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 2017

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 September 2017 (the "**Current Period**") was approximately HK$559.0 million, representing an increase of 11.3% from approximately HK$502.3 million for the six months ended 30 September 2016 (the "**Previous Period**"), which was mainly attributable to an increase in revenue of the Toy Division and the Financial Services Division of approximately 10.9% and 37.6%, respectively, on a year-on-year basis.

- Gross profit for the Current Period was approximately HK$72.3 million, representing an increase of 21.1% from approximately HK$59.7 million for the Previous Period.

- Loss for the Current Period was approximately HK$20.0 million, compared with the loss of approximately HK$30.0 million for the Previous Period. The decrease in loss for the Current Period was mainly attributable to (i) a significant improvement in the segment profit from the Toy Division by approximately HK$9.7 million or 57.8% arising from an increase in its revenue and gross profit margin; (ii) a decrease in segment loss of the Financial Services Division by approximately of HK$0.9 million or 5.8% as a result of an increase in its revenue and a decrease in its employee benefits expenses and (iii) a decrease in costs of approximately HK$8.6 million or 54.5% arising from the non-cash, equity settled share-based payment expenses related to the share options granted as a result of a decrease in the number of remaining years of vesting period for the granted share options for the Current Period as compared to the Previous Period. On the other hand, the above contribution to the loss reduction was partially offset by an increase in the segment loss of the IT Division by approximately HK$9.5 million or 150.9% mainly attributable to an impairment loss on its intangible assets of approximately HK$11.7 million.

- Excluding the impairment loss on intangible assets, the Group would have reported a loss for the Current Period of approximately HK$8.2 million, compared with a loss of approximately HK$30.0 million for the Previous Period.

- The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2017.

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 September 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
REVENUE	4	**559,038**	502,337
Cost of sales		**(486,768)**	(442,640)
Gross profit		**72,270**	59,697
Other income and gains	4	**3,260**	9,447
Selling expenses		**(17,950)**	(15,245)
Administrative expenses		**(56,569)**	(73,605)
Impairment loss on intangible assets		**(11,728)**	–
Finance costs	5	**(6,705)**	(6,577)
LOSS BEFORE INCOME TAX EXPENSE	6	**(17,422)**	(26,283)
Income tax expense	7	**(2,528)**	(3,709)
LOSS FOR THE PERIOD		**(19,950)**	(29,992)
Other comprehensive income that may be classified to profit or loss in subsequent periods:			
Exchange differences on translating foreign operations		**–**	(670)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(19,950)**	(30,662)
Loss attributable to:			
Owners of the Company		**(19,950)**	(29,992)
Non-controlling interests		**–**	–
		(19,950)	(29,992)
Total comprehensive income attributable to:			
Owners of the Company		**(19,950)**	(30,662)
Non-controlling interests		**–**	–
		(19,950)	(30,662)
Losses per share			
– Basic (HK cents)	8	**(1.35)**	(2.07)
– Diluted (HK cents)	8	**(0.98)**	(2.07)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30 September 2017** *HK$'000* **(Unaudited)**	At 31 March 2017 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**27,601**	16,231
Investment property		**6,200**	6,200
Goodwill		**184,782**	184,783
Intangible assets	10	**20,579**	34,505
Interest in a joint venture		**–**	–
Statutory deposits for financial service business		**1,320**	406
Total non-current assets		**240,482**	242,125
CURRENT ASSETS			
Inventories	11	**90,942**	92,028
Trade receivables	12	**177,772**	44,666
Financial assets at fair value through profit or loss	13	**12,072**	14,544
Prepayments, deposits and other receivables		**18,072**	66,556
Derivative financial asset		**32,618**	592
Cash and bank balances held on behalf of customers		**101,130**	204,358
Cash and cash equivalents		**240,706**	129,987
Total current assets		**673,312**	552,731

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	At 30 September 2017 HK$'000 (Unaudited)	At 31 March 2017 HK$'000 (Audited)
CURRENT LIABILITIES			
Trade payables	14	**235,057**	262,776
Receipts in advance, accruals and other payables		**17,013**	13,784
Bank overdraft		**100**	–
Interest-bearing bank borrowings	15	**102,428**	33,615
Convertible notes		**–**	54,944
Tax payable		**5,250**	2,115
Total current liabilities		**359,848**	367,234
NET CURRENT ASSETS		**313,464**	185,497
TOTAL ASSETS LESS CURRENT LIABILITIES		**553,946**	427,622
NON-CURRENT LIABILITIES			
Convertible notes		**97,144**	–
Deferred tax liabilities		**3,343**	5,763
Total non-current liabilities		**100,487**	5,763
NET ASSETS		**453,459**	421,859
EQUITY			
Share capital	16	**287**	287
Reserves		**452,582**	420,982
		452,869	421,269
Non-controlling interests		**590**	590
TOTAL EQUITY		**453,459**	421,859

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2017

	Attributable to the owners of the Company									
	Share capital	Share premium	Property revaluation reserve	Other reserve	Share option reserve	Convertible notes equity reserve	(Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 1)	*(note 5)*		*(note 6)*	*(note 7)*				
Unaudited for the six months ended 30 September 2017										
At April 2017 (audited)	**287**	**418,769**	**6,071**	**1,000**	**41,529**	**42,725**	**(89,112)**	**421,269**	**590**	**421,859**
Early redemption of convertible notes	–	–	–	–	–	(42,725)	39,187	(3,538)	–	(3,538)
Issuing new convertible notes	–	–	–	–	–	47,879	–	47,879	–	47,879
Equity settled share-based transactions *(note 17)*	–	–	–	–	7,209	–	–	7,209	–	7,209
Lapse of share option *(note 17)*	–	–	–	–	(2,892)	–	2,892	–	–	–
Loss for the period	–	–	–	–	–	–	(19,950)	(19,950)	–	(19,950)
Total comprehensive income for the period	–	–	–	–	–	–	(19,950)	(19,950)	–	(19,950)
At 30 September 2017 (unaudited)	**287**	**418,769**	**6,071**	**1,000**	**45,846**	**47,879**	**(66,983)**	**452,869**	**590**	**453,459**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 September 2016

	Attributable to the owners of the Company												
	Share capital	Share premium	Capital reserve	Statutory reserve	Translation reserve	Property revaluation reserve	Other reserve	Share option reserve	Convertible notes equity reserve	(Accumulated losses)/ retained earnings	Total	Non-controlling interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 1)	*(note 2)*	*(note 3)*	*(note 4)*	*(note 5)*		*(note 6)*	*(note 7)*				
Unaudited for the six months ended 30 September 2016													
At 1 April 2016 (audited)	281	409,404	9,271	844	3,792	6,071	1,100	13,891	42,725	(5,621)	481,758	590	482,348
Equity settled share-based transactions (*note 17*)	–	–	–	–	–	–	–	15,835	–	–	15,835	–	15,835
Lapsed of share options (*note 17*)	–	–	–	–	–	–	–	(605)	–	605	–	–	–
Exercise of share options (*note 17*)	1	1,726	–	–	–	–	–	(440)	–	–	1,287	–	1,287
Loss for the period	–	–	–	–	–	–	–	–	–	(29,992)	(29,992)	–	(29,992)
Other comprehensive income													
Exchange differences arising on translation of foreign operations	–	–	–	–	(670)	–	–	–	–	–	(670)	–	(670)
Total Comprehensive income for the period	–	–	–	–	(670)	–	–	–	–	(29,992)	(30,662)	–	(30,662)
Transfer to statutory reserve	–	–	–	102	–	–	–	–	–	(102)	–	–	–
At 30 September 2016 (unaudited)	282	411,130	9,271	946	3,122	6,071	1,100	28,681	42,725	(35,110)	468,218	590	468,808

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Notes:

1. The share premium account of the Group represents the premium arising from the issuance of Shares above its per value.

2. The capital reserve resulted from the acquisition of additional interest in a subsidiary which represents the difference between fair value of the considerations given and the carrying amount of the net assets attributable to the additional interest in a subsidiary acquired from non-controlling interests.

3. In accordance with the Company Law of the PRC, the Company's subsidiary registered in the PRC is required to appropriate 10% of the annual statutory net profit after taxation (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

4. The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

5. 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.

6. Cumulative expenses recognised on the granting of share options to the eligible participants over the vesting period.

7. 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

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash flows generated from/(used in) operating activities	**21,713**	(13,791)
Net cash flows used in investing activities	**(28,456)**	(13,022)
Net cash flows generated from/(used in) financing activities	**117,462**	(21,632)
Net increase/(decrease) in cash and cash equivalents	**110,719**	(48,445)
Cash and cash equivalents at 1 April	**129,987**	221,633
Effect of exchange rate, net	**–**	149
Cash and cash equivalents at 30 September	**240,706**	173,337

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 2017 ("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 2017 (the "2017 Annual Financial Statements").

The Interim Condensed Financial Statements were approved and authorised for issue by the Board on 28 November 2017.

2. BASIS OF PREPARATION

The accounting policies applied in preparing the Interim Condensed Financial Statements are consistent with those applied in preparing the 2017 Annual Financial Statements, except for the amendments and interpretations of Hong Kong Financial Reporting Standards ("New/amended HKFRSs") issued by HKICPA which have been become effective in this period as detailed in note 2 of the 2017 Annual Financial Statements. 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. 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;

– Digital publishing, mobile and web application solutions; and

– Securities brokerage, securities margin financing, investment advisory, corporate finance advisory 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.

3. **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	**Digital publishing, mobile and web application solutions**	**Financial Services**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the period ended 30 September 2017				
External revenue	546,566	626	11,846	559,038
Segment profit/(loss)	26,417	(15,792)	(14,293)	(3,668)
Central administrative cost				(13,754)
Loss before income tax expense				(17,422)
For the period ended 30 September 2016				
External revenue	492,589	1,139	8,609	502,337
Segment profit/(loss)	16,740	(6,293)	(15,172)	(4,725)
Central administrative cost				(21,558)
Loss before income tax expense				(26,283)

3. **OPERATING SEGMENT INFORMATION (Continued)**

(a) **Reportable segments (Continued)**

Segment profit/(loss) represents the profit or (loss) earned by each segment without allocation of corporate income, net gain on derivative financial instruments, fair value change in derivative financial assets and central administrative cost. This is the information reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment assets

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

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Manufacturing and sales of toys	**298,254**	150,164
Digital publishing, mobile and web application solutions	**20,445**	34,964
Financial Services	**317,713**	475,726
Total segment assets	**636,412**	660,854
Unallocated	**277,382**	134,002
Consolidated assets	**913,794**	794,856

Segment liabilities

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

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Manufacturing and sales of toys	**247,349**	98,041
Digital publishing, mobile and web application solutions	**2,490**	1,594
Financial Services	**102,913**	210,540
Total segment liabilities	**352,752**	310,175
Unallocated	**107,583**	62,822
Consolidated liabilities	**460,335**	372,997

3. **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 2017

	Manufacturing and sales of toys *HK$'000*	**Digital publishing, mobile and web application solutions** *HK$'000*	**Financial Services** *HK$'000*	**Total** *HK$'000*
Additions to property, plant and equipment	**19,475**	**–**	**8**	**19,483**
Depreciation of property, plant and equipment	**(7,798)**	**(23)**	**(292)**	**(8,113)**
Amortisation of intangible assets	**–**	**(2,198)**	**–**	**(2,198)**
Fair value loss on financial assets at FVTPL	**–**	**–**	**(2,472)**	**(2,472)**
Impairment loss on intangible assets	**–**	**(11,728)**	**–**	**(11,728)**
Interest expenses	**(1,769)**	**–**	**(17)**	**(1,786)**

For the period ended 30 September 2016

	Manufacturing and sales of toys *HK$'000*	Digital publishing, mobile and web application solutions *HK$'000*	Financial Services *HK$'000*	Total *HK$'000*
Additions to property, plant and equipment	2,756	20	–	2,776
Depreciation of property, plant and equipment	(8,551)	(97)	(382)	(9,030)
Amortisation of prepaid lease payments	(95)	–	–	(95)
Amortisation of intangible assets	–	(4,395)	–	(4,395)
Fair value gain on financial assets at FVTPL	–	–	6,373	6,373
Bad debt recovery	787	–	–	787
Interest expenses	(1,545)	–	(931)	(2,476)

3. 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 prepaid land lease payments ("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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
North America (*note 1*)	**329,376**	301,496
Western Europe		
– United Kingdom	**43,140**	43,899
– France	**19,488**	19,328
– Netherland	**3,454**	6,268
– Others *(note 2)*	**33,879**	31,405
South America	**5,685**	10,069
PRC and Taiwan	**62,986**	41,660
Australia, New Zealand and Pacific Islands	**12,553**	8,788
Central America, Caribbean and Mexico	**19,249**	15,684
Others *(note 3)*	**29,228**	23,740
Total	**559,038**	502,337

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.

3. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

(ii) Specified non-current assets

	At 30 September 2017 *HK$'000* **(Unaudited)**	At 31 March 2017 *HK$'000* (Audited)
Mainland China, the PRC	**26,747**	14,925
Hong Kong	**7,054**	7,506
Total	**33,801**	22,431

(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	
	2017 *HK$'000* **(Unaudited)**	2016 *HK$'000* (Unaudited)
Customer A	**225,568**	148,981
Customer B	**178,703**	160,913
Customer C*	**76,885**	–

* Customer contributed less than 10% of the Group's revenue during the period ended 30 September 2016.

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Manufacturing and sales of toys	**546,566**	492,589
Digital publishing, mobile and web application solutions	**626**	1,139
Financial Services	**11,846**	8,609
	559,038	502,337
Other income and gains		
Moulding income	**1,670**	367
Rental income	**690**	672
Service income	**720**	–
Fair value loss/(gain) on financial assets at FVTPL	**(2,472)**	6,373
Interest income from bank deposits	**80**	4
Exchange gains, net	**1,351**	71
Bad debt recovery	**–**	787
Others	**1,221**	1,173
	3,260	9,447

5. FINANCE COSTS

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings:		
– Bank borrowings	**1,786**	2,476
– Promissory notes	**–**	2,061
– Convertible notes	**4,919**	2,040
	6,705	6,577

6. LOSS BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**486,768**	442,640
Depreciation of property, plant and equipment	**8,113**	9,030
Amortisation of prepaid land lease payments	**–**	95
Amortisation of intangible assets	**2,198**	4,395
Employee benefits expenses		
(including Directors' remuneration):		
Wages and salaries	**30,032**	37,077
Equity settled share-based payment expenses	**5,501**	12,663
Pension scheme contributions	**632**	1,321
Other benefits	**1,905**	2,317
	38,070	53,378
Equity settled share-based payment expenses to eligible persons other than employees and Directors	**1,707**	3,172
Auditor's remuneration	**849**	811
Operating lease charges in respect of land and buildings	**5,880**	6,413
Impairment loss on intangible assets	**11,728**	–

7. INCOME TAX EXPENSE

Hong Kong profits tax has been provided on the estimated assessable profit arising in Hong Kong at the rate of 16.5% during the six months ended 30 September 2017 (2016: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

The PRC corporate income tax rate of the Company's subsidiary operating in the PRC during the six months ended 30 September 2016 was 25% on its taxable profit.

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

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current – Hong Kong		
Charge for the period	**4,879**	4,237
Current – PRC		
Charge for the period	**–**	197
	4,879	4,434
Deferred tax credit	**(2,351)**	(725)
Income tax expense for the period	**2,528**	3,709

7. 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss before income tax expense	**(17,422)**	(26,283)
Tax at the applicable tax rate of 16.5% (2016: 16.5%)	**(2,875)**	(4,337)
Effect of different tax rate of a subsidiary operating in other jurisdiction	**–**	96
Tax effect of revenue not taxable for tax purposes	**(2,759)**	(1,063)
Tax effect of expenses not deductible for tax purposes	**1,287**	1,317
Tax effect of tax loss not recognised	**6,875**	7,590
Tax effect of temporary difference not recognised	**–**	106
Income tax expense	**2,528**	3,709

No deferred tax asset has been recognised in respect of the unused tax losses of HK$117,885,000 (For the six months ended 30 September 2016: HK$80,030,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

8. LOSSES PER SHARE

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

Losses	**Six months ended 30 September**	
	2017	2016
	HK$'000	*HK$'000*
Losses for the purposes of basic earnings per share	**19,950**	29,992
Effect of dilutive potential ordinary shares:		
Interest on convertible notes (net of tax)	**(3,397)**	–
Losses for the purposes of diluted losses per share	**16,553**	29,992
Number of share	***'000***	*'000*
Weighted average number of ordinary shares for the purposes of basic losses per share	**1,474,232**	1,451,328
Effect of dilutive potential ordinary shares:		
– share options	**539**	–
– convertible notes	**210,032**	–
Weighted average number of ordinary shares for the purposes of diluted losses per share	**1,684,803**	1,451,328

The diluted loss per share for the six months ended 30 September 2017 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The outstanding options and convertible notes were assumed to have been converted into ordinary shares, and the loss for the six months ended 30 September 2017 was adjusted to reflect the effective interest expense on convertible notes less tax effect, if any.

9. PROPERTY, PLANT AND EQUIPMENT

	HK$'000
Net Book value at 1 April 2017 (Audited)	16,231
Additions	19,483
Depreciation	(8,113)
Net book value at 30 September 2017 (Unaudited)	**27,601**

10. INTANGIBLE ASSETS

	Mobile and web application technologies	**Trading rights, trademarks and website**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(Note)		
Cost:			
At 1 April 2016 (Audited)	87,900	546	88,446
Additions	–	33	33
At 31 March 2017 (Audited) and **30 September 2017 (Unaudited)**	**87,900**	**579**	**88,479**
Accumulated amortisation;			
At 1 April 2016 (Audited)	(11,295)	–	(11,295)
Amortisation for the year	(8,790)	–	(8,790)
Impairment loss	(33,889)	–	(33,889)
At 31 March 2017 and 1 April 2017 (Audited)	(53,974)	–	(53,974)
Amortisation for the year	(2,198)	–	(2,198)
Impairment loss	(11,728)	–	(11,728)
At 30 September 2017 (Unaudited)	**(67,900)**	**–**	**(67,900)**
Carrying value:			
At 30 September 2017 (Unaudited)	**20,000**	**579**	**20,579**
At 31 March 2017 (Audited)	33,926	579	34,505

10. INTANGIBLE ASSETS (Continued)

Notes:

Intangible assets comprised mobile and web application technologies acquired through the acquisition of the entire interest in PMT Group. The fair value of the intangible assets acquired is calculated by an independent professional valuer, BMI Appraisals Limited by using Multi-period Excess Earnings Method. The principal assumptions used in the valuation are i) the estimated useful life of the intangible assets are 10 years and there are no residual value at the end of the useful life; ii) the weighted average cost of capital used has been determined with reference to the capital structure and risk profile of technology companies in the market whose business are similar to the PMT Group.

Intangible assets are amortised using straight-line method over their estimated useful lives of 10 years, less any impairment losses. Amortisation charge for the year is included in administrative expense line item in the consolidated income statement.

As at 30 September 2017, the recoverable amount of the mobile and web application technologies based on a value-in-use calculation with reference to a valuation performed by an independent professional valuer, BMI Appraisals Limited. The value-in-use calculation based on cash flow projections from formally approved budgets, covering a detailed five-year budget plans, and discount rate of 19.9% (31 March 2017: 19.5%) estimated by the management. Growth rate used to extrapolate the cash flows beyond the five-year budget plan is 3% (31 March 2017: 3%) which reflects the long term growth rate of the industry as forecast by the management. The key assumptions have been determined by the Group's management based on past performance and its expectations for the industry development. During the six months ended 30 September 2017, as a result of disappointing results of IT Division during the period and its negative business outlook, the recoverable amount of digital publishing, mobile and web application solutions was calculated to be lower than its carrying amount and accordingly, impairment loss on the intangible assets of approximately HK$11,728,000 (For the year ended 31 March 2017: HK$33,889,000).

11. INVENTORIES

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Raw materials	**53,092**	56,349
Finished goods	**37,850**	35,679
	90,942	92,028

12. TRADE RECEIVABLES

	At 30 September 2017 HK$'000 (Unaudited)	At 31 March 2017 HK$'000 (Audited)
Trade receivables from financial services segment	**3,801**	7,051
Trade receivables from toys and information technology segments	**173,971**	37,615
	177,772	44,666

Trade receivables from financial services segment

	At 30 September 2017 HK$'000 (Unaudited)	At 31 March 2017 HK$'000 (Audited)
Accounts receivable arising from the ordinary course of business of securities brokerage and margin financing:		
– Cash clients	**1,418**	1,312
– Clearing house	**–**	943
– Brokers	**–**	473
– Margin clients	**–**	3,023
Accounts receivable arising from the ordinary course of business of provision of:		
– Custodian services	**250**	250
– Investment advisory services	**2,168**	1,710
– Securities brokerage services	**625**	–
	4,461	7,711
Less: Allowance for impairment loss	**(660)**	(660)
	3,801	7,051

12. TRADE RECEIVABLES (Continued)

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

	At 30 September 2017 *HK$'000* **(Unaudited)**	At 31 March 2017 *HK$'000* (Audited)
On demand	**1,419**	3,023
Current – 30 days	**625**	3,778
31 – 60 days	**195**	–
61 – 90 days	**–**	250
Over 90 days	**1,562**	–
	3,801	7,051

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 2017 *HK$'000* **(Unaudited)**	At 31 March 2017 *HK$'000* (Audited)
Neither past due nor impaired	**3,801**	7,051

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

Margin clients are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount on the market value of securities accepted by the Group. Any excess in the lending ratio will trigger a margin call which the clients have to make good the shortfall. As at 30 September 2017, no securities was pledged by clients to the Group as collateral against margin client receivables (31 March 2017: HK$23,315,760). The amounts due from margin clients are repayable on demand and carry interest at 9% per annum.

The Group allows a credit period ranging from 0 to 90 days to its client arising from the businesses of provision of investment advisory, corporate finance advisory and asset management services. All such accounts receivable are not past due at the reporting dates for which the Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are considered fully recoverable.

12. TRADE RECEIVABLES (Continued)

Trading limits are set for customers. The Group seeks to maintain tight control over its outstanding accounts receivable in order to minimise credit risk. Overdue balances are regularly monitored by management.

Trade receivables from toys and information technology segments

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 2017	At 31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current to 30 days	**134,417**	27,115
31 – 60 days	**32,646**	2,093
61 – 90 days	**6,272**	7,419
Over 90 days	**636**	988
	173,971	37,615

Ageing analysis of the trade receivables that are not considered to be impaired is as follows:

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Neither past due nor impaired	**143,050**	26,497
Less than 1 month past due	**28,911**	4,956
1 to 3 months past due	**1,555**	5,845
Over 3 months past due	**455**	317
	173,971	37,615

Receivables that were neither past due nor impaired relate to the customers for which there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 September 2017 *HK$'000* (Unaudited)	At 31 March 2017 *HK$'000* (Audited)
Listed equity securities held for trading in Hong Kong, at fair value	**12,072**	14,544

14. TRADE PAYABLES

	At 30 September 2017 *HK$'000* (Unaudited)	At 31 March 2017 *HK$'000* (Audited)
Trade payables from financial services segment	**102,552**	210,082
Trade payables from toys and information technology segments	**132,505**	52,694
	235,057	262,776

Trade payables from financial services segment

	At 30 September 2017 *HK$'000* (Unaudited)	At 31 March 2017 *HK$'000* (Audited)
Accounts payable arising from the ordinary course of business of securities brokerage and margin financing:		
– Cash clients	**101,130**	205,480
– Margin clients	**–**	291
– Brokers and clearing house	**1,422**	4,311
	102,552	210,082

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 2017, included in trade payable was an amount of approximately HK$101,130,000 (31 March 2017: HK$204,358,000) 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 toys and information technology 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 2017 *HK$'000* **(Unaudited)**	At 31 March 2017 *HK$'000* (Audited)
Current to 30 days	**92,240**	42,092
31 to 60 days	**12,133**	8,408
61 to 90 days	**18,085**	1,801
More than 90 days but less than 365 days	**9,890**	244
More than 365 days	**157**	149
	132,505	52,694

15. INTEREST-BEARING BANK BORROWINGS

	At 30 September 2017 *HK$'000* **(Unaudited)**	At 31 March 2017 *HK$'000* (Audited)
Current		
Secured		
– bank loans due for repayment within one year	**102,428**	33,615

The Group's banking facilities and its interest-bearing bank borrowings are secured by Company's corporate guarantees and cross guarantees from the Company's subsidiary, which is Qualiman Industrial Co. Limited.

15. INTEREST-BEARING BANK BORROWINGS (Continued)

At 30 September 2017, total current and non-current bank borrowings were scheduled to be repaid as follows:

	At 30 September 2017 *HK$'000* (Unaudited)	At 31 March 2017 *HK$'000* (Audited)
On demand or within one year	**102,428**	33,615

Certain banking facilities are subject to the fulfillment of covenants relating to certain of the Group's financial position ratios, which are to maintain (i) the combined tangible net worth at not less than certain amount; and (ii) specific gearing ratio. If the Group breaches the covenants, the drawn down facilities shall become repayable on demand.

The Group regularly monitors its compliance with these covenants and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. As at 30 September 2017, none of the covenants relating to draw down facilities had been breached (31 March 2017: Nil).

16. SHARE CAPITAL

	Notes	**Number of Shares**	***HK$'000***
Authorised:			
Ordinary Shares of US$0.000025 each			
At 1 April 2017	(a), (b)	2,000,000,000	389
Increase during period	(c)	1,000,000,000	130
At 30 September 2017		**3,000,000,000**	**519**
Issued and fully paid:			
Ordinary Shares of US$0.000025 each			
At 1 April 2017 and **at 30 September 2017 (unaudited)**		**1,474,232,000**	**287**

16. SHARE CAPITAL (Continued)

Notes:

(a) On 14 March 2012, the Company was incorporated in the Cayman Islands with an authorised capital of US$50,000 divided into 500,000,000 ordinary shares of US$0.0001 each. One subscriber Share was issued at par for cash.

(b) Pursuant to an ordinary resolution passed by shareholders at the extraordinary general meeting of the Company held on 12 January 2016, each existing share of the Company was subdivided into four subdivided shares. Immediately upon the share subdivision became effective on 13 January 2016 (the "share sub-division"), the Company had 1,446,780,000 shares in issue and fully paid.

(c) Pursuant to an ordinary resolution passed by shareholders at the annual general meeting of the Company held on 7 September 2017, the authorised share capital of the Company was increased to US$75,000 divided into 3,000,000,000 shares by creating 1,000,000,000 shares.

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 2017 Annual Financial Statements.

Set out below are details of movements of the outstanding share options granted under the Share Option Scheme during the period ended 30 September 2017:

		Number of share options				
	Exercise price	Balance as at at 1 April 2017	Lapsed during the period	Balance as at during 30 September of 2017	Date of grant of share options	Exercisable periods of share options
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	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

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

		Number of share options				
	Exercise price	Balance as at at 1 April 2017	Lapsed during the period	Balance as at 30 September of 2017	Date of grant of share options	Exercisable periods of share options
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 (*note 1*)	HK$1.02	1,400,000	–	1,400,000	3 July 2015	3 July 2015 to 2 July 2025
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	12,200,000	(600,000)	11,600,000	3 July 2015	3 July 2015 to 2 July 2025
	HK$0.748	60,187,800	(13,224,000)	46,963,800	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		**157,855,600**	**(13,824,000)**	**144,031,600**		

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

Note:

1. Mr. Wang Zhao resigned as a Non-executive Director of the Company on 27 November 2015.

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Equity settled schemes to employees (including Directors)	**5,501**	12,663
Equity settled schemes to eligible persons other than employees and Directors	**1,707**	3,172
	7,208	15,835

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.

The exercise price of the first share option outstanding was HK$0.25 and the weighted average remaining contractual life was 1.46 and 6.46 years (2016: 2.46 and 7.46 years). The exercise price of the second share option outstanding as at 30 September 2017 was HK$1.02 and the weighted average remaining contractual life was 7.76 years (2016: 8.76 years). The exercise price of the third share option outstanding as at 30 September 2017 was HK$0.748 (2016: HK$0.748) and the weighted average remaining contractual life was 8.48 years (2016: 9.48 years). Of the total number of share options outstanding as at 30 September 2017, 63,938,760 out of 144,031,600 share options had not vested and were not exercisable (31 March 2017: 109,714,920 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$0.76.

18. DIVIDENDS

At the Board meeting held on 28 November 2017, the Directors did not propose an interim dividend for the period ended 30 September 2017 (2016: Nil).

BUSINESS REVIEW

For the six months ended 30 September 2017 (the "**Current Period**"), there was a substantial improvement in the global economic sentiments compared with the six months ended 30 September 2016 (the "**Previous Period**"), with the uncertainty arising from the unexpected results of the U.S. Presidential Election and the referendum to exit the European Union by the United Kingdom generally subsiding. This has led to a general pick-up in the economic conditions as well as consumer sentiments in the western markets particularly in the United States where some of the Group's major clients are located. Locally, the Hong Kong securities markets have seen a substantial improvement in performance and primary market activities since January 2017, especially with increased capital inflows from investors in China taking advantage of the Shanghai and Shenzhen Stock-Connect channels.

During the Current Period, our Group continued to operate in the same core business divisions in toys (the "**Toy Division**"), financial services (the "**Financial Services Division**") and information technology (the "**IT Division**"). Owing to the general improvements in economic sentiments during the Current Period as highlighted above, the Toy Division enjoyed an improvement in its results for the Current Period when compared with the Previous Period. The Financial Services Division also continued to improve its contribution to the Group's top line primarily owing to its underwriting activities in the primary securities markets in Hong Kong during the Current Period. On the other hand, the performance of the IT Division continued to fall short of expectation which led to a further provision for the value of the intangible assets in the IT Division.

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 and segment profit of the Toy Division were HK$546.6 million and HK$26.4 million respectively, representing an increase of 11.0% and 57.8% respectively over the Previous Period. Contributions from the North American and the Greater China markets saw a substantial improvement mainly arising from generally strong consumer sentiments in these markets benefiting from more bullish economic environments there. The positive impact arising from the disposal of certain of the Group's previous subsidiaries serving mainly newer and smaller customers with less significant contribution to the Group in the last financial year also became more apparent as demonstrated in an improvement in the Toy Division's gross margin from 10.2% during the Previous Period to 11.0% during the Current Period. 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.

The Financial Services Division

During Current Period, the Hong Kong securities markets saw a noticeable improvement in its performance. Average daily turnover value of The Stock Exchange of Hong Kong increased by approximately 28.3% from about HK$74.2 billion in April 2017 to about HK$95.2 billion in September 2017. The market capitalization of the Hong Kong securities market also increased by about 15.4% during the Current Period from HK$27.2 trillion as of closing on 31 March 2017 to approximately HK$31.4 trillion as of closing on 30 September 2017. This increase in value was mainly driven by an improvement in corporate earnings and an increasing influx of capital from investors in China through the Shanghai and Shenzhen Stock Connect channels.

The securities brokerage services of the Financial Services Division continued to service mainly institutional and corporate brokerage clients during the Current Period. The Financial Services Division continued to participate actively in the primary issue markets during the Current Period and completed its first mandate as a sole bookrunner for the initial public offering of a client listed on the Main Board of the Stock Exchange of Hong Kong. Furthermore, the Financial Services Division also acted as placing agents for several bond issuances of listed companies in Hong Kong during the Current Period. These two activities contributed the majority of the revenues of the Financial Services Division during the Current Period.

Contributions from securities margin financings remained relatively immaterial during the Current Period as a substantial amount of the capital of the Financial Services Division remained secured for settlement purposes, thus limiting its capabilities to expand rapidly in areas requiring a more extensive deployment of capital. The Financial Services Division also recorded a fair value loss on financial assets at fair value through profit or loss of about HK$2.5 million when compared with a fair value gain of about HK$6.4 million during the Previous Period, which was a result of a decrease in the fair value of the investment portfolio of the Financial Services Division during the Current Period. We remain committed to seeking ways to expand the capital base of the Financial Services Division in order to increase its capacity to participate in more principal-based activities.

The IT Division

During the Current Period, the performance of the IT Division remained disappointing, generating revenue of approximately HK$0.6 million when compared with HK$1.1 million during the Previous Period and which was mainly derived from services rendered on mobile and web application development and other ancillary services on a project basis. The IT Division continued to face keen market competitions providing similar services and was further constrained by its own capital and human resource limits in product development. Given its struggling performances and negative business outlook, the Group will continue to operate the IT Division in a prudent manner with the objective of minimizing further capital outlay and implementing further cost rationalisation.

In view of the above, the Directors conducted an interim assessment of the intangible assets carried by the IT Division and decided a further provision of impairment loss on its intangible assets of approximately HK$11.7 million would be necessary with reference to the applicable business outlook and condition of the IT Division.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Current Period amounted to approximately HK$559.0 million, representing an increase of approximately HK$56.7 million or 11.3% as compared to that for the Previous Period of approximately HK$502.3 million. During the Current Period, the Toy Division, the Financial Services Division and the IT Division contributed approximately HK$546.6 million, HK$11.8 million and HK$0.6 million, respectively, to the Group's total revenue.

The increase in the Group's revenue for the Current Period of approximately HK$56.7 million was mainly attributable to the increase in revenue contributed by the Toy Division of approximately HK$54.0 million and the Financial Services Division of approximately HK$3.2 million. On the other hand, such increase in the Group's revenue was partially offset by the decrease in revenue for the Current Period of approximately HK$0.5 million from the IT Division as compared to that for the Previous Period.

The Toy Division's revenue for the Current Period increased by approximately 11.0% from about HK$492.6 million for the Previous Period to approximately HK$546.6 million. The increase in revenue was mainly attributable to the increase in orders placed by the customers from markets located in North America by approximately HK$27.9 million, PRC and Taiwan by approximately HK$21.3 million and other markets (namely Hong Kong, Africa, India, Japan, Korea, Puerto Rico, Russia and Southeast Asia) by approximately HK$5.5 million as compared to that of the Previous Period.

During the Current Period, revenue for the IT Division decreased by approximately HK$0.5 million or 45.0% from HK$1.1 million for the Previous Period to approximately HK$0.6 million for the Current Period. The revenue for the IT Division was mainly derived from services rendered on mobile and web application development projects and the decrease in revenue during the Current Period reflects the volatility and uncertainty in the scale and recurrence of IT projects taken on an individual basis, given such market continues to face keen competition in an evolving technology environment with an increasing number of new technology start-ups providing similar services.

Revenues for the Financial Services Division increased by approximately HK$3.2 million or 37.6% to HK$11.8 million during the Current Period when compared with approximately HK$8.6 million during the Previous Period. The increase in revenue for the Current Period was mainly due to an increase in underwriting commission received during the Current Period as the Financial Services Division completed its first mandate as a sole bookrunner in the initial public offering on the Main Board of The Stock Exchange of Hong Kong for an issuer client. The other major contributor of revenues for the Financial Services Division was placing commission generated on various bond placement activities for listed issuers in Hong Kong.

Gross Margin and Gross Profit

The Toy Division reported an increase in gross margin from approximately 10.2% for the Previous Period to approximately 11.0% for the Current Period. Gross profit of the Group for the Current Period increased by about 21.1% to approximately HK$72.3 million from HK$59.7 million for the Previous Period, representing an improvement in overall gross margin of the Group from about 11.8% in the Previous Period to about 12.9% in the Current Period. Improvement in gross margin for the Toy Division was mainly due to its effective cost control measures imposed during the Current Period as well as the cost saving resulted from the absence of fixed costs in maintaining the manufacturing plant of the Toy Division in the Current Period after the disposal of certain subsidiaries in the last financial year.

Selling Expenses

Selling expenses for the Toy Division mainly consisted of transportation fees and declaration fees. Selling expenses for the Toy Division increased by approximately HK$2.8 million or 17.7% from approximately HK$15.2 million for the Previous Period to approximately HK$18.0 million for the Current Period. Such increase was mainly due to increase in sales orders for the Current Period.

Administrative Expenses

Administrative expenses mainly consisted of salaries to employees, rents and rates for office spaces, depreciation on property, plant and equipment, and other administrative expenses. Administrative expenses decreased by approximately HK$17.0 million or 23.1% from approximately HK$73.6 million for the Previous Period to approximately HK$56.6 million for the Current Period. The significant decrease is primarily due to the decrease in administrative expenses attributable to the Financial Services Division during Current Period as a result of a reduction in staff costs by approximately HK$4.5 million as compared to approximately HK$20.9 for the Previous Period. Furthermore, there was a substantial decrease in costs arising from the equity settled share-based payment expenses related to the grant of share options of the Company of approximately HK$8.6 million as the number of remaining years of vesting period for the granted share options were significantly reduced during the Current Period as compared to that of the Previous Period.

Other Income and Gains

Other income and gains decreased to HK$3.3 million during the Current Period from approximately of HK$9.4 million for the Previous Period, representing a decrease of approximately HK$6.1 million or 65.5%. Such decrease was substantially attributable to a change from profit to loss on the fair value on financial assets at FVTPL arising from the principal trading activities of the Financial Services Division from a profit of approximately HK$6.4 million for the Previous Period to a loss of approximately HK$2.5 million for the Current Period.

Impairment Loss on Intangible Assets

As explained in the Business Review section, the performance of the IT Division remained disappointing, generating revenues of approximately HK$0.6 million during the Current Period when compared with HK$1.1 million during the Previous Period, representing a decrease of about 45.5% on a year-on-year basis. As the IT Division continued to face keen market competitions providing similar services and was further constrained by its own capital and human resource limits in product development, it remained highly uncertain whether its performance would show a substantial improvement in the foreseeable future. Furthermore, given the decision to minimize further capital outlays to the IT Division, it became increasingly difficult to retain talents in this division to develop new products addressing rapidly changing technologies and demands of clients. Therefore, the Directors decided to conduct an interim assessment of the intangible assets carried by the IT Division as part of the process in preparing the interim results of the Group.

The Group hired BMI Appraisals Limited, an independent valuer, to assess the value of the intangible assets of the IT Division as of the end of the Current Period. The Directors have made reference to the valuation report issued by the independent valuer for the calculation of the value of the intangible assets of the IT Division on the Group's consolidated balance sheet. BMI Appraisals Limited adopted the income approach for the assessment of the value of the intangible assets of the IT Division using the discounted cash flow method and applied a discount rate of about 19.9% (compared with 19.5% used as at 31 March 2017) estimated by the management. In view of the disappointing results of the IT Division during the Current Period and its negative business outlook, the Group's management adjusted further down the cash flow projections of the IT Division. The assessed result of the value of the intangible assets of the IT Division as of 30 September 2017 amounted to approximately HK$20.0 million, leading to an impairment loss on intangible assets of approximately HK$11.7 million being recorded by the Group during the Current Period.

Finance Costs

Finance costs mainly consisted of interest on the Group's interest-bearing bank borrowings, factoring arrangement from banks and the effective interest of the promissory notes and the convertible notes issued by the Company. Finance costs increased mildly by 1.9% to approximately HK$6.7 million for the Current Period when compared with approximately HK$6.6 million for the Previous Period, which was primarily due to the effective interest of the convertible notes issued by the Company in May 2017 and June 2017 charged during the Current Period of approximately HK$4.9 million (2016: HK$2.0 million) and the absence of the effective interest of the promissory notes issued by the Company in November 2015 during the Current Period as such promissory notes had already been fully repaid prior to the Current Period (2016: HK$2.1 million).

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 decreased by 31.8% to approximately HK$2.5 million for the Current Period, as compared with approximately HK$3.7 million for the Previous Period.

Net Loss

The Group's net loss for the Current Period amounted to approximately HK$20.0 million, representing a significant decrease by approximately HK$10.0 million or 33.5% as compared to approximately HK$30.0 million for the Previous Period. Such decrease was mainly attributable to (i) a significant improvement in the segment profit from the Toy Division by approximately HK$9.7 million or 57.8% arising from an increase in its revenue and gross profit margin; (ii) a decrease in segment loss of the Financial Services Division by approximately of HK$0.9 million or 5.8% as a result of an increase in its revenue and a decrease in its employee benefits expenses and (iii) a decrease in costs of approximately HK$8.6 million or 54.5% arising from the non-cash, equity settled share-based payment expenses related to the share options granted as a result of a decrease in the number of remaining years of vesting period for the granted share options for the Current Period as compared to the Previous Period. On the other hand, the above contribution to the loss reduction was partially offset by an increase in the segment loss of the IT Division by approximately HK$9.5 million or 150.9% mainly attributable to an impairment loss on its intangible assets of approximately HK$11.7 million.

Inventory

The inventory of the Group, comprising mainly inventory of the Toy Division, decreased slightly by 1.2% to approximately HK$90.9 million as at 30 September 2017 from approximately HK$92.0 million as at 31 March 2017. 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 34.1% from 53.0 days for the year ended 31 March 2017 to 34.3 days for the Current Period. The extent of decrease in inventory turnover period was consistent with that of the same period in 2016 due to the non-peak season and peak season of the toy manufacturing cycle ending in March and September, respectively, in each year.

Trade Receivables

Trade receivables from Toy Division and the IT Division increased to approximately HK$174.0 million as at 30 September 2017 from approximately HK$37.6 million at 31 March 2017, which was primarily due to the increase in sales for the Toy Division for the Current Period during the peak season of its business. 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 35.3 days for Current Period, as compared with 25.2 days for the year ended 31 March 2017. The increase in the trade receivables turnover days during the Current Period as compared to the year ended 31 March 2017 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 which decreased to approximately HK$3.8 million as at 30 September 2017 when compared to HK$7.1 million as at 31 March 2017, representing a decrease of approximately HK$3.3 million or 46.1%. The decrease in trade receivables as at 30 September 2017 was mainly due to a decrease in outstanding receivable from margin clients as at the end of the Current Period when compared with 31 March 2017. The settlement terms of accounts receivable arising from the Financial Services Division are typically one to two days after the trade date. All accounts receivable from cash clients were not past due at 30 September 2017.

Trade Payables

Trade payables from the Toy Division and the IT Division was increased to approximately HK$132.5 million as at 30 September 2017 when compared with approximately HK$52.7 million as at 31 March 2017, representing an increase of approximately HK$79.8 million or 151.5%, 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 and the IT 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 34.7 days for Current Period as compared with 21.0 days for the year ended 31 March 2017. The increase in the trade payables turnover days for the Current Period as compared to the year ended 31 March 2017 was mainly attributable to the increase in purchases of raw materials to cope with the increase in customers 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. 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 2017, such trade payables amounted to HK$102.5 million, representing a decrease by approximately 51.2% from approximately HK$210.1 million as at 31 March 2017. The decrease was mainly due to a decrease in outstanding trade settlements payable to counterparties in the securities brokerage business as at the end of the Current Period when compared with 31 March 2017.

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. Meanwhile, two tranches of 6% Convertible Bonds with a maturity of three years and outstanding principal amounts of HK$80.0 million and HK$30.0 million (together, the "2017 Convertible Notes"), respectively, were issued on 11 May 2017 and 2 June 2017, respectively. Net proceeds raised from the 2017

Convertible Notes were mainly utilized for the repayment of the convertible notes in the outstanding amount of for HK$58.0 million issued by the Company in December 2014 and working capital of the Financial Services Division. As at 30 September 2017, cash and cash equivalents of the Group amounted to approximately HK$240.7 million (31 March 2017: HK$130.0 million). The increase was mainly due to the increase in cash and cash equivalents in the Financial Services Division as a result of the net proceeds raised from the 2017 Convertible Notes being utilized for its settlement purpose in the dealing in securities business. As a result of the 2017 Convertible Notes, 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, increased to approximately 44.0% (31 March 2017: 21.0%). As at 30 September 2017, 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 1.87 (31 March 2017: 1.51).

CHARGE ON ASSETS

As at 30 September 2017, certain of the Group's banking facilities and its interest-bearing bank borrowings were secured by properties of the Group located in Hong Kong with an aggregate net book value of HK$6.2 million (31 March 2017: HK$6.2 million).

CONTINGENT LIABILITIES

As at 30 September 2017, the Group had no contingent liabilities (31 March 2017: Nil).

OPERATING LEASE ARRANGEMENTS

The Group leased certain of its office premises and a quarter for certain Directors under operating lease arrangements for terms ranging from one to two years. As at 30 September 2017, the total future minimum lease payments under non-cancellable operating leases due within one year and due in the second to fifth year inclusive amounted to approximately HK$11.9 million and HK$2.7 million respectively (31 March 2017: HK$13.0 million and HK$8.2 million).

The Group also leased an investment property under operating lease arrangements for a term of two years. The terms of leases generally also required the tenants to pay security deposits. As at 30 September 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants for approximately HK$1.3 million (31 March 2017: HK$2.0 million).

CAPITAL COMMITMENTS

As at 30 September 2017, there was no capital commitments of the Group (31 March 2017: Nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries and in listed securities held for trading in Hong Kong as detailed in note 13 to the interim condensed financial statements, the Group did not hold any significant investment in equity interest in any other company as at 30 September 2017.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the period ended 30 September 2017, 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 2017 and up to the date of this announcement, 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. Following the disposal of certain subsidiaries with operations in the People's Republic of China in October 2016, the Group was no longer directly exposed to RMB foreign currency risk. Notwithstanding the above, fluctuations in the RMB exchange rates may have an impact on the processing fees and sub-contracting fees paid to the Group's sub-contractors.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2017, the Group had a total of 72 employees (31 March 2017: 76). Total staff costs were approximately HK$38.1 million for the period ended 30 September 2017 (2016: HK$53.4 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 the chief executive officer 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

During the Current Period, the results of the Group's Toy Division showed a marked improvement as it captured the benefits of a more bullish consumer sentiment in the markets of its major customers. The positive impact from the disposal of some of the Group's loss-making operations in the last financial year also became more apparent in a slight improvement in the gross margins of the Toy Division during the Current Period. Going forward, the Toy Division will remain alert as its business continues to be highly susceptible to any volatility in the global macro environments. As its clientele spans the globe, the Toy Division needs to constantly review its market profile and be highly flexible in readjusting its customer focus in response to any changes in political and economic environments globally. On the cost side, it will continue to enhance its lean production approach and review strategies which will allow it to maintain a tight but flexible cost control. More focus will also be placed in further exploring business opportunities on products involving a technology component with existing customers or reliable, potential new customers. We hope these measures will allow the Toy Division to remain competitive in the rapidly changing global environments in the foreseeable future.

For the Financial Services Division, while we have seen a significant improvement in the securities markets in Hong Kong during this year, we remain cautiously optimistic in the business prospects of the Financial Services Division and will continue to focus on better fee-generating primary equity and debt market transactions in the small to mid-cap sectors. We will continue to explore with other financial institutions on a strategic basis to widen our liquidity options in order to provide the Financial Services Division with more capital flexibility, with the ultimate objective of enhancing the contribution from more lucrative principal-based activities, including securities margin financing and principal finance/investments opportunities.

For the IT Division, the Group will continue to adopt a prudent approach in order to reduce any further capital risk exposure of the Group in the business. The Group will explore with the management of the IT Division on the appropriate business focus and strategic options for the IT Division in order to minimize further operating losses and other feasible arrangements to preserve value for the Group in general.

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 2017.

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.

UPDATE OF DIRECTOR'S INFORMATION

There has been no update in the biographical details of the Directors further to those disclosed in the 2017 Annual Report of the Company.

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 2017 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 2017 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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2017/18 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 2017/18 interim report of the Company containing all information required by the Listing Rules will be published on the above websites and dispatched to the Shareholders on or about 20 December 2017.

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

Hong Kong, 28 November 2017

As at the date of this announcement, the Board comprises four executive Directors: Mr. Lau Ho Ming, Peter (Executive Chairman), Mr. Poon Pak Ki, Eric, Mr. Ng Kam Seng 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.