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QUALI-SMART HOLDINGS LIMITED

滙達富控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1348)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

FINANCIAL HIGHLIGHTS

- Revenue for the Current Period amounted to approximately HK\$309.2 million, which represented an increase of approximately HK\$40.7 million or 15.2% as compared to the Group's revenue for the Previous Period of approximately HK\$268.5 million. Net loss for the Current Period narrowed to approximately HK\$3.2 million when compared with a net loss of HK\$11.9 million in the Previous Period.
- The Toy Division and the Financial Services Division contributed approximately HK\$299.3 million and HK\$9.9 million, respectively, to the Group's total revenue for the Current Period, which represented an increase of approximately 16.0% and a decrease of approximately 5.1%, respectively, over the Previous Period.
- The increase in revenue of the Toy Division was mainly attributable to the increase in orders placed by certain major customers from markets located in Western Europe, by approximately HK\$25.8 million, and North America, by approximately HK\$14.0 million, when compared with the Previous Period.
- The decrease in revenue of the Financial Services Division was mainly due to a decrease in underwriting revenue and trading revenue of about HK\$6.6 million over the Previous Period which was offset to a large degree by an increase in investment advisory fee and asset management fee income of about HK\$4.8 million during the Current Period and an increase of placing commission of about HK\$1.3 million.

* *For identification purpose only*

- Gross profit of the Group for the Current Period increased by approximately HK\$2.0 million to approximately HK\$43.4 million from HK\$41.4 million for the Previous Period as a result of an increase in revenue from the Toy Division during the Current Period.
- Net loss for the Current Period amounted to approximately HK\$3.2 million, representing a reduction of loss of about HK\$8.8 million on a period-on-period basis. The decrease in loss for the Current Period was mainly attributable to (i) an increase in gross profit of approximately HK\$2.0 million corresponding to the increase in revenue of the Toy Division (ii) a decrease in selling expenses of approximately HK\$1.8 million attributable to the Toy Division and (iii) a decrease in effective interest of the convertible notes of approximately HK\$7.5 million. Meanwhile, such decrease was offset by an increase in interest on the promissory notes of approximately HK\$1.0 million and the decrease in other income and gains of approximately HK\$1.8 million.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2020.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2020

		Six months ended	
		30 September	
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
REVENUE	5	309,199	268,451
Cost of sales		<u>(265,809)</u>	<u>(227,050)</u>
Gross profit		43,390	41,401
Other income and gains	5	2,625	4,441
Selling expenses		(5,415)	(7,253)
Administrative expenses		(34,503)	(34,440)
Finance costs	6	<u>(6,211)</u>	<u>(13,265)</u>
LOSS BEFORE INCOME TAX EXPENSE	7	(114)	(9,116)
Income tax expense	8	<u>(3,038)</u>	<u>(2,804)</u>
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>(3,152)</u>	<u>(11,920)</u>
Loss per share			
– Basic and diluted (HK cents)	9	<u>(0.21)</u>	<u>(0.81)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	3,928	6,951
Right-of-use assets	19	11,322	5,351
Investment property		6,700	6,700
Goodwill		140,878	140,878
Intangible assets	11	568	554
Statutory deposits for financial service business		383	374
Deposits		3,388	3,388
		167,167	164,196
CURRENT ASSETS			
Inventories	12	76,931	71,036
Trade receivables	13	182,288	65,330
Prepayments, deposits and other receivables		4,749	6,996
Promissory notes		–	4,652
Cash and bank balances held on behalf of customers		148,899	43,211
Pledged bank deposits		30,957	62,400
Cash and cash equivalents		73,228	59,957
		517,052	313,582
CURRENT LIABILITIES			
Trade payables	14	246,494	59,207
Receipts in advance, accruals and other payables		9,388	6,778
Interest-bearing bank borrowings	15	39,937	16,962
Lease liabilities	19	6,642	5,505
Promissory notes		25,000	–
Convertible notes		–	78,183
Tax payable		2,758	106
		330,219	166,741
NET CURRENT ASSETS		186,833	146,841
TOTAL ASSETS LESS CURRENT LIABILITIES		354,000	311,037

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

As at 30 September 2020

	<i>Notes</i>	At 30 September 2020 HK\$'000 (Unaudited)	At 31 March 2020 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Convertible notes		27,500	–
Lease liabilities	19	4,824	38
Deferred tax liabilities		112	112
		<hr/>	<hr/>
Total non-current liabilities		32,436	150
		<hr/>	<hr/>
NET ASSETS		321,564	310,887
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Share capital	16	287	287
Reserves		321,277	310,600
		<hr/>	<hr/>
TOTAL EQUITY		321,564	310,887
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2020

	Attributable to the owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000 <i>(note 1)</i>	Property revaluation reserve HK\$'000 <i>(note 2)</i>	Other reserve HK\$'000	Share option reserve HK\$'000 <i>(note 3)</i>	Convertible notes equity reserve HK\$'000 <i>(note 4)</i>	Accumulated losses HK\$'000	
Unaudited for the six months ended 30 September 2020								
At 1 April 2020 (audited)	287	418,769	6,071	1,000	52,255	33,841	(201,336)	310,887
Lapse of share options <i>(note 17)</i>	-	-	-	-	(288)	-	288	-
Redemption of convertible notes	-	-	-	-	-	(33,841)	33,841	-
Issuing new convertible notes	-	-	-	-	-	13,829	-	13,829
Total comprehensive income for the period	-	-	-	-	-	-	(3,152)	(3,152)
At 30 September 2020 (unaudited)	287	418,769	6,071	1,000	51,967	13,829	(170,359)	321,564

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 September 2019

	Attributable to the owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000 <i>(note 1)</i>	Property revaluation reserve HK\$'000 <i>(note 2)</i>	Other reserve HK\$'000	Share option reserve HK\$'000 <i>(note 3)</i>	Convertible notes equity reserve HK\$'000 <i>(note 4)</i>	Accumulated losses HK\$'000	
Unaudited for the six months ended 30 September 2019								
At 1 April 2019 (audited)	287	418,769	6,071	1,000	53,310	45,888	(126,343)	398,982
Lapse of share options <i>(note 17)</i>	-	-	-	-	(1,156)	-	1,156	-
Total comprehensive income for the period	-	-	-	-	-	-	(11,920)	(11,920)
At 30 September 2019 (unaudited)	287	418,769	6,071	1,000	52,154	45,888	(137,107)	387,062

Notes:

1. The share premium account of the Group represents the premium arising from the issuance of Shares above its per value.
2. Property revaluation reserve comprised the revaluation surplus arising from the transfer of owner-occupied property to investment property at the date of change in use.
3. Cumulative expenses recognised on the granting of share options to the eligible participants over the vesting period.
4. Amount of proceeds on issue of convertible notes relating to the equity component (i.e. option to convert the debt into share capital).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(19,555)</u>	<u>(48,561)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	153	1,005
Purchase of intangible asset	(14)	–
Purchase of property, plant and equipment	(487)	(670)
Decrease/(increase) in pledged bank deposits	31,443	(499)
Proceeds from disposal of property, plant and equipment	<u>–</u>	<u>5,428</u>
Net cash generated from investing activities	<u>31,095</u>	<u>5,264</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	134,359	75,189
Repayment of bank borrowings	(111,384)	(70,225)
Repayment of lease liabilities	(4,651)	(4,581)
Interest paid on bank and other borrowings	(1,363)	(4,022)
Interest paid on lease liabilities	(230)	(461)
Issuance of convertibles notes	40,000	–
Issuance of promissory notes	25,000	–
Redemption of convertibles notes	<u>(80,000)</u>	<u>–</u>
Net cash generated from/(used in) financing activities	<u>1,731</u>	<u>(4,100)</u>
Net increase/(decrease) in cash and cash equivalents	13,271	(47,397)
Cash and cash equivalents at 1 April	<u>59,957</u>	<u>140,467</u>
Cash and cash equivalents at 30 September	<u><u>73,228</u></u>	<u><u>93,070</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Quali-Smart Holdings Limited (the “**Company**”) was incorporated as an exempted company with limited liability in the Cayman Islands on 14 March 2012 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business in Hong Kong is located at Workshop C on 19th Floor, TML Tower, No. 3 Hoi Shing Road, Tsuen Wan, Hong Kong. The ordinary shares in the capital of the Company (the “**Shares**”) are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

The unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively known as the “**Group**”) for the six months ended 30 September 2020 (“**Interim Condensed Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. Interim Condensed Financial Statements have not been audited by the Company’s auditor but have been reviewed by the audit committee of the board of directors of the Company (“**Board**”).

The Interim Condensed Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 March 2020 (the “**2020 Annual Financial Statements**”).

The Interim Condensed Financial Statements were approved and authorised for issue by the Board on 24 November 2020.

2. BASIS OF PREPARATION

The accounting policies applied in preparing the Interim Condensed Financial Statements are consistent with those applied in preparing the 2020 Annual Financial Statements, except for the amendments and interpretations of Hong Kong Financial Reporting Standards (“**New/amended HKFRSs**”) issued by HKICPA which have become effective for the first time for periods beginning on or after 1 April 2020. The adoption of such New/amended HKFRSs has no material impact on the accounting policies in the Group’s Interim Condensed Financial Statements for the period.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

The HKICPA has issued a number of new or amendments to HKFRSs that are first effective for the current accounting period of the Group:

- Amendments to HKFRS 3, Definition of a business
- Amendments to HKAS 1 and HKAS 8, Definition of material
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest Rate Benchmark Reform
- Conceptual framework for financing report 2018, Revised conceptual framework for financial reporting

4. OPERATING SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. The chief operating decision-maker considers the business primarily on the assessment of operating performance in each operating unit, which is the basis upon which the Group is organised. Each operating unit is distinguished based on types of goods or services delivered or provided. The following summary describes the operations in each of the Group's reportable segments:

- Manufacturing and sales of toys; and
- Securities brokerage, underwriting, securities margin financing, investment, advisory corporate finance and asset management service (“**Financial Services**”).

(a) Reportable segments

Management assesses the performance of the operating segments based on the measure of segment results which represents the net of revenues, incomes and gains, costs and expenditures directly attributable to each operating segment. Central administrative costs are not allocated to the operating segment as they are not included in the measure of the segment results that are used by the chief operating decision-marker for assessment of segment performance.

4. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

The following is an analysis of the Group's revenue and results by reporting segment for the period:

Segment revenue and results

	Manufacturing and sales of toys HK\$'000	Financial Services HK\$'000	Total HK\$'000
For the period ended			
30 September 2020 (Unaudited)			
External revenue	<u>299,280</u>	<u>9,919</u>	<u>309,199</u>
Segment profit/(loss)	<u>15,940</u>	<u>(8,716)</u>	7,224
Central administrative cost*			<u>(7,338)</u>
Loss before income tax expense			<u><u>(114)</u></u>
For the period ended			
30 September 2019 (Unaudited)			
External revenue	<u>258,004</u>	<u>10,447</u>	<u>268,451</u>
Segment profit/(loss)	<u>13,535</u>	<u>(8,863)</u>	4,672
Central administrative cost**			<u>(13,788)</u>
Loss before income tax expense			<u><u>(9,116)</u></u>

* Central administrative cost for the six months ended 30 September 2020 mainly includes directors' remuneration, finance costs of promissory notes and convertible notes and legal and professional fees.

** Central administrative cost for the six months ended 30 September 2019 mainly includes directors' remuneration, finance costs of convertible notes and legal and professional fees.

Segment profit/(loss) represents the profit or (loss) earned by each segment without allocation of corporate income, and central administrative cost. This is the information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

4. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

Segment assets

All assets are allocated to reportable segments other than prepayments, cash and cash equivalents.

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Manufacturing and sales of toys	249,474	151,189
Financial Services	<u>360,067</u>	<u>261,978</u>
Total segment assets	609,541	413,167
Unallocated	<u>74,678</u>	<u>64,611</u>
Consolidated assets	<u><u>684,219</u></u>	<u><u>477,778</u></u>

Segment liabilities

All liabilities are allocated to reportable segments other than accruals, convertible notes, promissory notes, income tax payable and deferred tax liabilities.

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Manufacturing and sales of toys	123,863	31,276
Financial Services	<u>181,934</u>	<u>55,031</u>
Total segment liabilities	305,797	86,307
Unallocated	<u>56,858</u>	<u>80,584</u>
Consolidated liabilities	<u><u>362,655</u></u>	<u><u>166,891</u></u>

4. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

Other segment information

Amounts included in the measure of segment profit/(loss) or segment assets:

For the period ended 30 September 2020 (Unaudited)

	Manufacturing and sales of toys <i>HK\$'000</i>	Financial Services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Additions to property, plant and equipment	470	17	487
Depreciation of property, plant and equipment	(3,498)	(12)	(3,510)
Depreciation of right-of-use assets	(1,391)	(3,212)	(4,603)
Interest expenses	<u>(390)</u>	<u>-</u>	<u>(390)</u>

For the period ended 30 September 2019 (Unaudited)

	Manufacturing and sales of toys <i>HK\$'000</i>	Financial Services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Additions to property, plant and equipment	665	5	670
Depreciation of property, plant and equipment	(5,502)	(15)	(5,517)
Gain on disposal of property, plant and equipment	1,092	-	1,092
Interest expenses	<u>(714)</u>	<u>-</u>	<u>(714)</u>

4. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment property and other non-current assets ("**specified non-current assets**"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets in the case of property, plant and equipment.

(i) Revenue from external customers

	Six months ended	
	30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
North America (<i>note 1</i>)	181,568	167,545
Western Europe		
– United Kingdom	26,576	25,415
– France	17,585	6,791
– Netherland	11,999	5,091
– Others (<i>note 2</i>)	24,604	17,651
South America	3,669	2,824
PRC and Taiwan	7,480	9,731
Australia, New Zealand and Pacific Islands	8,187	8,942
Central America, Caribbean and Mexico	12,265	7,580
Others (<i>note 3</i>)	15,266	16,881
	<hr/>	<hr/>
Total	309,199	268,451
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. North America includes United States of America and Canada.
2. Others include Greece, Italy, Spain, Denmark and Germany.
3. Others include Hong Kong, Africa, India, Japan, Korea, Puerto Rico, Russia and Southeast Asia.

4. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

(ii) *Specified non-current assets*

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Mainland China, the PRC	3,808	6,788
Hong Kong	<u>159,588</u>	<u>153,646</u>
Total	<u><u>163,396</u></u>	<u><u>160,434</u></u>

(c) Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the Group's revenue, is set out below:

	Six months ended 30 September	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Customer A	169,359	65,952
Customer B	40,548	88,196
Customer C	<u>67,054</u>	<u>63,000</u>

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and provision of financial services. An analysis of revenue, other income and gains is as follows:

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Manufacturing and sales of toys	299,280	258,004
Financial Services	9,919	10,447
	<u>309,199</u>	<u>268,451</u>
Other income and gains		
Moulding income	21	639
Rental income	93	114
Interest income from bank deposits	153	811
Exchange gains, net	192	1,200
Gain on disposal of property, plant and equipment	–	1,092
Others	2,166	585
	<u>2,625</u>	<u>4,441</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings:		
– Bank borrowings	390	714
– Promissory notes	973	–
– Convertible notes	4,618	12,090
	<u>5,981</u>	<u>12,804</u>
Interest on lease liabilities	230	461
	<u>6,211</u>	<u>13,265</u>

7. LOSS BEFORE INCOME TAX EXPENSE

The Group's loss before income tax expense is arrived at after charging:

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	265,809	227,050
Depreciation of property, plant and equipment	3,510	5,517
Depreciation on right-of-use assets	4,603	4,770
Employee benefits expenses (including Directors' remuneration):		
Wages and salaries	20,910	19,507
Pension scheme contributions	432	590
Other benefits	736	839
	<u>22,078</u>	<u>20,936</u>
Auditor's remuneration	1,004	998
Expense relating to short-term leases	<u>–</u>	<u>760</u>

8. INCOME TAX EXPENSE

Hong Kong Profits Tax were calculated at 8.25% on the first HK\$2 million of estimated assessable profits and at 16.5% for the portion of the estimated assessable profits above HK\$2 million for the six months ended 30 September 2020 and 2019. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

The major components of the income tax expense for the period are as follows:

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – Hong Kong Profits Tax Charge for the period	<u>3,038</u>	<u>2,804</u>
Income tax expense for the period	<u><u>3,038</u></u>	<u><u>2,804</u></u>

8. INCOME TAX EXPENSE (Continued)

The income tax expense for the period can be reconciled to the loss before income tax expense per the condensed consolidated statement of comprehensive income as follows:

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before income tax expense	<u>(114)</u>	<u>(9,116)</u>
Tax at the applicable tax rate of 16.5% (2019: 16.5%)	(19)	(1,504)
Tax effect of revenue not taxable for tax purposes	–	(182)
Tax effect of expenses not deductible for tax purposes	1,698	940
Tax effect of tax loss not recognised	1,524	3,715
Tax concession	<u>(165)</u>	<u>(165)</u>
Income tax expense	<u>3,038</u>	<u>2,804</u>

No deferred tax asset has been recognised in respect of the unused tax losses of HK\$164,316,000 (For the six months ended 30 September 2019: HK\$140,957,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

9. LOSS PER SHARE

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

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
Loss for the period attributable to the owner of a Company	<u>(3,152)</u>	<u>(11,920)</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>1,474,232</u>	<u>1,474,232</u>

The calculation of basic loss per share attributable to the owners of the Company is based on the loss for the period ended September 2020 of approximately HK\$3,152,000 (2019: HK\$11,920,000), and of the weighted average number of 1,474,232,000 (2019: 1,474,232,000) ordinary shares in issue during the period.

9. LOSS PER SHARE (Continued)

Diluted loss per share is the same as basic loss per share for the period ended 30 September 2020 (2019: same) as the impact of the potential dilutive ordinary shares outstanding has an anti-dilutive effect on the basic loss per share presented for the period ended 30 September 2020 (2019: anti-dilutive).

There is no dilutive effect on the convertible notes as they are anti-dilutive (2019: anti-dilutive).

10. PROPERTY, PLANT AND EQUIPMENT

HK\$'000

Net book value:

At 1 April 2020 (Audited)	6,951
Additions	487
Depreciation	<u>(3,510)</u>
At 30 September 2020 (Unaudited)	<u><u>3,928</u></u>

11. INTANGIBLE ASSETS

**Trading
rights,
trademarks
and website**
HK\$'000

Net book value:

At 1 April 2020 (Audited)	554
Additions	<u>14</u>
At 30 September 2020 (Unaudited)	<u><u>568</u></u>

12. INVENTORIES

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Raw materials	59,949	51,511
Finished goods	<u>16,982</u>	<u>19,525</u>
	<u><u>76,931</u></u>	<u><u>71,036</u></u>

13. TRADE RECEIVABLES

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Trade receivables from financial services segment	25,461	9,574
Trade receivables from manufacturing and sales of toys segment	<u>156,827</u>	<u>55,756</u>
	<u><u>182,288</u></u>	<u><u>65,330</u></u>

Trade receivables from financial services segment

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Accounts receivable arising from the ordinary course of business of securities brokerage:		
– Cash clients	11,676	10
– Brokers	311	–
– Clearing house	–	1,571
Accounts receivable arising from the ordinary course of business of provision of:		
– Placing commission	9,042	6,600
– Advisory services	4,047	1,393
– Asset management services	<u>385</u>	<u>–</u>
	<u><u>25,461</u></u>	<u><u>9,574</u></u>

Ageing analysis of trade receivables of the financial services segment based on due date and net of provision for impairment is as follows:

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Neither past due nor impaired	11,987	1,581
Less than 1 month past due	<u>13,474</u>	<u>7,993</u>
	<u><u>25,461</u></u>	<u><u>9,574</u></u>

13. TRADE RECEIVABLES (Continued)

Trade receivables from financial services segment (Continued)

The settlement terms of trade receivables from the business of securities brokerage are one or two days after the respective trade date.

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

In the view of the fact that those receivables related to a number of diversified cash clients and cleaning house and no significant increase in credit risk since initial recognition and the respective balance at the end of the reporting period, therefore, the directors of the Company considered the expected credit losses ("ECLs") of those balances was immaterial to be recognised for both period/year.

The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk.

Trade receivables from manufacturing and sales of toys segment

The credit period on sales of goods ranging from 30 to 90 days from the invoice date. An aged analysis of the trade receivables at the end of the reporting period, based on the invoice date and before impairment loss, is as follows:

	At 30 September 2020 HK\$'000 (Unaudited)	At 31 March 2020 HK\$'000 (Audited)
Current to 30 days	67,818	17,280
31 – 60 days	46,623	19,905
61 – 90 days	39,231	14,648
Over 90 days	3,155	3,923
	<u>156,827</u>	<u>55,756</u>

In respect of trade receivables from manufacturing and sales of toys segment, these evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of the customers. The Group does not obtain collateral from customers.

Taking into account of the credit worthiness and reputation of the debtors, and recent market environment, the directors of the Company consider that the ECLs of trade receivables from manufacturing and sales of toy segments was assessed to be immaterial.

14. TRADE PAYABLES

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Trade payables from financial services segment	166,854	50,222
Trade payables from manufacturing and sales of toys segment	<u>79,640</u>	<u>8,985</u>
	<u>246,494</u>	<u>59,207</u>

Trade payables from financial services segment

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Accounts payable arising from the ordinary course of business of securities brokerage and margin financing:		
– Cash clients	149,031	44,776
– Margin clients	47	11
– Brokers and clearing house	<u>17,776</u>	<u>5,435</u>
	<u>166,854</u>	<u>50,222</u>

The settlement terms of trade payable attributable to the business of securities brokerage are one to two days after the respective trade date.

As at the 30 September 2020, included in trade payable was an amount of approximately HK\$148,899,000 (31 March 2020: HK\$43,211,000) payable to clients to other institutions in respect of trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities.

14. TRADE PAYABLES (Continued)

Trade payables from manufacturing and sales of toys segment

The Group normally obtains credit terms of ranging from 15 to 60 days from its suppliers. Trade payables are interest-free.

An aged analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Current to 30 days	56,085	5,076
31 to 60 days	8,036	1,952
61 to 90 days	13,196	1,793
More than 90 days but less than 365 days	2,323	164
	<u>79,640</u>	<u>8,985</u>

15. INTEREST-BEARING BANK BORROWINGS

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Current		
Secured		
– bank loans due for repayment within one year	39,937	16,962
	<u>39,937</u>	<u>16,962</u>

As at 30 September 2020, the Group's banking facilities and its interest-bearing bank borrowings are secured either (i) by Company's corporate guarantees and cross guarantees from the Company's subsidiary, which is Qualiman Industrial Co. Limited; (ii) by legal charges over certain properties in Hong Kong owned by Mr. Lau Ho Ming, Peter, Madam Li Man Yee, Stella and their associates and personal guarantee by Mr. Lau Ho Ming, Peter; or (iii) by investment property of the Group with aggregate net book value of HK\$6,700,000 (31 March 2020: HK\$6,700,000).

16. SHARE CAPITAL

	Number of Shares	HK\$'000
Authorised:		
Ordinary Shares of US\$0.000025 each At 1 April 2020 (Audited) and at 30 September 2020 (Unaudited)	6,000,000,000	1,168
Issued and fully paid:		
Ordinary Shares of US\$0.000025 each At 1 April 2020 (Audited) and at 30 September 2020 (Unaudited)	1,474,232,000	287

17. EQUITY SETTLED SHARE-BASED PAYMENTS

There has been no changes in the Company's share option scheme, details of which are disclosed in the 2020 Annual Financial Statements. For the six months ended 30 September 2020 and 2019 respectively, there was no equity settled share-based payments incurred as all outstanding share options granted were fully vested before 31 March 2019.

Set out below are details of movements of the outstanding share options granted under the Share Option Scheme during the period ended 30 September 2020:

	Exercise price	Number of share options			Date of grant of share options	Exercisable periods of share options
		Balance as at 1 April 2020	Lapsed during the period	Balance as at 30 September 2020		
Executive Directors						
- Lau Ho Ming, Peter	HK\$1.02	4,000,000	-	4,000,000	3 July 2015	3 July 2015 to 2 July 2025
- Ng Kam Seng (<i>note 1</i>)	HK\$1.02	5,400,000	-	5,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	7,500,000	-	7,500,000	24 March 2016	24 March 2016 to 23 March 2026
- Poon Pak Ki, Eric	HK\$1.02	5,400,000	-	5,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	7,500,000	-	7,500,000	24 March 2016	24 March 2016 to 23 March 2026
- Chu, Raymond	HK\$0.748	12,847,800	-	12,847,800	24 March 2016	24 March 2016 to 23 March 2026
Non-executive Directors						
- Li Man Yee, Stella	HK\$1.02	1,400,000	-	1,400,000	3 July 2015	3 July 2015 to 2 July 2025
- Wang Zhao (<i>note 2</i>)	HK\$1.02	1,400,000	-	1,400,000	3 July 2015	3 July 2015 to 2 July 2025

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

	Exercise price	Number of share options			Date of grant of share options	Exercisable periods of share options
		Balance as at 1 April 2020	Lapsed during the period	Balance as at 30 September 2020		
Independent Non-executive Directors						
- Leung Po Wing, Bowen Joseph	HK\$1.02	1,400,000	-	1,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	1,400,000	-	1,400,000	24 March 2016	24 March 2016 to 23 March 2026
- Chan Siu Wing, Raymond	HK\$1.02	1,400,000	-	1,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	1,400,000	-	1,400,000	24 March 2016	24 March 2016 to 23 March 2026
- Wong Wah On, Edward	HK\$0.748	1,400,000	-	1,400,000	24 March 2016	24 March 2016 to 23 March 2026
Employees	HK\$1.02	8,600,000	-	8,600,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	37,003,800	(800,000)	36,203,800	24 March 2016	24 March 2016 to 23 March 2026
Consultants	HK\$0.25	1,120,000	-	1,120,000	17 March 2014	17 March 2014 to 16 March 2024
	HK\$1.02	19,600,000	-	19,600,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	12,300,000	-	12,300,000	24 March 2016	24 March 2016 to 23 March 2026
Total		<u>131,071,600</u>	<u>(800,000)</u>	<u>130,271,600</u>		

Note:

1. Mr. Ng Kam Seng resigned as an Executive Director of the Company on 1 January 2020.
2. Mr. Wang Zhao resigned as a Non-executive Director of the Company on 27 November 2015.

Share options were granted to the consultants in light of their continuous contribution to the Group. The Group measured the fair value of services from the Consultants by reference to the fair value of those granted to eligible employees as management considers that the services provided by the consultants and employees are similar in nature.

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

The exercise price of the first batch of share options outstanding was HK\$0.25 and the weighted average remaining contractual life was 3.46 years (2019: 4.46 years). The exercise price of the second batch of share options outstanding as at 30 September 2020 was HK\$1.02 and the weighted average remaining contractual life was 4.76 years (2019: 5.76 years). The exercise price of the third batch of share options outstanding as at 30 September 2020 was HK\$0.748 (2019: HK\$0.748) and the weighted average remaining contractual life was 5.46 years (2019: 6.46 years). Of the total number of share options outstanding as at 30 September 2020 and 31 March 2020, no share options had not vested and were not exercisable. The weighted average share price at the date of exercise of options exercised during the period was HK\$0.84.

18. DIVIDENDS

At the Board meeting held on 24 November 2020, the Directors did not propose an interim dividend for the period ended 30 September 2020 (2019: Nil).

19. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

The Group leases certain properties in Hong Kong. The movements in right-of-use assets and lease liabilities during the period are as follows:

	At 30 September 2020 <i>HK\$'000</i> (Unaudited)	At 31 March 2020 <i>HK\$'000</i> (Audited)
Right-of-use assets		
At 1 April	5,351	14,792
Additions	10,574	124
Depreciation charged	<u>(4,603)</u>	<u>(9,565)</u>
Net carry amount	<u><u>11,322</u></u>	<u><u>5,351</u></u>
Lease liabilities		
At 1 April	5,543	14,792
Additions	10,574	124
Interest charged	230	742
Rental paid	<u>(4,881)</u>	<u>(10,115)</u>
Net carry amount	<u><u>11,466</u></u>	<u><u>5,543</u></u>
Lease liabilities		
Current portion	6,642	5,505
Non-current portion	<u>4,824</u>	<u>38</u>
	<u><u>11,466</u></u>	<u><u>5,543</u></u>

BUSINESS REVIEW

For the six months ended 30 September 2020 (the “**Current Period**”), our Group was engaged in the same core business divisions in the manufacture of toys operated under Qualiman Industrial Company Limited (the “**Toy Division**”) and the provision of financial services operated under Crosby Asia Limited (the “**Financial Services Division**”).

Business and investment environments remained challenging during the Current Period as there remains no light at the end of the tunnel for the COVID-19 pandemic that has rampaged throughout the world in 2020. Situations in the Greater China region were somewhat more stabilized than those in the United States and the Western European countries, although Hong Kong saw a significant third wave during the summer months. The United States and the Western European countries saw a significant rebound in the number of cases as they entered into fall, leading to more stringent anti-pandemic measures such as lock-downs, causing further disruptions to their already fragile economies. Politically, the United States and the United Kingdom continued to be dominated by uncertainties arising from the U.S. presidential election and the never-ending Brexit negotiations. Governments resorted back to quantitative easing and low-interest rate policies to try to support the failing economies at large, with the results of flooding the capital markets with more liquidity and thus increasing volatility. Locally, the Hang Seng Index recovered slightly during the Current Period from the pandemic trough gotten in March but generally showed no clear direction. The U.S. capital markets, on the other hand, showed a robust recovery during the Current Period, led especially by the technology and healthcare sectors.

Against this backdrop, our Group continued to face difficult operating environments in its business segments. Our overseas customers in the Toy Division, particularly those in the United States and Western Europe, while active, remained highly cautious in placing orders as the uncertainties arising from the COVID-19 pandemic and the implementation of lock-downs continued to pose significant threats to their survival. They also remained concerned if the U.S. presidential election might bring further changes to the relationships between China and the United States, thus leading to more sanctions and affecting the tariff measures that have been used by both governments in their trade war. In view of the opaque macro-business environments, our Toy Division has continued its strategies to focus more on a more selected range of high-margin products starting from two years ago and imposed more effective cost control measures, preparing ourselves to weather through an extended period of difficult operating environments. During the Current Period, the Toy Division managed to retain its customer orders when compared to the six months ended 30 September 2019 (the “**Previous Period**”) and in fact showed a modest improvement over its results in the Previous Period. However, margins had gotten tighter as our customers became more cautious with pricings in view of their own difficult operating environments and in response to general customers’ demands for lower-priced toy products during the pandemic period. On the other hand, the securities underwriting business of our Financial Services Division had a more difficult period, as the capital raising markets became more polarized and aggregated towards the bigger-cap technology and bio-tech sectors, making allocations in these transactions more competitive and fund-raising in other small-cap issuers more challenging. However, the Financial Services Division continued to make significant progress in its investment

advisory and management business, resulting in an increase in assets under management thanks in part to the robust performance of the U.S. stock markets during the Current Period. As a result, the Financial Services Division only showed a small decrease in its revenues and no deterioration in its segment loss during the Current Period when compared with the Previous Period.

The Toy Division

As a toy manufacturer offering services primarily on an OEM basis, the Toy Division continues to manufacture products for its customers in accordance with their specifications for whom to sell the products in their own brand names. In order to better deploy the Group's resources and mitigate its business risks, the Toy Division remains focusing in serving customers of internationally reputable toy brands that are considered to be more reliable in order placing and better credit worthiness and higher transparency on its business background in general.

During the Current Period, revenue of the Toy Division and its segment profit were approximately HK\$299.3 million and HK\$15.9 million respectively, representing an increase of 16.0% and 17.8% respectively over the six months ended 30 September 2019 (the "**Previous Period**"). The slight improvement in revenue from the Toy Division was mainly due to a modest increase in orders placed by customers from both North American and Western European customers. Most notably, revenues from Western European customers, which accounted for approximately 27.0% of total revenues from the Toy Division in the Current Period, increased by about 47.0% over the Previous Period, thanks in part to robust growth coming from French and Dutch customers. North American customers, which accounted for about 60.7% of total revenues from the Toy Division in the Current Period, also increased by about 8.4% over the Previous Period. Despite the modest increase in revenues, the Toy Division considered that customers in the traditional western markets remained highly cautious towards the market uncertainty created by the COVID-19 pandemic and the already weakened consumer sentiments as experienced by the retailer markets. Many of them also struggled to adopt a new mode in the retail industries shifting from a primarily brick-and-mortar model to one highly dominated by online retailing, exacerbated by the COVID-19 pandemic. Given the uncertainties in our customers' markets, the Group continued to focus on adopting effective cost control measures, such as inventory rationalisation and automation in manufacturing process. In addition, the Toy Division continued to have strong relationships with its major customers, many of which continued to place orders with us, albeit more cautiously and more aggressive in their pricings, with a bias to lower-priced products accommodating the general market demands during this period. As the outlook for the global toy industry remains clouded given many countries in North America and Western Europe have re-entered lock-down in the winter months, and the threats posed by continued uncertainties in the US-China and the UK-EU relationships linger, the Toy Division will continue to maintain high efficiency operation management with the implementation of stringent cost controls in product manufacturing using lean production approach, logistic simplification management and minimization of inventory level particularly during non-peak business period. We will also continue to adopt automation in the manufacturing process in order to improve labour efficiency and flexibility in manufacturing.

The Financial Services Division

During the Current Period, the securities markets in Hong Kong showed no clear direction, recovering somewhat from its trough in March during the early summer months but drifting back to a low in September. The Hang Seng Index slowly climbed to an intra-period high of 26,339.16 in early July just before the more severe third wave of the COVID-19 pandemic broke out in Hong Kong. The Hang Seng Index then slowly drifted back down to a low of 23,235.42 towards the latter half of September, as market performance was dragged by stocks in the traditional financial, real estate and retail sectors, which were all adversely affected by the COVID-19 pandemic. Investors' interest gravitated towards the technology and biotech sectors as more US-listed Chinese technology companies came back to Hong Kong for a secondary listing, taking advantage of the new rules introduced by the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Thus, the capital raising markets became more polarized, with investors clearly showing preference for such companies and shunning issuers from more traditional industries. Based on data provided by the Stock Exchange, average daily turnover value of the on the Main Board and GEM showed an improvement in general, with an average daily turnover of about HK\$125.7 billion during the nine months ended 30 September 2020, when compared with an average daily turnover of about HK\$90.5 billion during the nine months ended 30 September 2019, representing an increase of about 39%. Total funds raised also increased from about HK\$236.1 billion for the nine months ended 30 September 2019 to about HK\$473.8 billion in the nine months ended 30 September 2020, largely due to the major fund-raising exercises of several large Chinese technology companies. During the Current Period, the U.S. stock markets showed a spectacular comeback from its pandemic trough in March, with the NASDAQ rising from 7,700.10 as of 31 March 2020 to a close of 11,167.51 as of 30 September 2020, representing an increase of about 45% and substantially more than recovering from its correction in March. Its robust performance was mainly a result of investors' affinity towards the mega tech giants whose businesses actually benefited from the paradigm shift resulting from the COVID-19 pandemic. The Dow Jones Industrial Average showed a more modest recovery during the Current Period, rising from 21,917.16 as of 31 March 2020 to a close of 27,781.70 as of 30 September 2020, representing an increase of about 27%.

Crosby Securities Limited (“**Crosby**”) under the Financial Services Division participated in two initial public offering transactions as a joint bookrunner and/or a joint lead manager during the Current Period, allowing the Financial Services Division to record underwriting commission and brokerage commission income from these transactions. In addition to underwriting in initial public offering transactions, Crosby also continued to place unlisted bonds for listed issuers in Hong Kong which generated placing commission for the Financial Services Division. However, the Financial Services Division saw a significant decrease in underwriting fee revenues and stabilisation income during the Current Period when compared with the Previous Period as allocations to Crosby’s clients in these transactions were less than anticipated due to fierce competitions among underwriters for allocations and the lack of stabilisation manager role for Crosby in these transactions during the Current Period. Some of the transactions which were originally expected to come to the markets during the Current Period have also been postponed as their listing vetting processes have not been completed yet, further contributing to a reduction in revenues realised in this area by Crosby during the Current Period.

On the other hand, the investment advisory and management business of Crosby continued to make substantial progress during the Current Period. This business segment continued to successfully grow its assets under advisory by signing on new investors and delivering investment returns, with an investment focus primarily in the technology segment of the U.S. equities markets. The spectacular performance of the U.S. markets during the Current Period also allowed Crosby to recognize a substantial growth both in assets under advisory and its investment advisory fee revenues, leading to a substantial increase in both investment advisory or management fee and performance fee income. As a result, the combined results of the Financial Services Division only showed a modest decrease in revenues of about 5.1% during the Current Period when compared with the Previous Period. Coupled with more stringent control measures on fixed costs, there was no deterioration in the segment loss of the Financial Services Division during the Current Period when compared with the Previous Period.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Current Period amounted to approximately HK\$309.2 million for which the Toy Division and the Financial Services Division contributed approximately HK\$299.3 million and HK\$9.9 million, respectively, representing an increase of approximately HK\$40.7 million or 15.2% as compared to total Group's revenues of approximately HK\$268.5 million for the Previous Period.

The increase in the Group's revenue for the Current Period of approximately HK\$40.7 million was mainly attributable to the increase in revenue from the Toy Division of approximately HK\$41.3 million, which was slightly set back by a decrease in revenue of the Financial Services Division of approximately HK\$0.5 million, representing an increase of approximately 16.0% and a decrease of approximately 5.1%, respectively, on a period-on-period basis.

The increase in the revenue of the Toy Division was mainly attributable to the increase in orders placed by certain major customers from markets located in Western Europe, by approximately HK\$25.8 million, and North America, by approximately HK\$14.0 million, when compared with the Previous Period.

Revenue for the Financial Services Division for the Current Period amounted to approximately HK\$9.9 million comparing to that of HK\$10.4 million in the Previous Period, representing a small decrease of about 5.1% over the Previous Period. The change in revenue was mainly attributable to an increase in investment advisory fee and asset management fee income of about HK\$4.8 million during the Current Period, which increased by about 642.1% over the Previous Period, and an increase of placing commission of about HK\$1.3 million, which increased by about 103.4% over the Previous Period. Such increase in revenue, however, was more than offset by a decrease in underwriting revenue and trading revenue of about HK\$6.6 million, which decreased by about 87.4% over the Previous Period.

Gross Margin and Gross Profit

The Toy Division reported a decrease in gross margin from approximately 12.0% for the Previous Period to approximately 11.2% for the Current Period. Overall, the Group's total gross margin decreased from 15.4% in the Previous Period to approximately 14.0% in the Current Period, mainly due to a change in products mix of the Toy Division in response to general market demands for lower-priced toy products during the pandemic period and the small decrease in revenue of the Financial Services Division during the Current Period. Gross profit of the Group for the Current Period increased by approximately HK\$2.0 million to approximately HK\$43.4 million from HK\$41.4 million for the Previous Period as a result of an increase in revenue from the Toy Division during the Current Period.

Selling Expenses

Selling expenses for the Toy Division mainly consisted of transportation fees and declaration fees. During the Current Period, selling expenses for the Toy Division decreased by approximately HK\$1.8 million or 25.3% from approximately HK\$7.3 million for the Previous Period to approximately HK\$5.4 million for the Current Period. Such decrease was mainly due to a more favourable change in logistics arrangement with a major customer.

Administrative Expenses

Administrative expenses mainly consisted of salaries to employees, depreciation on right-of-use assets, depreciation on property, plant and equipment, and other administrative expenses. Administrative expenses increased slightly by approximately HK\$0.1 million or 0.2% from approximately HK\$34.4 million for the Previous Period to approximately HK\$34.5 million for the Current Period.

Other Income and Gains

Other income and gains decreased to HK\$2.6 million during the Current Period from approximately HK\$4.4 million for the Previous Period, representing a decrease of approximately HK\$1.8 million or 40.9%. Such decrease was mainly attributable to the decrease in gain on disposal of property, plant and equipment from the Toy Division from HK\$1.1 million for the Previous Period to Nil for the Current Period.

Finance Costs

Finance costs mainly consisted of interest on the Group's interest-bearing bank borrowings, factoring arrangement from banks, the effective interest of the convertible notes and promissory notes issued by the Company and interest on lease liabilities resulting from adoption of HKFRS 16 Leases as set out in note 19 in this announcement. Finance costs decreased by 53.2% to approximately HK\$6.2 million for the Current Period when compared with approximately HK\$13.3 million for the Previous Period. Such decrease was primarily due to a decrease in the effective interest of the convertible notes issued by the Company to approximately HK\$4.6 million for the Current Period from approximately HK\$12.1 million in the Previous Period and a decrease in bank borrowing interest of approximately HK\$0.4 million during the Current Period from approximately HK\$0.7 million in the Previous Period. Such decrease was partially offset by an increase in interest on the promissory notes issued in May 2020 as partial settlement of the convertible notes issued in June 2017 of approximately HK\$1.0 million compared with Nil for the Previous Period.

Income Tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdiction in which members of the Group are domiciled and operated. The income tax expense increased by 8.3% to approximately HK\$3.0 million for the Current Period, as compared with approximately HK\$2.8 million for the Previous Period. Such increase was mainly due to an increase in taxable income attributable to the increase in revenue generated in the Current Period as explained above.

Net Loss

The Group's net loss for the Current Period amounted to approximately HK\$3.2 million, representing a reduction of loss of about HK\$8.8 million on a period-on-period basis. The decrease in loss for the Current Period was mainly attributable to (i) an increase in gross profit of approximately HK\$2.0 million corresponding to the increase in revenue of the Toy Division (ii) a decrease in selling expenses of approximately HK\$1.8 million attributable to the Toy Division and (iii) a decrease in effective interest of the convertible notes approximately HK\$7.5 million. Meanwhile, such decrease was offset by an increase in interest on the promissory notes of approximately HK\$1.0 million and the decrease in other income and gains of approximately HK\$1.8 million. The Financial Services Division recorded a segment loss of approximately HK\$8.7 million for the Current Period comparing to approximately HK\$8.9 million for the Previous Period, representing a modest reduction of loss of approximately 1.7%. The change in segment loss of the Financial Services Division was mainly attributable to a modest decrease in revenues of about HK\$0.5 million and a mild increase in segment expenses of about HK\$0.2 million, which was offset by a mild increase in other income from the segment of about HK\$0.9 million.

Inventory

The inventory of the Group, comprising mainly inventory of the Toy Division, increased by 8.3% to approximately HK\$76.9 million as at 30 September 2020 from approximately HK\$71.0 million as at 31 March 2020. The inventory turnover period, as calculated by dividing the average closing inventories by the cost of sales for the year/period and multiplied by 365 days/182.5 days, decreased by 37.3% from 81.0 days for the year ended 31 March 2020 to 50.8 days for the Current Period. Such decrease was mainly due to faster turnover rate during the peak season of the business cycle during the Current Period.

Trade Receivables

Trade receivables from the Toy Division increased to approximately HK\$156.8 million as at 30 September 2020 from approximately HK\$55.8 million at 31 March 2020, which was primarily due to the increase in sales of the Toy Division for the Current Period during the peak season of its business cycle. The trade receivables turnover days, calculated as dividing the average closing trade receivables by the revenue for the period/year and multiplied by 182.5 days/365 days, was 64.8 days for Current Period, as compared with 39.9 days for the year ended 31 March 2020. The increase in the trade receivables turnover days during the Current Period as compared to the year ended 31 March 2020 was mainly attributable to the increase in sales to certain major customers during the Current Period which is the peak season of the toy manufacturing business.

For the Financial Services Division, trade receivables mainly arose from dealing in securities on behalf of our cash clients and placing and investment advisory businesses which increased to approximately HK\$25.5 million as at 30 September 2020 when compared to approximately HK\$9.6 million as at 31 March 2020, representing an increase of approximately HK\$15.9 million or 165.9%. The increase in trade receivables as at 30 September 2020 was mainly due to an increase in outstanding receivable from cash clients for settlement purposes as there were increased trading activities of our clients, and an increase in placing commission and performance fee income receivable as at the end of the Current Period when compared with 31 March 2020.

Trade Payables

Trade payables from the Toy Division increased to approximately HK\$79.6 million as at 30 September 2020 when compared with approximately HK\$9.0 million as at 31 March 2020, representing an increase of approximately HK\$70.7 million or 786.4%, which was primarily due to the purchase of more raw materials to support the increase in production during the peak season for the Toy Division.

The trade payables turnover days for the Toy Division for the Current Period, as calculated as dividing the average closing trade payables by the cost of sales for the period/year and multiplied by 182.5 days/365 days, were 30.4 days for Current Period as compared with 12.6 days for the year ended 31 March 2020. The increase in the trade payables turnover days for the Current Period as compared to the year ended 31 March 2020 was mainly attributable to the increase in purchases of raw materials to cope with the increase in customer orders during the Current Period which is the peak season of business.

Trade payables from the Financial Services Division were mainly payable to cash clients or the clearing house for settlement of trades or cash held on behalf of clients in their accounts. The settlement terms for such trade payable attributable to dealing in securities are typically one to two days after the trade date. As at 30 September 2020, such trade payables amounted to HK\$166.9 million, representing an increase by approximately 232.2% from approximately HK\$50.2 million as at 31 March 2020.

The increase was mainly due to an increase in cash deposited by clients in their accounts held with us and outstanding trade settlements payable to counterparties in the securities brokerage business as at the end of the Current Period when compared with 31 March 2020 as a result of increased trading activities of clients.

LIQUIDITY AND FINANCIAL RESOURCES

For the Current Period, the Group continued to maintain a prudent and cautious financial management approach towards its treasury policies and a healthy liquidity position. The Group strived to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board continued to closely monitor the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time. For the Current Period, the Group mainly financed its working capital by internal resources and bank borrowings. As at 30 September 2020, cash and cash equivalents of the Group amounted to approximately HK\$73.2 million (31 March 2020: HK\$60.0 million). Besides, approximately HK\$31.0 million (31 March 2020: HK\$62.4 million) were pledged bank deposits to secure an undrawn banking facility granted to the Group to facilitate settlement purposes of the Financial Services Division. The decrease was mainly due to the release of cash from pledged bank deposits by the Financial Services Division to finance the redemption of the convertibles notes which matured and the interest expenses of the promissory notes issued by the Company during the Current Period. Interest-bearing bank borrowings as at 30 September 2020 amounted to approximately HK\$39.9 million, compared with about HK\$17.0 million as at 31 March 2020. The increase in interest-bearing bank borrowings was mainly due to the working capital requirements of the Toy Division as it entered its cyclical peak production season. The debt to equity ratio of the Group, calculated as the ratio of the closing debt balance divided by the closing total equity of the period/year, slightly decreased to approximately 28.7% (31 March 2020: 30.6%) as a result of the increase in bank borrowings to facilitate the working capital requirements during the peak production season of the Toy Division and the decrease in outstanding amount of convertible notes issued by the Company, partially offset by the increase in outstanding amount of promissory notes issued by the Company. As at 30 September 2020, all bank borrowings were subject to floating interest rates. The current ratio of the Group, as calculated by total current assets over total current liabilities, was approximately 1.6 (31 March 2020: 1.9).

CONVERTIBLE NOTES

The Company issued two tranches of 6% Convertible Notes with a maturity of three years and outstanding principal amounts of HK\$80.0 million and HK\$30.0 million (the “**2017 Convertible Notes**”) on 11 May 2017 and 2 June 2017, respectively, to Benefit Global Limited, an independent third party, for repayment of liabilities of the Group, business expansion of the Group’s Financial Services Division and as general working capital of the Group. On 5 March 2020, the Company redeemed HK\$30.0 million in principal value of the 2017 Convertible Notes in cash. Subsequently, on 11 May 2020, the Company redeemed the remaining HK\$80.0 million in principal value of the 2017 Convertible Notes with the issuance of a new 6.0% convertible notes due 2023 in the principal amount of HK\$40.0 million (the “**2020 Convertible Notes**”) and a 10.0% promissory note due 2021 in the principal amount of HK\$25.0 million and the remaining balance of HK\$15.0 million in cash.

As at the date of this announcement, the net proceeds from the 2017 Convertible Notes have been used as follows:

	<i>(HK\$ millions)</i>
(i) Full redemption of the convertible notes issued in 2014	58.0
(ii) Business expansion and working capital of the Financial Services Division	<u>52.0</u>
TOTAL	<u><u>110.0</u></u>

As at the date of this announcement, the net proceeds from the 2020 Convertible Notes have been used as follows:

	<i>(HK\$ millions)</i>
Redemption of part of the outstanding principal of the of 2017 Convertible Notes in the same amount	<u>40.0</u>
TOTAL	<u><u>40.0</u></u>

CHARGE ON ASSETS

As at 30 September 2020, certain of the Group's banking facilities and its interest-bearing bank borrowings were secured and pledged by bank deposits of approximately HK\$31.0 million (31 March 2020: HK\$62.4 million) and properties of the Group located in Hong Kong with an aggregate net book value of approximately HK\$6.7 million (31 March 2020: HK\$6.7 million).

CONTINGENT LIABILITIES

As at 30 September 2020, the Group had no contingent liabilities (31 March 2020: Nil).

CAPITAL COMMITMENTS

As at 30 September 2020, there was no capital commitment of the Group (31 March 2020: Nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, the Group did not hold any significant investment in equity interest in any other company as at 30 September 2020 (31 March 2020: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 September 2020, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 September 2020, the Group did not have any plans to acquire any material investments or capital assets.

FOREIGN CURRENCY EXPOSURES

Substantially all the transactions of the Company's subsidiaries in Hong Kong are carried out in United States dollar ("US\$") and Hong Kong dollar ("HK\$"). As HK\$ is linked to US\$, the Group does not have material exchange rate risk on such currency. During the Current Period, the Group did not enter into any deliverable forward contracts ("DF") to manage foreign currency risk arising from fluctuation in exchange rate of the RMB against the US\$.

The Group implemented a foreign currency forward contract policy in relation to foreign currency contracts for the Current Period. The Group performed cash flow analysis, ongoing monitoring and review of foreign currency forward contracts on a monthly basis in accordance with the Group's risk management policy. Foreign exchange exposure reports were presented to the Board for review on a quarterly basis. The foreign currency forward contract policy was also reviewed by the Board to ensure it remains consistent with the overall objectives of our Group and the current financial trends in the market.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2020, the Group had a total of 48 employees (31 March 2020:52). Total staff costs were approximately HK\$22.1 million for the period ended 30 September 2020 (2019: HK\$20.9 million).

Remuneration policies in respect of the Directors and senior management of the Group are reviewed regularly by the Remuneration Committee and the Directors, respectively. Remuneration packages of the Group were determined with reference to its remuneration policy based on position, duties and performance of the employees. Employees' remuneration varies according to their positions, which may include salary, overtime allowance, bonus and various subsidies. The performance appraisal cycle varies according to the positions of the employees. Performance appraisal of staff is conducted annually. The performance appraisal is supervised by respective executive Directors of the Group. The Company also adopted a share option scheme for the purpose of rewarding eligible participants for their contribution to the Group.

PROSPECTS

We expect global business environments will continue to remain volatile and be dominated by the evolving situations of the COVID-19 pandemic. While we continue to see orders from our long-term customers in the western developed markets and were able to modestly improve our performance in the Toy Division during the Current Period, the COVID-19 pandemic has substantially changed consumer behaviours across different retail channels, further consolidating the shift from traditional bricks-and-mortars to online distribution channels. We expect this may have adverse impacts on some of our major customers in the Toy Division, especially in the next financial year. In light of this uncertain medium-term outlook, we will continue to adopt prudent strategies in focusing on higher-margin products and tightened cost controls as a defensive tactic. Our Toy Division will also continue to seek to further diversify its supply chains, including but not limited to increased co-operations with sub-contractors in other jurisdictions in order to mitigate the risks arising from uncertainty in the Sino-US relationship and potential future shutdowns.

For the Financial Services Division, we will continue to grow our assets under advisory and management to generate more recurring AUM-based fee income. Nonetheless, we are aware that performance fees in this area will nonetheless be largely dependent on the ultimate performance of the U.S. securities market and could pose substantial volatility. Given our reduced capital base for the underwriting business, we expect that our competitive position in the IPO underwriting business will remain challenging and as such, the Financial Services Division has explored other product areas including private equity transaction advisory business.

Some of our IPO pipeline transactions are also expected to be deferred to the second half of the current financial year and beyond as their listing vetting processes have been further extended or their financial performances adversely affected by the COVID-19 pandemic. Our Financial Services Division will continue to focus on expanding our transaction pipelines and exploring more recurring revenues from our investment advisory and discretionary management business.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2020 (30 September 2019: Nil).

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 September 2020 and discussed the financial related matters, including the accounting principles and practices adopted by the Group, with the management during the period under review. The Audit Committee was satisfied that the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2020 have been prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 September 2020.

CORPORATE GOVERNANCE

The Company adopted the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) (the “**Code**”) as its own code of corporate governance practice. Throughout the interim period under review, the Company has complied with all applicable code provisions under the Code with the exception discussed herein below.

Code A.2.1

Pursuant to the code provision under the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The post of chief executive officer of the Group has been vacant since the redesignation of Mr. Lau Ho Ming, Peter as the Executive Chairman of the Company with effect from 25 November 2013. He has ceased to act as the chief executive officer of the Group (“**CEO**”) since then. The role of chief executive officer has been taken up by all executive Directors. The Directors believe such arrangement would achieve a better balance of power and responsibilities.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, all the Directors have complied with the required standard set out in the Model Code during the interim period and up to the date of this announcement.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2020/2021 INTERIM REPORT

This announcement is published on the website of The Stock Exchange and the Company at www.hkexnews.hk and www.quali-smart.com.hk respectively. The 2020/2021 interim report of the Company containing all information requiring by the Listing Rules will be published on the above websites and despatched to the Shareholders on or about 16 December 2020.

By Order of the Board
Quali-Smart Holdings Limited
Lau Ho Ming, Peter
Executive Chairman

Hong Kong, 24 November 2020

As at the date of this announcement, the Board comprises three executive Directors: Mr. Lau Ho Ming, Peter, Mr. Poon Pak Ki, Eric and Mr. Chu, Raymond; one non-executive Director: Madam Li Man Yee, Stella; and three independent non-executive Directors: Mr. Leung Po Wing, Bowen Joseph GBS, JP, Mr. Chan Siu Wing, Raymond and Mr. Wong Wah On, Edward as independent non-executive Directors.