the start of the year of 2023 which has adversely affected the gross profit margin as well as the volume of the sales of our own developed pharmaceutical products in the Reporting Period.

The Group will take a more cautious approach to increase its market share by expanding its production capacity and promoting its own developed pharmaceutical products as the actual pace and progress of economic recovery in China has not been as promising and encouraging as originally expected during the Reporting Period.

Fujian Zhixin, an indirect wholly-owned subsidiary of the Company, acts as a sales agent nationwide for herbal medical materials, Chinese herbal medicine, Chinese patent medicine, chemical drug preparations, antibiotic preparations, biochemical pharmaceuticals, biological products, healthcare products and food products.

During the Reporting Period, the revenue derived from the pharmaceutical products business decreased by 34.15% to approximately RMB100.52 million (2022: approximately RMB152.65 million). The profit derived from the pharmaceutical products business decreased to RMB19.82 million for the Reporting Period, representing a decrease of approximately 72.05% as compared to RMB70.90 million for the corresponding period in 2022.

Finance Leasing Business

The operation of the finance leasing business has been centralized in an indirect wholly-owned subsidiary of the Company, Union Development Financial Leasing (Shenzhen) Company Limited* (聯合發展融資租賃(深圳)有限公司)("**Union Development**"). The revenue derived from finance leasing business of the Group for the Reporting Period was approximately RMB7.25 million (2022: RMB14.82 million). Given that most of the subsisting finance leasing contracts had expired and promptly settled in the latter half of 2023 and the Group having adopted a more prudent and cautious approach in the evaluation and granting of new finance leasing loans, the Group had not entered into any new finance leasing contracts in the latter half of 2023. The Group only had a total of two customers as at 31 December 2023 (31 December 2022: 21 customers).

Business Model and Customer Profiles

The Group's finance leasing business mainly provides financial leasing services of medical devices and rehabilitation equipment which are complimentary to the Group's existing pharmaceutical products business. The business of the lessees of our current finance leases were generally in the medical industry, pharmaceutical industry and public infrastructure industry. However, the Group's finance leasing services are not intended to be limited to any particular business or industry. Further, the products manufactured by the leased medical devices and rehabilitation equipment are not related to the business of the Group. The Group also does not preclude the possibility of providing financial leasing services for other types of devices and equipments.

Credit Risk Assessment

The potential lessee will first approach Union Development to confirm whether the equipment or devices fall within the scope in which financial leasing can be arranged. The management of Union Development will conduct site visits and carry out due diligence on the potential lessee, the equipment or devices proposed to be leased, assess the risks of the potential lease and followed by seeking the initial approval from the Group. The Group will further review, inter alia, the credit quality of the potential lessee, the purpose and value of the assets proposed to be leased, the financial conditions of the potential lessee, the ultimate beneficial owner(s) of the potential lessee and other relevant factors to assess the repayment capability of the potential lessee.

Approval Process

If the Group approves the finance lease in principle, the management of Union Development will further negotiate with the lessee on the terms of the transaction which include, inter alia, the lease terms, the interest rate, the option to purchase the equipment or device upon expiry of the lease term, etc. The Group will further check and seek professional advice on the compliance requirements and will comply with the requirements of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), including making timely disclosures and obtaining Shareholder's approval, if necessary.

The Group has established several departments and committee including, the business department, the risk department, the finance department and the review committee to implement division of work (approval, release and review of the lease). The Group has also established lease approval procedures, internal guidelines and standard forms for the finance lease business, including the due diligence report on the lessees, lease approval checklist and lease evaluation checklists. Further, the management has also formulated pre-lease and post-lease administrative measures for various departments of Union Development to follow up, including the administration of guarantees and assets charges, monitoring of overdue payment, handling of leased assets and post-lease agreement follow ups.

The Board will be responsible for the final approval of material finance lease agreements and delegate one of the executive Directors to liaise with Union Development and directly monitor the finance lease projects with the responsible staff of Union Development, including the review of the due diligence report on the lessees, preparation of the finance lease documents, examination of the assets to be leased and registration of the charges thereto (if necessary), collection of the rental income, review of the risks and assets portfolio of the finance leases and regular site visits and reviews of the lessees. The Group also regularly monitors its working capital ratio, quick ratio and other relevant financial ratios in order to drive its finance leasing business forward as well as to balance the risks and return of the Group and its sustainability.

Finance Lease Portfolio

The Group has not entered into any new finance leasing agreements during the Reporting Period.

The weighted average term of finance leases outstanding during the year ended 31 December 2023 is 1.6 years (2022: 1.4 years) and all the leases require repayment by instalments. In the event that the lessee breaches the finance lease contract, the Group has the right to use or sell the leased assets and to demand for full or partial repayment of the outstanding balance of finance lease receivables.

The Company will continue to manage and monitor its finance leasing business with a prudent approach in order to maximise the long-term interests of the Shareholders.

Genetic Testing and Molecular Diagnostic Services

Zentrogene Bioscience Laboratory Limited ("**Zentrogene**"), an indirect wholly-owned subsidiary of the Company, is primarily engaged in the provision of, inter alia, genetic testing and molecular diagnostic services. Zentrogene operates a laboratory with the requisite license in Hong Kong, providing services such as 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 RMB14.33 million (2022: RMB8.45 million), representing a significant increase of approximately 69.59%, as compared to the corresponding period in 2022. Such significant increase was mainly due to the removal of all COVID-19 related social distance restrictions and the re-opening of the border between Hong Kong and Mainland China during the Reporting Period.

OUTLOOK

Looking forward to the year of 2024, after the re-opening of the border of Hong Kong with Mainland China and the end of all COVID-19 restrictions, sustainable economic growth will become one of the key tone of macroeconomic policies. The Group will evaluate the policies and proactively adapt to the changes, consolidate and enhance its competitive advantages. However, the Group expects that our businesses will continue to face numerous challenges as the actual pace and progress of economic recovery in China has not been as promising and encouraging as originally expected during the Reporting Period. Looking ahead, the Group will continue to rigorously implement our cost control measures, maintain a flexible and prudent approach and allocate resources in an appropriate manner to strengthen its revenue base and optimise its business and financial performance.

For pharmaceutical products, the Group expects to achieve a stable sales revenue. The Group will continue to expand its sales networks in order to enhance its market penetration rate. However, as a result of the significant increase in the cost of traditional Chinese herbal materials in China, the gross profit margin of our own pharmaceutical products will continue to be adversely affected as in the Reporting Period.

For finance leasing business, the Group expects the finance leasing market to remain stable. The Group will closely monitor the development of the finance leasing market as well as the trend of the interest rates while remain flexible in adjusting and optimizing its overall risk appetite and the lease portfolios.

In view of the uncertainties of the strength of economic growth as well as the relative volatility of the financial market in the PRC where the Group's principal finance leasing business operates, the Group will continue to adopt a more prudent and cautious approach in the evaluation and the granting of new finance leasing loans in the year of 2024.

The Group will continue to closely monitor the market developments, seek potential opportunities in existing business segments, explore and expand into other industries or geographical regions at the appropriate time and enhance the Group's future development. The Group believes that the diversification of its business will facilitate the Group's long-term development and business sustainability and provide better returns for its shareholders.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the Group generated a total revenue of approximately RMB122.10 million, representing a decrease of approximately 30.59% as compared to approximately RMB175.92 million for the year ended 31 December 2022. The decrease was primarily attributed to the decrease in both the sales of self-manufactured pharmaceutical products as well as the sales of pharmaceutical products of other non-competing pharmaceutical companies.

Distribution Costs

For the year ended 31 December 2023, the distribution costs of the Group were approximately RMB0.78 million (2022: approximately RMB1.60 million), representing a decrease of approximately 51.25%, which commensurate with the 30.59% decrease in sales during the Reporting Period.

Administrative Expenses

Administrative expenses amounted to approximately RMB15.39 million for the year ended 31 December 2023 (2022: approximately RMB17.51 million), representing a decrease of approximately 12.11%.

Gross Profit and Gross Profit Margin

Gross profit and gross profit margin for the year ended 31 December 2023 amounted to approximately RMB35.19 million and 28.82% respectively (2022: approximately RMB91.68 million and 52.11% respectively). Gross profit decreased by approximately RMB56.49 million as compared with the corresponding period in 2022, which was mainly attributable to the decrease in both the sales volume of self-manufactured pharmaceutical products and the significantly lower gross profit margin recorded as a direct result of the very substantial increase in the general costs of traditional Chinese herbal materials in the PRC in the Reporting Period.

Finance Costs

Finance costs for the year ended 31 December 2023 amounted to approximately RMB2.05 million (2022: approximately RMB1.79 million). The finance costs mainly represented the interest expenses attributable to the convertible notes issued by the Company on 9 February 2022.

Profit for the Reporting Period

Profit attributable to owners of the Company was approximately RMB18.63 million for the year ended 31 December 2023, representing a decrease of approximately 36.24% as compared with the profit attributable to owners of the Company of approximately RMB29.22 million in the corresponding period in 2022. The decrease was mainly attributable to the decrease in both the sales volume of self-manufactured pharmaceutical products and the decrease in the resulting gross profit.

Basic and Diluted Earnings per Share

The basic and diluted earnings per share for the year ended 31 December 2023 was approximately RMB0.58 cent and RMB0.51 cent respectively (2022: approximately RMB0.95 cent and RMB0.89 cent respectively).

Liquidity and Financial Resources

As at 31 December 2023, the Group had cash and cash equivalents of approximately RMB332.47 million (2022: approximately RMB21.84 million) and most cash and cash equivalents were denominated in Renminbi and Hong Kong dollars.

Capital Structure and Gearing Ratio

As at 31 December 2023, the total issued shares of the Company was 3,210,222,500 shares (as at 31 December 2022: 3,196,222,500 shares).

As at 31 December 2023, the share capital and equity attributable to owners of the Company amounted to approximately RMB29.87 million and approximately RMB264.45 million respectively (2022: approximately RMB29.74 million and approximately RMB245.59 million respectively).

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 39.23% as at 31 December 2023 (2022: approximately 45.52%).

Exposure to Fluctuation in Exchange Rates

For the Reporting Period, 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 the fluctuations in currency exchange rates. As at 31 December 2023, 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.

CAPITAL COMMITMENTS AND CONTINGENCIES

As at 31 December 2023, the Group did not have any other significant capital commitment (2022: nil).

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

SIGNIFICANT ACQUISITIONS AND DISPOSAL OF INVESTMENTS

Save as disclosed in this announcement, there was no other significant acquisition and disposal of investments held during the Reporting Period.

Memorandum of Understanding Regarding a Proposed Acquisition

The Group has entered into a non-legally binding memorandum of understanding (the "**MOU**") with certain shareholders (the "**Vendors**") of 杭州綠天生物科技有限公司 (Hangzhou Greensky Biological Technology Company Limited) (the "**Target Company**") on 9 May 2023, pursuant to which the Group intended to acquire from the Vendors not less than an aggregate of 51% controlling shareholding interest in the Target Company (the "**Proposed Acquisition**"). The Target Company is principally engaged in the research and development, production and sales of plant extracts, medicine intermediates and raw materials for supplements. Subsequently in late October 2023, the Group and the Vendors have mutually agreed to terminate the MOU and decided not to proceed further on the Proposed Acquisition as a result of being unable to reach a consensus on the detailed terms as well as the consideration of the Proposed Acquisition.

NUMBER AND REMUNERATION OF EMPLOYEES

For the Reporting Period, the Group employed approximately 68 employees (2022: 72 employees) with total staff cost of approximately RMB11.44 million (2022: approximately RMB18.45 million) from continuing operations. The Group determined staff remuneration with reference to 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.

RETIREMENT BENEFIT SCHEME

During the years ended 31 December 2022 and 2023, the Group had no forfeited contributions under its retirement benefit scheme which may be used to reduce the existing level of contributions.

CAPITAL EXPENDITURE

For the years ended 31 December 2022 and 2023, there was no significant capital expenditure of the Group for property, plant and equipment.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2023, the Group has charged the entire issued share capital of Sanai International Investment Company Limited ("**Sanai International**"), a direct wholly-owned subsidiary of the Company, as security (the "**Share Charges**") for the convertible notes issued by the Group in February 2022 (the "**Convertible Notes**").

As at 31 December 2022, the Group has charged (i) the bank accounts (the "**Account Charge**") of the indirect wholly-owned subsidiaries of the Company, Fujian Sanai Biotechnology Limited* (福建三愛生物科技有限公司) ("**Fujian Sanai**") and Fujian Zhixin Medicine Co., Limited* (福建至信醫藥有限公司) ("**Fujian Zhixin**"), and (ii) the entire issued share capital of Sanai International as security for the Convertible Notes. On 3 March 2023, the Company has executed the Supplemental Deed and the deed of release of Account Charge, pursuant to which the Account Charge has been released.

AMENDMENTS TO THE TERMS AND CONDITIONS OF CONVERTIBLE NOTES

On 13 January 2022, the Company as the issuer, Mr. Zhi Shao Huan ("**Mr. Zhi**") and Mr. Jiang Heng Guang ("**Mr. Jiang**") as the subscribers (collectively, the "**Subscribers**"), and Fujian Sanai and Fujian Zhixin as the obligors (collectively, the "**Obligors**"), entered into a subscription agreement, pursuant to which, the Company has agreed to issue, and Mr. Zhi and Mr. Jiang have agreed to subscribe for, the Convertible Notes in the aggregate principal amount of HK$72,000,000 at the interest rate of 3% per annum and at initial conversion price of HK$0.119 per share. The bank accounts of Fujian Sanai and Fujian Zhixin were charged as security of the Convertible Notes, and the entire issued share capital of Sanai International was charged in favour of Mr. Zhi and Mr. Jiang. Completion of the issue of Convertible Notes took place on 9 February 2022.

On 3 March 2023, the Company has entered into the Supplemental Deed with the Subscribers and the Obligors to (a) amend the conversion price to HK$0.098 per conversion share; (b) extend the maturity date for 3 years to the fourth anniversary of the date of issue of the Convertible Notes (i.e. 9 February 2026); (c) amend the terms relating to the interest payment date due to extension of the maturity date; (d) execute the deed of release of Account Charge; (e) execute the supplemental deeds to the Share Charges as security in the manner and on the terms set forth therein; and (f) make such consequential amendments to the instrument due to the foregoing changes. As at the date of the Supplemental Deed, the Company has redeemed a total of HK$12,000,000 of the principal amount of the Convertible Notes and paid all the interest accrued thereon. The total outstanding principal amount of the Convertible Notes as at 31 December 2023 was HK$60,000,000.

Assuming full conversion of the outstanding Convertible Notes at the amended conversion price, the outstanding Convertible Notes will be convertible into 612,244,897 conversion shares, representing approximately 19.1% of the issued share capital of the Company at the date of the Supplemental Deed and approximately 16.0% of the issued share capital of the Company as enlarged by the issue of the conversion shares upon full conversion of the Convertible Notes (based on the issued share capital as at the date of the Supplemental Deed). The conversion shares will be allotted and issued pursuant to the general mandate upon conversion of the outstanding Convertible Notes.

The Company intends to use approximately 45% of the net proceeds from the issue of the Convertible Notes for the purchase of production plant, equipment and facilities and the purchase of raw materials for pharmaceutical products, approximately 30% of the net proceeds for the enrichment of the pharmaceutical product base, including the development of new medicines and/or the acquisition of the drug licenses, and approximately 25% of the net proceeds for the addition for sales points and the staff costs of additional sales staffs.

As at 31 December 2023, none of the net proceeds has been utilised.

Further details of the Convertible Notes and the Supplemental Deed are set out in the announcements of the Company dated 13 January 2022, 26 January 2022, 31 January 2022, 9 February 2022, 9 February 2023, 3 March 2023 and 20 March 2023 respectively.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2023 (31 December 2022: Nil).

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "**Old Share Option Scheme**") for, among others, the senior management and employees on 8 January 2007, which serve as incentives or rewards to attract, retain and motivate its staff. The Old Share Option Scheme has already expired on 7 January 2017.

Pursuant to the ordinary resolution passed on 16 June 2017, the Company has adopted another share option scheme (the "**New Share Option Scheme**") for, among others, the senior management and employees, which serves as incentives or rewards to attract, retain and motivate staff. The New Share Option Scheme will remain valid for a period of 10 years commencing from 21 June 2017. Under the New Share Option Scheme, the Board may grant options to all full-time employees, Directors (including independent non-executive Directors) and part-time employees with weekly working hours of 10 hours and above, of the Group, substantial shareholders of each member of the Group, associates of the directors and substantial shareholders of any member of the Group, trustee of any trust pre-approved by the Board, and any advisor (professional or otherwise) or consultant, distributor, supplier, agent, customer, joint venture partner, service provider of the Group whom the Board considers, at its sole discretion, has contributed or contributes to the Group.

Pursuant to the ordinary resolution passed at the annual general meeting of the Company held on 5 January 2022, the scheme mandate limits of the New Share Option Scheme were refreshed. The said refreshed scheme mandate limits were solely used to grant options to all full-time employees, Directors (including independent non-executive Directors) and part-time employees with weekly working hours of 10 hours and above of the Group under the New Share Option Scheme as incentives or rewards for their continuous contributions and loyalty to the Group. On 29 April 2022, 174,000,000 share options were granted by the Company to certain eligible persons under the New Share Option Scheme including 5 Directors at the exercise price of HK$0.084 per share. Further details of the said share options granted are set out in the announcement of the Company dated 29 April 2022.

The number of options available for grant under the refreshed mandate of the New Share Option Scheme as at 1 January 2023 and 31 December 2023 was 132,722,250 respectively. Other than the abovementioned share option schemes, the Company does not have other share schemes. The number of shares that may be issued in respect of options granted under those share option schemes represented approximately 0.97% of the weighted average number of Shares for the Reporting Period.

The following table sets out the movements in the share options of the Company (the "**Share Options**") during the Reporting Period:

Category of participant	Number of Share Options At 1 January 2023 *HK$*	Granted during the year	Forfeited during the period	Exercise during the year	At 31 December 2023 *HK$*	Date of grant	Exercise period	Exercise price	Closing price of the shares immediately before the date of grant
Directors									
Professor Zhang Rongqing	22,000,000	–	(22,000,000)	–	–	24 May 2018	24 May 2018 to 23 May 2023	0.32	0.32
Mr. Chen Chengqing	2,800,000	–	(2,800,000)	–	–	30 May 2018	30 May 2018 to 29 May 2023	0.335	0.335
Mr. Gao Borui	5,000,000	–	–	–	5,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
Professor Zhang Rongqing	6,000,000	–	–	–	6,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
Mr. Xiu Yuan	10,000,000	–	–	–	10,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
	45,800,000	–	(24,800,000)	–	21,000,000				
Other participant									
Employees in aggregate	10,000,000	–	(10,000,000)	–	–	30 May 2018	30 May 2018 to 29 May 2023	0.335	0.335
Non-employees in aggregate	2,000,000	–	(2,000,000)	–	–	30 May 2018	30 May 2018 to 29 May 2023	0.335	0.335
Employees in aggregate	24,000,000	–	–	(14,000,000)	10,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
	36,000,000	–	(12,000,000)	(14,000,000)	10,000,000				
	81,800,000	–	(36,800,000)	(14,000,000)	31,000,000				

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

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 civil 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) 福建三愛藥業有限公司 Fujian Sanai Pharmaceutical Company Limited ("**Fujian Sanai Pharmaceutical**")(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 Pharmaceutical, a then subsidiary of the Company, had entered into a finance lease agreement (the "**Finance Lease Agreement 2016**") with the Plaintiff on 21 March 2016, pursuant to which the Plaintiff agreed to lease certain assets to Fujian Sanai Pharmaceutical for a term of 36 months with a total leasing cost of RMB134,954,600 at an interest rate of 8.3%; (ii) each of the Company, Lin Ouwen 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 Pharmaceutical under the Finance Lease Agreement 2016; and (iii) Fujian Sanai Pharmaceutical had failed to pay the rent payable under the Finance Lease Agreement 2016 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 Pharmaceutical immediately pays 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 Pharmaceutical under the Finance Lease Agreement 2016.

The Plaintiff also submitted to the Court a copy of the alleged minutes of the Board meeting held on 22 March 2016, during which 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 recorded to have attended and voted on the said resolutions.

Pursuant to the Judgement, among other things, Fujian Sanai Pharmaceutical shall, within ten days of the Judgement, pay to the Plaintiff the unpaid due rent under the Finance Lease Agreement 2016 in the amount of RMB33,855,032.69 with the default interest accrued thereon, the accelerated due rent under the Finance Lease Agreement 2016 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 "**Judgement Amount**"); and the Company, Lin Ouwen and Lin Min shall be jointly liable for the Judgement Amount, and they are entitled to claim against Fujian Sanai Pharmaceutical after discharging 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.

In 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 2016 and the Guarantee were invalid, and to reject all of the Plaintiff's claims.

On 18 December 2023, the Company has received a 民事裁定書 (civil judgement) (the "**Civil Judgement**") on the Appeal from the 北京市高級人民法院 (the Higher People's Court of Beijing*). Pursuant to the Civil Judgement, among other things, (i) the judgement of 北京市第四中級人民法院 (the No. 4 Intermediate Peoples' Court of Beijing) (the "**Intermediate People's Court**") was dismissed; and (ii) the case was returned to the Intermediate People's Court for retrial.

As at the date of this announcement, the hearing of the retrial at the Intermediate People's Court is in progress.

For further details, please refer to the announcements of the Company dated 18 January 2021, 4 February 2021, 1 June 2023 and 19 December 2023.

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 the date of this announcement.

Acquisition of 51% Equity Interest of Beijing Hangyang Health Technology Co., Ltd.* (“Beijing Hangyang”)

On 1 March 2024, Beijing Bafuluo Technology Co., Ltd.* (“**Beijing Bafuluo**”) (北京巴夫羅科技有限公司) , an indirect wholly-owned subsidiary of the Company, as the purchaser, entered into a sales and purchase agreement with Mr. Xie Haijing, as the vendor, to acquire 51% of equity interest in Beijing Hangyang at a consideration of RMB33.15 million which shall be settled by cash. The principal activities of Beijing Hangyang are research, production and sales of health products, functional foods and skincare products in the field of soft capsule dosage form. The management considers that such acquisition will enable the Group to diversify the product portfolio, widen the geographical coverage of products and lower the concentration risk in the procurement of raw materials of the pharmaceutical and healthcare products business. The acquisition was not yet completed as at the date of this announcement.

For further details, please refer to the announcement of the Company dated 1 March and 18 March 2024.

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 Reporting Period.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 C1 to the Listing Rules during the Reporting Period, except for the deviation below:

In respect of the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company shall be separated and shall not be performed by the same individual. During the Reporting Period, there was no Chairman of the Company and Mr. She Hao is the Deputy Chief Executive Officer of the Company. On the other hand, there are three independent non-executive Directors at the Board, all of them are independent from the Company and the Board believes that there is a sufficient check and balance at the Board. Therefore, the Board considers that the Company has 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 appropriate adjustments should suitable circumstances arise.

CHANGES IN INFORMATION OF DIRECTORS

There is no change of information of the Directors subsequent to the date of the Company's 2022 Annual Report which is required to the disclosed pursuant to Rule 13.51B of the Listing Rules.

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 C3 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 and its code of conduct regarding Directors' securities transactions throughout the Reporting Period.

AUDITORS

The consolidated financial statements for the year ended 31 December 2023 have been audited by Mazars CPA Limited ("**Mazars**"). Mazars has been the auditor of the Company since 11 November 2022 and the consolidated financial statements for the year ended 31 December 2022 have also been audited by Mazars. Mazars will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for its re-appointment as auditor of the Company will be proposed.

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2023, the consolidated statement of profit or loss, and the consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this preliminary announcement have been agreed by the Group's auditor, Mazars, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2023. The work performed by Mazars 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 Mazars on the preliminary announcement.

AUDIT COMMITTEE REVIEW

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 currently comprises three independent non-executive Directors, namely Mr. Khor Khie Liem Alex ("**Mr. Khor**"), Prof. Zhu Yi Zhun and Mr. Zhang Ruigen. Mr. Khor serves as the chairman of the Audit Committee, who possesses the professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters, including the review of the consolidated financial statements of the Group for the year ended 31 December 2023. They considered that the preparation of the annual results for the year ended 31 December 2023 are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 11 June 2024 to Friday, 14 June 2024 (both days inclusive), in order to determine the eligibility of the holders of shares to attend and vote at the annual general meeting to be held on Friday, 14 June 2024 (the "**AGM**"). In order to be eligible to attend and vote at the AGM, all transfer accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Friday, 7 June 2024.

SUFFICIENCY OF THE PUBLIC FLOAT

Based on the information publicly available to the Company and to the best knowledge, information and belief of the Directors, the Directors confirm that the Company had maintained a sufficient public float as required under the Listing Rules during the Reporting Period.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT 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 annual report of the Company for the Reporting Period 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 extent 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.

By order of the Board
Sanai Health Industry Group Company Limited
She Hao
Executive Director

Hong Kong, 27 March 2024

As at the date of this announcement, the Board comprises five executive directors, namely, Mr. Chen Chengqing, 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.