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Sanai Health Industry Group Company Limited

三愛健康產業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1889)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2024**

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 2024 (the “**Current Period**”), together with the comparative figures for the corresponding period in 2023.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2024

	<i>Notes</i>	Six months ended 30 June	
		2024	2023
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	<i>5</i>	36,729	61,289
Cost of sales and services rendered		(29,908)	(36,886)
		<hr/>	<hr/>
Gross profit		6,821	24,403
Other income and other gain, net		2,863	219
Distribution costs		(2,060)	(391)
Administrative and other expenses		(12,131)	(6,406)
Reversal of impairment loss on finance lease receivables		221	2,164
Impairment loss on trade and other receivables		(404)	(44)
Share of loss of an associate		(133)	–
Change in fair value of convertible notes designated as financial liabilities at FVPL		–	893
Net gain on disposals of subsidiaries	<i>15</i>	17,043	–
Finance costs	<i>6</i>	(1,078)	(848)
		<hr/>	<hr/>
Profit before income tax		11,142	19,990
Income tax expenses	<i>7</i>	(1,487)	(4,491)
		<hr/>	<hr/>
Profit for the period	<i>6</i>	9,655	15,499
		<hr/>	<hr/>
Profit (Loss) for the period attributable to:			
Owners of the Company		9,971	15,543
Non-controlling interests		(316)	(44)
		<hr/>	<hr/>
		9,655	15,499
		<hr/>	<hr/>
Earnings per share			
Basic (RMB cents)	<i>9</i>	0.37	0.48
		<hr/>	<hr/>
Diluted (RMB cents)	<i>9</i>	0.37	0.48
		<hr/>	<hr/>

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

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	9,655	15,499
Other comprehensive loss:		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>(4,425)</u>	<u>(3,547)</u>
Total comprehensive income for the period	<u>5,230</u>	<u>11,952</u>
Total comprehensive income (loss) for the period attributable to:		
— Owners of the Company	5,546	11,996
— Non-controlling interests	<u>(316)</u>	<u>(44)</u>
	<u>5,230</u>	<u>11,952</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2024

		At 30 June 2024	At 31 December 2023
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	34,708	6,508
Construction-in-progress	<i>10</i>	30,668	–
Right-of-use assets	<i>10</i>	36,795	5,673
Intangible assets		2	2,454
Goodwill	<i>16</i>	2,034	–
Interest in an associate		2,557	–
Other non-current assets		8,924	–
		115,688	14,635
CURRENT ASSETS			
Inventories		9,673	487
Trade and other receivables	<i>11</i>	14,329	25,947
Tax recoverable		245	32
Finance lease receivables		–	9,689
Financial assets at FVPL		181	176
Cash and cash equivalents		340,332	332,474
		364,760	368,805
CURRENT LIABILITIES			
Trade and other payables	<i>12</i>	72,297	43,317
Interest-bearing borrowings	<i>14</i>	13,340	7,697
Lease liabilities		284	796
Tax payables		773	7,363
		86,694	59,173

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

At 30 June 2024

		At 30 June 2024	At 31 December 2023
	<i>Notes</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
NET CURRENT ASSETS		278,066	309,632
TOTAL ASSETS LESS			
CURRENT LIABILITIES		393,754	324,267
NON-CURRENT LIABILITIES			
Lease liabilities		771	771
Convertible notes designated as financial liabilities at FVPL	13	–	53,214
Interest-bearing borrowings	14	28,500	–
Deferred tax liabilities		9,142	611
		38,413	54,596
NET ASSETS		355,341	269,671
CAPITAL AND RESERVES			
Share capital	17	35,529	29,865
Reserves		289,977	234,584
Equity attributable to owners of the Company		325,506	264,449
Non-controlling interests		29,835	5,222
TOTAL EQUITY		355,341	269,671

NOTES

1. GENERAL INFORMATION

Sanai Health Industry Group Company Limited (the “**Company**”) was incorporated in the Cayman Islands on 21 March 2006 and registered as an exempted company with limited liability under the Companies Act, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “**Cayman Companies Law**”) and acts as an investment holding company. Its shares 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 of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. The principal place of business of the Company is Unit 5, 7/F., Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company. The Company and its subsidiaries are collectively referred to as the “**Group**”. 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 unaudited condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is the same as the functional currency of the Company and all amounts have been rounded to nearest thousand, unless otherwise stated.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“**HKAS**”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange.

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

The unaudited condensed consolidated financial statements have been prepared on historical basis 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.

These unaudited condensed consolidated financial statements should be read in conjunction with the 2023 annual audited financial statements. The accounting policies and methods of computation used in the preparation of these unaudited condensed consolidated financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2023.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2024. HKFRSs comprise all applicable individual HKFRSs, HKAS and Interpretations issued by the HKICPA. The adoption of these new and revised HKFRSs did not result in significant changes to the Group’s accounting policies, presentation of the Group’s consolidated financial statements and amounts reported for the current and prior reporting periods.

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

4. SEGMENT INFORMATION

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

- (i) Pharmaceutical products: development, manufacturing, marketing and sales of pharmaceutical products, sales of pharmaceutical related software and provision of consultancy services;
- (ii) Finance leasing: provision of finance leasing services; and
- (iii) Genetic testing and molecular diagnostic services: 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 2024 and 2023 is set out below:

For the six months ended 30 June 2024 (Unaudited)

	Pharmaceutical products <i>RMB'000</i>	Finance leasing <i>RMB'000</i>	Genetic testing and molecular diagnostic services <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment revenue from external customers	<u>31,010</u>	<u>–</u>	<u>5,719</u>	<u>36,729</u>
Reportable segment (loss) profit	<u>(779)</u>	<u>(303)</u>	<u>173</u>	<u>(909)</u>

For the six months ended 30 June 2023 (Unaudited)

	Pharmaceutical products <i>RMB'000</i>	Finance leasing <i>RMB'000</i>	Genetic testing and molecular diagnostic services <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment revenue from external customers	<u>49,146</u>	<u>4,881</u>	<u>7,262</u>	<u>61,289</u>
Reportable segment profit	<u>12,184</u>	<u>6,873</u>	<u>3,584</u>	<u>22,641</u>

There are no inter-segment sales for the six-month periods ended 30 June 2024 and 2023.

The measure used for reporting segment profit/(loss) is earnings and losses of each segment without allocation of other income and other gain, net, central administration costs and other operating expenses and certain finance costs.

(i) **Revenue from external customers**

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

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Hong Kong	5,719	7,262
The People's Republic of China (the "PRC")	31,010	54,027
	<hr/>	<hr/>
Total	36,729	61,289
	<hr/> <hr/>	<hr/> <hr/>

(ii) **Reconciliation of reportable segment profit or loss:**

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Total reportable segment (loss) profit derived from the Group's external customers	(909)	22,641
Other income and other gain, net	2,375	219
Net gain on disposals of subsidiaries	17,043	–
Unallocated head office and corporate expenses		
— staff cost (including director's emoluments)	(2,582)	(1,370)
— change in fair value of convertible notes designated as financial liabilities at FVPL	–	893
— exchange (loss) gain, net	(82)	1,881
— others	(3,912)	(3,426)
— finance costs	(791)	(848)
	<hr/>	<hr/>
Consolidated profit before income tax for the period	11,142	19,990
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The following table presents segment assets and segment liabilities of the Group's operating segments at 30 June 2024 and 31 December 2023:

At 30 June 2024 (Unaudited)

	Pharmaceutical products <i>RMB'000</i>	Finance leasing <i>RMB'000</i>	Genetic testing and molecular diagnostic services <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment assets	<u>438,742</u>	<u>529</u>	<u>2,557</u>	<u>441,828</u>
Reportable segment liabilities	<u>(55,361)</u>	<u>(1,176)</u>	<u>–</u>	<u>(56,537)</u>

At 31 December 2023 (Audited)

	Pharmaceutical products <i>RMB'000</i>	Finance leasing <i>RMB'000</i>	Genetic testing and molecular diagnostic services <i>RMB'000</i>	Total <i>RMB'000</i>
Reportable segment assets	<u>33,937</u>	<u>337,414</u>	<u>9,206</u>	<u>380,557</u>
Reportable segment liabilities	<u>(16,492)</u>	<u>(1,919)</u>	<u>(7,126)</u>	<u>(25,537)</u>

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 other payables attributable to the activities of the individual segments.

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.

5. REVENUE

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

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
— At a point in time		
Sales of pharmaceutical products	31,010	49,146
— Over time		
Provision of genetic testing and molecular diagnostic services	5,719	7,262
	<u>36,729</u>	<u>56,408</u>
Revenue from other sources		
Finance leasing interest income	—	4,881
	<u>36,729</u>	<u>61,289</u>

The revenue from contracts with customers of the Group during the six months ended 30 June 2024 and 2023 are recognised within HKFRS 15.

6. PROFIT FOR THE PERIOD

Profit for the period is arrived at after charging:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Finance costs		
Interest expenses on:		
— convertible notes	415	848
— interest-bearing borrowings	663	—
	<u>1,078</u>	<u>848</u>
Other items		
Depreciation of property, plant and equipment	545	610
Amortisation of intangible assets	24	1,047
Cost of inventories	24,960	31,080

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax		
PRC Enterprise Income Tax (“EIT”)	1,522	4,268
Hong Kong Profits Tax	47	468
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	1,569	4,736
Deferred taxation	(82)	(245)
	<hr/>	<hr/>
	1,487	4,491
	<hr/> <hr/>	<hr/> <hr/>

For the PRC subsidiaries of the Group, PRC EIT is calculated at 25% in accordance with the relevant laws and regulations in the PRC for the six months ended 30 June 2024 and 2023.

For the Hong Kong subsidiaries of the Group, the assessable profits of the Group is subject to the two tiered profits tax rates regime that the first HK\$2 million of assessable profits will be taxed at 8.25% and assessable profits above HK\$2 million will be taxed at 16.5% under Hong Kong Profits Tax for the six months ended 30 June 2024 and 2023.

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

8. DIVIDENDS

The directors do not recommend the payment of any dividend for the six months ended 30 June 2024 and 2023.

9. 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:

	Six months ended 30 June	
	2024 <i>RMB'000</i> (Unaudited)	2023 <i>RMB'000</i> (Unaudited)
Profit for the period attributable to the owners of the Company for the purpose of basic earnings per share	9,971	15,543
Change in fair value of convertible notes designated as financial liabilities at FVPL	–	(893)
Exchange difference on convertible notes designated as financial liabilities at FVPL	2,297	2,531
Interest on convertible notes	415	848
	<hr/>	<hr/>
Profit for the period attributable to the owners of the Company for the purpose of diluted earnings per share	<u>12,683</u>	<u>18,029</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	3,442,337	3,206,355
Effect of conversion of convertible notes	–	555,657
	<hr/>	<hr/>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>3,442,337</u>	<u>3,762,012</u>

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 six months ended 30 June 2024 and 2023.

10. PROPERTY, PLANT AND EQUIPMENT, CONSTRUCTION-IN-PROGRESS AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2024, the Group has addition of property, plant and equipment of approximately RMB32,931,000 (six months ended 30 June 2023: Nil), construction-in-progress of approximately RMB30,668,000 (six months ended 30 June 2023: Nil) and right-of-use assets of approximately RMB35,810,000 (six months ended 30 June 2023: Nil) through acquisition of subsidiaries (Note 16). In addition, the Group has acquired property, plant and equipment of approximately RMB35,000 (six months ended 30 June 2023: RMB10,000) from independent third parties.

During the six months ended 30 June 2024, the Group has disposed of property, plant and equipment of approximately RMB5,206,000 (six months ended 30 June 2023: Nil) and right-of-use assets of approximately RMB4,425,000 (six months ended 30 June 2023: Nil) through disposals of subsidiaries (Note 15).

11. TRADE AND OTHER RECEIVABLES

	At 30 June 2024 RMB'000 (Unaudited)	At 31 December 2023 RMB'000 (Audited)
Trade receivables (net of loss allowance)	11,059	22,950
Other receivables	2,347	1,727
Amount due from a related company	3	3
Prepayments and deposits	920	1,026
Other PRC tax receivables	–	241
	14,329	25,947

The Group normally grants credit terms of 30 to 180 days (31 December 2023: 30 to 180 days) to its customers. The ageing analysis of trade receivables (net of loss allowance) presented based on the invoice date is as follows:

	At 30 June 2024 RMB'000 (Unaudited)	At 31 December 2023 RMB'000 (Audited)
Within 30 days	5,400	10,503
31 to 60 days	5,056	10,896
61 to 90 days	–	523
91 to 120 days	603	508
121 to 365 days	–	520
Over 365 days	–	–
	11,059	22,950

12. TRADE AND OTHER PAYABLES

	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
Trade payables	16,806	9,250
Payroll and welfare payables	5,195	4,922
Accrued expenses	8,847	2,877
Other payables	24,623	22,626
Other PRC tax payables	442	935
Contract liabilities	284	366
Deposits received	2,066	–
Accrued interest expenses on convertible notes	1,809	1,353
Amount due to directors (Note (i))	5,889	590
Amount due to an associate (Note (ii))	5,559	–
Interest payables	777	398
	<u>72,297</u>	<u>43,317</u>

Notes:

- (i) The amount due to directors is non-trade in nature, unsecured, interest-free and repayable on demand.
- (ii) The amount due to an associate is non-trade in nature, unsecured, interest-free and repayable on demand.

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

	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
Within 30 days	3,600	7,518
31 to 60 days	4,373	1,577
61 to 90 days	–	3
91 to 120 days	7,121	–
121 to 365 days	1,670	–
Over 365 days	42	152
	<u>16,806</u>	<u>9,250</u>

13. CONVERTIBLE NOTES

On 13 January 2022, the Company, Fujian Sanai Biotechnology Limited* (福建三愛生物科技有限公司) and Fujian Zhixin Medicine Co., Limited* (福建至信醫藥有限公司), 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). 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.

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 (the “**Share Charges**”) 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 (the “**Account Charge**”) 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.

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 (which was extended to 9 February 2026 in March 2023 as disclosed below).

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

* English name is translated for identification purpose only.

On 3 March 2023, the Company entered into the supplemental deed (the “**Supplemental Deed**”) with the Obligors and the Subscribers, pursuant to which, on the terms and subject to the conditions therein, the Company, the Obligors and the Subscribers conditionally agreed, among others, to amend the conversion price at HK\$0.098 per share and extend the maturity date for 3 years and make certain related changes under the convertible notes (the “**Proposed Amendments**”). The Subscribers have agreed to execute the deed of release in respect of the Account Charge upon satisfaction of the conditions precedent under the Supplemental Deed by the Subscribers as charges in favour of the Obligors as chargors to terminate the Account Charge and release the Obligors from their obligations under the Account Charge. The Share Charges remain fully effective and are not released nor diminished by any provision of the Supplemental Deed.

During the six months ended 30 June 2023, the Company has partially redeemed the convertible notes in the principal amount of HK\$12,000,000 (equivalent to approximately RMB10,668,000). The Proposed Amendments have become effective on 20 March 2023 and the maturity date of the convertible notes has been extended to 9 February 2026.

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

On 23 April 2024, the remaining outstanding convertible notes were fully converted into 612,244,897 ordinary shares of the Company at the conversion price of HK\$0.098 per share.

The movements of the convertible notes for the reporting period are set out below:

	Six months ended 30 June 2024 RMB’000 (Unaudited)	Year ended 31 December 2023 RMB’000 (Audited)
At beginning of the reporting period	53,214	65,089
Redemption	–	(10,864)
Changes in fair value credited to profit or loss	–	(2,554)
Full conversion	(55,511)	–
Exchange difference charged to profit or loss	2,297	1,543
At end of the reporting period	–	53,214

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.

14. INTEREST-BEARING BORROWINGS

	At 30 June 2024 <i>RMB\$'000</i> (Unaudited)	At 31 December 2023 <i>RMB\$'000</i> (Audited)
Unsecured other borrowings (Note (i))	8,340	7,697
Secured bank borrowings (Note (ii))	33,500	–
	<u>41,840</u>	<u>7,697</u>

	Bank borrowings		Other borrowings	
	At 30 June 2024 <i>RMB\$'000</i> (Unaudited)	At 31 December 2023 <i>RMB\$'000</i> (Audited)	At 30 June 2024 <i>RMB\$'000</i> (Unaudited)	At 31 December 2023 <i>RMB\$'000</i> (Audited)
Carrying amount of borrowings and the maturity analysis based on the scheduled repayment date set out in the loan agreement is:				
Within one year or on demand	5,000	–	8,340	7,697
More than one year, but not exceeding two years	28,500	–	–	–
More than two years, but not exceeding five years	–	–	–	–
Over five years	–	–	–	–
	<u>33,500</u>	–	<u>8,340</u>	<u>7,697</u>
Less: Amount shown under current liabilities	<u>(5,000)</u>	–	<u>(8,340)</u>	<u>(7,697)</u>
Amount shown under non-current liabilities	<u>28,500</u>	–	–	–

Notes:

- (i) The other borrowings of approximately RMB8,340,000 (31 December 2023: RMB7,697,000) are unsecured, carry fixed interest rate of 12% (31 December 2023: 5%) per annum and are repayable within 1 year from drawdown date.
- (ii) The bank borrowings of approximately RMB33,500,000 (31 December 2023: Nil) are secured and guaranteed by guarantees provided by a financial institution (an independent third party) of RMB33,500,000, carry fixed interest rate at 3.7% per annum and are repayable within 3 year from drawdown date.

15. DISPOSALS OF SUBSIDIARIES

- (a) On 27 February 2024, the Group disposed of its 51% equity interest in 福建永春製藥有限公司 Fujian Yongchun Pharmaceutical Company Limited* (“**Fujian Yongchun**”) to an independent third party at a cash consideration of RMB4,800,000 in accordance with the share transfer agreement dated 27 February 2024 (the “**Disposal 1**”).

Details of the consideration received for the Disposal 1 and net assets of Fujian Yongchun at the date of disposal are summarised as follows:

	<i>RMB'000</i>
Consideration received, satisfied by:	
Cash received	4,800
Net assets disposed of:	
Property, plant and equipment	4,210
Right-of-use assets	4,124
Intangible assets	2,122
Amounts due from fellow subsidiaries	4,800
Trade and other receivables	6
Cash and bank balances	80
Trade and other payables	(2,187)
Amount due to a fellow subsidiary	(62)
Tax payables	(2,425)
Deferred tax liabilities	(531)
Net assets at the date of disposal	10,137
Non-controlling interests	(4,967)
Consideration	(4,800)
Loss on disposal of Fujian Yongchun	370
Net cash inflows from disposal of Fujian Yongchun	
Consideration received	4,800
Less: Cash and bank balances disposed of	(80)
	4,720

* English name is translated for identification purpose only.

- (b) On 19 January 2024, the Group disposed of its 100% equity interest in Z J W Electronics (Hong Kong) Limited together with its wholly-owned subsidiary, 中匯鑫融資租賃(深圳)有限公司 Zhonghuixin Financial Leasing (Shenzhen) Co., Ltd.*, (collectively referred to as the “**Z J W Group**”) to 4 independent third parties at total cash consideration of HK\$3,600,000 (equivalent to approximately RMB3,300,000) in accordance with the share transfer agreement dated 17 January 2024 (the “**Disposal 2**”).

Details of the consideration received for the Disposal 2 and net assets of the Z J W Group at the date of disposal are summarised as follows:

	<i>RMB'000</i>
Consideration received, satisfied by:	
Cash received	3,300
Net assets disposed of:	
Other receivables	1
Amounts due from fellow subsidiaries	3,303
Cash and bank balances	7
Tax payables	(256)
Net assets at the date of disposal	3,055
Release of exchange reserve	(1)
Consideration	(3,300)
Gain on disposal of the Z J W Group	(246)
Net cash inflows from disposal of the Z J W Group	
Consideration received	3,300
Less: Cash and bank balances disposed of	(7)
	3,293

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- (c) On 31 May 2024, the Group disposed of its 59% equity interest in Zentrogene Bioscience Laboratory Limited together with its wholly-owned subsidiary, Zentrogene Bioscience (Cambodia) Co., Ltd. (collectively referred to as the “**Zentrogene Group**”) to an independent third party (the “**Purchaser**”) at a cash consideration of HK\$22,000,000 (equivalent to approximately RMB20,469,000) in accordance with the share transfer agreement dated 17 April 2024 (the “**Disposal 3**”). In the opinion of the Group’s management, the consideration for the Disposal 3 was determined after arms’ length negotiations between the Group and the Purchaser with reference to, among others, (i) the business development opportunity and prospects of the Zentrogene Group; (ii) the financial status of the Zentrogene Group; and (iii) the estimated market value of the Zentrogene Group with reference to the valuation carried out by CHFT Advisory and Appraisal Ltd., an independent valuer.

The Disposal 3 constitutes a disclosable transaction for the Company under the Listing Rules. Details of the Disposal 3 were set out in the Company’s announcement dated 17 April 2024.

Following the completion of the Disposal 3 on 31 May 2024, the assets and liabilities of Zentrogene Group were deconsolidated from the Group's consolidated statement of financial position and the remaining equity interests of 41% in Zentrogene Group have been accounted for as an associate using equity method. In the opinion of the Group's management, the fair value of the 41% equity interests in Zentrogene Group at the date on which the control was lost is approximate to the proportion of the Group's equity interest in net assets of Zentrogene Group as the cost on initial recognition of the investment in Zentrogene Group as an associate.

Details of the consideration received for the Disposal 3 and net assets of the Zentrogene Group at the date of disposal are summarised as follows:

	<i>RMB'000</i>
Consideration received, satisfied by:	
Cash received	20,469
	<u>20,469</u>
Net assets disposed of:	
Property, plant and equipment	996
Right-of-use assets	301
Inventories	1,437
Amounts due from fellow subsidiaries	6,407
Trade and other receivables	2,824
Cash and bank balances	646
Trade and other payables	(5,036)
Amount due to a fellow subsidiary	(896)
Tax payables	(190)
Lease liabilities	(310)
	<u>6,179</u>
Net assets at the date of disposal	6,179
59% equity interest disposed of	3,646
Release of exchange reserve	(344)
Consideration	(20,469)
	<u>(17,167)</u>
Gain on disposal of the Zentrogene Group	(17,167)
Net cash inflows from disposal of the Zentrogene Group	
Consideration received	20,469
Less: Cash and bank balances disposed of	(646)
	<u>19,823</u>

16. ACQUISITION OF SUBSIDIARIES

On 1 March 2024, the Group entered into a sale and purchase agreement (the “**Agreement**”) with an independent third party named Xie Haijing (the “**Vendor**”), pursuant to which the Group conditionally agreed to acquire and the Vendor conditionally agreed to sell 51% equity interest in 北京航洋健康科技有限公司 Beijing Hangyang Health Technology Co., Ltd.* (“**Beijing Hangyang**”) and its subsidiaries (collectively referred to as the “**Beijing Hangyang Group**”) at a cash consideration of RMB33,150,000 (the “**Acquisition**”). On 14 May 2024, the Acquisition was completed.

The principal activities of the Beijing Hangyang Group are research, production and sales of health products, functional foods and skincare products in the field of soft capsule dosage form.

The Acquisition constituted a business combination and had been accounted for using the acquisition method under HKFRS 3 (Revised) “**Business Combinations**”.

The Acquisition constitutes a disclosable transaction for the Company under the Listing Rules. Details of the Acquisition are set out in the Company’s announcements dated 1 March 2024 and 18 March 2024.

The following summarises the consideration paid and the amounts of the identifiable assets acquired and liabilities assumed at the date of acquisition:

	<i>RMB’000</i>
Consideration paid, satisfied by:	
Cash paid	33,150
Recognised amounts of identifiable assets acquired and liabilities assumed:	
Property, plant and equipment	32,931
Construction in progress	30,668
Right-of-use assets	35,810
Other non-current assets	8,934
Inventories	6,663
Trade and other receivables	2,729
Cash and bank balances	4,960
Trade and other payables	(17,938)
Tax payables	(303)
Interest-bearing borrowings	(34,300)
Deferred tax liabilities	(9,142)
Total identifiable net assets	61,012
Non-controlling interests recognised	(29,896)
Goodwill recognised on the Acquisition	2,034
	33,150

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RMB'000

Net cash outflow from the Acquisition

Net cash acquired from the subsidiaries	4,960
Consideration paid	(33,150)
	<hr/>
	(28,190)
	<hr/> <hr/>

The directors of the Company have engaged Asia-Pacific Consulting and Appraisal Limited, an independent valuer, to provide assistance in determining the fair value of the assets and liabilities of the Beijing Hangyang Group in accordance with HKFRS 13. Asia-Pacific Consulting and Appraisal Limited has reviewed the methodologies, the key valuation parameters and business assumptions adopted.

The Group has selected to measure the non-controlling interests at its proportionate interest in the identifiable assets and liabilities of the Beijing Hangyang Group.

Goodwill arising from the Acquisition represents the excess of the fair value of the consideration paid by the Group over the fair value of identifiable net liabilities and contingent liabilities (if any) of the Beijing Hangyang Group.

The goodwill arising from the Acquisition is attributable to the growth and profit potential as a result of benefiting from expansion of core business of the Group due to synergies. However, in the opinion of the management of the Group, the fair values of the growth and profit potential cannot be reasonably estimated and thus no individual intangible assets have been recognised. None of the goodwill recognised is expected to be deductible for income tax purpose.

The fair values of trade and other receivables acquired included trade receivables with fair value of approximately RMB631,000 and other receivables with fair value of RMB2,098,000. The total gross contractual amounts of the trade and other receivables are approximately RMB2,729,000, of which no provision were made against trade and other receivables.

Since acquisition and up to 30 June 2024, the Beijing Hangyang Group has contributed revenue of approximately RMB5.1 million and contributed a loss of approximately RMB1.1 million to the Group.

If the business combinations effected during the six months ended 30 June 2024 had been taken place at 1 January 2024, the revenue and profit of the Group would have been approximately RMB57.3 million and approximately RMB8.1 million, respectively.

17. SHARE CAPITAL

	Number of ordinary shares (<i>'000</i>)	Amount <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.01 each		
At 1 January 2023 (Audited), 1 January 2024 (Audited) and 30 June 2024 (Unaudited)	10,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each		
At 1 January 2023 (Audited)	3,196,223	31,962
Issue of shares upon exercise of share options	14,000	140
At 31 December 2023 (Audited)	3,210,223	32,102
Issue of shares upon conversion of convertible notes (Note 13)	612,244	6,122
At 30 June 2024 (Unaudited)	3,822,467	38,224
	At 30 June 2024 <i>RMB'000</i> (Unaudited)	At 31 December 2023 <i>RMB'000</i> (Audited)
Shown in the condensed consolidated statement of financial position	35,529	29,865

18. MATERIAL RELATED PARTY TRANSACTIONS

The details of remuneration of key management personnel, representing amounts paid to the directors of the Company during the six months ended 30 June 2024 and 2023, are set out as follows:

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Short-term employee benefits	1,245	985

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Current Period, the Group was principally engaged in three businesses: (i) pharmaceutical product business; (ii) finance leasing business; and (iii) genetic testing and molecular diagnostic services. The three businesses are stated as below:

Pharmaceutical Products Business

Since August 2022, Fujian Rui Chuang Health Industry Company Limited* (福建瑞創健康產業有限公司) (“**Fujian Rui Chuang**”), the Company’s indirect wholly-owned subsidiary, has remained to be the core production centre as well as the exclusive sales channel of the Group’s own developed pharmaceutical products during the Current Period. As highlighted in the Company’s 2023 Annual Report, the negative impact to our pharmaceutical products business brought by a very substantial increase in the general cost as well as a shortage in the volume of supply of traditional Chinese herbal materials in the PRC since the start of the year of 2023 has continued in the first half year of 2024, which has still adversely affected the gross profit margin as well as the volume of sales of our own developed pharmaceutical products in the Current Period.

Fujian Zhixin Medicine Co., Limited* (福建至信醫藥有限公司) (“**Fujian Zhixin**”), an indirect wholly-owned subsidiary of the Company, continued to 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.

Beijing Bafuluo Technology Co., Ltd.* (北京巴夫羅科技有限公司) (“**Beijing Bafuluo**”), an indirect wholly-owned subsidiary of the Company, has entered into a Sales & Purchase Agreement on 1 March 2024 with Mr. Xie Haijing (the “**Vendor**”) in relation to the acquisition of 51% controlling shareholding of Beijing Hangyang Health Technology Co., Ltd.* (北京航洋健康科技有限公司) (“**Beijing Hangyang**”) for a cash consideration of RMB33.15 million (the “**Acquisition**”), please refer to the Company’s announcements dated 1 March 2024 and 18 March 2024 (the “**Announcements**”). The Acquisition has been completed on 14 May 2024 whereas the consideration of RMB33.15 million has been fully settled and that the registration of the Equity Transfer in the PRC has been legally completed.

As explained in the Announcements, the Board of the Company, after considering the increasing costs of traditional Chinese herbal materials and the simple product portfolio of the Group in the PRC, is of the view that the Group needs to further diversify the pharmaceutical

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and healthcare product portfolio in order to seize future growth opportunities and to achieve long-term sustainability in this pharmaceutical products business segment. The Board believes that the Acquisition would help the Group to diversify the product portfolio, widen the geographical coverage of products and lower the concentration risk in the procurement of raw materials of the pharmaceutical and healthcare products business.

Following the completion of the Acquisition on 14 May 2024, Beijing Hangyang has become an indirect non-wholly-owned subsidiary of the Company and that the financial results of Beijing Hangyang since completion has been consolidated into those of the Group in the Current Period.

During the Current Period, the revenue derived from the pharmaceutical products business decreased by 36.9% to approximately RMB31.01 million (2023 interim: approximately RMB49.15 million). The loss sustained by the pharmaceutical products business was approximately RMB0.78 million for the Current Period (2023 interim: profit of approximately RMB12.18 million).

Finance Leasing Business

The operation of the finance leasing business has been centralized in an indirect wholly-owned subsidiary of the Company, Union Development finance leasing (Shenzhen) Company Limited* (聯合發展融資租賃(深圳)有限公司) (“**Union Development**”). The revenue derived from the finance leasing business of the Group for the Current Period was nil (2023 interim: RMB4.88 million) as all the subsisting finance leasing contracts have expired and promptly settled before the beginning of the year 2024 and that the Group, having adopted a more prudent and cautious approach in the evaluation and granting of new finance leasing loans, had not entered into any new finance leasing contracts in the first half year of 2024. Hence, the Group has nil customer as at 30 June 2024 (30 June 2023: 17 customers).

Business Model and Customer Profiles

The Group’s finance leasing business mainly provides financial leasing services of medical devices and rehabilitation equipment which are complimentary to the Group’s existing pharmaceutical products business. The business of the lessees of our current finance leases were generally in the medical industry, pharmaceutical industry and public infrastructure industry. However, the Group’s finance leasing services are not intended to be limited to any particular business. 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.

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Credit Risk Assessment

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

Approval Process

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

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

Finance Lease Portfolio

The Group has not entered into any new finance leasing agreement during the Current Period and hence the weighted average of the term of finance leases entered into by the Group is not applicable for the Current Period (2023 interim: 1.26 years). In the past, in the event the lessee breaches the finance lease contract, the Group has the right to use or to sell the leased assets and to call for full or partial repayment of the outstanding balance of finance lease receivables.

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

Genetic Testing and Molecular Diagnostic Services

Zentrogene Bioscience Laboratory Limited (“**Zentrogene**”), an indirect wholly-owned subsidiary of the Company, has been primarily engaged in the provision of, inter alia, genetic testing and molecular diagnostic services. Zentrogene operates a laboratory with the requisite license in Hong Kong, providing services such as non-invasive prenatal diagnosis (NIPD), tumor genetic screening, DNA testing and paternity testing. Genetic testing is a prerequisite for precision medicine.

Sanai International Investment Company Limited (“**Sanai International**”) (the “**Vendor**”), a wholly-owned subsidiary of the Company, has entered into a Sales & Purchase Agreement on 17 April 2024 with an independent party (the “**Purchaser**”) in relation to the disposal of 59% shareholding in Zentrogene at a cash consideration of HK\$22 million (the “**Share Disposal**”), please refer to the Company’s announcement dated 17 April 2024 (the “**Disposal Announcement**”). The Share Disposal has been completed on 31 May 2024 whereas the Purchaser has made full settlement of the consideration of HK\$22 million in cash to the Company. As explained in the Disposal Announcement, the Board of the Company, after a review of the performance and strategic positioning of Zentrogene, believes that a partial divestiture would enable the management to reallocate efforts and resources towards its core pharmaceutical business and that this divestment would also provide additional working capital for the Group.

Following the completion of the Share Disposal on 31 May 2024, Zentrogene has become a 41%-owned associate of the Group and since then the financial results of Zentrogene has been accounted for under the equity accounting basis in the Current Period.

During the Current Period, before the divestment of Zentogene on 31 May 2024, the revenue generated from genetic testing and molecular diagnostic services amounted to approximately RMB5.72 million (2023 interim: RMB7.26 million), representing a decrease of approximately 21.2%, as compared to the corresponding period in 2023.

OUTLOOK

Looking forward to the second half of 2024, sustainable economic growth in the PRC remains to be one of the key tones of macroeconomic policies. The Group will study and evaluate the policies and proactively adapt to the changes, consolidate and enhance its competitive advantage and seriously looking for new promising business investment opportunities in the PRC in particular. However, the Group still expects that our business will continue to face numerous challenges as the actual pace and progress of the post-Covid Epidemic economic recovery in China has not been as promising and encouraging as originally expected and forecasted during the Current Period. Looking ahead, the Group will continue to rigorously implement our cost control measures, to maintain a flexible and prudent approach and allocate resources in an appropriate manner including, but not limited to, seriously looking for new promising business investment opportunities in the PRC in particular, in order to strengthen its revenue base and to optimize its business and financial performance.

For pharmaceutical products business, following the completion of the Acquisition of Beijing Hangyang, the Group expects to achieve a growth in its sales revenue in the latter half year of 2024 as compared to the Current Period. However, as a result of the significant increase in the cost as well as the volume of supply of traditional Chinese herbal materials in China since early 2023, the gross profit margin of our own developed pharmaceutical products will inevitably continue to be adversely affected.

For finance leasing business, the expected financial return from interests to be earned in granting financial leasing loans in China was not attractive and sometimes not well justified with the inherent risks of the business. Hence, the Group will closely monitor the development of the finance leasing market as well as the trend of the interest rates in China and will continue to take a prudent and cautious approach in the granting of new finance leasing loans in the near foreseeable future.

For genetic testing and molecular diagnostic services business, following the partial divestiture of the Company's investment in Zentogene, the Company has been in the process of actively searching/identifying possible promising new business or investment opportunity in this business segment. The Company will promptly update our shareholders should such opportunity arise.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2024, the Group generated a total revenue of approximately RMB36.73 million, representing a decrease of approximately 40.1% as compared to approximately RMB61.29 million in the corresponding period in 2023. The decrease was primarily attributed to the decrease in the revenue generated in the pharmaceutical products and the genetic testing and molecular diagnostic service segments, together with the absence of revenue generated in the finance leasing segment in the Current Period.

Distribution Costs

For the six months ended 30 June 2024, the distribution costs of the Group were approximately RMB2.06 million (2023 interim: approximately RMB0.39 million). The substantial increase was mainly attributable to the launch of new marketing campaigns and promotion events during the Current Period.

Administrative Expenses

Administrative expenses amounted to approximately RMB12.13 million for the six months ended 30 June 2024 (2023 interim: approximately RMB6.41 million), representing an increase of approximately 89.2%. The increase was mainly attributable to the significant increase in legal and professional expenses incurred in relation to numerous corporate actions including, but not limited to, disposals and acquisition of subsidiaries, conversion of convertible notes and shares consolidation and capital reduction.

Gross Profit and Gross Profit Margin

Gross profit and gross profit margin for the six months ended 30 June 2024 amounted to approximately RMB6.82 million and 18.6% respectively (2023 interim: approximately RMB24.40 million and 39.8% respectively). Gross profit decreased by RMB17.58 million when compared with the corresponding period in 2023 which was mainly attributable to the significant increase in the general cost of traditional Chinese herbal materials in the PRC which in turn affected the gross profit margin in the Current Period, together with the absence of interest income generated in the finance leasing segment which contributed an almost 100% gross profit margin in the Current Period.

Finance Costs

Finance costs for the six months ended 30 June 2024 amounted to approximately RMB1.08 million (2023 interim: RMB0.85 million). The finance costs represented the interest expenses attributable to the convertible notes issued by the Company on 9 February 2022 and the interest-bearing borrowings.

Profit for the Current Period

Profit attributable to owners of the Company was approximately RMB9.97 million for the six months ended 30 June 2024, representing a decrease of approximately 35.8% as compared with the profit of approximately RMB15.54 million in the corresponding period in 2023. The decrease was mainly attributable to the decrease in sales of self-manufactured pharmaceutical products with continuously dropping profit margin and the absence of interest income generated in the finance leasing segment in the Current Period.

Basic and Diluted Earnings per Share

The basic and diluted earnings per share for the six months ended 30 June 2024 was approximately RMB0.37 cents and approximately RMB0.37 cents respectively (2023 interim: both approximately RMB0.48 cents).

Liquidity and Financial Resources

As at 30 June 2024, the Group had cash and cash equivalents of approximately RMB340.33 million (as at 31 December 2023: approximately RMB332.47 million) and most cash and cash equivalents were denominated in Renminbi or Hong Kong dollars.

Capital Structure and Gearing Ratio

As at 30 June 2024, the total number of issued shares of the Company was 3,822,467,397 shares (as at 31 December 2023: 3,210,222,500 shares).

As at 30 June 2024, the share capital and equity attributable to owners of the Company amounted to approximately RMB35.53 million and approximately RMB325.51 million respectively (as at 31 December 2023: approximately RMB29.87 million and approximately RMB264.45 million, respectively).

The Group has reviewed the capital structure by using gearing ratio. The gearing ratio represents the total debt, which includes trade and other payables and convertible notes of the Group, divided by the total equity of the Group. The gearing ratio of the Group was approximately 32.42% as at 30 June 2024 (as at 31 December 2023: approximately 39.23%).

Exposure to Fluctuation in Exchange Rates

During the Current Period, the Group conducted most of its business transactions in Renminbi. The Group had not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. Therefore, the Group was not exposed to any material interest and foreign exchange risks during the Current Period. As at 30 June 2024, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purpose. However, the management will monitor and consider hedging foreign currency exposure should the need arise.

SIGNIFICANT ACQUISITION AND DISPOSALS OF INVESTMENTS

Acquisition of 51% equity interests of Beijing Hangyang Health Technology Co., Ltd.* (北京航洋健康科技有限公司) (“Beijing Hangyang”)

On 1 March 2024, Beijing Bafuluo, an indirect wholly-owned subsidiary of the Company, as the purchaser, entered into a sales and purchase agreement with Mr. Xie Haijing (謝海京), as the vendor, pursuant to which the vendor agreed to sell and the purchaser agreed to purchase, the sales shares representing 51% equity interests in Beijing Hangyang, at a cash consideration of RMB33.15 million. The principal activities of Beijing Hangyang are research, production and sales of health products, functional foods and skincare products in the field of soft capsule dosage form. The management considered that such acquisition will enable the Group to diversify the product portfolio, widen the geographical coverage of products and lower the concentration risk in the procurement of raw materials of the pharmaceutical and healthcare products business. The acquisition was completed on 14 May 2024.

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

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Disposal of 59% equity interests of Zentrogene Bioscience Laboratory Limited (“Zentrogene”)

Sanai International, a wholly owned subsidiary of the Company, as the vendor, entered into a sales and purchase agreement with Merit Investment Holding Limited, as the purchaser, pursuant to which the vendor has agreed to sell and the purchaser has agreed to purchase, the sales shares representing 59% equity interests in Zentrogene for a cash consideration of HK\$22 million upon the terms and conditions set out in the sales and purchase agreements. The Board believed that a partial divestiture would enable the management to reallocate effort and resources towards its core pharmaceutical business and provide additional working capital for the Group. The disposal was completed on 31 May 2024.

Save for those acquisition and disposals disclosed in this announcement, there were no significant acquisition and disposal of investments during the Current Period.

NUMBER AND REMUNERATION OF EMPLOYEES

For the six months ended 30 June 2024, the Group employed approximately 156 employees (2023 interim: 71 employees) with a total staff cost of approximately RMB4.84 million (2023 interim: approximately RMB3.49 million). The Group recruits and selects candidates for employment based on their qualifications and suitability for each position. The Group determined staff remuneration with reference to the prevailing market salary scales, individual qualifications and performance. Remuneration packages including salaries, contribution to pension schemes, performance bonuses and entitlements to share options, are reviewed on a regular basis.

CAPITAL EXPENDITURE

During the six months ended 30 June 2024, the Group did not have significant capital expenditure for property, plant and equipment.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2024, no assets of the Group have been pledged as security for the borrowings of the Group.

As at 31 December 2023, the Group has charged the entire issued share capital of Sanai International, a directly wholly-owned subsidiary of the Company, as security (the “**Share Charges**”) for the convertible notes issued by the Group in February 2022 (the “**Convertible Notes**”) and the Supplemental Deed executed on 3 March 2023. On 23 April 2024, the Convertible Notes was converted and 612,244,897 new ordinary shares were issued and allotted at the adjusted conversion price of HK\$0.098 per share.

CONVERTIBLE NOTES

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

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

On 23 April 2024, the total outstanding principal amount of the Convertible Notes were converted into ordinary shares at the adjusted conversion price of HK\$0.098 per share, resulting the issue and allotment of 612,244,897 ordinary shares.

CONTINGENT LIABILITIES

As at 30 June 2024, the Group did not have any material contingent liabilities (30 June 2023: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS, ACQUISITIONS AND CAPITAL ASSETS

Save as disclosed in this announcement, the Group did not have other plans for material investments, acquisitions and capital assets during the Current Period.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2024 (2023 interim: 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 number of options available for grant under the mandate (and refreshed mandate) of the New Share Option Scheme as at 1 January 2024 and 30 June 2024 was 132,722,250 respectively. Other than the abovementioned share option schemes, the Company does not have other share schemes. The number of shares that may be issued in respect of options granted under those share option schemes represented approximately 0.97% of the weighted average number of Shares for the Current Period.

The following table sets out the movements in the share options of the Company (the “Share Options”) during the Current Period:

Category of participants	Number of Share Options					At 30 June 2024	Date of grant	Exercise period	Exercise price HK\$	Closing price of the shares immediately before the date of grant HK\$
	At 1 January 2024 (Note 1)	Granted during the period	Cancelled or lapsed during the period	Forfeited during the period	Exercise during the period					
Directors										
Professor Zhang Rongqing	6,000,000	-	-	-	-	6,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
Mr. Gao Borui (Note 2)	5,000,000	-	-	-	-	5,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
Mr. Xiu Yuan (Note 2)	10,000,000	-	-	-	-	10,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
	<u>21,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,000,000</u>				
Other participant										
Employees in aggregate	10,000,000	-	-	-	-	10,000,000	29 April 2022	29 April 2022 to 28 April 2032	0.084	0.078
	<u>10,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000,000</u>				
	<u>31,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,000,000</u>				

Notes:

1. The Share Options are not subject to any vesting period.
2. Mr. Gao Borui and Mr. Xiu Yuan are former directors of the Company which they resigned with effect from 28 June 2024.

LITIGATION

The Company has received a civil judgement (the “**Judgement**”) dated 22 December 2020 issued by 北京市第四中級人民法院 (the No. 4 Intermediate People’s Court of Beijing*) (the “**Court**”) in relation to a civil litigation (the “**Litigation**”) brought by 北京市文化科技融資租賃股份有限公司 (Beijing Cultural Technology Finance Lease Company Limited*, the “**Plaintiff**”) against, among others, (a) the Company; (b) 福建三愛藥業有限公司 Fujian Sanai Pharmaceutical Company Limited (“**Fujian Sanai Pharmaceutical**”), the disposal of which was completed in April 2019; (c) Lin Ouwen, a former executive Director; and (d) Lin Min, a former executive Director.

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

As such, the Plaintiff demanded, among others, that (i) Fujian Sanai Pharmaceutical immediately 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 Pharmaceutical under the Finance Lease Agreement 2016.

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

* English name is translated for identification purpose only.

Pursuant to the Judgement, among other things, Fujian Sanai Pharmaceutical shall, within ten days of the Judgement, pay to the Plaintiff the unpaid due rent under the Finance Lease Agreement 2016 in the amount of RMB33,855,032.69 with the default interest accrued thereon, the accelerated due rent under the Finance Lease Agreement 2016 in the amount of RMB47,592,982.21, the default payment in the amount of RMB4,759,298.22, the retention purchase price of RMB100, the legal fees in the amount of RMB800,000, the announcement fees in the amount of RMB2,650, the preservation insurance fees in the amount of RMB175,636.06 and the preservation fees in the amount of RMB5,000 (collectively the “**Judgement Amount**”); and the Company, Lin Ouwen and Lin Min shall be jointly liable for the Judgement Amount, and they are entitled to claim against Fujian Sanai Pharmaceutical after discharging such joint liabilities.

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

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

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

As at the date of this interim report, the hearing of the retrial at the Intermediate People’s Court (the “**Retrial**”) is in progress.

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

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 Current Period.

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EVENTS AFTER THE CURRENT PERIOD

Capital Reorganisation

Share Consolidation

The consolidation of the issued and unissued existing shares in the share capital of the Company (the “**Share Consolidation**”) on the basis of every twenty-five (25) ordinary shares of HK\$0.01 each prior to the Share Consolidation (the “**Existing Share(s)**”) into one (1) ordinary share of HK\$0.25 each after the Share Consolidation (the “**Consolidated Share(s)**”) became effective on 13 August 2024.

Change in Board Lot Size

The board size for trading on the Stock Exchange from 2,500 Shares to 5,000 Consolidated Shares became effective on 27 August 2024.

Capital Reduction and Share Sub-division

Capital reduction of the par value of each issued Consolidated Share reduced from HK\$0.25 to HK\$0.01 and each of the authorized but unissued Consolidated Share of par value of HK\$0.25 each be subdivided into twenty-five (25) new shares of par value of HK\$0.01 each will become effective when the relevant conditions are fulfilled. The legal advisors to the Company (as to Cayman Islands law) will apply to the Grand Court of the Cayman Islands for hearing date(s) to confirm the aforesaid capital reduction and further announcement(s) will be made by the Company on the preliminary timetable as soon as the court hearing dates are confirmed.

Further details of the above are set out in the announcements of the Company dated 4 July 2024 and 9 August 2024, and the circular of the Company dated 24 July 2024.

Save as disclosed in this announcement, there was no important event occurred after the end of the Current Period up to the date of this announcement.

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 2023 Annual Report are set out below:

- On 28 June 2024, Mr. Gao Borui (“**Mr. Gao**”) and Mr. Xiu Yuan (“**Mr. Xiu**”) has resigned as an executive Director and non-executive Director respectively with effect from 28 June 2024; and
- On 28 June 2024, Mr. Xie Haijing (“**Mr. Xie**”) has been appointed as an executive Director with effect from 28 June 2024.

Further details were disclosed in the announcement of the Company dated 28 June 2024.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

The Company has complied with the provisions as set out in the Corporate Governance Code (“**CG Code**”) contained in Appendix C1 to the Listing Rules during the six months ended 30 June 2024, except for the deviation disclosed below:

In respect of the code provision C.2.1 of the CG Code, the roles of chairman and chief executive officer of the Company shall be separated and shall not be performed by the same individual. During the Current Period, there is no Chairman of the Company and Mr. She Hao is the Deputy Chief Executive Officer of the Company. On the other hand, there are three independent non-executive Directors 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 appropriate adjustments should suitable circumstances arise.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix C3 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Upon specific enquiries made by the Company, all Directors have confirmed that they have fully complied with the required standards set out in the Model Code and its code of conduct regarding Directors’ securities transactions throughout the Current Period.

AUDIT COMMITTEE

An audit committee has been established by the Company to review the financial reporting process, risk management and internal control systems of the Group. As at the date of this announcement, the audit committee of the Company (the “**Audit Committee**”) comprises three independent non-executive Directors, namely Mr. Khor Khie Liem Alex, 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 the 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 Current Period. They considered that the unaudited condensed consolidated interim financial statements of the Group for the Current Period are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been made.

PUBLICATION OF INTERIM REPORT

The 2024 interim report containing all the information required by the Listing Rules will be despatched to shareholders as well as made available on the Company's website at www.1889hk.com and the Stock Exchange's website at www.hkexnews.hk respectively in due course.

ACKNOWLEDGEMENT

The Group would like to express 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 August 2024

As at the date of this announcement, the Board comprises five executive directors, namely, Mr. Chen Chengqing, Mr. Yuan Chaoyang, Professor Zhang Rongqing, Mr. She Hao and Mr. Xie Haijing, and three independent non-executive directors, namely, Professor Zhu Yi Zhun, Mr. Khor Khie Liem Alex and Mr. Zhang Ruigen.