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)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The board of directors (the "**Board**" or "**Directors**") of China Healthwise Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (together the "**Group**") for the six months ended 30 September 2017 together with the comparative figures for the corresponding period in 2016. These interim consolidated financial statements have not been audited but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Six Months Ended 30 September 2017

		Unaudited Six months ended 30 September	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
Revenue	*2*	**324,538**	185,695
Cost of sales		**(248,464)**	(153,728)
Gross profit		**76,074**	31,967
Other revenue, gains and losses, net	*2*	**(6,001)**	10,178
Selling and distribution expenses		**(48,795)**	(28,993)
General and administrative expenses		**(67,075)**	(44,021)
Share of result of an associate		**10**	(1,444)
Finance costs	*3*	**(1,523)**	(1,708)
Loss before income tax	*4*	**(47,310)**	(34,021)
Income tax	*5*	**–**	–
Loss for the period		**(47,310)**	(34,021)

		Unaudited Six months ended 30 September	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
Other comprehensive income for the period, net of tax:			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences arising from translation of foreign operations		**(1,272)**	(5,377)
– Revaluation of available-for-sale investments		**(28,900)**	4,698
– Reclassifications adjustment upon impairment of available-for-sale investments		**15,780**	–
Other comprehensive income for the period, net of tax		**(14,392)**	(679)
Total comprehensive income for the period		**(61,702)**	(34,700)
Loss for the period attributable to:			
Owners of the Company		**(40,500)**	(24,159)
Non-controlling interests		**(6,810)**	(9,862)
		(47,310)	(34,021)
Total comprehensive income for the period attributable to:			
Owners of the Company		**(54,892)**	(25,198)
Non-controlling interests		**(6,810)**	(9,502)
		(61,702)	(34,700)
Loss per share attributable to owners of the Company			
– Basic	*7*	**(0.60) cents**	(0.41) cents
– Diluted	*7*	**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2017

	Notes	Unaudited 30 September 2017 HK$'000	Audited 31 March 2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*8*	**120,340**	124,676
Goodwill	*9*	**3,114**	2,500
Intangible assets		**8,734**	3,784
Interest in an associate		**–**	8,102
Available-for-sale investments	*11*	**186,180**	174,380
Deferred tax assets		**3,770**	3,780
		322,138	317,222
Current assets			
Inventories		**114,884**	49,210
Trade and other receivables, deposits and prepayments	*10*	**195,230**	112,448
Financial assets at fair value through profit or loss	*12*	**47,686**	–
Amounts due from related companies	*20(b)*	**36,881**	14,796
Tax recoverable		**537**	252
Pledged bank deposit		**–**	361
Cash and cash equivalents		**96,884**	38,105
		492,102	215,172
Assets classified as held for sale	*13*	**8,446**	–
		500,548	215,172

	Notes	Unaudited 30 September 2017 HK$'000	Audited 31 March 2017 HK$'000
Current liabilities			
Trade and other payables and accrued charges	*14*	**184,214**	90,306
Amounts due to related companies	*20(b)*	**133,984**	66,770
Borrowings	*15*	**81,742**	63,788
Tax payable		**275**	2,967
		400,215	223,831
Net current assets/(liabilities)		**100,333**	(8,659)
Total assets less current liabilities		**422,471**	308,563
Non-current liabilities			
Provision for long service payment		**4,965**	4,559
Deferred tax liabilities		**14,203**	13,363
		19,168	17,922
Net assets		**403,303**	290,641
EQUITY			
Share capital	*16*	**710,131**	591,776
Reserves		**(262,827)**	(264,367)
Equity attributable to owners of the Company		**447,304**	327,409
Non-controlling interests		**(44,001)**	(36,768)
Total equity		**403,303**	290,641

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and principal accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs, interpretation and Hong Kong Financial Reporting Standards (collectively, the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2017. In the current period, the Group has adopted all the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2017. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies and results reported for the current or prior accounting periods.

The Group has not applied the new and revised HKFRSs, which have been issued and are not yet effective, but is in the process of assessing their impact on the Group's results of operations and financial position.

2. Revenue, other revenue, gains and losses, net and segmental information

The Group is principally engaged in development, engineering, manufacturing and sale of toys, consumer electronic products, commercial kitchen products and Chinese health products. Revenue and other revenue, gains and losses, net recognised during the period are as follows:

	Unaudited Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**324,538**	185,695
Other revenue, gains and losses, net		
Interest income	**492**	6,878
Fair value gain on financial asset at fair value through profit or loss	**8,105**	–
Impairment loss on available-for-sale investments	**(15,780)**	–
Others	**1,182**	3,300
	(6,001)	10,178
	318,537	195,873

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to the Group's chief operating decision marker for their assessment of performance and resource allocation. The Group has identified the following reportable segments from its operations:

– Manufacturing and sale of toys, samples and moulds

– Sale of consumer electronic products

– Manufacturing and sale of commercial kitchen products

– Sale of Chinese health products

(a) Information about the Group's revenue by geographical region, according to the destination of orders is as follows:

	Unaudited Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Revenue		
PRC and Hong Kong	**167,469**	65,102
United States of America and Canada	**104,822**	62,955
Europe *(Note)*	**14,632**	21,814
Japan	**12,824**	13,496
Korea	**1,585**	7,524
Australia	**1,811**	1,407
Others	**21,395**	13,397
	324,538	185,695

Note: The products are first exported to one of the European countries ("Shipping Port Countries") and then distributed to different European countries by the customers. The information as to where the products are finally shipped is unavailable and the cost of obtaining such information would be excessive. The Directors are of the opinion that disclosing the identities of the Shipping Port Countries is undesirable as such disclosure might be misleading.

(b) Information on the Group's revenue by product type is as follows:

	Unaudited Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Toys	**159,390**	125,639
Consumer electronic products	**129,847**	55,542
Commercial kitchen products	**2,953**	4,514
Chinese health products	**32,348**	–
	324,538	185,695

(c) Information on major customers is as follows:

For the six months ended 30 September 2017, no customer has contributed more than 10% of the Group's revenue.

For the six months ended 30 September 2016, revenue amounting to approximately HK$25 million from one external customer contributed to more than 13% of the Group's revenue. Other than this customer, there is no other customer whose revenue contributed to more than 10% of the Group's revenue.

3. Finance costs

	Unaudited Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Interest on bank loans and other borrowings	**1,523**	1,708

4. Loss before income tax

	Unaudited Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Loss before income tax is stated after charging the following:		
Cost of inventories sold	**238,286**	153,728
Depreciation of property, plant and equipment	**8,901**	7,583

5. Income tax

No Hong Kong profits tax has been provided for the six months ended 30 September 2017 and 2016 as the Group has tax losses brought forward from previous years to offset the assessable profits for both periods. The Company has no tax from other countries.

6. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2017 (2016: Nil).

7. Loss per share

	Unaudited Six months ended 30 September 2017 *HK cents*	2016 *HK cents*
Basic loss per share	**(0.60)**	(0.41)
Diluted loss per share *(Note)*	**N/A**	N/A

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

	Unaudited Six months ended 30 September 2017 *HK$'000*	2016 *HK$'000*
Loss		
Loss for the period attributable to owners of the Company, used in the basic and diluted loss per share calculation	**(40,500)**	(24,159)

	Unaudited Six months ended 30 September 2017	2016
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**6,717,119,643**	5,917,757,997

Note: No diluted loss per share is presented for the six months ended 30 September 2017 and 2016 as the effect of all potential ordinary shares is anti-dilutive.

8. Property, plant and equipment

	HK$'000
As at 1 April 2017	124,676
Acquired through business acquisitions	1,709
Additions	3,141
Depreciation charge	(8,901)
Exchange differences	(285)
As at 30 September 2017	120,340

9. Goodwill

	HK$'000
As at 31 March and 1 April 2017	2,500
Acquired through business acquisitions	614
As at 30 September 2017	3,114

10. Trade and other receivables, deposits and prepayments

The carrying amounts of trade and other receivables, deposits and prepayments are as follows:

	Unaudited 30 September 2017 ***HK$'000***	Audited 31 March 2017 *HK$'000*
Trade receivables	**106,499**	22,665
Other receivables, deposits and prepayments	**88,731**	14,783
Refundable deposit paid for acquisition	**–**	75,000
	195,230	112,448

The ageing analysis of the trade receivables is as follows:

	Unaudited 30 September 2017 ***HK$'000***	Audited 31 March 2017 *HK$'000*
0 – 90 days	**101,393**	19,345
91 – 180 days	**2,160**	532
181 – 365 days	**1,841**	2,770
Over 365 days	**1,105**	18
	106,499	22,665

The Group's sales are on letter of credit or open account terms. Credit terms are reviewed on a regular basis. The normal trade terms include letter of credit, deposits before shipments and credit period ranging from 30 to 90 days but business partners with strong financial backgrounds may be offered longer credit terms.

Included in others receivables, deposits and prepayments consist of a loan to an individual of HK$35 million bearing interest at 8% per annum, unsecured and with maturity in November 2017. Its carrying value approximate to its fair value.

11. Available-for-sale investments

	Unaudited 30 September 2017 ***HK$'000***	Audited 31 March 2017 *HK$'000*
Equity securities – at fair value		
– Listed in Hong Kong	**186,180**	174,380

As at 30 September 2017, the accumulated impairment loss on available-for-sales investments was HK$33,375,000 (31 March 2017: HK$17,595,000).

12. Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss comprise:

	Unaudited 30 September 2017 ***HK$'000***	Audited 31 March 2017 *HK$'000*
Listed equity securities in Hong Kong, held for trading *(Note)*	**47,686**	–

Note: The fair value was based on the quoted prices of the respective securities in active markets for identical assets.

13. Assets classified as held for sale

On 29 September 2017, the Group has entered into an agreement to sell its 49% equity interest of 青島日日順樂家水設備有限公司("Goodaymart Water") to an independent third party at RMB7.35 million. Up to the date of this announcement, this transaction has not been completed.

14. Trade and other payables and accrued charges

	Unaudited 30 September 2017	Audited 31 March 2017
	HK$'000	*HK$'000*
Trade payables	**96,440**	42,723
Other payables and accrued charges	**87,774**	47,583
	184,214	90,306

The ageing analysis of the trade payables is as follows:

	Unaudited 30 September 2017	Audited 31 March 2017
	HK$'000	*HK$'000*
0 – 90 days	**50,903**	24,834
91 – 180 days	**4,562**	2,214
181 – 365 days	**10,889**	1,616
Over 365 days	**30,086**	14,059
	96,440	42,723

15. Borrowings

	Unaudited 30 September 2017	Audited 31 March 2017
	HK$'000	*HK$'000*
Current		
Trust receipt loans	**15,387**	18,929
Bank loans	**60,572**	39,110
Bank overdraft	**5,783**	5,749
	81,742	63,788

The borrowings are secured by a legal charge over the Group's land and buildings situated in Indonesia and corporate guarantee provided by the Company.

16. Share capital

	Authorised			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	Number of shares	*US$'000*	Number of shares *'000*	*HK$'000*
As at 31 March and 30 September 2017	40	4,000	10,000,000	1,000,000

	Issued and fully paid			
	Convertible cumulative redeemable preference shares of US$100,000 each		Ordinary shares of HK$0.10 each	
	Number of shares	*US$'000*	Number of shares *'000*	*HK$'000*
As at 31 March and 1 April 2017	–	–	5,917,758	591,776
Issuance of new shares *(Note)*	–	–	1,183,550	118,355
As at 30 September 2017	–	–	7,101,308	710,131

Note:

On 2 May 2017, a total of 363,636,363 new ordinary shares were allotted and issued at the subscription price of HK$0.165 per share. The net proceeds from the subscription were approximately HK$60 million. These new shares rank pari passu with the existing shares in all respects.

On 12 June 2017, a total of 819,914,000 new ordinary shares were allotted and issued at the placing price of HK$0.14 per share to not less than six placees. The net proceeds from the placing was approximately HK$110 million. These new shares rank pari passu with the existing shares in all respects.

17. Contingent liabilities

As at 30 September 2017 and 31 March 2017, the Group had no contingent liabilities.

18. Operating leases commitments

As at 30 September 2017, the Group had commitments for future aggregate minimum lease payments under non-cancellable operating leases in respect of office premises as follows:

	Unaudited 30 September 2017	Audited 31 March 2017
	HK$'000	*HK$'000*
Not later than one year	**17,611**	3,616
Later than one year but not later than five years	**7,522**	1,544
	25,133	5,160

19. Share Option Scheme

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. The Scheme, which was adopted by an ordinary resolution of the shareholders on 14 September 2012, constitutes a share option scheme governed by Chapter 17 of the Listing Rules.

Under the Scheme, share options can be exercised at any time during the periods to be determined and notified by the Directors to the grantees at the time of making offers to grant share options to them, provided that such periods shall not exceed the period of ten years from the date of grant. The scheme mandate limit of the Scheme was refreshed pursuant to a shareholders' resolution passed in the extraordinary general meeting of the Company held on 14 September 2012 (the "EGM"). The maximum number of shares available for issue under the Scheme is 345,775,799, representing 10% of the issued ordinary share capital of the Company as at the date of the EGM, 14 September 2012 and thereafter, the subscription price for the shares under the Scheme shall be a price determined by the Directors at their discretion, provided that it shall not be less than the higher of (i) the closing price of the shares stated in the daily quotation sheets of the Stock Exchange on the date of grant and (ii) the average closing price of the shares stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of share options. A nominal consideration of HK$1 is payable for each of the share options granted.

On 13 May 2014, a total of 100,000,000 share options were granted by the Company to the senior management and employees of its subsidiaries and associate and consultants at the exercise price of HK$0.87 per share.

Details of the Company's share options held by the senior management and employees of the subsidiaries and associate and consultants are as follows:

	Exercise price (per share)	Six months ended 30 September	
		2017	2016
		No. of share options	No. of share options
	HK$	***'000***	*'000*
Outstanding share options at the end of the period	0.87	**–**	100,000
Exercisable share options at the end of the period	0.87	**–**	–

No share-based payment expenses was recognised (2016: Nil) for the six months ended 30 September 2017 in relation to share options granted by the Company. During the six months ended 30 September 2017, 11,265,600 shares of options were lapsed (2016: Nil) and no option (2016: Nil) was exercised.

20. Related party transactions

During the period, the Group had transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. Besides, transactions between the Company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. The significant transactions with related parties during the period, and balances with them at the end of reporting period, are as follows:

(a)

	Type of transaction	Unaudited Six months ended 30 September 2017 *HK$'000*	2016 *HK$'000*
Companies related to the Group's substantial shareholder	Purchases *(Note)*	**47,750**	32,943
	Rental expense	**500**	500
	Research developments costs	**2,880**	–

Note: The related party transactions constitute connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

(b) Amounts due from/(to) related companies are unsecured, interest-free and repayable on demand.

21. Business acquisition during the period

On 29 March 2017, the Company entered into a sale and purchase agreement with an independent third party in relation to the acquisition of the entire issued share capital of Ace Season Holdings Limited ("Ace Season") and the sale loan owed by Ace Season to the vendor on completion at consideration of HK$85 million (the "Acquisition"). The Acquisition was completed on 30 June 2017. Ace Season and its subsidiaries are principally engaged in the sales of Chinese and other pharmaceutical products, health products, ginseng and dried seafood products to wholesaler and retailer. The Acquisition has been accounted for business acquisition.

The following table summarises the consideration paid for business acquisition completed in the current period, and the fair value of the assets acquired and liabilities assumed recognised at the acquisition date:

	HK$'000
Property, plant and equipment	1,709
Intangible assets	5,094
Inventories	52,185
Trade and other receivables	11,020
Amounts due from fellow subsidiaries	34
Amounts due from related companies	371
Cash and cash equivalents	19,502
Trade and other payables	(5,112)
Deferred tax liabilities	(840)
Amount due to holding company	(92,724)
	(8,761)
Non-controlling interests	423
Assignment of amount due to holding company	92,724
	84,386
Goodwill arising on acquisition	614
Total consideration satisfied by cash	85,000
Cash flow	
Cash payment	85,000
Cash and cash equivalent acquired	(19,502)
Net cash outflow arising from acquisition	65,498

As at the date of these interim financial statements, the Group has not yet finalised the fair value assessments for tangible and intangible assets acquired from Ace Season. The relevant fair values of net assets acquired stated above are on a provisional basis.

22. Event after the reporting period

Subsequent to 30 September 2017 and up to the date of this announcement, the Group had the following material event:

On 7 November 2017, a loan agreement was entered into between the Group as lender and a customer as borrower to extend the provision of the loan in the principal amount of HK$35 million to this customer for a term of one year. Details are set out in the Company's announcement dated 7 November 2017.

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2017 (2016: Nil).

RESULTS, BUSINESS REVIEW AND PROSPECTS

Results

For the six months ended 30 September 2017 (the "Period"), the Group's revenue increased by approximately ("approx.") 75% to approx. HK$325 million, compared with approx. HK$186 million for the six months ended 30 September 2016 (the "Corresponding Period"). Gross profit margin for the Period was approx. 23% compared to approx. 17% in the Corresponding Period. Overall, the loss attributable to owners of the Company was approx. HK$41 million compared with the loss attributable to the owners of the Company of approx. HK$24 million in the Corresponding Period.

Business Review

The Group recorded an increase in revenue by approx. 75% for the Period compared to the revenue of the Group for the Corresponding Period.

During the Period, the toy business contributed the revenue of approx. HK$159 million compared with the Corresponding Period of approx. HK$126 million. The increase was mainly attributable to the increase in orders from the Group's OBM business during the Period. The consumer electronic products contributed the revenue of approx. HK$130 million compared with the Corresponding Period of approx. HK$56 million. This improvement was mainly attributable to our multi-brand and multi-product strategy and the increase in sales of Haier branded appliances. The commercial kitchen products contributed the revenue of approx. HK$3 million compared with the Corresponding Period of approx. HK$5 million. The newly acquired Chinese health products business has also contributed revenue of approx. HK$32 million during the Period.

The Group recorded an increase in loss of approx. HK$47 million during the Period compared with the Corresponding Period of approx. HK$34 million. The increase in loss was mainly attributable to the increase in impairment loss of available-for-sale investments of approx. HK$16 million during the period.

Commercial Kitchen Products

青島瑞迪燃氣具製造有限公司 ("Qingdao Ruidi") and its subsidiaries are the major commercial cooking appliances manufacturers in the People's Republic of China (the "PRC"). Besides cooking appliances manufacturing and sale, Qingdao Ruidi implemented commercial kitchen Equipment Procurement Construction ("EPC") projects with hotels, restaurants, schools, government agencies, etc. during the Period. Due to the PRC economic slowdown, some of the EPC projects we bid were delayed. In addition, given the macro-economic situation, the management of the Company ("Management") believes that a healthy cash flow is essentially important for the Group's long term stability and growth. Therefore, we have been more prudent and cautious for partner choosing and project selection. The above objective and subjective reasons led to a revenue decline in this segment.

Consumer Electronic Products

Childcare Products

The market for childcare related products and services is huge and fast growing in China. Due to the universal two-child policy, the market size is expected to be approx. RMB2.6 trillion by 2017 based on the CRCCI research. In addition, the National Bureau of Statistics of China indicates that the number of newborn babies will increase by 2.5 million per year because of the effect of the two-child policy. Since the Group entered the childcare market, the Management focused on R&D enhancement, product line expansion, distribution channel development and integration. Currently, the main products of the Group are Haier and Brillante branded small baby appliances (electric sterilizer, baby bottle & food warmer, baby food processor, baby hair cutter, baby air purifier, etc.) The sales of Haier branded baby air purifier was particularly good during the Period. A higher Average Selling Price ("ASP") of baby air purifier compared with other baby appliances caused an overall sales increase in this segment.

During the Period, the Management continues to deploy the multi-brand and multi-product strategy to meet customers' comprehensive needs. So far, we have entered into partnerships with a few world-leading childcare brands, including Nuby, a world famous baby and infant feeding brand, Bébé Confort and Safety 1st, sub-brands of Dorel Group, a global childcare corporation specialising in strollers, car seats, baby travel gears, etc. to serve as their major distributor for childcare products in the PRC. During the Period, the above brands have generated sales and the Management expects that they will be important revenue generators for this segment in the near future.

On the other hand, we further streamlined the distribution networks during the Period. We expect to focus more on large distributors with extensive networks in the future. The streamline of the distribution networks facilitates network management and reduces cost in the long run.

In addition, we have further enhanced Online to Offline ("O2O") strategy during the Period. Our products are currently available in various e-commerce channels and lots of mother & baby stores in most of the major cities in the PRC.

Acquisition of Chinese health products business

On 29 March 2017, the Company entered into a sale and purchase agreement with an independent third party in relation to the acquisition of the entire issued share capital of Ace Season Holdings Limited ("Ace Season") and the sale loan owed by Ace Season to the vendor on completion at consideration of HK$85 million (the "Acquisition"). The Acquisition was completed on 30 June 2017. Ace Season and its subsidiaries are principally engaged in the sales of Chinese and other pharmaceutical products, health products, ginseng and dried seafood products to wholesaler and retailer. One of the subsidiaries of Ace Season, Nam Pei Hong Sum Yung Drugs Company Limited engages in the business of trading and retail of "Sum Yung"（參茸）and dried seafood products since 1977 and the brand name of "Nam Pei Hong"（南北行）is highly recognised in Hong Kong and Southern Mainland China.

During the period from 1 July 2017 to 30 September 2017, the Group had shared revenue of approximately HK$32 million and segment profit of approximately HK$1 million. As at 30 September 2017, there were 12 retail shops of Nam Pei Hong.

Toys

The strengthened and continued recovery of the North American market has positively impacted the sales of our Own Brand Manufacturing ("OBM") business. Kid Galaxy has recorded a sharp seasonal increase in sales by approximately 75% overall due to the much improved market condition in the United States and the favorable market respond to our new line Radio Control vehicles ("RCV").However, Kid Galaxy was unable to translate the sales momentum in other markets such as Europe and Asia. In view of the increased OBM toy sales and peak season deliveries to the States, Account Receivables increased from HK$19 million as at 31 March 2017 to HK$82 million as at 30 September 2017.

Part of the increase in cost of sales was a result of increased purchases from the Group's related factory as set out in the renewal of existing continuing connected transactions announcement dated 3 April 2017. This increased purchases from the related factory resulted in the partial increase in the amount due to related companies increasing from HK$52 million as at 31 March 2017 to HK$97 million as at 30 September 2017.

The Indonesian factory continued to make contribution to the Group's overall sales. However it exposed the competitiveness of the Original Equipment Manufacturing ("OEM") business segment of the Group as there was slight decrease in sales by approximately 6%, further burdened by annual increased in labor and staff costs plus depreciation of fixed assets investments made in recent years which led to an overall lower gross margin in the OEM toy manufacturing segment. During the period under review, due to certain production issues, the Group continued incurring reworking, retesting and quality improvement costs at the Indonesian factory which further impacted this segment's gross margin contribution. The decrease in sales were mainly attributable to the lower deliveries to Europe for one of our customer infant and pre-school toys.

Overall North America remained the Group's major toy export market accounting for approx. 32% of our sales for period ended 30 September 2017 compared to approx. 34% for the comparative period ended 30 September 2016. European deliveries were lesser, amounted to approx. 5% of sales compared to approx, 12% during the previous interim period ended 30 September 2016. Toys destined for the Japan market for the interim period ended 30 September 2017 was lowered to approx. 4% compared to approx. 7% in the previous period under review.

Investment in listed equities

Movements in the Hong Kong listed equities and debt instruments held by the Group during the six months ended 30 September 2017 and the year ended 31 March 2017 are as follows:

	Unaudited 30 September 2017 *HK$'000*	Audited 31 March 2017 *HK$'000*
At beginning of period/year	**174,380**	199,017
Acquisitions	**80,281**	298,511
Loss arising on change in fair value	**(20,795)**	(17,269)
Disposals	**–**	(269,510)
Redemption	**–**	(39,250)
Exchange differences	**–**	2,881
At end of period/year	**233,866**	174,380

Details of the Hong Kong listed equities held by the Group at 30 September 2017 are as follows:

Name of Hong Kong listed equities	Number of shares held at 30 September 2017	Fair value at 30 September 2017 *HK$'000*	Fair value as compared to the consolidated total assets of the Group at 30 September 2017	Impairment gain/(loss) arising on change in fair value recognised in the six months ended 30 September 2017 *HK$'000*	Loss on other comprehensive income arising on change in fair value recognised in the six months ended 30 September 2017 *HK$'000*
Available-for-sale investments					
Global Mastermind Holdings Limited (stock code: 8063)	1,020,000,000	131,580	16%	–	(13,120)
Global Mastermind Capital Limited (stock code: 905)	195,500,000	54,600	7%	(15,780)	–
Financial assets at fair value through profit or loss					
Yunfeng Financial Group Limited (stock code: 376)	4,126,000	28,634	3%	8,953	–
Frontier Services Group Limited (stock code: 500)	4,000,000	6,000	1%	840	–
Lajin Entertainment Network Group Limited (stock code: 8172)	23,580,000	9,315	1%	(589)	–
CBK Holdings Limited (stock code: 8428)	25,248,000	3,737	1%	(1,099)	–
		233,866		(7,675)	(13,120)

PLANS AND PROSPECTS

Commercial Kitchen Products

The commercial kitchen products market is very fragmented in the PRC with no major players in the market. Market growth is driven by increasing demand for dining out as the living standard rises, higher environmental standard and motivation to save fuel costs. However, due to the PRC economic slowdown, the investment in fixed assets decreased and caused negative effects on the commercial kitchen products market. The commercial kitchen products business has been loss making since 2016. The Management will control the financial risks with caution and consider various strategics to reduce loss in this business.

Consumer Electronic Products

Childcare Products

In late October 2015, the Chinese government decided to implement the "two-child policy" nationally. The Management expects this policy will enable the childcare product and service market to grow significantly in the next decade.

Regarding Haier and Brillante branded childcare products, the Management continues to spend great efforts on new product R&D to enrich the overall product portfolio. During the Period, several new small baby appliances models, including electric sterilizer, baby bottle & food warmer, baby food processor, baby hair cutter, and baby air purifier have been launched. In addition, the Management expects that new products covering different categories, such as feeding and nursery, health and safety, etc. will also be released gradually to enrich our product portfolio.

The Group has shifted from a single brand baby appliance producer into a multi-brand and multi-product childcare product and service provider. The strategic partnerships with Nuby, Bébé Confort, and Safety 1st are milestones for the Group. The Management expects that we would form similar partnerships with more international childcare brands in the near future. This kind of partnership would not only expand our whole product portfolio but also further strengthen our distribution channels in the long run. The Management believes that the multi-brand and multi-product strategy together with O2O distribution network will get the Company well prepared to capture huge opportunities triggered by the "two-child policy".

Toys

Kid Galaxy will ride on their recent successes in the RCV category thus will showcase more innovative new RCV products in the coming toy fairs in the early part of 2018. Early indication from recent product previews with major customers received encouraging and positive responses. However further capital investments will be required in continuous product development, engineering, new product moulds plus additional marketing and promotion costs for the new products, These expenses will continue to affect the contribution to this OBM segment's profitability.

The demand for toy products are expected to improve slightly with the Group obtaining orders to produce a range of girls' toy products for the financial year ending 31 March 2018. Strategic shipments of products for our major US customer for toy relating to an animated movies released in North America and certain market in early October. Products relating to the movie are expected to continue deliveries in the remainder of the financial year ending 31 March 2018.

Our major Japanese customer have increased orders to the Indonesian factory with additional new line of infant construction block sets as well as relocating new block items production away from Mainland China to our Serang factory, furthermore sales to our Korean customer are expected to increase due to anticipated increase in orders for toys relating to a new TV animation to be released in South Korea and few Asian countries in the new financial year 2018-19.

The Group will have to face the annual minimum wages increase in Indonesia by approx. 9% beginning January 2018. In view of the imminent interest rates in the United States and the strengthening Chinese Yuan or Renminbi and fluctuation of other competing Asian currencies, Indonesia Rupiah are likely to be fluctuating in order to stay competitive which may add to the Group's foreign currency risks. The other Asian currencies movements and lesser increase in their minimum salaries of competing countries in particular Vietnam and India, will make it tougher for the Group's Indonesian plant to remain competitive as a viable production source for our current OEM customers.

Despite the competitive environment of the OEM toy manufacturing business, management consider that it is vital for the Group to restructure the Indonesian plant management and upgrade the facilities in order to comply with customers' continuous quality requirements and revised standards as well as localization of senior management in order to stay competitive in the OEM segment. Additional costs are expected to be spent on up keeping and maintaining the factory condition as well as continuous training for the local staff and workers in order to improve our productivity and quality.

Chinese health products

In view of the increasing awareness in health and the aging of population in Hong Kong, demand for health care products, especially Chinese medicine, "Sum Yung"（參茸）and dried seafood in Hong Kong has grown steadily in recent years. In addition, Mainland Chinese tourists are the fuel of Hong Kong's retail market. Hong Kong retail sales have increased significantly since July 2003 due to the enormous surge in demand by Chinese tourists towards luxury goods and health care products, for instances, Chinese medicine, "Sum Yung"（參茸）and dried seafood, which are heavily taxed and/or counterfeits are wide spreading in the PRC.

It is considered that the Acquisition represents a great opportunity to the Group to invest in the health care business and to diversify its business into the retail business of "Sum Yung"（參茸）and dried seafood products in Hong Kong with an aim to broaden its revenue base, which is expected to have a positive future impact on the Group's performance given the positive outlook of the health care business.

Money Lending

The Group has established the operation of a new business segment, namely the money lending business (the "New Business"), its objective includes provision of secured and unsecured loans to customers in Hong Kong. Good Cheer Global Limited ("Good Cheer Global", an indirect wholly-owned subsidiary of the Company) has obtained a money lenders license under the Money Lenders Ordinance since September 2017 which enables Good Cheer Global to conduct money lending business in Hong Kong through the provision of secured and unsecured loans to customers. The Board expects that the New Business can diversify the income streams of the Group and will generate additional financial returns from the available funds of the Group from time to time.

Business Portfolio Management

On 29 September 2017, the Group has entered into an agreement to sell its 49% equity interest of 青島日日順樂家水設備有限公司("Goodaymart Water) to an independent third party at RMB7.35 million.

The current business strategies of the Group with an aim to achieve the best use of its resources and improve its overall performance and portfolio diversification have been continuously evaluated. The Company has been actively looking to diversify the revenue sources of the Group in order to create shareholders' value through making investments and/or acquiring business or projects that have promising outlooks and prospects, in particular, health care products which have been explicitly expressed by the change of the Company's name in the past year.

GROUP RESOURCES AND LIQUIDITY

As at 30 September 2017, the Group's cash and bank balances were approx. HK$97 million (31 March 2017: HK$38 million). The Group's total bank borrowings were approx. HK$82 million (31 March 2017: HK$64 million). Gearing ratio, calculated as the total bank borrowings divided by shareholders' equity, was approx. 20% (31 March 2017: 22%). As at 30 September 2017, the Group recorded total current assets of approx. HK$501 million (31 March 2017: HK$215 million) and total current liabilities of approx. HK$400 million (31 March 2017: HK$224 million). The current ratio of the Group, calculated by dividing the total current assets by the current liabilities, was approx. 125% (31 March 2017: 96%). The Group recorded an increase in shareholders' fund from approx. HK$291 million as at 31 March 2017 to a net asset position of approx. HK$403 million as at 30 September 2017. The increase was mainly due to the shares subscription and shares placing during the Period.

Inventories recorded an increase of approx. 135% compared to previous year end date of 31 March 2017 and the value of stock in warehouse increased from approx. HK$49 million as at 31 March 2017 to approx. HK$115 million as at 30 September 2017. These are mainly finished goods and materials held in the Indonesian factory, the PRC offices and by an independently managed warehouse in the U.S.. Moreover, these inventories also included inventories of HK$59 million held by the newly acquired Chinese Health products business during the Period.

Trade receivables recorded an approx. 361% increase as at 30 September 2017 to approx. HK$106 million, compared with approx. HK$23 million as at 31 March 2017 partially due to OEM seasonal factors and the peak deliveries of OBM products during the Period.

Overall, the Group's operations are still in a strong position. The financial position has slightly improved compared to the previous reported financial periods. Barring unforeseen challenges and global economic downturn, in the opinion of the Directors, the Group has sufficient financial resources to meet its normal operational and expansion needs.

FOREIGN CURRENCY RISKS

The Group's exposure to currency risk attributable to trade and other receivables, bank balances, trade and other payables and bank borrowings, are denominated in currencies other than the functional currency of the entity to which they related. The Group currently does not have a foreign currency hedging policy. However, the Management will monitor the foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

SIGNIFICANT INVESTMENTS AND ACQUISITIONS

Saved from those mentioned in this announcement, the Group did not have any other significant investments or acquisitions or sales of subsidiaries during the Period.

EMPLOYEES

As at 30 September 2017, the Group had approx. 3,039 employees and contract workers based in Hong Kong headquarters, Macau office, PRC offices, the Indonesian factory and the U.S. sales office. The number of employees of the Group varies from time to time depending on production needs and they are remunerated based on industry practices.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities throughout the Period.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules throughout the Period.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. The Company has made specific enquiry of its Directors. All Directors confirmed that they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the accounting period covered by this interim financial statements.

AUDIT COMMITTEE

The Company has an Audit Committee in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process including review of the unaudited condensed interim financial statements for the six months ended 30 September 2017, this interim report and the Group's risk management and internal control systems.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.helthwisehk.com) and the Stock Exchange (www.hkexnews.hk). The interim report of the Company for the six months ended 30 September 2017 containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and made available on the abovementioned websites in due course.

By order of the Board
China Healthwise Holdings Limited
Lei Hong Wai
Chairman

Hong Kong, 29 November 2017

As at the date of this announcement, the executive Directors are Mr. Lei Hong Wai (Chairman), Mr. Leung Alex (Vice Chairman), Mr.Tse Chi Keung, Mr. Lee Chan Wah and Ms. Lo Ming Wan; the non-executive Director is Mr. Diao Yunfeng; and the independent non-executive Directors are Mr. Wong Tak Chuen, Mr. Lai Hok Lim and Mr. Lien Wai Hung.