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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

The board (the "Board") of directors (the "Directors") of Sanai Health Industry Group Company Limited ("Sanai Health Industry" or the "Company") hereby presents the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to the "Group") for the six-month period ended 30 June 2019 (the "period under review"), together with the comparative figures for the corresponding period in 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six-month period ended 30 June 2019

		Six months ended 30 June	
		2019	2018
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**26,690**	50,104
Cost of sales		**(23,770)**	(52,032)
Gross profit/(loss)		**2,920**	(1,928)
Other revenue and net income		**404,912**	2,963
Distribution costs		**(68)**	(453)
Administrative expenses		**(10,677)**	(20,140)
Finance costs	*5(a)*	**(4,504)**	(2,540)
Impairment loss on finance lease receivables		**(1,034)**	—
Impairment loss on trade receivables		**(1,664)**	—
Impairment loss on other receivables		**(320)**	—

	Notes	Six months ended 30 June **2019** ***RMB'000*** **(Unaudited)**	2018 *RMB'000* (Unaudited)
Profit/(loss) before tax	*5*	**389,565**	(22,098)
Income tax credit/(expense)	*6*	**4,690**	(282)
Profit/(loss) for the period		**394,255**	(22,380)
Other comprehensive income/(loss) for the period			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(242)**	73
Total comprehensive income/(loss) for the period		**394,013**	(22,307)
Profit/(loss) for the period attributable to:			
— Owners of the Company		**394,009**	(22,380)
— Non-controlling interests		**246**	—
		394,255	(22,380)
Total comprehensive income/(loss) for the period attributable to:			
— Owners of the Company		**393,767**	(22,307)
— Non-controlling interests		**246**	—
		394,013	(22,307)
Earnings/(loss) per share			
— Basic and diluted	*8*	**RMB12.8 cents**	RMB(0.8) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	**30 June 2019 RMB'000 (Unaudited)**	31 December 2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**10,045**	30,489
Land use rights		**4,724**	3,827
Goodwill		**20,027**	—
Intangible assets		**28,523**	28,507
Deposits for acquisition of non-current assets		**12,340**	59,100
Financial asset at fair value through other comprehensive income		**88**	—
Deposit paid for acquisition of a subsidiary		**3,306**	—
Finance lease receivables		**8,386**	9,027
		87,439	130,950
Current assets			
Inventories		**10,752**	10,914
Trade and other receivables	*9*	**65,644**	108,127
Tax recoverable		**52**	302
Finance lease receivables		**90,542**	91,305
Financial assets at fair value through profit or loss		**1,415**	6,387
Cash and cash equivalents		**7,420**	17,745
		175,825	234,780
Current liabilities			
Trade and other payables	*10*	**29,152**	48,437
Secured bank loans	*11*	**—**	233,792
Current taxation		**1,106**	1,221
		30,258	283,450
Net current assets/(liabilities)		**145,567**	(48,670)
Total assets less current liabilities		**233,006**	82,280
Non-current liabilities			
Deposits received		**5,722**	5,722
Deferred tax liabilities		**178**	5,031
Long-term borrowings		**2,000**	—
		7,900	10,753
Net assets		**225,106**	71,527
Capital and reserves			
Share capital	*12*	**28,601**	28,601
Reserves		**193,308**	42,926
Equity attributable to owners of the Company		**221,909**	71,527
Non-controlling interests		**3,197**	—
Total equity		**225,106**	71,527

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six-month period ended 30 June 2019

1. GENERAL INFORMATION AND BASIS OF PREPARATION

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 and acts as an investment holding company. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 1 February 2007. The addresses of the registered office and principal place of business of the Company are Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1–1205, Cayman Islands and Unit 5, 7/F, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong respectively. The principal activities of its principal subsidiaries are the development, manufacturing, marketing and sales of pharmaceutical products, provision of genetic testing and molecular diagnostic services, general trading and provision of finance leasing services.

The unaudited condensed consolidated financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand except for per share data. RMB is the Company's functional and the Group's presentation currency.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the applicable disclosure provision of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated financial statements were authorised for issue on 30 August 2019.

The unaudited condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with the same accounting policies adopted in the 2018 annual audited financial statements, except for the changes in accounting policies that are expected to be reflected in the 2019 annual audited financial statements. Details of these changes in accounting policies are set out in note 2 below.

The preparation of an unaudited condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The notes to the unaudited condensed consolidated financial statements include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual audited financial statements. The unaudited condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs, and should be read in conjunction with the Group's 2018 annual audited financial statements.

The financial information relating to the financial year ended 31 December 2018 that is included in the unaudited condensed consolidated financial statements for the six months ended 30 June 2019 as comparative information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company's registered office. The auditor has expressed a disclaimer opinion on those financial statements in their report dated 31 March 2019.

2. CHANGES IN ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's unaudited condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Except as disclosed below, the application of the amendments to HKFRSs and the interpretation in the current period has had no material impacts on Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases ("HKFRS 16")

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease by-lease basis, to the extent relevant to the respective lease contracts:

— relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

— elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

— excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

— applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

— used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

There is no material impact on the adoption of HKFRS 16 as a lessee.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective from 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect. The discounting effect had no material impact on the condensed consolidated financial statements of the Group.

Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

3. SEGMENT INFORMATION

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

(a) Pharmaceutical products: development, manufacturing, marketing and sales of pharmaceutical products and sales of health care products;

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

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

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

Information regarding the Group's reportable segments as provided to the Board for the purposes of resources allocation and assessment of segment performance for the six months ended 30 June 2019 and 2018 is set out below:

	Six months ended 30 June 2019 (unaudited)				
	Pharmaceutical products	**Finance leasing**	**Other general trading**	**Genetic testing and molecular diagnostic services**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Reportable segment revenue from external customers	**3,130**	**3,239**	**18,951**	**1,370**	**26,690**
Reportable segment profit/(loss)	**36,489**	**797**	**(562)**	**29**	**36,753**

	Six months ended 30 June 2018 (unaudited)			
	Pharmaceutical products	Finance leasing	Other general trading	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Reportable segment revenue from external customers	24,098	1,496	24,510	50,104
Reportable segment (loss)/profit	(13,859)	672	(876)	(14,063)

There are no inter-segment sales for the six-month periods ended 30 June 2019 and 2018.

4. REVENUE

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

Disaggregation of revenue

	Pharmaceutical products		Finance leasing		Other general trading		Genetic testing and molecular diagnostic services		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Types of goods and services										
Revenue from contracts with customers within the scope of HKFRS 15										
Sales of goods										
— Pharmaceutical products	**3,130**	3,139	**—**	—	**—**	—	**—**	—	**3,130**	3,139
— Other goods for general trading	**—**	—	**—**	—	**2,619**	21,613	**—**	—	**2,619**	21,613
— Medical equipment	**—**	—	**—**	—	**2,768**	—	**—**	—	**2,768**	—
— Electric appliances	**—**	—	**—**	—	**13,564**	23,281	**—**	—	**13,564**	23,281
— Other software	**—**	—	**—**	—	**—**	575	**—**	—	**—**	575
Provision of genetic services and molecular diagnostic services	**—**	—	**—**	—	**—**	—	**1,370**	—	**1,370**	—
Revenue from other sources										
Finance leasing interest income	**—**	—	**3,239**	1,496	**—**	—	**—**	—	**3,239**	1,496
	3,130	3,139	**3,239**	1,496	**18,951**	45,469	**1,370**	—	**26,690**	50,104
Timing of revenue recognition										
A point in time	**3,130**	3,139	**—**	—	**18,951**	45,469	**1,370**	—	**23,451**	48,608
Over time	**—**	—	**3,239**	1,496	**—**	—	**—**	—	**3,239**	1,496
	3,130	3,139	**3,239**	1,496	**18,951**	45,469	**1,370**	—	**26,690**	50,104

5. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging/(crediting) the following:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
a) Finance costs		
Interest on bank borrowing and other borrowing	**4,504**	2,540
b) Other items		
Depreciation of property, plant and equipment	**520**	7,462
Amortisation of land use rights	**220**	790
Equity-settled share-based payment expenses	**—**	10,481
Exchange gain, net	**(5,194)**	(2,863)
Operating lease payments in respect of rented premises	**1,000**	682
Research and development costs	**—**	151
Cost of inventories	**21,759**	52,026
Net realised and unrealised (gain)/loss on financial assets at fair value through profit or loss	**(186)**	1,793

6. INCOME TAX (CREDIT)/EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
— PRC Enterprise Income Tax ("PRC EIT")	**128**	262
— Hong Kong Profits Tax	**—**	20
Deferred taxation	**(4,818)**	—
	(4,690)	282

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

For other PRC subsidiaries of the Group, PRC EIT is calculated at 25% for the six-month period ended 30 June 2019. (For the six-month period ended 30 June 2018: 25%) in accordance with the relevant laws and regulations in the PRC.

b) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, 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%.

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

7. DIVIDENDS

The directors of the Company do not recommend the payment of an interim dividend for the six-month period ended 30 June 2019 (six-month period ended 30 June 2018: Nil).

8. EARNINGS/(LOSS) PER SHARE

a) Basic profit/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of approximately RMB394,009,000 (six-month period ended 30 June 2018: loss attributable to owners of the Company of approximately RMB22,380,000) and the weighted average of 3,067,222,500 ordinary shares (six-month period ended 30 June 2018: 2,891,948,466 ordinary shares) in issue during the period.

b) Diluted earnings/(loss) per share

No adjustment has been made to the basis profit/(loss) per share amount presented as for the six-month period ended 30 June 2018 as the impact of the share options had an anti-dilutive effect on the basic loss per share amount presented. Regarding of the basic earnings per share for the six-month period ended 30 June 2019, no adjustment has been made as the exercise price of the Company's outstanding share options were higher than the average market price of the Company's shares for the period, which anticipated that no share option to subscribe the Company's shares will be exercised.

9. TRADE AND OTHER RECEIVABLES

The Group normally grants credit terms of 30 to 180 days (31 December 2018: 30 to 180 days) to its customers. Included in trade and other receivables are trade receivables (net of impairment) of approximately RMB12,365,000 (31 December 2018: approximately RMB22,902,000) and their ageing analysis (net of impairment) at the end of the reporting period, presented based on the invoice date is as follows:

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
0 to 30 days	**1,879**	305
31 to 60 days	**1,823**	4,835
61 to 90 days	**1,652**	256
91 to 120 days	**648**	721
121 to 365 days	**6,363**	15,377
Over 365 days	**—**	1,408
	12,365	22,902

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately RMB3,417,000 (31 December 2018: approximately RMB1,159,000) and their ageing analysis of trade payables, presented based on the invoice date is as follows:

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
0 to 30 days	**1,616**	55
31 to 60 days	**435**	—
61 to 90 days	**106**	—
91 to 120 days	**451**	—
121 to 365 days	**809**	146
Over 365 days	**—**	958
	3,417	1,159

11. SECURED BANK LOANS

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

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Secured bank loans	**—**	233,792

At 31 December 2018, land use rights with a net book value of approximately RMB3,827,000 and property, plant and equipment with a net book value of approximately RMB27,431,000 were pledged to a bank as collateral against the bank loans. The bank loans carry interests at fixed rates of 4.57% to 6.31%.

At 31 December 2018, the Group defaulted in the repayment of all of its secured bank loans and repayment of loan principals and payment of related interests totaling to approximately RMB248,311,000 were not made in accordance with the agreed repayment schedules pursuant to the loan agreements. One of the banks had disposed of certain assets pledged by the Group as security for its facilities under mandatory auction. The proceeds from the auction approximately to RMB32,895,000 were set-off against certain overdue bank loans. Remaining pledged assets were sold at RMB78,000,000 in another auction conducted in March 2019. In April 2019, all of the outstanding bank loans were released upon the disposal of the relevant subsidiary.

12. SHARE CAPITAL

	30 June 2019 Number of shares ('000)	**30 June 2019** HK$'000	31 December 2018 Number of shares ('000)	31 December 2018 HK$'000
Authorised:				
Ordinary shares of HK$0.01 each				
At the beginning of and the end of the period/year	**10,000,000**	**100,000**	10,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each				
At the beginning of the period/year	**3,067,223**	**30,672**	2,872,123	28,721
Shares issued upon exercise of share options	**—**	**—**	195,100	1,951
At the end of the period/year	**3,067,223**	**30,672**	3,067,223	30,672

	30 June 2019 *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Shown in the unaudited condensed consolidated statement of financial position	**28,601**	28,061

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 the general meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Results

In the first half of 2019, the global environment continued to be uncertain. The China-United States ("U.S.") trade tension and geopolitical risks in various regions exacerbated global instability. At the same time, the People's Republic of China ("PRC") pharmaceutical industry was still confronted with tremendous challenges. Despite the growing demand for medical services in the mainland, there was tightened price control over the medicines covered by medical insurance. The ever-changing national policies on medicines brought significant changes to the pharmaceutical industry in terms of its development trend and the competition therein. The Group has made drastic changes to its business and assets since October last year.

The Group has been proactively engaged in various measures to improve its cash position. Among which, the auctioned properties of Fujian Sanai Pharmaceutical Company Limited* ("Fujian Sanai") (福建三愛藥業有限公司) have been sold during an auction conducted by the People's Court of Jianyang District, Nanping City* (南平市建陽區人民法院) on 15 March 2019 (the "Auction"). For further details, please refer to the announcements of the Company dated 8 January 2019 and 22 March 2019 respectively. Besides that, the Group has entered into a sale and purchase agreement on 30 April 2019 to dispose an indirectly wholly-owned subsidiary namely Wuyi International Pharmaceutical (Hong Kong) Company Limited ("Wuyi HK") and Fujian Sanai, which is wholly-owned by Wuyi HK (the "Disposal"). Prior to completion of the Auction and the Disposal, both of them had contributed significant loss to the Group and had outstanding short-term loan liabilities of approximately RMB233.8 million. Both of the Auction and the Disposal were completed during the period under review. Immediately upon completion of the Auction and the Disposal, the Group no longer recorded a net loss and all of the outstanding bank borrowings were released upon the completion of the Disposal. As a result, the Group's debt-to-asset ratio has been significantly improved given that the Group no longer bear the short-term obligation for repayment of bank borrowings that was originally incurred by the disposed companies.

For further details, please refer to the announcement of the Company dated 30 April 2019.

At the same time, the Group has acquired and launched a new pharmaceutical business in the health industry. In March 2019, the Company had acquired Fujian Zhixin Pharmaceutical Co., Ltd.* (福建至信醫藥有限公司) ("Fujian Zhixin") and Zentrogene Bioscience Laboratory Limited ("Zentrogene"). In April 2019, the Group has invested in a Cannabidiol ("CBD") product manufacturer, Dr. Adams Laboratories Ltd ("Dr. Adams") and began to distribute a number of CBD products, including products of Dr. Adams in Hong Kong. These series of measures had diversified the Group's pharmaceutical business, which enable the Group to run a pharmaceutical manufacturing business mainly operated by Fujian

Yongchun Pharmaceutical Co., Ltd.* (福建永春製藥有限公司) ("Fujian Yongchun"), a pharmaceutical distribution business mainly operated by Fujian Zhixin whereas the acquisition was completed in April 2019, and a precision medical business operated by Zentrogene. Sanai International Trade Co., Ltd. is a main center to run CBD business.

During the reporting period, the Group's total revenue was RMB26.7 million, and the total profit after tax was RMB394.3 million. The profit was mainly due to the one-off gain on the Disposal of RMB350.3 million and the one-off gain on disposal of property, plant and equipment of approximately RMB44.7 million.

Pharmaceutical products business: The turnover for the period under review was approximately RMB3.1 million, and the segment profit was RMB36.5 million, which included a one-off gain on disposal of property, plant and equipment of approximately RMB44.7 million. The income of RMB3.1 million was mainly derived from Fujian Yongchun. Since Fujian Yongchun was officially merged into the group on 1 April 2019, the Group is only entitled to the three-month results of Fujian Yongchun during the period under review. During the reporting period, the Fujian Yongchun's performance was improved through the optimization of product lines and improvement of marketing. Looking forward, the Group will continue to monitor its marketing strategies in order to cater for the local appetite and sentiment for the pharmaceutical products market.

Finance leasing business: The turnover for the six months ended 30 June 2019 was approximately RMB3.2 million, and the profit was RMB0.8 million. Due to the increased uncertainty in the economic environment, the Group will not further invest in this business, but will continue to maintain its existing scale and optimise its customer portfolio.

Precision Medicine Business: For the six months ended 30 June 2019, the turnover at the precision medicine business was approximately RMB1.4 million, and the profit was RMB29,000.

Zentrogene was officially merged into the Group on 1 April 2019, the Group is only entitled to the three-month results of Zentrogene during the period under review. On the basis of maintaining existing customers, Zentrogene is integrating its resources with the Group and converting some of its original outsourcing business to reduce costs accordingly. The Group has full of expectations on the huge potential of this business.

Other general trade: For the period under review, the turnover was approximately RMB19.0 million, and the loss was RMB0.6 million.

Business Prospects

Pharmaceutical Products Business

Although all of the land, plants and most of the production equipment of Fujian Sanai were disposed of in an auction in March 2019, the pharmaceutical products is still the principal business of the Group and continues to develop. Fujian Yongchun is a high-tech enterprise in Fujian Province which is located in Yongchun County, Quanzhou City, Fujian Province, occupying an area of 32,330 square metres with a gross floor area for the plants of approximately 8,311.58 square metres, in which the GMP workshop has an area of 3,581 square metres. Fujian Yongchun owns 5 drug registration series (藥品批准文號) and produces 5 types of oral medicine, including Yangpi San (養脾散), Sanqi panax notoginseng capsules (三七膠囊) and phentolamine mesylate tablets (甲磺酸酚妥拉明片). Fujian Yongchun will become a new base for pharmaceutical production of the Group.

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

Distribution of Healthcare and Pharmaceutical Products

On 29 March 2019, the Group obtained the Medical Operations Permit (Wholesale), Medical Operation Quality Management System Certifications (GSP) and Food Operations Permit through the acquisition of Fujian Zhixin. In the future, the Group will act as a sales agent nationwide for the herbal medical materials, Chinese herbal medicine, Chinese patent medicine, chemical drug preparations, antibiotic preparations, biochemical pharmaceuticals, biological products, healthcare products and food products. The capacity of the Group on pharmaceutical sales will be stepped up by the acquisition of Fujian Zhixin. Not only the Group can sell the pharmaceuticals products through the sales network of Fujian Zhixin, it can also act as a sales agent to sell pharmaceuticals and healthcare products from other pharmaceutical companies.

Prior to the acquisition of Fujian Zhixin, Fujian Zhixin has been engaging in the wholesale of Chinese herb medicine. Upon completion of the acquisition, the Group has reviewed the business prospects in relation to the wholesale of Chinese herb medicine and decided to downsize the wholesale of Chinese herb medicine going forward. At the same time, the Group will shift its focus and exert its effort to other type of pharmaceutical products.

Precision Medicine Business

Genetic testing: The Group has cooperated with Yangtze Delta Region Institute of Tsinghua University in Zhejiang for a precision medicine research and development centre. The Group is committed to developing in the realms of precision testing, genome editing, cell therapy, regenerative medicine and the research and development of targeted drugs to conduct research and product development, and provision of services. In addition, the Group believes that biotechnology and precision medicine are the main ways and tools to cure human disease in the future, thus, the Group acquired Zentrogene which is primarily engaged in the provision of services including genetic testing and molecular diagnostic testing in March 2019. Zentrogene operates a laboratory with a legal business license in Hong Kong, providing services comprising non-invasive prenatal diagnosis (NIPD), tumor genetic screening, DNA testing and paternity testing. Genetic testing is a prerequisite for precision medicine. On this basis, the Group will further expand its businesses in the field of precision medicine.

CBD Business

On 6 May 2019, Sanai International Trading Company Limited* (三愛國際貿易有限公司) ("Sanai International"), a subsidiary of the Company had entered into an exclusive distribution agreement with a CBD supplier. Pursuant to the exclusive distribution agreement Sanai International would have the right to purchase, promote and re-sell essential oil, pills, capsules, gummies and topicals that infused CBD. The Group believes that these products will have prosperous market prospects in the PRC.

For further details, please refer to the announcement of the Company dated 6 May 2019.

On 10 June 2019, Sanai International had entered into a subscription agreement and an exclusive distribution agreement with Dr. Adams for expanding its CBD distribution business. Pursuant to the exclusive distribution agreement, Sanai International would gain exclusive rights to distribute and sell the product, which are mainly CBD oil, dietary supplements and cosmetics, including hemp oil infused with CBD, capsules as dietary supplements, CBD tincture oil, CBD vape oil and other CBD infused products (e.g. facial serums, lotions, creams and balms infused with CBD). The Group started to promote and sell the CBD products in August 2019.

For further details, please refer to the announcement of the Company dated 10 June 2019.

Finance Leasing Business

Due to the increased uncertainty in the financial environment, the Group intends to continue the finance leasing business at a scale similar to the existing business scale and upon expiry of the existing finance lease contracts, the Group will gradually diminish the scale of the finance leasing business. Additional financial resource that was previously allocated for the development of the finance leasing business may be re-allocated to the pharmaceutical products business as and when appropriate.

FINANCIAL REVIEW

For the period under review, the Group had achieved a total revenue of RMB26.7 million, decreasing by 46.7% as compared to RMB50.1 million for the corresponding period in 2018, and gross profit margin was 10.9% (gross loss margin for the corresponding period in 2018: 3.8%). The Group recorded a profit attributable to owners of the Company of RMB394.0 million (loss attributable to owners of the Company for the corresponding period in 2018: RMB22.4 million). The basic earnings per share was RMB12.8 cents during the period under review (basic loss per share for the corresponding period in 2018: RMB0.8 cents).

Liquidity, Financial Resources and Capital Structure

As at 30 June 2019, the Group has cash and cash equivalents of approximately RMB7.4 million (as at 31 December 2018: approximately RMB17.7 million) and most cash and cash equivalents were denominated in Renminbi and Hong Kong dollars. As at 30 June 2019, the Group has no secured bank loans which are to be secured by land use rights and property, plant and equipment (as at 31 December 2018: RMB233.8 million). During the period under review, 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 debts, which include trade and other payables, secured bank loans and long-term borrowings of the Group, divided by total equity of the Group. The gearing ratio of the Group was approximately 13.8% as at 30 June 2019 (As at 31 December 2018: approximately 394.6%).

Exposure to Fluctuation in Exchange Rates

For the period under review, the Group had conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. As at 30 June 2019, 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.

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

The Company has received a letter dated 24 May 2019 from The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which serves 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 can 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 Company's listing under Rule 6.01A(1) of the Listing Rules (the "Decision").

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

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 emphasizes that the Group is undergoing a period of transformation. The Group has terminated its business with continued losses and disposed 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. The Company is in the process of requesting a review by the Listing Committee of the Stock Exchange as at the date of this announcement.

For further details, please refer to the announcements of the Company dated 26 May 2019, 28 May 2019 and 4 June 2019 respectively.

THE NUMBER AND REMUNERATION OF EMPLOYEES

As at 30 June 2019, the Group employed approximately 74 employees (31 December 2018: 230 employees) with a staff cost of approximately RMB3.0 million during the period under review (six months ended 30 June 2018: approximately RMB4.2 million). The Group determines staff remuneration in accordance with prevailing market salary scales, individual qualifications and performance. Remuneration packages including performance bonuses and entitlements to share options are reviewed on a regular basis.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any contingent liabilities (31 December 2018: Nil).

CAPITAL EXPENDITURE

For the period under review, the capital expenditure of the Group amounted to approximately RMB0.8 million for property, plant and equipment and for the construction has been made (six months ended 30 June 2018: Nil).

INTERIM DIVIDEND

The Board does not recommend a payment of any interim dividend for the period under review (six months ended 30 June 2018: 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 the Directors and all Directors confirmed that they had fully complied with the required standards as set out in the Model Code during the period under review.

SIGNIFICANT ACQUISITIONS AND DISPOSAL OF INVESTMENTS

Disposal of Wuyi HK

On 30 April 2019, the Group entered into the sale and purchase agreement with KBS Advisory Pte. Ltd. (the Purchaser) in regard to the disposal of the entire issued share capital of an indirectly wholly-owned subsidiary company, namely Wuyi HK (the "Disposal") at a consideration of HKD10,000. Wuyi HK is wholly-owned by Sanai International Investment Company Limited, Sanai International Investment is a wholly-owned subsidiary of the Group. Fujian Sanai is wholly-owned by Wuyi HK. As the operation results of Wuyi HK and Fujian Sanai are unsatisfactory and have net liabilities issues, the Disposal will enable the Group to reduce its liabilities and improve its financial position. The Company will apply the net proceeds from the Disposal for general working capital of the Group.

For further details, please refer to the announcement of the Company dated 30 April 2019.

Acquisition of companies

(i) Zentrogene

On 28 March 2019, Sanai International had entered into the sale and purchase agreement with Allstar Fast Ltd. in regard of the acquisition of the entire issued share capital of Zentrogene at a consideration of HKD19.5 million. The acquisition was completed during the period under review.

For further details, please refer to the announcement of the Company dated 28 March 2019.

(ii) Fujian Zhixin

On 28 March 2019, the Group entered into the sale and purchase agreement with Mr. Meng Fan Feng and Mr. Meng Fan Jie in regard to the acquisition to the entire issued share capital of Fuian Zhixin at a consideration of RMB2 million. The acquisition was completed during the period under review.

For further details, please refer to the announcement of the Company dated 28 March 2019.

(iii) Shenzhen Century Rongtai Guarantee Co. Ltd

On 17 April 2019, the Group entered into the sale and purchase agreement with Shenzhen Keming Enterprises Co., Ltd.* (深圳市科銘實業有限公司) in regard to the acquisition of the entire issued share capital of Shenzhen Century Rongtai Guarantee Co. Ltd* (深圳市世紀融泰融資擔保有限公司) at a consideration of RMB3.3 million. Up to the date of this announcement, this acquisition is not yet completed.

For further details, please refer to the announcement of the Company dated 17 April 2019.

Subscription Agreement and Exclusive Distribution Agreement

On 10 June 2019, Sanai International had entered into a subscription agreement with Mr. Wang Zhengjie, the sole shareholder of Dr. Adams. On the same date, Sanai International and Dr. Adams also entered into an exclusive distribution agreement regarding the CBD products.

For further details, please refer to the announcement of the Company dated 10 June 2019.

CONTINUING CONNECTED TRANSACTION

On 23 May 2019, Fujian Zhixin, an indirect wholly-owned subsidiary of the Company, had entered into the sales and distribution agreement with Hangzhou Biaopu Pharmaceutical Company Limited* (杭州標普醫藥有限公司) ("Hangzhou Biaopu") for the sales and distribution of Hangzhou Biaopu's pharmaceutical products by Fujian Zhixin within the PRC during the contractual period which will be expired on 31 December 2021.

The transactions under the Sales and Distribution Agreement will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Group, and therefore, constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Details of the continuing connected transactions of the Company will be disclosed in the Company's published annual report and accounts in accordance with Rule 14A.49 of the Listing Rules.

For further details, please refer to the announcements of the Company dated 23 May 2019 and 28 May 2019 respectively.

PLACING OF SHARES

On 15 April 2019, the Group had entered into a placing agreement with a placing agent to place the placing shares to not less than six placees. The placing agreement has not been proceeded as the condition precedent for obtaining the listing approval from the Stock Exchange is not completed or fulfilled on or before the completion date on 30 June 2019.

For further details, please refer to the announcements of the Company dated 15 April 2019 and 28 May 2019 respectively.

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 six months ended 30 June 2019.

COMPLIANCE OF THE CORPORATE GOVERNANCE CODE

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

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

AUDIT COMMITTEE REVIEW

The Company has established an audit committee which is accountable to the Board and the primary duties of which include the review and supervision of the Group's financial reporting process and internal control measures. For the period under review, the audit committee comprised three INEDs of the Company, namely, Mr. Tu Fangkui, Mr. Wang Zihao and Mr. Long Jun. Mr. Wang Zihao serves as the chairman of the audit committee of the Company, who has the professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements of the Group for the Period under review. They considered that the unaudited interim financial statements of the Group for the period under review are in compliance with the relevant accounting standards, rules and regulations and that appropriate disclosures have been made.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The 2019 interim report containing all the information required by the Listing Rules will be despatched to shareholders as well as made available on our Company's website at www.1889hk.com and the Stock Exchange's website at www.hkexnews.hk respectively in due course.

ACKNOWLEDGEMENT

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

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

* *for identification purpose only*

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises five executive Directors, namely, Mr. Chen Chengqing (Chairman), Mr. Gao Borui and Mr. Yuan Chaoyang, Professor Zhang Rongqing and Mr. Cheng Hok Kai, Frederick; one non-executive director, namely, Mr. Xiu Yuan; and three independent non-executive Directors, namely, Mr. Wang Zihao, Mr. Tu Fangkui and Mr. Long Jun.