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 2022

FINANCIAL HIGHLIGHTS

— Revenue for the year ended 31 December 2022 increased by approximately 160.20% to approximately RMB175.92 million (2021: approximately RMB67.61 million).

— Gross profit for the year ended 31 December 2022 was approximately RMB91.68 million (2021: approximately RMB40.56 million).

— Gross profit margin for the year ended 31 December 2022 was approximately 52.11% (2021: approximately 59.99%).

— Profit for the year ended 31 December 2022 amounted to approximately RMB35.20 million (2021: approximately RMB16.88 million).

— Basic and diluted earnings per share attributable to owners of the Company for the year ended 31 December 2022 was approximately RMB0.95 cents and approximately RMB0.89 cents (2021: basic and diluted earnings approximately RMB0.29 cents).

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sanai Health Industry Group Company Limited ("**Sanai Health Industry**" or the "**Company**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2022 (the "**Reporting Period**" or the "**Year Under Review**"), together with the comparative figures of the year ended 31 December 2021.

The Group's financial information for the year ended 31 December 2022 in this announcement was prepared on the basis of the consolidated financial statements which have been reviewed by the Company's independent auditor and the Company's audit committee. The Group has agreed with the auditor as to the contents of this results announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
Revenue	5	**175,923**	67,608
Cost of sales and services rendered		**(84,248)**	(27,053)
Gross profit		**91,675**	40,555
Other income and other gain	6	**359**	777
Distribution costs		**(1,602)**	(638)
Administrative and other operating expenses		**(17,512)**	(14,197)
Write-off of inventories		**(164)**	(109)
Reversal of (Provision for) impairment loss on trade receivables, net	11	**807**	(888)
Impairment loss on finance lease receivables	12	**(4,135)**	–
Reversal of impairment loss on other receivables		**1,753**	–
Equity-settled share-based payment expenses	17	**(9,722)**	–
Changes in fair value of convertible notes designated as financial liabilities at FVPL	15	**(1,412)**	–
Loss on disposal of subsidiaries	18	**(2,484)**	–
Finance costs	7	**(1,792)**	–
Profit before income tax	7	**55,771**	25,500
Income tax expenses	8	**(20,574)**	(8,625)
Profit for the year		**35,197**	16,875
Profit for the year attributable to:			
Owners of the Company		**29,217**	9,025
Non-controlling interests		**5,980**	7,850
		35,197	16,875
Earnings per share	10		
Basic (RMB cents)		**0.95**	0.29
Diluted (RMB cents)		**0.89**	0.29

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2022

	Note	**2022** **RMB'000**	2021 *RMB'000*
Profit for the year		**35,197**	16,875
Other comprehensive (expenses) income:			
Items that may reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(1,158)**	1,151
Release of translation reserve upon disposal of subsidiaries	*18*	**(847)**	–
Total other comprehensive (expenses) income		**(2,005)**	1,151
Total comprehensive income for the year		**33,192**	18,026
Total comprehensive income for the year attributable to:			
Owners of the Company		**27,212**	10,176
Non-controlling interests		**5,980**	7,850
		33,192	18,026

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 RMB'000	2021 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**7,590**	8,854
Right-of-use assets		**5,589**	4,403
Intangible assets		**4,419**	6,383
Finance lease receivables	*12*	**9,788**	102,730
		27,386	122,370
CURRENT ASSETS			
Inventories		**438**	3,654
Trade and other receivables	*11*	**12,674**	55,498
Tax recoverable		**30**	97
Finance lease receivables	*12*	**322,257**	112,820
Financial assets at FVPL		**195**	501
Cash and cash equivalents		**21,839**	16,297
		357,433	188,867
CURRENT LIABILITIES			
Trade and other payables	*13*	**45,490**	79,516
Interest-bearing borrowings	*14*	**4,653**	–
Lease liabilities		**270**	–
Convertible notes designated as financial liabilities at FVPL	*15*	**65,089**	–
Tax payables		**11,084**	10,579
		126,586	90,095
NET CURRENT ASSETS		**230,847**	98,772
TOTAL ASSETS LESS CURRENT LIABILITIES		**258,233**	221,142

	Note	2022 RMB'000	2021 RMB'000
NON-CURRENT LIABILITIES			
Lease liabilities		**1,055**	–
Deferred tax liabilities		**1,101**	1,591
		2,156	1,591
NET ASSETS		**256,077**	219,551
CAPITAL AND RESERVES			
Share capital	*16*	**29,742**	28,601
Reserves		**215,847**	170,470
Equity attributable to owners of the Company		**245,589**	199,071
Non-controlling interests		**10,488**	20,480
TOTAL EQUITY		**256,077**	219,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

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**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the 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 2021 consolidated financial statements except for the adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current year 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 HKFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021
Amendments to HKAS 16	Proceeds before Intended Use
Amendments to HKAS 37	Cost of Fulfilling a Contract
Amendments to HKFRS 3	Reference to the Conceptual Framework
Annual Improvements to HKFRSs	2018–2020 Cycle

Amendments to HKFRS 16: Covid-19-Related Rent Concessions Beyond 30 June 2021

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors.

Amendments to HKAS 16: Proceeds before Intended Use

The amendments clarify the accounting requirements for proceeds received by an entity from selling items produced while testing an item of property, plant or equipment before it is used for its intended purpose. An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss and measures the cost of those items applying the measurement requirements of HKAS 2.

Amendments to HKAS 37: Cost of Fulfilling a Contract

The amendments clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (for example, direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Amendments to HKFRS 3: Reference to the Conceptual Framework

The amendments update a reference in HKFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to HKFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying HKFRS 3 should instead refer to HKAS 37. The exception has been added to avoid an unintended consequence of updating the reference.

Annual Improvements Project — 2018-2020 Cycle

HKFRS 1: Subsidiary as a First-time Adopter

This amendment simplifies the application of HKFRS 1 for a subsidiary that becomes a first-time adopter of HKFRSs later than its parent — i.e. if a subsidiary adopts HKFRSs later than its parent and applies HKFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the consolidated financial statements of the parent, based on the parent's date of transition to HKFRSs.

HKFRS 9: Fees in the "10 per cent" Test for Derecognition of Financial Liabilities

This amendment clarifies that — for the purpose of performing the "10 per cent test" for derecognition of financial liabilities — in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

HKFRS 16: Lease Incentives

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, Example 13 is not clear as to why such payments are not a lease incentive.

HKAS 41: Taxation in Fair Value Measurements

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in HKAS 41 with those in HKFRS 13.

The adoption of the above amendments does not have any significant impact on the 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 deposits 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 directors' emoluments and auditor's remuneration 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, impairment losses, finance costs and additions to non-current 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 2022 and 2021 is set out below.

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)*:				
Interest income	**52**	**13**	**–**	**65**
Finance costs	**(28)**	**–**	**–**	**(28)**
Depreciation and amortisation	**(3,249)**	**(3)**	**(249)**	**(3,501)**
Write-off of inventories	**(164)**	**–**	**–**	**(164)**
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**

2021

	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	53,815	9,301	4,492	67,608
Reportable segment profit (Adjusted EBITDA)	29,469	9,137	193	38,799
Reportable segment assets	75,489	216,441	1,744	293,674
Reportable segment liabilities	46,726	9,792	3,101	59,619
Other segment information *(Note)*:				
Interest income	4	82	–	86
Depreciation and amortisation	(3,286)	(3)	(228)	(3,517)
Write-off of inventories	(109)	–	–	(109)
Impairment loss on trade receivables, net	(888)	–	–	(888)
Addition to non-current assets	73	–	–	73

Segment revenue reported above represents revenue generated from external customers. There were no significant inter-segment sales during the years ended 31 December 2022 and 2021.

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

	2022 *RMB'000*	2021 *RMB'000*
Revenue		
Reportable segment revenue from external customers	**175,923**	67,608
Total reportable segment profit (Adjusted EBITDA)	**83,718**	38,799
Other income	**90**	764
Depreciation and amortisation	**(3,524)**	(3,547)
Loss on disposal of subsidiaries	**(2,484)**	–
Finance costs	**(1,792)**	–
Unallocated head office and corporate expenses		
— staff costs (including directors' emoluments but excluding equity-settled share-based payment expenses)	**(2,508)**	(2,575)
— equity-settled share-based payment expenses	**(9,722)**	–
— change in fair value of convertible notes designated financial liabilities at FVPL	**(1,412)**	–
— others	**(6,595)**	(7,941)
Consolidated profit before income tax	**55,771**	25,500

	2022 *RMB'000*	2021 *RMB'000*
Reportable segment assets	**381,925**	293,674
Financial assets at FVPL	**195**	501
Unallocated head office and corporate assets	**2,699**	17,062
Consolidated total assets	**384,819**	311,237

	2022 *RMB'000*	2021 *RMB'000*
Reportable segment liabilities	**35,146**	59,619
Convertible notes designated as financial liabilities at FVPL	**65,089**	–
Deferred tax liabilities	**1,101**	1,591
Unallocated head office and corporate liabilities	**27,406**	30,476
Consolidated total liabilities	**128,742**	91,686

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.

	2022	2021
	RMB'000	*RMB'000*
The PRC	**167,473**	63,116
Hong Kong	**8,450**	4,492
	175,923	67,608

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:

	2022	2021
	RMB'000	*RMB'000*
From pharmaceutical products segment:		
Customer A	**37,741**	20,947
Customer B	**19,091**	13,397

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:

	2022	2021
	RMB'000	*RMB'000*
Revenue from contracts with customers within HKFRS 15		
— At a point in time		
Sales of pharmaceutical products	**152,654**	53,815
— Over time		
Provision of genetic services and molecular diagnostic services	**8,450**	4,492
	161,104	58,307
Revenue from other sources		
Finance leasing interest income	**14,819**	9,301
	175,923	67,608

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 AND OTHER GAIN, NET

	2022	2021
	RMB'000	*RMB'000*
Interest income	**79**	712
Exchange gain, net	**–**	52
Sales of raw materials	**134**	–
Sundry income	**2**	13
Government subsidies *(Note)*	**144**	–
	359	777

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:

	2022	2021
	RMB'000	*RMB'000*
Finance costs		
Interest on convertible notes	**1,660**	–
Interest on other borrowings	**104**	–
Finance charges on lease liabilities	**28**	–
	1,792	–
Staff costs		
Directors' emoluments	**5,572**	1,382
Other staff costs		
— Salaries, wages, allowances, bonus and benefits in kind	**6,594**	7,876
— Contributions to defined contribution retirement plan	**642**	727
— Equity-settled share-based payment expenses	**5,644**	–
	18,452	9,985

	2022	2021
	RMB'000	*RMB'000*
Other items		
Depreciation of property, plant and equipment	**1,285**	1,454
Amortisation of intangible assets (included in "Cost of sales and services rendered")	**1,964**	1,965
Depreciation of right-of-use assets	**275**	128
Changes in fair value of financial assets at FVPL, net	**252**	–
Auditor's remuneration	**1,463**	1,328
Expenses relating to short-term leases	**540**	454
Write-off of property, plant and equipment	**31**	–
Cost of inventories	**82,134**	25,243

Note:

Cost of inventories includes approximately RMB5,402,000 (2021: RMB7,170,000) relating to staff costs, depreciation and amortisation which amount is also included in the respective total amounts disclosed separately above.

8. INCOME TAX EXPENSES

	2022	2021
	RMB'000	*RMB'000*
Current tax		
Hong Kong Profits Tax	**336**	–
PRC Enterprise Income Tax ("**EIT**")	**20,728**	9,115
	21,064	9,115
Deferred taxation	**(490)**	(490)
	20,574	8,625

For the PRC subsidiaries of the Group, PRC EIT is calculated at 25% (2021: 25%) in accordance with the relevant laws and regulations in the PRC.

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the year ended 31 December 2022. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2021 as the Group utilised the tax losses brought forward to offset against the assessable profits arising in Hong Kong during the year ended 31 December 2021.

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 2022 and 2021.

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:

	2022	2021
	RMB'000	*RMB'000*
Profit for the year attributable to the owners of the Company for the purpose of basic earnings per share	**29,217**	9,025
Change in fair value of convertible notes designated as financial liabilities at FVPL	**1,412**	–
Interest on convertible notes	**1,660**	–
Profit for the year attributable to the owners of the Company for the purpose of diluted earnings per share	**32,289**	9,025
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**3,068,636**	3,067,223
Effect of conversion of convertible notes	**540,394**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**3,609,030**	3,067,223

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 2022 and 2021. The diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2021.

11. TRADE AND OTHER RECEIVABLES

	Note	2022 RMB'000	2021 RMB'000
Trade receivables		**6,149**	35,446
Less: Provision for loss allowance	*(c)*	**(149)**	(956)
	(b)	**6,000**	34,490
Other receivables	*(d)*	**5,883**	6,727
Amount due from a related company		**2**	2
Prepayments and deposits		**663**	12,964
Other PRC tax receivables		**126**	1,315
		12,674	55,498

Notes:

(a) As at 31 December 2022 and 2021, 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 (2021: 30 to 180 days) to its customers.

As of 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:

	2022 RMB'000	2021 RMB'000
Within 30 days	**1,647**	6,466
31 to 60 days	**979**	3,688
61 to 90 days	**911**	3,079
91 to 120 days	**203**	4,982
121 to 365 days	**552**	15,609
Over 365 days	**1,708**	666
	6,000	34,490

(c) Reconciliation of loss allowance for trade receivables:

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**956**	68
(Decrease) Increase in loss allowance	**(807)**	888
At 31 December	**149**	956

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 aging. The expected credit losses also incorporate forward looking information.

	Within 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**121 to 365 days**	**Over 365 days**	**Total**
At 31 December 2022							
Weighted average expected loss rate	**–**	**–**	**–**	**–**	**–**	**8%**	**2.4%**
Receivable amount (RMB'000)	**1,647**	**979**	**911**	**203**	**552**	**1,857**	**6,149**
Loss allowance (RMB'000)	**–**	**–**	**–**	**–**	**–**	**149**	**149**
At 31 December 2021							
Weighted average expected loss rate	–	–	–	1.5%	5%	8%	2.7%
Receivable amount (RMB'000)	6,466	3,688	3,079	5,058	16,431	724	35,446
Loss allowance (RMB'000)	–	–	–	76	822	58	956

(d) Included in the other receivables of approximately RMB2,535,000 (2021: approximately RMB344,000) represents interest receivables from finance lease receivables.

12. FINANCE LEASE RECEIVABLES

	Gross amount		Present value	
	2022	2021	**2022**	2021
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Less than 1 year	**336,209**	126,273	**326,270**	112,820
Between 1 and 2 years	**10,090**	103,232	**9,910**	102,730
	346,299	229,505	**N/A**	N/A
Less: Unearned finance income	**(10,119)**	(13,955)	**N/A**	N/A
Present value of lease payments	**336,180**	215,550	**336,180**	215,550
Less: Loss allowances			**(4,135)**	–
			332,045	215,550
Analysed as:				
Current			**322,257**	112,820
Non-current			**9,788**	102,730
			332,045	215,550

At 31 December 2022 and 2021, 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 entered into is 1.4 years (2021: 1.7 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 6.5% per annum (2021: 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:

	2022	2021
	RMB'000	*RMB'000*
At 1 January	**–**	–
Increase in loss allowance	**4,135**	–
At 31 December	**4,135**	–

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

	2022	2021
	RMB'000	*RMB'000*
Total gross carrying amount — performing	**336,180**	215,550
Average loss rate	**1.24%**	Insignificant
12 months expected credit losses ("**ECL**")	**4,135**	–

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

The significant changes in loss allowance was contributed by significant changes in the gross carrying amounts of the balance because of finance lease receivables originated during year ended 31 December 2022.

13. TRADE AND OTHER PAYABLES

	2022	2021
	RMB'000	*RMB'000*
Trade payables	**1,142**	12,627
Payroll and welfare payables	**4,417**	2,913
Accrued expenses	**2,993**	4,075
Other payables	**31,175**	50,938
Other PRC tax payables	**2,980**	2,724
Contract liabilities	**360**	421
Accrued interest expenses on convertible notes	**1,706**	–
Interest payables	**108**	–
Amount due to a director *(Note)*	**609**	18
Deposits received	**–**	5,800
	45,490	79,516

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

	2022	2021
	RMB'000	*RMB'000*
Within 30 days	**833**	140
31 to 60 days	**5**	5,916
61 to 90 days	**5**	902
91 to 120 days	**40**	2,486
121 to 365 days	**107**	591
Over 365 days	**152**	2,592
	1,142	12,627

Note:

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

14. INTEREST-BEARING BORROWINGS

	2022	2021
	RMB'000	*RMB'000*
Unsecured — current portion		
Other borrowings	**4,653**	–
Denominated in:		
HK$	**4,653**	–

The other borrowings of approximately 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 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 Obligors will execute the charge 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.

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

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

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

	RMB'000
Issue of convertible notes	**63,677**
Changes in fair value charged to profit or loss	**1,412**
Carrying amount at 31 December 2022	**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 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 at issue date and at 31 December 2022 are summarised below:

	At issue date	**At 31 December 2022**
Share price	HK$0.083	HK$0.080
Share price volatility	100.21%	116.60%
Risk-free interest rate	0.41%	4.32%
Dividend yield	0.00%	0.00%
Discount rate	2.85%	7.88%
Period	1 year	0.11 year

The significant unobservable input used in the fair value measurement of the convertible notes at 31 December 2022 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 31 December 2022 and decrease in the Group's profit for the year ended 31 December 2022.

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 and make certain related changes under the convertible notes. The Subscribers have agreed to execute the Deed of Release of Account Charge (as defined in the Company's announcement dated 3 March 2023) upon satisfaction of the conditions precedent under the Supplemental Deed. Up to 3 March 2023, the Company has redeemed a total amount of HK$12,000,000 of the principal amount of the convertible notes and paid all the interest accrued therein. The above amendments have become effective on 20 March 2023. Details of the Supplemental Deed were set out in the Company's announcements dated 3 March 2023 and 20 March 2023.

16. SHARE CAPITAL

	Number of ordinary shares ('000)	Amount RMB'000
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2021, 31 December 2021, 1 January 2022 and 31 December 2022	10,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2021, 31 December 2021, 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	**3,196,223**	**31,962**

	2022 ***RMB'000***	2021 *RMB'000*
Shown in the consolidated statement of financial position at 31 December	**29,742**	28,601

Note:

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

17. SHARE OPTION SCHEME

On 29 April 2022, the Company granted a total of 174,000,000 share options at an exercise price of HK$0.084 per share of the Company to certain eligible participants, of which 73,000,000 share options were granted to the executive and non-executive directors of the Company, pursuant to the share option scheme of the Company adopted on 16 June 2017.

The fair value of share options granted on 29 April 2022 are approximately HK$0.065 per option, which are calculated using a Binomial Option Pricing Model by an independent professional valuer with the following key inputs:

	At 29 April 2022
Fair value at grant date	HK$0.065
Share price	HK$0.078
Exercise price	HK$0.084
Expected volatility	83.7%
Option life	10 years
Expected dividend	Nil
Risk-free interest rate	2.82%

During the year ended 31 December 2022, with reference to the fair value of the share options granted, the Group recognised approximately RMB9,722,000 (2021: Nil) as equity-settled share-based payment expenses.

Details of the Company's share option scheme and movement of the Company's share options during the year ended 31 December 2022 are disclosed in section headed "Share Option Scheme" of this announcement.

18. LOSS ON DISPOSAL OF SUBSIDIARIES

On 7 October 2022, the Group entered into equity transfer agreements with a purchaser (the "**Purchaser**"), pursuant to which the Group agreed to sell and the Purchaser agreed to buy 100% equity interests in the Group's subsidiaries, namely Sanai International Trading Limited, China Sanai Investment Holdings Company Limited, Baijiahui Chinese Medicine Group Limited and Forever Trump Development Holdings Limited (collectively the "**Disposed Subsidiaries**") at the total consideration of HK$400. Upon completion, a loss on disposal of subsidiaries of approximately RMB2,484,000 was charged to profit or loss during the year ended 31 December 2022. Each of the Disposed Subsidiaries was incorporated in Hong Kong. In the opinion of the management of the Group, the disposal has no material adverse impact to the daily business operations of the Group as a whole.

The aggregated net assets of the Disposed Subsidiaries at the respective date of disposal and the details of loss on disposal of subsidiaries are summarised as follows:

	RMB'000
Property, plant & equipment	**16**
Trade and other receivables	**4,304**
Financial assets at FVPL	**90**
Cash and cash equivalents	**67**
Other payables and accruals	**(958)**
Tax payables	**(188)**
Net assets at date of disposal	**3,331**
Exchange differences on translation of foreign operations	**(847)**
Loss on disposal of subsidiaries	**2,484**
Net cash outflow arising from disposal of subsidiaries	**67**

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2022.

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 2022, 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 39 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 2022 and 2021 and the profit or loss effect on any provision for the litigation should be reported for the years ended 31 December 2022 and 2021.

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 its cash flows for the years ended 31 December 2022 and 2021 and the financial position of the Group at 31 December 2022 and 2021, and the related disclosures thereof in the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2022 (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 business are stated as below:

Pharmaceutical Products Business

Since the acquisition of Fujian Yongchun Pharmaceutical Company Limited* (福建永春製藥有限公司) ("**Fujian Yongchun**") and Fujian Zhixin Medicine Co., Limited* (福建至信醫藥有限公司) ("**Fujian Zhixin**") in 2019, coupled with the establishment and operation of Fujian Ruichuang Health Industry Co., Limited* (福建瑞創健康產業有限公司) ("**Fujian Ruichuang**") as its new pharmaceutical manufacturing base in 2022, the Group continued to develop its core business, pharmaceutical products business.

Fujian Yongchun is located in Yongchun County, Quanzhou City, Fujian Province. Its plants occupy a site area of 32,330 square metres with a gross floor area of approximately 8,312 square metres, in which the GMP workshop has an area of 3,581 square metres. Fujian Yongchun owns 5 drug registration series (藥品批准文號) in the PRC, to produce 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). The management decided to transfer the main production line of the Group from Fujian Yongchun to Fujian Ruichuang after considering its long-term development, including various factors such as local government policy support and staff recruitment. Thereafter, Fujian Yongchun will be retained as our raw material procurement center, while the Group will further explore the feasibility of manufacturing other pharmaceutical products by Fujian Yongchun.

The Group will continue to increase its market share by promoting its core products and other products produced by Fujian Ruichuang. To achieve this goal, the Group will adjust its market positioning from time to time. In particular, the Group currently plans to enhance its sales and promotional strategies so as to strengthen its market penetration. Further, the Group will continue to expand its sales team to further penetrate the traditional medicine market by introducing sales via drugstore chains and other channels. The Group will also fully utilize its existing sales team to increase its sales through distributors.

Fujian Zhixin possesses the Medical Operations Permit (Wholesale), Medical Operation Quality Management System Certifications (GSP) and Food Operations Permit. The Group acts as a sales agent nationwide for the herbal medical materials, Chinese herbal medicine, Chinese patent medicine, chemical drug preparations, antibiotic preparations, biochemical pharmaceuticals, biological products, healthcare products, food products, etc.. The Group can not only sell its pharmaceutical products through the sales network of Fujian Zhixin, but also act as a sales agent to sell pharmaceutical and healthcare products for other non-competing pharmaceutical companies.

During the Reporting Period, the revenue derived from pharmaceutical products business significantly increased by approximately 183.6% to approximately RMB152.65 million (2021: approximately RMB53.82 million). The increase in revenue was mainly due to the success of the Group's sales strategy to focus on sales of self-manufactured products with relatively high gross profit margins through committed distributors with more extensive geographical coverage in the PRC. Therefore, the profit derived from the pharmaceutical products business has increased by approximately 140.6% to RMB70.90 million for the Reporting Period (2021: approximately RMB29.47 million).

Finance Leasing Business

Zhonghuixin Finance Lease (Shenzhen) Co., Ltd.* (中匯鑫融資租賃(深圳)有限公司), being an indirect wholly-owned subsidiary of the Company, has been engaged in finance leasing business since 2021. The revenue derived from finance leasing business of the Group for the Reporting Period was approximately RMB14.82 million (2021: RMB9.30 million).

The Group's finance leasing business mainly aims at providing financial leasing services of medical devices and rehabilitation equipment which are complimentary to the Group's existing pharmaceutical products business. The business nature of the lessees of our current finance leases were generally in medical industry, pharmaceutical industry and public infrastructure industry. However, the Group's finance leasing services would not be limited to any particular business nature of a client. 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. The potential lessee will first approach Zhonghuixin to confirm whether the equipment or devices fall within the scope in which financing can be provided. The management of Zhonghuixin will conduct site visits and carry out due diligence on the potential lessee, the equipment or devices, 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. If the Group approves the transaction in principle, the management of Zhonghuixin 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 the Group 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 seeking Shareholder's approval, if necessary.

The Group have established several departments (business department, risk department, finance department and review committee) to effect division of work (approval, release and review of the lease). The Group has also established lease approval procedures, internal guidelines and prepares 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 formulated pre-lease and post-lease administrative measures for various departments of Zhonghuixin to follow, including the administration of guarantees and assets charges, monitoring of overdue payment, treatment 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 Zhonghuixin and directly monitors the finance lease projects with the responsible staff of Zhonghuixin, including the review of the due diligence report on the lessees, drafting of the lease documents, examination of the leased assets 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.

The Group has entered into numerous new finance leasing agreements in the aggregate principal amount of RMB178.1 million with interest rates ranging from 6.0%–7.0% per annum during the Reporting Period. The Company will continue to further diversify 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

The Group has acquired the equity interests in Zentrogene Bioscience Laboratory Limited ("**Zentrogene**") in 2019 which primarily engages in the provision of genetic testing and molecular diagnostic services. Zentrogene operates a laboratory with the relevant license in Hong Kong, providing services 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 RMB8.45 million (2021: RMB4.49 million), representing an increase of approximately 88.2%. The increase was mainly due to the gradual uplift of stringent travel restrictions between Hong Kong and nearby Southeast Asian countries and adjustment in the Group's pricing policy to attract increasing number of relatively more cost conscious customers.

OUTLOOK

Looking forward to the year of 2023, after the gradual full 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 our businesses will continue to face numerous challenges. 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 gradual revenue growth for the pharmaceutical products business due to the sales of self-manufactured products with high margin. The Group will continue to expand its sales networks in order to enhance its market penetration rate.

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 investment portfolios.

The Group will continue to closely monitor 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 2022, the Group generated a total revenue of approximately RMB175.92 million, representing an increase of approximately 160.2% as compared to approximately RMB67.61 million for the year ended 31 December 2021. The increase was primarily attributed to the increase 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 2022, the distribution costs of the Group were approximately RMB1.60 million (2021: approximately RMB0.64 million), representing an increase of approximately 150.0%, which is commensurate with the 160.2% increase in sales of the Reporting Period.

Administrative Expenses

Administrative expenses amounted to approximately RMB17.51 million for the year ended 31 December 2022 (2021: approximately RMB14.20 million), representing an increase of approximately 23.3%.

Gross Profit and Gross Profit Margin

Gross profit and gross profit margin for the year ended 31 December 2022 amounted to approximately RMB91.68 million and 52.1% respectively (2021: approximately RMB40.56 million and 60.0% respectively). Gross profit increased by RMB51.12 million when compared with the corresponding period in 2021 which was mainly attributable to the significant increase in sales of self-manufactured pharmaceutical products with higher margin in the Reporting Period.

Finance Costs

Finance costs for the year ended 31 December 2022 amounted to approximately RMB1.79 million (2021: nil). The finance costs 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 RMB29.22 million for the year ended 31 December 2022, representing an increase of approximately 223.6% as compared with the profit of approximately RMB9.03 million in the corresponding period in 2021. The increase was mainly attributable to the increase in sales of self-manufactured pharmaceutical products with higher margin.

Basic and Diluted Earnings per Share

The basic and diluted earnings per share for the year ended 31 December 2022 was approximately RMB0.95 cents and RMB0.89 cents respectively (2021: approximately RMB0.29 cents and RMB0.29 cents respectively).

Liquidity and Financial Resources

As at 31 December 2022, the Group had cash and cash equivalents of approximately RMB21.84 million (2021: approximately RMB16.30 million) and most cash and cash equivalents were denominated in Renminbi and Hong Kong dollars.

Capital Structure and Gearing Ratio

As at 31 December 2022, the total issued shares of the Company was 3,196,222,500 shares (as at 31 December 2021: 3,067,222,500 shares).

As at 31 December 2022, the share capital and equity attributable to owners of the Company amounted to approximately RMB29.74 million and approximately RMB245.59 million respectively (2021: approximately RMB28.60 million and approximately RMB199.07 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 56.72% as at 31 December 2022 (2021: approximately 36.22%).

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 fluctuations in currency exchange rates. As at 31 December 2022, 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 2022, the Group did not have any other significant capital commitment (2021: 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.

EQUITY FUND RAISING ACTIVITIES

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, and Fujian Sanai and Fujian Zhixin as 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 Investment Company Limited, a direct wholly-owned subsidiary of the Company was charged in favour of Mr. Zhi and Mr. Jiang. Completion of the issue of convertible notes took place on 9 February 2022.

Assuming full conversion of the convertible notes at the conversion price, the convertible notes will be convertible into 605,042,016 conversion shares, representing approximately 19.73% of the issued share capital of the Company as at the date of the subscription agreement and approximately 16.48% 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 subscription agreement). The conversion shares will be allotted and issued pursuant to the general mandate upon conversion of the convertible notes.

The Company intended 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 will be used for the addition for sales points and the staff costs of additional sales staffs.

As at 31 December 2022, all of the net proceeds were used as intended.

Save as disclosed above, the Company did not have any equity fund raising activity during the Reporting Period.

NUMBER AND REMUNERATION OF EMPLOYEES

For the Reporting Period, the Group employed approximately 72 employees (2021: 81 employees) with total staff cost of approximately RMB18.45 million (2021: approximately RMB9.99 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. The significant increase in the total staff cost in the Reporting Period was primarily due to the occurrence of an one-time equity-settled share-based payment expenses of approximately RMB9.72 million.

RETIREMENT BENEFIT SCHEME

During the years ended 31 December 2021 and 2022, the Group had no forfeited contributions under its retirement benefit scheme which may be used to reduce the existing level of contributions as described in paragraph 26(2) of Appendix 16 to the Listing Rules.

CAPITAL EXPENDITURE

For the years ended 31 December 2022 and 2021, there was no significant capital expenditure of the Group for property, plant and equipment.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2022, the Group has charged (i) the bank accounts of the indirect wholly-owned subsidiaries, 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 Investment Company Limited, a direct wholly-owned subsidiary of the Company, as security for the convertible notes issued by the Company in February 2022.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2022 (31 December 2021: 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 staff. The Old Share Option Scheme was 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 on 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 and renewed. The said refreshed scheme mandate limits were solely used to grant options to the category (i) as set out in the definitions of the eligible participants (i.e. 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 following table sets out the movements in the share options of the Company (the "**Share Options**") during the Current Period:

Category of participant	At 1 January 2022 *HK$*	Granted during the period	Cancelled or lapsed during the period	Exercise during the period	At 31 December 2022 *HK$*	Date of grant	Exercise period	Exercise price	Closing price of the shares immediately before the date of grant
	Number of Share Options								
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
Mr. Yuan Chaoyang	–	30,000,000	–	30,000,000	–	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
Mr. She Hao	–	22,000,000	–	22,000,000	–	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
	24,800,000	73,000,000	–	52,000,000	45,800,000				
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	–	101,000,000	–	77,000,000	24,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
	36,800,000	174,000,000	–	129,000,000	81,800,000				

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 litigation (the "**Litigation**") brought by 北京市文化科技融資租賃股份有限公司 (Beijing Cultural Technology Finance Lease Company Limited*, the "**Plaintiff**") against, among others, (a) the Company; (b) Fujian Sanai, the disposal of which was completed in April 2019; (c) Lin Ouwen, a former executive Director; and (d) Lin Min, a former executive Director.

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

As such, the Plaintiff demanded, among others, that (i) Fujian Sanai immediately pay to the Plaintiff the unpaid due rent in the amount of RMB33,855,032.69 with the default interest accrued thereon, undue rent in the amount of RMB47,592,982.21, default payment in the amount of RMB4,759,298.22 (being 10% of the undue rent), the legal fees in the amount of RMB800,000, the retention purchase price of RMB100 and the cost incurred in relation to the Litigation; and (ii) the Company, Lin Ouwen and Lin Min be jointly liable for the debts owed by Fujian Sanai under the Finance Lease Agreement 2016.

The Plaintiff also submitted to the Court a copy of the alleged minutes of the Board meeting held on 22 March 2016 on 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, Fujian Sanai shall, among other things, 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 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.

Pursuant to the Appeal, the Company has pleaded to 北京市高級人民法院 (the Higher People's Court of Beijing*) to rule that the Finance Lease Agreement 2016 and the Guarantee were invalid, and to reject all of the Plaintiff's claims.

As at the date of this announcement, the Company is awaiting the hearing date from the 北京市高級人民法院 (the Higher People's Court of Beijing*) since the Appeal was lodged.

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

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.

ISSUE OF CONVERTIBLE NOTES

On 9 February 2022, the Company has issued the convertible notes in the principal amount of HK$72,000,000, details of which are set out in the paragraph headed "Equity Fund Raising Activities" of this announcement.

On 3 March 2023, the Company entered into the supplemental deed (the "**Supplemental Deed**") with the subscribers and the obligors, pursuant to which, the Company, the Obligors and the Subscribers conditionally agreed to amend the conversion price to HK$0.098 per conversion share and maturity date to 9 February 2026 and make certain related changes under the Instrument. The Company has redeemed a total amount of HK$12,000,000 of the principal amount of the Convertible Notes and paid all the interest accrued therein, the total outstanding principal amount of the Convertible Notes is HK$60,000,000. As at the date of the Supplemental Deed, the Company has a total of 3,210,222,500 Shares in issue. Assuming there is no further issue or repurchase of the Shares, based on the amended conversion price at HK$0.098 per conversion share and assuming full conversion of the outstanding Convertible Notes at the amended conversion price, the outstanding Convertible Notes will be convertible up to the maximum of 612,244,897 Shares, representing approximately 19.1% of the issued share capital of the Company as 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 outstanding Convertible Notes.

All conditions precedent to the amendments under the Supplemental Deed have been fulfilled and completed on 20 March 2023.

Further details of the issuance of convertible notes 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.

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.

AMENDMENTS TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION

In order to conform to the Core Standards for shareholder protection as set out in the amended Appendix 3 to the Listing Rules which became effective on 1 January 2022, the Board resolved on 29 April 2022 to propose to make amendments (the "**Proposed Amendments**") to certain provisions/articles in the memorandum and articles of association of the Company. The special resolution approving the Proposed Amendments and the second amended and restated memorandum and articles of association were passed at the annual general meeting held on 8 June 2022.

For details, please refer to the announcements of the Company dated 29 April 2022 and 8 June 2022 and the circular of the Company dated 29 April 2022.

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**") effective on or before 31 December 2022 contained in Appendix 14 to the Listing Rules during the Reporting Period, except for certain deviations disclosed below:

Pursuant to the code provision C.2.1 of the CG Code, the roles of chairman (the "**Chairman**") and chief executive officer ("**CEO**") of the Company shall be separated and shall not be performed by the same individual. The Board considered that vesting the roles of Chairman and the CEO in the same person facilitates the execution of the Company's business strategies and maximizes effectiveness of its operations. On the other hand, there are three independent non-executive Directors in the Board, all of them are independent from the Company and the Board believes that there is a sufficient check and balance in the Board. Therefore the Board considers the Company has 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.

Pursuant to the code provision C.1.6 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Our non-executive Director, Mr. Xiu Yuan was unable to attend the annual general meeting of the Company held on 8 June 2022 due to other commitments.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B of the Listing Rules, the changes of information of the Directors subsequent to the date of the Company's 2021 Annual Report are set out below:

On 17 June 2022, Mr. Chen Chengqing ("**Mr. Chen**") has resigned as (i) the chairman of the Board; (ii) one of the authorised representatives of the Company (the "**Authorised Representative**") (for the purpose of Rule 3.05 of the Listing Rules); (iii) the chairman of the nomination committee (the "**Nomination Committee**") of the Company; and (iv) the member of the remuneration committee of the Company. Mr. She Hao, an executive Director, has been appointed as the Authorised Representative, and Mr. Zhang Ruigen, an independent non-executive Director, has been appointed as the chairman of the Nomination Committee, with effect from 17 June 2022.

Further details were disclosed in the announcement of the Company dated 17 June 2022.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

CHANGE OF AUDITORS

During the Reporting Period, Zhonghui Anda CPA Limited ("**Zhonghui Anda**") has resigned as auditor of the Company on 11 November 2022 and Mazars CPA Limited ("**Mazars**") has been appointed as auditor of the Company to fill the casual vacancy arising from the resignation of Zhonghui Anda.

Zhonghui Anda has been the auditor of the Company since 23 February 2021 and the consolidated financial statements for the year ended 31 December 2019, 2020 and 2021 have been audited by Zhonghui Anda.

The consolidated financial statements for the year ended 31 December 2022 have been audited by Mazars. Mazars will retire, and being eligible, offer themselves for re-appointed at the forthcoming annual general meeting. A resolution for its reappointment as auditor of the Company will be proposed.

SCOPE OF WORK OF MAZARS CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position as at 31 December 2022, 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 2022 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 audited consolidated financial statements for the year ended 31 December 2022. 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 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 condensed consolidated financial statements of the Group for the year ended 31 December 2022. They considered that the preparation of the annual results for the year ended 31 December 2022 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 Friday, 9 June 2023 to Wednesday, 14 June 2023 (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 Wednesday, 14 June 2023 (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 Thursday, 8 June 2023.

SUFFICIENCY OF THE PUBLIC FLOAT

Based on the information publicly available to the Company, as of the date of this announcement, 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 2022 annual report of the Company will be dispatched to the shareholders of the Company and published on the Company's and the Stock Exchange's websites in due course.

ACKNOWLEDGEMENT

The Group would like to 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, 30 March 2023

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.