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CHINA HEALTHWISE HOLDINGS LIMITED **中國智能健康控股有限公司**

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 348)

CONTINUING CONNECTED TRANSACTION – REVISION OF ANNUAL CAP AND RENEWAL OF MASTER PURCHASE AGREEMENT

Reference is made to the circular of the Company dated 27 April 2017 in relation to the Existing Master Purchase Agreement. As (i) the customers of the Group placed purchase order of the Products earlier than expected to avoid potential additional tariff, and (ii) the Existing Master Purchase Agreement will expire on 31 March 2020, the Board announces that, on 25 November 2019, the Purchaser, a wholly-owned subsidiary of the Company, and the Supplier entered into the New Master Purchase Agreement to revise the annual cap for the year ending 31 March 2020 under the Existing Master Purchase Agreement and renew the Existing Master Purchase Agreement for a period commencing from 25 November 2019 to 6 May 2020.

LISTING RULES IMPLICATIONS

The Supplier is held by Brisk Mark Holdings Limited, which is owned as to 30% by Mr. Leung Chung Ming and 70% by Mr. Leung, Kenneth Yuk Wai. Since Mr. Leung, Kenneth Yuk Wai is a son of Mr. Leung Lun, M.H., who ceased to be director of certain subsidiaries of the Company since 7 May 2019, and Mr. Leung Chung Ming is the brother of Mr. Leung Lun, M.H., the Supplier is therefore a connected person of the Company at the subsidiary level. As such, the transactions under the New Master Purchase Agreement would constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Given that (i) the Supplier is a connected person of the Company only at the subsidiary level; (ii) the Board has approved the transactions under the New Master Purchase Agreement; and (iii) having considered the terms of the New Master Purchase Agreement and the transactions contemplated thereunder (including the Annual Caps), all the independent non-executive Directors have confirmed that the terms of the transactions under the New Master Purchase Agreement are fair and reasonable, are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the transactions under the New Master Purchase Agreement are therefore exempt from the circular (including independent financial advice) and shareholders' approval requirements under Rule 14A.101(1) and (2) of the Listing Rules, but are subject to annual review and all other disclosure requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the circular of the Company dated 27 April 2017 in relation to the Existing Master Purchase Agreement. As (i) the customers of the Group placed purchase order of the Products earlier than expected to avoid potential additional tariff, and (ii) the Existing Master Purchase Agreement will expire on 31 March 2020, the Board announces that, on 25 November 2019, the Purchaser, a wholly-owned subsidiary of the Company, and the Supplier entered into the New Master Purchase Agreement to revise the annual cap for the year ending 31 March 2020 under the Existing Master Purchase Agreement and renew the Existing Master Purchase Agreement for a period commencing from 25 November 2019 to 6 May 2020.

Summarised below are the principal terms of the New Master Purchase Agreement.

THE NEW MASTER PURCHASE AGREEMENT

Date

25 November 2019

Parties

Purchaser: LC Global Holdings Corporation

Supplier: Lung Cheong (BVI) Holdings Limited

The Supplier is held by Brisk Mark Holdings Limited, which is owned as to 30% by Mr. Leung Chung Ming and 70% by Mr. Leung, Kenneth Yuk Wai. Since Mr. Leung, Kenneth Yuk Wai is a son of Mr. Leung Lun, M.H., who ceased to be director of certain subsidiaries of the Company since 7 May 2019, and Mr. Leung Chung Ming is the brother of Mr. Leung Lun, M.H., the Supplier is therefore a connected person of the Company at the subsidiary level.

Major terms of the New Master Purchase Agreement

Pursuant to the terms of the New Master Purchase Agreement, the Supplier Group agreed to sell the Products to the Purchaser Group and the Purchaser Group agreed to purchase the Products from the Supplier Group for a period of commencing from 25 November 2019 to 6 May 2020.

The prices of the products to be offered to the Group under the New Master Purchase Agreement will be determined after arm's length negotiations between the parties from time to time with reference to the prevailing market price of similar products and will be no less favourable to the Company than terms available from Independent Third Parties having regard to the quantity, specifications and/or other conditions of the products to be offered.

The payment terms of the individual transactions under the New Master Purchase Agreement will be determined by the parties at the time of entering into transactions with reference to factors such as the relevant transactions amount, nature and specification requirement for the particular transactions.

The Annual Caps

It is expected that the total value of the Products to be supplied and sold by the Supplier Group to the Purchaser Group pursuant to the terms of the New Master Purchase Agreement shall not exceed the amounts set out below:

	For the year ending 31 March 2020 (HK\$ million)	For the period from 1 April 2020 to 6 May 2020 (HK\$ million)
Annual Cap	120	40

The Annual Caps were determined with reference to (i) the historical transaction amounts under the Existing Master Purchase Agreement for the three years ended 31 March 2020; (ii) the estimated volume of the Products required by the Group; (iii) the prevailing market prices of the Products with terms no less favourable to the Company than terms available from Independent Third Parties having regard to the quantity, specifications and/or other conditions of the Products to be offered; and (iv) the estimated costs for the supply of such products for each of the relevant period under the New Master Purchase Agreement.

The Annual Caps under the Existing Master Purchase Agreement for the three years ended 31 March 2020 and the actual transaction amount of purchases by the Group from the Supplier Group for the financial years ended 31 March 2018, 2019 and 7 months ended 31 October 2019 are as follows:

	For the year ended 31 March 2018 (HK\$ million)	For the year ended 31 March 2019 (HK\$ million)	For the year ending 31 March 2020 (HK\$ million)
Annual Caps under the Existing Master Purchase Agreement	66	72	80

	For the year ended 31 March 2018 (HK\$ million)	For the year ended 31 March 2019 (HK\$ million)	For the 7 months ended 31 October 2019 (HK\$ million)
Actual transaction amount	64	72	58

PRICING BASIS

In order to ensure the transactions under the New Master Purchase Agreement are under normal commercial terms and priced with reference to the prevailing market price of similar products on terms no less favourable to the Company than terms available from Independent Third Parties, the Company will continue to adopt the following pricing policies for the purchase of each of the Products:

- (1) the Company will carefully evaluate each of its potential suppliers based on, including but not limited to, the duration and quality of productions and the suppliers capacity as matched with the production schedules of the Company;
- (2) before finalising its decision, the Company will approach a few independent suppliers which are considered as qualified and reliable by the Company based on its experience on the previous cooperation results apart from the Supplier Group to undergo a bidding process;
- (3) based on the input production costs, the engineering, purchasing and sourcing departments of the Company will estimate and come up with preliminary prices before the sales and marketing department of the Company applying the mark up percentages in accordance with the Company's normal practices. The sale and marketing department of the Company will examine the prevailing market prices of similar products to ensure the pricing of the products to be within a targeted retail price range. Due to fluctuating marketing prices, the Company would make sure the ultimate targeted retail price range and the preferred gross margins are met in order to avoid buying the products which are priced out by known competitions. Lastly, the account and finance department of the Company will examine the purchasing terms and conditions and ensure the same are in line with normal market practices and standard terms no less favourable to the Company than those available from independent suppliers. Normally, among the few independent supplier candidates who undergo the bidding process, at least two quotations would be received by the Company. In case there are less than two quotations, the estimated wholesale prices would determine the viability of the products. If the only quotation obtained is unable to meet the Company's targeted gross margin, the Company would revise product specifications or would not proceed with the transaction;
- (4) A report, which sets out, among others, the proposed price of the Products to be offered to the Group by the Supplier Group and the market prices of similar products offered by independent suppliers, will be reviewed by the management of the Company and the price of the Products to be offered to the Group will be approved by the management of the Company upon review and comparison with the market prices of similar products. Throughout the process, the Company will treat the Supplier Group and other independent suppliers equally, and the transactions will be negotiated on an arm's length basis, with reference to the market information gathered and factors such as the relevant transaction amount, nature and specification requirements for the particular transaction. In the event that the terms offered by the Supplier Group are no less favourable than those available from other independent suppliers, the Company will place purchase orders to the Supplier Group. However, if the Company can obtain more preferential terms from other independent suppliers, it will not place purchase orders to the Supplier Group; and

- (5) The directors and management of the Group will closely monitor the procedures for obtaining quotations to placing purchase orders, so as to ensure that the pricing policies are strictly followed. The independent non-executive Directors will also review the transactions contemplated under the New Master Purchase Agreement every year pursuant to the requirements under the Listing Rules.

INFORMATION ON THE PARTIES

The Company is an investment holding company and the Group is principally engaged in sales of toys and Chinese health products, money lending business and investment in financial instruments.

The Supplier Group is principally engaged in the manufacturing, distribution and trading of toys and related products, including but not limited to consumer electronic products, radio control/wireless products, and electronic and plastic toys.

REASONS FOR AND BENEFITS OF ENTERING INTO THE NEW MASTER PURCHASE AGREEMENT

The main source of manufacturing of the Group's original brand manufacturing ("OBM") business are mainly subcontracted to the PRC factories owned and operated by the Supplier Group (the "PRC Factories"). The Supplier Group has been manufacturing and supplying the Products to the Purchaser Group as external supplier since 1 May 2011. The reliance on the PRC Factories has continued since then due to the fact that OBM segment of the Group has been continuously seeking new and innovative products for its main market, being the market in the US, and the Supplier Group has been manufacturing and supplying the products over the years as part of its PRC Factories original development manufacturing strategies. This mutually beneficial business arrangement allows the Group to tap on the PRC Factories' newest product ideas along with the Group's ongoing licensing strategies.

The trade war between the US and the PRC has affected trading business between the two countries. It has been announced that the US would impose tariffs on certain goods, which includes the Products, from the PRC. In order to avoid the potential additional tariff, some customers of the Group have placed purchase orders earlier than expected. Some purchase orders which are expected to be placed after 31 March 2020 have already been made. After reviewing the annual cap for the year ending 31 March 2020 under the Existing Master Purchase Agreement and the actual transaction amounts from 1 April 2019 to 31 October 2019, the Company expects the annual cap for the year ending 31 March 2020 under the Existing Master Purchase Agreement would be exceeded.

In view that Mr. Leung Lun, M.H. ceased to be director of certain subsidiaries of the Company since 7 May 2019, the Supplier will no longer be a connected person of the Company under the Listing Rules from 7 May 2020. As such, the transactions between the Supplier Group and the Purchaser Group regarding the trading of the Products from 7 May 2020 will not be regarded as continuing connected transactions. Thus, the New Master Purchase Agreement shall cover the period from 25 November 2019 to 6 May 2020.

Based on the above, the Directors consider entering into of the New Master Purchase Agreement to revise the annual caps for the year ending 31 March 2020 under the Existing Master Purchase Agreement and renew the Existing Master Purchase Agreement for a period commencing from 25 November 2019 to 6 May 2020 will enable the Group to maintain the normal course of business.

Given that the New Master Purchase Agreement was entered into in the ordinary and usual course of business of the Group, the Directors (including the independent non-executive Directors) consider that the transactions contemplated under the New Master Purchase Agreement, including the Annual Caps, are fair and reasonable and is in the interests of the Company and Shareholders as a whole.

LISTING RULES IMPLICATIONS

The Supplier is held by Brisk Mark Holdings Limited, which is owned as to 30% by Mr. Leung Chung Ming and 70% by Mr. Leung, Kenneth Yuk Wai. Since Mr. Leung, Kenneth Yuk Wai is a son of Mr. Leung Lun, M.H., who ceased to be director of certain subsidiaries of the Company since 7 May 2019, and Mr. Leung Chung Ming is the brother of Mr. Leung Lun, M.H., the Supplier is therefore a connected person of the Company at the subsidiary level. As such, the transactions under the New Master Purchase Agreement would constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

Given that (i) the Supplier is a connected person of the Company only at the subsidiary level; (ii) no Directors have material interest in the transaction and the Board has approved the transactions under the New Master Purchase Agreement; and (iii) having considered the terms of the New Master Purchase Agreement and the transactions contemplated thereunder (including the Annual Caps), all the independent non-executive Directors have confirmed that the terms of the transactions under the New Master Purchase Agreement are fair and reasonable, are on normal commercial terms or better and in the interests of the Company and the Shareholders as a whole, the transactions under the New Master Purchase Agreement are therefore exempt from the circular (including independent financial advice) and shareholders' approval requirements under Rule 14A.101(1) and (2) of the Listing Rules, but are subject to annual review and all other disclosure requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Annual Caps”	the annual aggregate maximum amount of purchase of the Products payable by the Purchaser Group to the Supplier Group under the New Master Purchase Agreement
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	China Healthwise Holdings Limited (中國智能健康控股有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 348)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Master Purchase Agreement”	the framework purchase agreement dated 3 April 2017 entered into between the Purchaser and the Supplier in relation to the purchase of the Products by the Purchaser Group from the Supplier Group
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	third party(ies) independent of the Company and its subsidiaries and not connected with any of the connected persons of the Company or any of their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Master Purchase Agreement”	the framework purchase agreement dated 25 November 2019 entered into between the Purchaser and the Supplier in relation to the purchase of the Products by the Purchaser Group from the Supplier Group
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

“Products”	consumer electronic products, radio control/wireless products, electronic and plastic toys of the Supplier Group
“Purchaser”	LC Global Holdings Corporation, being a wholly-owned subsidiary of the Company
“Purchaser Group”	the Purchaser and its subsidiaries
“Share(s)”	the ordinary share(s) in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplier”	Lung Cheong (BVI) Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, being held by Brisk Mark Holdings Limited which is owned as to 30% by Mr. Leung Chung Ming and 70% by Mr. Leung, Kenneth Yuk Wai
“Supplier Group”	the Supplier and its subsidiaries
“%”	per cent.

By Order of the Board
China Healthwise Holdings Limited
Lei Hong Wai
Chairman and Executive Director

Hong Kong, 25 November 2019

As at the date of this announcement, the executive Directors are Mr. Lei Hong Wai (Chairman), Mr. Cheung Kwok Wai Elton (Vice Chairman), Mr. Leung Alex, Ms. Lo Ming Wan, Mr. Tse Chi Keung, and Mr. Yuan Huixia; and the independent non-executive Directors are Mr. Lai Hok Lim, Mr. Lien Wai Hung and Mr. Wong Tak Chuen.