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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)

**CONTINUING CONNECTED TRANSACTIONS
SALES AND DISTRIBUTION AGREEMENT**

The Board announces that Fujian Zhixin has entered into the Sales and Distribution Agreement with Hangzhou Biaopu on 23 May 2019 for the sales and distribution of Hangzhou Biaopu's pharmaceutical products by Fujian Zhixin within the PRC during the Contractual Period.

LISTING RULES IMPLICATIONS

Mr. Xiu, who is the father of Mr. Xiu Yuan (the non-executive director of the Company), indirectly owns approximately 98% effective beneficial interest in Hangzhou Biaopu. Therefore, Hangzhou Biaopu is an associate of Mr. Xiu Yuan and therefore is a connected person of the Company under Chapter 14A of the Listing Rules.

The Transactions under the Sales and Distribution Agreement will be carried out on a continuing or recurring basis in the ordinary and usual course of business of the Company, and therefore, constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

The Directors anticipated that the aggregate amount of consideration payable by Fujian Zhixin to Hangzhou Biaopu under the Sales and Distribution Agreement calculated on an annual basis with reference to the Proposed Annual Caps represent more than 5% of the revenue ratio. Accordingly, the Sales and Distribution Agreement and the Proposed Annual Caps are subject to announcement, reporting, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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SALES AND DISTRIBUTION AGREEMENT

- Date** : 23 May 2019
- Parties** : Fujian Zhixin, an indirect wholly-owned subsidiary of the Company, being the purchaser
- Hangzhou Biaopu, being the supplier
- Subject** : Hangzhou Biaopu has agreed to authorise Fujian Zhixin to sell and distribute the pharmaceutical products of Hangzhou Biaopu within the PRC during the Contractual Period. Hangzhou Biaopu shall ensure the quality of the pharmaceutical products.

The sales and distribution services to be provided by Fujian Zhixin is on a non-exclusive basis. Fujian Zhixin shall submit its monthly sales plan of the forthcoming month to Hangzhou Biaopu.

After receiving the pharmaceutical products from Hangzhou Biaopu, Fujian Zhixin may then sell the products through its sales channel.

- Pricing policy** : The price of the pharmaceutical products to be sold by Hangzhou Biaopu to Fujian Zhixin shall be determined with reference to the price list published by Hangzhou Biaopu from time to time and the prices of pharmaceutical products are determined with reference to the cost of products, the profit margin, the normal commercial terms and the prevailing market price, provided that the price offered by Hangzhou Biaopu to Fujian Zhixin shall not be higher than the price offered to independent third parties.
- Credit period** : 7 working days upon receipt of the products and corresponding invoice.
- Term** : The term of the Sales and Distribution Agreement should commence upon conditions precedent having been satisfied and expire on 31 December 2021.
- Conditions precedent** : The Sales and Distribution Agreement will be conditional upon the Company having complied with all other Listing Rules applicable to the Sales and Distribution Agreement and the transactions thereunder (including the Proposed Annual Caps), including, inter alia, the obtaining of the approval of the Independent Shareholders.

The terms of the Sales and Distribution Agreement are determined based on arm's length negotiations with reference to the prevailing market terms and the services which could be provided by Fujian Zhixin.

PROPOSED ANNUAL CAPS AND BASIS THEREOF

The proposed annual cap under the Sales and Distribution Agreement for each of the three years ending 31 December 2021 is RMB65 million, RMB120 million and RMB200 million respectively.

In arriving at the Proposed Annual Caps, the Directors have taken into account the following assumptions/factors:

- (i) Fujian Zhixin, with its well-established sales team and distribution network, will be capable of satisfying the distribution requirements of Hangzhou Biaopu;
- (ii) Fujian Zhixin will be capable of settling the consideration payable to Hangzhou Biaopu;
- (iii) the scale of its warehouse facilities and the logistics support services which could be provided by Fujian Zhixin; and
- (iv) the past sale volume of Fujian Zhixin.

REASONS FOR AND BENEFIT OF THE TRANSACTIONS

The Group is principally engaged in the development, manufacturing, marketing and sales of pharmaceutical products in the PRC. Fujian Zhixin, an indirect wholly-owned subsidiary of the Company, is a company established in the PRC with limited liability which is principally engaged in the distribution of pharmaceutical products. Hangzhou Biaopu is principally engaged in the manufacture and sales of pharmaceutical products.

Hangzhou Biaopu is looking for competent distributor of its pharmaceutical products. Given that Fujian Zhixin has well-established sales team and distribution network in various provinces of the PRC, such as Fujian, Guangdong, Jiangxi, Zhejiang, etc. and also strong logistic support team and warehouse facilities, Hangzhou Biaopu has agreed to engage, and Fujian Zhixin has agreed to accept the engagement as, one of its distributors.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Transactions are made on an arm's length basis in the ordinary and usual course of business of the Company and are normal commercial terms which are no less favourable than the terms available from independent third parties. The Directors (including the independent non-executive Directors) are also of the view that the terms of the Sales and Distribution Agreement and the Proposed Annual Caps are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

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ESTABLISHMENT OF INDEPENDENT BOARD COMMITTEE AND APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER

The independent board committee of the Company comprising all the independent non-executive Directors has been established to advise and give recommendation to the Independent Shareholders on the Sales and Distribution Agreement and the Proposed Annual Caps. Gram Capital Limited has been appointed as the independent financial adviser to make recommendations to the independent board committee of the Company and the Independent Shareholders in respect of the Sales and Distribution Agreement and the Proposed Annual Caps.

GENERAL

An EGM will be convened and held to consider and, if thought fit, to approve the Sales and Distribution Agreement and the Proposed Annual Caps.

The Company will publish and despatch a circular containing, inter alia, a letter of advice from the independent board committee of the Company to the Independent Shareholders, a letter of advice from the independent financial adviser to the independent board committee of the Company and the Independent Shareholders, to the Shareholders in accordance with the Listing Rules on or around 14 June 2019. Further announcement will be published if there is delay in the despatch of the circular.

Details of the continuing connected transactions of the Company will be disclosed in the Company's published annual report and accounts in accordance with Rule 14A.49 of the Listing Rules.

Mr. Xiu Yuan, whose family member is interested in this transaction, have abstained from voting on the board resolutions approving the Sales and Distribution Agreement.

DEFINITIONS

Unless the context otherwise requires, capitalized terms used in this announcement shall have the following meanings:

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Sanai Health Industry Group Company Limited, a company incorporated in Cayman Islands with limited liability and the issued Shares of which are listed on the main board of the Stock Exchange (stock code: 1889)
“connected person”	has the same meaning ascribed to it under the Listing Rules

“Contractual Period”	the period which commences upon conditions precedent having been satisfied and expire on 31 December 2021
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, to approve, inter alia, the Sales and Distribution Agreement and the transactions contemplated thereunder and the Proposed Annual Caps
“Fujian Zhixin”	Fujian Zhixin Medicine Co., Limited (福建至信醫藥有限公司), a company established in the PRC with limited liability, which is indirectly wholly-owned by the Company
“Group”	the Company and its subsidiaries
“Hangzhou Biaopu”	Hangzhou Biaopu Pharmaceutical Company Limited (杭州標普醫藥有限公司), a company established in the PRC with limited liability
“Independent Shareholders”	the Shareholders who are independent of and not connected with Hangzhou Biaopu and its associates and are not required to abstain from voting at the EGM
“independent third party(ies)”	independent third party(ies) who is (are) not connected persons of the Company as defined in the Listing Rules and is (are) independent of the Company and the connected persons of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Xiu”	Mr. Xiu Laigui (修涑貴), the father of Mr. Xiu Yuan (the non-executive director of the Company)

“PRC”	the People’s Republic of China
“Proposed Annual Caps”	the proposed annual caps under the Sales and Distribution Agreement for each of the three years ending 31 December 2021
“RMB”	Renminbi, the lawful currency of the PRC
“Sales and Distribution Agreement”	the sales and distribution agreement entered into between Fujian Zhixin and Hangzhou Biaopu on 23 May 2019 for the sale and distribution of the Hangzhou Biaopu’s pharmaceutical products within the PRC during the Contractual Period
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the continuing connected transactions under the Sales and Distribution Agreement
“%”	per cent

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

Hong Kong, 23 May 2019

As at the date of this announcement, the Board comprises four executive directors, namely, Mr. Chen Chengqing (Chairman), Ms. Hung Hoi Lan, Professor Zhang Rongqing and Mr. Cheng Hok Kai, Frederick; one non-executive director, namely, Mr. Xiu Yuan and three independent non-executive directors, namely, Mr. Wang Zihao, Mr. Tu Fangkui, and Mr. Long Jun.