QUALI-SMART HOLDINGS LIMITED
滉達富控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1348)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2018

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 March 2018 (the "**Current Year**") was approximately HK$774.9 million, representing a decrease of approximately 1.3% from approximately HK$784.9 million for the year ended 31 March 2017 (the "**Previous Year**").
- Gross profit for the Current Year was approximately HK$108.0 million, representing an increase of approximately 16.2% from approximately HK$93.0 million for the Previous Year.
- Net loss for the Current Year amounted to approximately HK$47.2 million, as compared to a net loss of approximately HK$94.1 million for the Previous Year. Such decrease was mainly due to:

  (i) a significant improvement in the segment profit of the Toy Division by approximately HK$10.1 million or 43.3% as a result of an increase in the gross profit margin of this segment;

  (ii) a decrease in segment loss of the Financial Services Division by approximately of HK$9.0 million or 26.3% as a result of an increase in the revenue of this segment and a decrease in its employee benefits expenses;

  (iii) a decrease in costs of approximately HK$17.1 million or 55.9% 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 Year as compared to the Previous Year;

  (iv) a decrease in fair value loss on derivative financial asset of approximately HK$5.1 million for the Current Year following the full redemption of the convertible bonds issued in 2014; and;

  (v) a decrease in segment loss of the IT Division, a discontinued operation, of approximately HK$34.4 million from approximately HK$49.5 million for the Previous Year to approximately, HK$15.1 million for the Current Year as a result of a shorter period of consolidation of its results following the disposal of the IT Division by the Group at the end of December 2017, a decrease in impairment loss on goodwill and the intangible assets of approximately HK$25.9 million and a gain of disposal of subsidiaries of approximately HK$2.0 million.

  Such decrease in loss for the Current Year was partially offset by a decrease in gain on disposal of subsidiaries of approximately HK$9.9 million, a reversal in fair value change on the financial assets at fair value through profit and loss of approximately HK$5.7 million and an increase in finance costs of approximately HK$8.6 million arising from the new convertibles notes issued during the Current Year.
- The Board does not recommend the payment of final dividend for the year ended 31 March 2018.

* *For identification purpose only*

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Quali-Smart Holdings Limited (the "**Company**") is pleased to present the consolidated financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2018 together with the comparative figures for the preceding financial year in this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
			(Re-presented)
CONTINUING OPERATIONS			
REVENUE	5	**774,929**	784,871
Cost of sales		**(666,886)**	(691,909)
Gross profit		**108,043**	92,962
Other income, gains and losses	7	**11,544**	28,688
Selling expenses		**(24,585)**	(21,690)
Administrative expenses		**(103,983)**	(127,956)
Fair value loss on derivative financial asset		**–**	(5,129)
Finance costs	9	**(19,384)**	(10,800)
LOSS BEFORE INCOME TAX EXPENSE	8(a)	**(28,365)**	(43,925)
Income tax expense	10	**(6,146)**	(7,601)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(34,511)**	(51,526)
DISCONTINUED OPERATION			
LOSS FOR THE YEAR FROM A DISCONTINUED OPERATION	8(b)	**(12,658)**	(42,617)
LOSS FOR THE YEAR		**(47,169)**	(94,143)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME – CONTINUED

	Notes	Year ended 31 March **2018** *HK$'000*	2017 *HK$'000* (Re-presented)
LOSS FOR THE YEAR		**(47,169)**	(94,143)
Other comprehensive income that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**–**	(775)
Release of translation reserve upon disposal of subsidiaries		**–**	(3,017)
Fair value loss on available-for-sale investments		**(260)**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(47,429)**	(97,935)
Loss attributable to:			
Owners of the Company			
– Loss for the year from continuing operations		**(34,511)**	(51,526)
– Loss for the year from a discontinued operation		**(12,658)**	(42,617)
Loss for the year attributable to owners of the Company		**(47,169)**	(94,143)
Non-controlling interests			
– Loss for the year from continuing operations		**–**	–
– Loss for the year from a discontinued operation		**–**	–
Loss for the year attributable to non-controlling interests		**–**	–
		(47,169)	(94,143)
Total comprehensive income attributable to:			
Owners of the Company		**(47,429)**	(97,935)
Non-controlling interests		**–**	–
		(47,429)	(97,935)
Loss per share	12		
– Basic and diluted (HK cents)			
From continuing and discontinued operations		**(3.20)**	(6.48)
From continuing operations		**(2.34)**	(3.55)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 March	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**21,799**	16,231
Investment property		**6,700**	6,200
Goodwill	13	**184,783**	184,783
Intangible assets	14	**554**	34,505
Interests in a joint venture		**–**	–
Statutory deposit for financial service business		**1,335**	406
Promissory notes	19	**4,517**	–
Available-for-sale investments		**11,740**	–
Total non-current assets		**231,428**	242,125
CURRENT ASSETS			
Inventories	15	**94,575**	92,028
Trade receivables	16	**30,682**	44,666
Promissory notes	19	**4,015**	–
Financial assets at fair value through profit or loss		**11,538**	14,544
Prepayments, deposits and other receivables		**8,960**	66,556
Derivative financial asset		**–**	592
Cash and bank balances held on behalf of customers		**66,334**	204,358
Pledged bank deposits		**60,361**	–
Cash and cash equivalents		**141,184**	129,987
Total current assets		**417,649**	552,731
CURRENT LIABILITIES			
Trade payables	17	**111,103**	262,776
Receipts in advance, accruals and other payables		**18,794**	13,784
Interest-bearing bank borrowings	18	**13,916**	33,615
Convertible notes	20	**–**	54,944
Tax payables		**1,437**	2,115
Total current liabilities		**145,250**	367,234
NET CURRENT ASSETS		**272,399**	185,497
TOTAL ASSETS LESS CURRENT LIABILITIES		**503,827**	427,622

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – CONTINUED

		At 31 March	
		2018	2017
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**112**	5,763
Convertible notes	20	**73,984**	–
Total non-current liabilities		**74,096**	5,763
NET ASSETS		**429,731**	421,859
EQUITY			
Share capital	21	**287**	287
Reserves	22	**429,444**	420,982
		429,731	421,269
Non-controlling interests		**–**	590
Total equity		**429,731**	421,859

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the Company													
	Share capital	Share premium	Capital reserve	Statutory reserve	Translation reserve	Property revaluation reserve	Investment revaluation reserve	Other reserve	Share option reserve	Convertible notes equity reserve	Accumulated losses	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$'000*	*HK$'000*
1 April 2016	281	409,404	9,271	844	3,792	6,071	–	1,100	13,891	42,725	(5,621)	481,758	590	482,348
Exercise of share options	6	9,365	–	–	–	–	–	–	(2,507)	–	–	6,864	–	6,864
Equity settled share-based transactions *(note 23)*	–	–	–	–	–	–	–	–	30,682	–	–	30,682	–	30,682
Lapse of share options	–	–	–	–	–	–	–	–	(537)	–	537	–	–	–
Disposal of subsidiaries *(note 24)*	–	–	(9,271)	(844)	–	–	–	(100)	–	–	10,115	(100)	–	(100)
Loss for the year	–	–	–	–	–	–	–	–	–	–	(94,143)	(94,143)	–	(94,143)
Other comprehensive income														
Exchange differences arising on translation of foreign operations	–	–	–	–	(775)	–	–	–	–	–	–	(775)	–	(775)
Release of translation reserve upon disposal of subsidiaries	–	–	–	–	(3,017)	–	–	–	–	–	–	(3,017)	–	(3,017)
Total comprehensive income for the year	–	–	–	–	(3,792)	–	–	–	–	–	(94,143)	(97,935)	–	(97,935)
At 31 March 2017 and 1 April 2017	**287**	**418,769**	**–**	**–**	**–**	**6,071**	**–**	**1,000**	**41,529**	**42,725**	**(89,112)**	**421,269**	**590**	**421,859**
Equity settled share-based transactions *(note 23)*	–	–	–	–	–	–	–	–	13,541	–	–	13,541	–	13,541
Lapse of share options	–	–	–	–	–	–	–	–	(4,883)	–	4,883	–	–	–
Early redemption of convertible notes	–	–	–	–	–	–	–	–	–	(42,725)	39,187	(3,538)	–	(3,538)
Disposal of subsidiaries *(note 24)*	–	–	–	–	–	–	–	–	–	–	–	–	(590)	(590)
Issue of convertible notes	–	–	–	–	–	–	–	–	–	45,888	–	45,888	–	45,888
Loss for the year	–	–	–	–	–	–	--	–	–	–	(47,169)	(47,169)	–	(47,169)
Other comprehensive income														
Fair value loss on available-for-sale investments	–	–	–	–	–	–	(260)	–	–	–	–	(260)	–	(260)
Total comprehensive income for the year	–	–	–	–	–	–	(260)	–	–	–	(47,169)	(47,429)	–	(47,429)
At 31 March 2018	**287**	**418,769**	**–**	**–**	**–**	**6,071**	**(260)**	**1,000**	**50,187**	**45,888**	**(92,211)**	**429,731**	**–**	**429,731**

NOTES TO FINANCIAL INFORMATION

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").

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 April 2017

The Group has adopted the following new/revised HKFRSs for the first time for the financial year beginning 1 April 2017:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 12, Disclosure of Interests in Other Entities

Amendments to HKAS 7 – Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The adoption of the amendments has led to the additional disclosure presented in the notes to the consolidated statements of cash flow. No comparative information for the preceding period is required when the amendment was first adopted.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured of fair value.

The adoption of the amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously recognised deferred tax assets.

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(a) Adoption of new/revised HKFRSs – effective 1 April 2017 – CONTINUED

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 12, Disclosure of Interests in Other Entities

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 12, Disclosure of Interests in Other Entities, to clarify that the disclosure requirements of HKFRS 12, other than the requirements to disclose summarised financial information, also apply to an entity's interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations.

The adoption of the amendments to HKFRS 12 has no impact on these financial statements as the latter treatment is consistent with the manner in which the Group has previously dealt with disclosures relating to its interests in other entities classified as held for sale or discontinued operations in accordance with HKFRS 5.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures[1]
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[1]
HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers[1]
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combination[2]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 11, Joint Arrangement[2]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[2]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 23, Borrowing Cost[2]

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(b) New/revised HKFRSs that have been issued but are not yet effective – Continued

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continues to be permitted.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures, clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

Amendments to HKFRS 2 – Classification and Measurement of Share-Based Payment Transactions

The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

Amendments to HKAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The Interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The Interpretations specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(b) New/revised HKFRSs that have been issued but are not yet effective – Continued

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combination

The amendment clarifies that, if and when an entity subsequently obtains control, it must remeasure its previously held interest at the acquisition-date fair value. The entity recognises any difference between the joint operation's acquisition-date fair value and previous carrying value as a gain or loss.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 11, Joint Arrangement

The amendment addresses situations in which an entity is a party to a joint arrangement that is a joint operation but, importantly, does not have joint control of the joint operation and subsequently obtains joint control. The amendment clarifies that if and when the entity subsequently obtains joint control, it must not remeasure its previously held interest.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendment clarifies that the income tax consequences (if any) of dividends as defined in HKFRS 9 (i.e. distributions of profits to holders of equity instruments in proportion to their holdings) must be recognised:

- at the same time as the liability to pay those dividends is recognised; and
- in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(b) New/revised HKFRSs that have been issued but are not yet effective – Continued

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 23, Borrowing Costs

The amendment clarifies that once a qualifying asset funded through specific borrowings becomes ready for its intended use or sale (such that borrowing costs incurred on the specific borrowings can no longer be capitalised as part of the cost of that qualifying asset), those borrowings then become part of the pool of general borrowings.

Except as described below, the Directors anticipate that the application of the above new or amended HKFRSs will have no material impact on the consolidated financial statements.

HKFRS 9 – Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

The management expects to continue measuring at fair value all financial assets currently held at fair value. Certain investment currently held as available-for-sale with gains and losses recorded in other comprehensive income will be categorised into financial assets measured at FVTOCI and the investment revaluation reserve of HK$260,000 related to the investments will be retained since this financial asset satisfies the contractual cash flow characteristics tests, and is held within a business model whose objective is achieved by both collecting contractual cash flows and selling this debt instrument in the open market.

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(b) New/revised HKFRSs that have been issued but are not yet effective – Continued

HKFRS 9 – Financial Instruments – Continued

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group has analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under HKFRS 9. Therefore, reclassification for these instruments is not required.

HKFRS 9 requires the Group to record expected credit losses on all of its assets measured at amortised cost, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on trade receivables. The Directors have assessed that the increase in impairment provision will not be significant to the Group.

HKFRS 15 – Revenue from Contracts with customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligation
Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

(b) New/revised HKFRSs that have been issued but are not yet effective – Continued

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15) – Continued

The Directors have assessed its performance obligations of manufacturing and sales of toys and financial services pursuant to HKFRS 15 and has concluded that there are no significant differences on the timing and amounts of revenue recognised for these revenue streams in the respective reporting periods. The principles of principal and agent pursuant to HKFRS 15 do not have much difference with those currently applied by the Group in accordance with HKAS 18. Accordingly, the implementation of the HKFRS 15 would not result in any significant impact on the Group's financial position and results of operations. However, the application of HKFRS 15 may result in more disclosures in the consolidated financial statements.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases "and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 March 2018, the Group has non-cancellable operating lease commitments of approximately HK$8,290,000. HKAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments. An assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. The new requirement to recognise a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognised in the Group's consolidated statement of financial position. However, the adoption would not have significant impact on the Group's financial performance.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs (which collective terms include all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA. The consolidated financial statements also include the applicable disclosures requirements of the Hong Kong Companies Ordinance and the applicable Rules Governing the Listing of Securities the Stock Exchange (the "Listing Rules").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for:

– investment property;

– financial assets at fair value through profit or loss;

– derivative financial asset; and

– available-for-sale investments.

which are stated at fair values. It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

(c) Functional and presentation currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

4. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (“the Group”). Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group’s previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree’s identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group’s interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest’s share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the provision of financial services. An analysis of revenue is as follows:

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Manufacturing and sales of goods	**752,719**	768,097
Financial services	**22,210**	16,774
	774,929	784,871
Discontinued operation		
Digital publishing, mobile and web application solutions	**1,061**	2,833
	775,990	787,704

6. 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. During the year ended 31 March 2018, the Group disposed of its digital publishing, mobile and web application solutions segment which is presented as a discontinued operation, more details are set out in note 24. 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 (the "PMT Group"); and

– Securities brokerage, securities margin financing, investment advisory, corporate finance and asset management services ("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, other income, gains and losses, costs and expenditures directly attributable to each operating segment. Central administrative cost 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. The following is an analysis of the Group's revenue and results by reporting segment for the year:

6. OPERATING SEGMENT INFORMATION – CONTINUED

(a) Reportable segments – Continued

Segment revenue and results

	Continuing operations			Discontinued Operation	
	Manufacturing and sales of toys *HK$'000*	**Financial services** *HK$'000*	**Total** *HK$'000*	**Digital publishing, mobile and web application solutions** *HK$'000* *(note 8(b))*	**Total** *HK$'000*
For the year ended 31 March 2018					
External revenue	**752,719**	**22,210**	**774,929**	**1,061**	**775,990**
Segment profit/(loss)	**33,299**	**(25,157)**	**8,142**	**(15,068)**	**(6,926)**
Corporate income – Others					**1,364**
Central administrative cost*					**(7,858)**
Equity settled share-based payment expenses					**(13,541)**
Finance cost					**(16,472)**
Loss before income tax expense					**(43,433)**
Represented by:					
– from continuing operations					**(28,365)**
– from a discontinued operation					**(15,068)**
					(43,433)

6. OPERATING SEGMENT INFORMATION – CONTINUED

(a) Reportable segments – Continued

	Continuing operations			Discontinued Operation	
	Manufacturing and sales of toys *HK$'000*	Financial services *HK$'000*	Total *HK$'000*	Digital publishing, mobile and web application solutions *HK$'000* *(note 8(b))*	Total *HK$'000*
For the year ended 31 March 2017 (Re-presented)					
External revenue	768,097	16,774	784,871	2,833	787,704
Segment profit/(loss)	23,240	(34,129)	(10,889)	(49,511)	(60,400)
Corporate income					
– Others					15,285
Central administrative cost*					(5,225)
Equity settled share-based payment expenses					(30,682)
Finance costs					(7,285)
Fair value change in derivative financial asset					(5,129)
Loss before income tax expense					(93,436)
Represented by:					
– from continuing operations					(43,925)
– from a discontinued operation					(49,511)
					(93,436)

* Central administrative cost mainly includes directors' remuneration (excluding equity settled share-based payment expenses to directors) and legal and professional fees.

Segment profit/(loss) represents the profit or (loss) earned by each segment without allocation of corporate income, fair value change in derivative financial asset, equity settled share-based payment and central administrative cost. This is the information reported to the chief operating decision-maker for the purpose of resource allocation and performance assessment.

6. OPERATING SEGMENT INFORMATION – CONTINUED

(a) Reportable segments – Continued

Segment assets

All assets are allocated to reportable segments other than promissory notes, prepayment, tax recoverable, derivative financial asset and cash and cash equivalents.

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
Manufacturing and sales of toys	**147,499**	150,164
Digital publishing, mobile and web application solutions	**–**	34,964
Financial services	**347,455**	475,726
Total segment assets	**494,954**	660,854
Unallocated	**154,123**	134,002
Consolidated assets	**649,077**	794,856

Segment liabilities

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

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
Manufacturing and sales of toys	**69,662**	98,041
Digital publishing, mobile and web application solutions	**–**	1,594
Financial services	**71,823**	210,540
Total segment liabilities	**141,485**	310,175
Unallocated	**77,861**	62,822
Consolidated liabilities	**219,346**	372,997

6. 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 year ended 31 March 2018

	Continuing operations			**Discontinued operation**	
	Manufacturing and sales of toys *HK$'000*	**Financial services** *HK$'000*	**Total** *HK$'000*	**Digital publishing, mobile and web application solutions** *HK$'000*	**Total** *HK$'000*
Additions to property, plant and equipment	**22,494**	**8**	**22,502**	**4**	**22,506**
Depreciation of property, plant and equipment	**(16,287)**	**(558)**	**(16,845)**	**(44)**	**(16,889)**
Loss on disposal of property, plant and equipment	**(15)**	**–**	**(15)**	**–**	**(15)**
Loss on disposal of intangible assets	**–**	**(25)**	**(25)**	**–**	**(25)**
Amortisation of intangible assets	**–**	**–**	**–**	**(2,877)**	**(2,877)**
Impairment loss on intangible assets	**–**	**–**	**–**	**(11,728)**	**(11,728)**
Fair value loss on financial assets through profit or loss	**–**	**(3,006)**	**(3,006)**	**–**	**(3,006)**
Interest expenses	**(2,895)**	**(17)**	**(2,912)**	**(2)**	**(2,914)**

For the year ended 31 March 2017

	Continuing operations			Discontinued operation	
	Manufacturing and sales of toys *HK$'000*	Financial services *HK$'000*	Total *HK$'000*	Digital publishing, mobile and web application solutions *HK$'000*	Total *HK$'000*
Additions to property, plant and equipment	7,811	25	7,836	29	7,865
Depreciation of property, plant and equipment	(17,291)	(671)	(17,962)	(149)	(18,111)
Loss and disposal of property, plant and equipment	–	(54)	(54)	–	(54)
Amortisation of prepaid lease payments	(104)	–	(104)	–	(104)
Amortisation of intangible assets	–	–	–	(8,790)	(8,790)
Impairment loss on goodwill	–	–	–	(3,695)	(3,695)
Impairment loss on intangible assets	–	–	–	(33,889)	(33,889)
Fair value gain on financial assets through profit or loss	–	2,737	2,737	–	2,737
Bad debt recovery	787	–	787	–	787
Interest expenses	(2,546)	(969)	(3,515)	(1)	(3,516)

6. **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 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 other than statutory deposit for Financial service business, promissory notes and available-for-sale investments (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

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
North America *(note 1)*	**451,114**	462,614
Western Europe		
– United Kingdom	**63,530**	60,693
– France	**27,032**	27,718
– Netherland	**4,537**	5,006
– Others *(note 2)*	**52,427**	48,471
PRC and Taiwan	**75,196**	84,814
Central America, Caribbean and Mexico	**24,772**	22,318
South America	**8,724**	14,218
Australia, New Zealand and Pacific Islands	**21,664**	14,860
Others *(note 3)*	**45,933**	44,159
	774,929	784,871
Discontinued operation		
Others *(note 3)*	**1,061**	2,833
Total	**775,990**	787,704

Note 1: North America includes United States of America and Canada.

Note 2: Others include Germany, Belgium, Italy, Czech Republic and Spain.

Note 3: Others include Hong Kong, Africa, India, Japan, Korea, Israel, Saudi Arabia and Southeast Asia.

6. OPERATING SEGMENT INFORMATION – CONTINUED

(b) Geographical information – continued

(ii) Specified non-current assets

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
Mainland China, the PRC	**21,317**	14,925
Hong Kong	**192,519**	226,794
Total	**213,836**	241,719

(c) Information about major customers

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

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Continuing operations		
Customer A	**291,873**	245,142
Customer B	**267,066**	247,759
Customer C*	**–**	125,451
Customer D	**102,375**	82,599
Total	**661,314**	700,951

* The customer contributed less than 10% of the Group's revenue during the year ended 31 March 2018.

7. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Other income		
Continuing operations		
Interest income from bank deposits	**441**	16
Interest income from available-for-sale investments	**280**	660
Interest income from loans	**798**	–
Interest income from promissory notes	**32**	–
Moulding income	**4,255**	4,159
Rental income	**1,380**	911
	7,186	5,746
Other gains and losses		
Continuing operations		
Exchange gains, net	**3,540**	297
Gain on disposal of subsidiaries	**–**	11,877
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(3,006)**	2,737
Gain on changes in fair value of investment property	**500**	–
Loss on early redemption of promissory notes	**–**	(887)
Gain on extension of convertible notes	**–**	4,242
Gain on early redemption of convertible notes	**1,332**	–
Loss on disposal of property, plant and equipment	**(15)**	(54)
Bad debt recovery	**–**	787
Others	**2,007**	3,943
	4,358	22,942
Other income, gains and losses	**11,544**	28,688

8. LOSS BEFORE INCOME TAX EXPENSE

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

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Cost of inventories sold	**666,886**	691,909
Depreciation of property, plant and equipment	**16,845**	17,964
Amortisation of prepaid land lease payments	**–**	104
Employee benefits expenses (excluding Directors' remuneration):		
Wages and salaries	**35,324**	51,728
Equity settled share-based payment expenses to employees	**5,696**	14,030
Pension scheme contributions	**1,018**	2,161
Other benefits	**2,314**	3,542
	44,352	71,461
Fair value loss on derivative financial asset	**–**	5,129
Equity settled share-based payment expenses to eligible persons other than employees and Directors	**3,006**	6,331
Auditor's remuneration	**2,988**	1,588
Operating lease charges in respect of land and buildings	**11,555**	11,687

(b) Discontinued operation

On 14 December 2017, the Company, as vendor, entered into a sale and purchase agreement with Octagon Special Opportunities Limited, as a purchaser, an independent third party, to dispose of the entire issued share capital of New Creation Global Limited ("New Creation") at a consideration of HK$16,500,000. New Creation is an investment holding company which holds Pulse Mediatech Limited that is principally engaged in provision of digital publishing and the development of mobile and web application solutions. The disposal was completed on 29 December 2017, the date on which the control of New Creation passed to the purchaser. The sales, results, and cash flows of the discontinued operation were as follows and the net assets of the discontinued operation at the date of disposal are disclosed in note 24 to the consolidated financial statements:

8. LOSS BEFORE INCOME TAX EXPENSE – CONTINUED

(b) Discontinued operation – Continued

	For the period from 1 April 2017 to the date of disposal	Year ended 31 March 2017
	HK$'000	*HK$'000*
Revenue	1,061	2,833
Cost of sales	(769)	(2,003)
Gross profit	292	830
Other income, gains and losses	15	42
Administrative expenses	(5,625)	(12,798)
Impairment loss on goodwill	–	(3,695)
Impairment loss on intangible assets	(11,728)	(33,889)
Finance costs	(2)	(1)
Loss before income tax credit	(17,048)	(49,511)
Income tax credit	2,410	6,894
	(14,638)	(42,617)
Gain on disposal of subsidiaries	1,980	–
Loss for the period/year from a discontinued operation	(12,658)	(42,617)
Net cash used in operating activities	(1,662)	(5,893)
Net cash used in investing activities	(4)	(29)
Net cash generated from financing activities	1,686	5,492
Net cash inflow/(outflow) of a discontinued operation	20	(430)

For the purpose of presenting the discontinued operation, the comparative consolidated income statement and the related notes have been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period.

8. LOSS BEFORE INCOME TAX EXPENSE – CONTINUED

(b) Discontinued operation – Continued

Loss before income tax credit from the discontinued operation is arrived at after charging:

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Discontinued operation		
Cost of sales	**769**	2,003
Depreciation of property, plant and equipment	**44**	149
Amortisation of intangible assets	**2,877**	8,790
Employee benefits expenses (excluding Directors' remuneration):		
Wages and salaries	**2,190**	3,471
Equity settled share-based payment expenses to employees	**82**	194
Pension scheme contributions	**88**	134
Other benefits	**14**	790
	2,374	4,589
Auditor's remuneration	**–**	180
Impairment loss on goodwill	**–**	3,695
Impairment loss on intangible assets	**11,728**	33,889

9. FINANCE COSTS

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Interest on bank and other borrowings:		
– Bank borrowings	**2,895**	2,546
– Promissory notes	**–**	3,363
– Convertible notes	**16,472**	4,131
– Bank overdrafts	**17**	760
	19,384	10,800

10. 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 year (2017: 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 year ended 31 March 2017 was 25% on its taxable profit.

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

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Continuing operations		
Current – Hong Kong		
Charge for the year	**6,651**	6,886
(Over)/under provision in prior years	**(453)**	518
	6,198	7,404
Current – the PRC		
Charge for the year	**–**	197
Deferred tax credit	**(52)**	–
	6,146	7,601

10. INCOME TAX EXPENSE – CONTINUED

The income tax expense for the year can be reconciled to the loss before income tax expense per the consolidated statement of profit or loss and other comprehensive income as follows:

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Loss before income tax expense from continuing operations	**(28,365)**	(43,925)
Tax at the applicable tax rate of 16.5% (2017: 16.5%)	**(4,680)**	(7,248)
Effect of different tax rate of a subsidiary operating in other jurisdiction	**–**	44
Tax effect of revenue not taxable for tax purposes	**(448)**	(3,316)
Tax effect of expenses not deductible for tax purposes	**7,611**	10,573
Tax effect of tax loss not recognised	**4,368**	6,377
Tax effect of temporary difference not recognised	**(59)**	653
Utilisation of tax losses previously not recognised	**(194)**	–
(Over)/under provision in prior years	**(452)**	518
Income tax expense	**6,146**	7,601

No deferred tax asset has been recognised in respect of the unused tax losses of HK$83,467,000 (2017: HK$76,218,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

11. DIVIDENDS

No dividend was paid or proposed during the year ended 31 March 2018, nor has any dividend been proposed since the end of reporting period (2017: Nil).

12. LOSS PER SHARE

For continuing and discontinued operations

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

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
		(Re-presented)
Loss for the year from continuing and discontinued operations attributable to the owners of a Company	**(47,169)**	(94,143)
Less: Loss for the year from a discontinued operation	**12,658**	42,617
Loss for the purpose of basic and diluted loss from continuing operations	**(34,511)**	(51,526)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,474,232,000**	1,452,276,833

The calculation of basic loss per share attributable to the owners of the Company is based on the loss for the year ended 31 March 2018 of approximately HK$47,169,000 (2017: HK$94,143,000), and of the weighted average number of 1,474,232,000 (2017: 1,452,276,833) ordinary shares in issue during the year.

Diluted loss per share is the same as basic loss per share for the year ended 31 March 2018 (2017: 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 year ended 31 March 2018 (2017: anti-dilutive).

There is no dilutive effect on the convertible notes as they are anti-dilutive (2017: anti-dilutive).

On 23 February 2018, (a) the Company and (b) Zhongtai International Investment Group Limited, Taifu Capital Investments Limited and Great Boom Group Limited (together, the "Subscribers") entered into a subscription agreement (the "Subscription Agreement") pursuant to which the Company conditionally agreed to allot and issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 2,283,848,000 new ordinary shares of the Company, for an aggregate consideration of HK$799,346,800 in cash at the subscription price of HK$0.35 per subscription share. Completion of the transactions contemplated under the Subscription Agreement is subject to the satisfaction of various conditions precedent as set out in the announcement of the Company dated 25 Feburary 2018 ("Joint Announcement"). As at date of this announcement, such conditions precedent have not yet been satisfied in full and completion of the Subscription Agreement has not yet taken place. These potential contingently issuable shares are anti-dilutive.

For a discontinued operation

Basic and diluted loss per share for the discontinued operation is approximately HK cents 0.86 per share (2017: loss per share of HK cents 2.93), based on the loss for the year ended 31 March 2018 from the discontinued operation of approximately HK$12,658,000 (2017: loss of HK$42,617,000) and the denominators detailed above for both basic and diluted loss per share.

13. GOODWILL

The amount of goodwill capitalised as an asset recognised in the consolidated statement of financial position, arising from business combinations, is as follows:

	Digital publishing, mobile and web application solutions *HK$'000* *(note a)*	**Financial services** *HK$'000* *(note b)*	**Total** *HK$'000*
Cost			
At 1 April 2016, 31 March 2017 and 1 April 2017	51,759	184,783	236,542
Disposal of subsidiaries *(note 24)*	(51,759)	–	(51,759)
At 31 March 2018	–	184,783	184,783
Impairment			
At 1 April 2016	(48,064)	–	(48,064)
Impairment loss	(3,695)	–	(3,695)
At 31 March 2017 and 1 April 2017	(51,759)	–	(51,759)
Disposal of subsidiaries *(note 24)*	51,759	–	51,759
At 31 March 2018	–	–	–
Carrying value			
At 31 March 2018	–	184,783	184,783
At 31 March 2017	–	184,783	184,783

In accordance with HKAS 36 "Impairment of assets", management of the Group engaged an independent valuer, BMI Appraisal Limited to perform impairment test for goodwill allocated to the Group's various cash generating units ("CGUs") by comparing their recoverable amounts to their carrying amounts at the end of the reporting period. The recoverable amount of a CGU is determined based on value-in-use calculation and fair value less cost to disposal.

13. GOODWILL – CONTINUED

(a) For the year ended 31 March 2017, the recoverable amount of the CGU in relation to digital publishing, mobile and web application solutions was approximately HK$34,000,000 and determined from value-in-use calculation based on cash flow projections from formally approved budgets, covering a detailed five-year budget plans, and discount rate of 19.5% estimated by the management. Growth rate used to extrapolate the cash flows beyond the five-year budget plan is 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 year ended 31 March 2017, as a result of losing certain customers, fierce competition for talents in the information technology industry and decrease in demand for digital publishing and digital marketing campaign, 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 goodwill of approximately HK$3,695,000.

(b) Approximately HK$180,737,000 and HK$4,046,000 of goodwill were arisen from acquisition of Crosby Securities Limited ("CSL") and Crosby Asset Management (Hong Kong) Limited ("CAM") respectively during the year ended 31 March 2016, which are allocated to two different CGUs for impairment assessment.

As at 31 March 2018, the recoverable amount of the CGU in relation to CSL was determined from value-in-use calculation based on cash flow projections from formally approved budgets, covering a detailed five-year budget plan, and discount rate of 19.3% (2017: 20.0%) estimated by the management. Growth rate used to extrapolate the cash flows beyond the five-year budget plan is 3% (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 its past performance, its business plans and outlook and its expectations for the industry development. During the year ended 31 March 2018, no impairment was provided on goodwill for CSL as the recoverable amount exceeded the carrying amount of the CGU (2017: HK$ Nil).

As at 31 March 2018, the recoverable amount of the CGU in relation to CAM was based on fair values less costs to disposal using direct comparison approach by reference to recent sales of similar companies that have similar business model to CAM. Other key estimation included the cost of disposal based on estimation by the management of the Group. During the year ended 31 March 2018, no impairment was provided on goodwill for CAM as the recoverable amount exceeded the carrying amount of the CGU (2017: HK$ Nil).

The level in the fair value hierarchy in arriving the above recoverable amount is considered under Level 3. The fair value of CAM is determined using direct comparison approach by reference to recent sales price of comparable companies that have similar business model to CAM, adjusted for a discount specific to uncertainty on expected profitability of CAM compared to the recent sales. Higher discount for uncertainty on expected profitability will result in a lower fair value measurement, and vice versa.

Significant unobservable inputs	**Range**
Discount for uncertainty on expected profitability	10% (2017: 5%)

All the discount rates used above are pre-tax and reflect specific risks relating to the relevant CGU.

14. INTANGIBLE ASSETS

	Mobile and web application technologies *HK$'000* *(note a)*	Trading rights, trademarks and website *HK$'000* *(note b)*	Total *HK$'000*
Cost:			
At 1 April 2016	87,900	546	88,446
Additions	–	33	33
At 31 March 2017 and 1 April 2017	87,900	579	88,479
Disposal of subsidiaries *(note 24)*	(87,900)	–	(87,900)
Disposals	–	(25)	(25)
At 31 March 2018	–	554	554
Accumulated amortisation			
At 1 April 2016	(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	(53,974)	–	(53,974)
Amortisation for the year	(2,877)	–	(2,877)
Impairment loss	(11,728)	–	(11,728)
Disposal of subsidiaries *(note 24)*	68,579	–	68,579
At 31 March 2018	–	–	–
Carrying value:			
At 31 March 2018	–	554	554
At 31 March 2017	33,926	579	34,505

Notes:

(a) Intangible assets comprised mobile and web application technologies acquired through the acquisition of the entire interest in the 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; and (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.

14. INTANGIBLE ASSETS – CONTINUED

Notes: – CONTINUED

(a) – CONTINUED

During the period from 1 April 2017 to the 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 as at 30 September 2017 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) was recorded. The recoverable amount of the mobile and web application technologies was determined 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 3.0% (31 March 2017: 3.0%) 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 its past performance, its business plans and outlook and its expectations for the industry development.

(b) Trading rights confer rights to CSL to trade securities contracts on or through The Stock Exchange of Hong Kong Limited such that CSL can conduct its securities brokerage business. Trademarks represent the rights to use the name "Crosby" and the various trademarks of CSL for the purposes of conducting the regulated activities. Website allows CSL to provide a platform to its customers to trade securities online.

Trading rights, trademarks and website are considered by the Directors as having indefinite useful lives because there is no foreseeable limit on the period over which the trading rights, trademarks and website are expected to generate cash flows to the CSL. Trading rights, trademarks and website are not amortised until their useful lives are determined to be finite. Instead, they are tested for impairment annually and whenever there is an indication that it may be impaired.

As at 31 March 2018, the recoverable amounts of the trading rights, trademarks and website with indefinite useful life have been determinate based on a value-in-use calculation, which reference to a valuation performed by an independent professional valuer, BMI Appraisal Limited. The value-in-use calculation based on cash flow projections from formally approved budgets, covering a detailed five-year budget plan, and discount rate of 19.3% (2017: 20.0%) estimated by the management. Growth rate used to extrapolate the cash flow beyond the five-year budget plan is 3.0% (2017: 3.0%) 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 its past performance, its business plans and outlook and its expectations for the industry development. During the year ended 31 March 2018, no impairment was provided on trading rights, trademarks and website as the recoverable amount exceeded their carrying amount (2017: HK$ Nil).

All the discount rate used above are pre-tax and reflect specific risks relating to the relevant industry.

15. INVENTORIES

	At 31 March 2018 HK$'000	2017 HK$'000
Raw materials	**63,755**	56,349
Finished goods	**30,820**	35,679
	94,575	92,028

16. TRADE RECEIVABLES

	At 31 March 2018 HK$'000	2017 HK$'000
Trade receivables from financial services segment	**6,550**	7,051
Trade receivables from toys and information technology segments	**24,132**	37,615
	30,682	44,666

Trade receivables from Financial services segment

	At 31 March 2018 HK$'000	2017 HK$'000
Accounts receivable arising from the ordinary course of business of securities brokerage and margin financing:		
– Cash clients	**4,110**	1,312
– Clearing house	**673**	943
– Brokers	**–**	473
– Margin clients	**9**	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
	7,210	7,711
Less: Allowance for impairment loss	**(660)**	(660)
	6,550	7,051

16. TRADE RECEIVABLES – CONTINUED

Trade receivables from Financial services segment – 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 31 March	
	2018	2017
	HK$'000	*HK$'000*
On demand	**9**	3,023
Current – 30 days	**4,783**	3,778
61 – 90 days	**–**	250
Over 90 days	**1,758**	–
	6,550	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 31 March	
	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**4,792**	7,051
Past due more than six months but less than one year	**195**	–
Past due more than one years but less than two years	**1,563**	–
	6,550	7,051

The movements of impairment loss on trade receivables of the Financial services segment are as follows:

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
At 1 April	**660**	660
Impairment loss recognised	**–**	–
At 31 March	**660**	660

As 31 March 2018, trade receivables of approximately HK$1,758,000 (2017: HK$ Nil) were past due but not impaired. 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.

16. 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.

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 31 March 2018, the market value of securities pledged by clients to the Group as collateral against margin client receivables was approximately HK35,256,000 (2017: HK$23,316,000). The amounts due from margin clients are repayable on demand and carry interest at a range from 8% to 9% per annum.

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.

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

Trade receivables from toys and information technology segments

The credit period on sales of goods ranges 30–90 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 31 March	
	2018	2017
	HK$'000	*HK$'000*
Current to 30 days	**19,029**	27,115
31 to 60 days	**2,237**	2,093
61 to 90 days	**2,728**	7,419
Over 90 days	**138**	988
	24,132	37,615

16. TRADE RECEIVABLES – CONTINUED

Trade receivables from toys and information technology segments – Continued

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

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**21,762**	26,497
Less than 1 month past due	**2,370**	4,956
1 to 3 months past due	**–**	5,845
Over 3 months past due	**–**	317
	24,132	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.

17. TRADE PAYABLES

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
Trade payables from Financial services segment	**70,946**	210,082
Trade payables from toys and information technology segments	**40,157**	52,694
	111,103	262,776

17. TRADE PAYABLES – CONTINUED

Trade payables from Financial services segment

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
Accounts payable arising from the ordinary course of business of securities brokerage and margin financing:		
– Cash clients	**70,946**	205,480
– Margin clients	**–**	291
– Brokers and clearing house	**–**	4,311
	70,946	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 31 March 2018, included in trade payable was an amount of approximately HK$66,334,000 (2017: HK$204,358,000) payable to clients and 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.

Trade payables from toys and information technology segments

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 31 March	
	2018	2017
	HK$'000	*HK$'000*
Current to 30 days	**27,424**	42,092
31 to 60 days	**9,582**	8,408
61 to 90 days	**2,930**	1,801
91 to 365 days	**–**	244
More than one year	**221**	149
	40,157	52,694

18. INTEREST-BEARING BANK BORROWINGS

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
Current		
Secured		
– bank loans due for repayment within one year	**13,916**	33,615

The Group's banking facilities and its interest-bearing bank borrowings are secured by:

(i) An investment property of the Group with aggregate net book value of HK$6,700,000 (2017: HK$6,200,000); and

(ii) Company's corporate guarantees and cross guarantees from the Company's subsidiary, which is Qualiman Industrial Co. Limited (2017: Qualiman Industrial Co. Limited).

At 31 March 2018 and 2017, total bank borrowings were on demand or repayable within one year.

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; (ii) specific gearing ratio; and (iii) cash deposit at not less than certain amount as are commonly found in lending arrangements with financial institutions. 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 31 March 2018, none of the covenants relating to drawn down facilities had been breached (2017: Nil).

19. PROMISSORY NOTES

On 29 December 2017, the Company received promissory notes with an aggregate principal amount of HK$8,500,000 as part of the consideration for disposal of the issued share capital of New Creation Global Limited as disclosed in note 24. The issuer of the promissory notes has the option to early redeem all or any part of the outstanding principal amount at any time prior to the maturity date in an amount equal to the principal sum to be redeemed and the corresponding accrued but unpaid interest. The promissory notes are unsecured and denominated in HK$. The promissory notes are bearing interest at fixed rate of 1.5% per annum and are payable in arrears. The maturity dates of promissory note with principal amount of HK$4,000,000 (the "2017 PN1") and HK$4,500,000 (the "2017 PN2") are 12 months and 30 months respectively from the date of issue.

The promissory notes are initially recognised at fair value and subsequently measured at amortised cost.

19. **PROMISSORY NOTES – CONTINUED**

The promissory notes recognised in the consolidated statement of financial position are as follows:

	At 31 March 2018 *HK$'000*
2017 PN1	**4,015**
2017 PN2	**4,517**
Promissory note receivables	**8,532**
Less: balances due within one year included in current assets	**(4,015)**
Non-current portion	**4,517**

The balance of promissory note receivables is neither past due nor impaired and the Directors are of the opinion that the balance is fully recoverable.

20. **CONVERTIBLE NOTES**

(a) On 17 December 2014, the Company issued convertible notes (the "2014 CN") with principal amount of HK$58,000,000 as part of the consideration for the acquisition of the entire equity interest in the PMT Group. The 2014 CN are interest-free and carry a right to convert the principal amount into shares of US$0.0001 each (adjusted par value of US$0.000025 upon share sub-division) in the share capital of the Company at an initial conversion price of HK$4.09 per share (adjusted conversion price of HK$1.023 upon share sub-division) during the period from 17 December 2014 to 17 December 2016. The Company may at any time before the maturity date redeem the 2014 CN at par (in whole or in part). Any amount of the 2014 CN which remains outstanding on the maturity date will be redeemed at their then outstanding principal amount.

On initial recognition, the 2014 CN contains two components, liability and equity components. The equity component is presented in equity with heading "convertible notes equity reserve". The effective interest rate of the liability component on initial recognition is 7.3% per annum.

On 9 December 2016, the Company extended the maturity date of the 2014 CN by one year, from 17 December 2016 to 17 December 2017. Save for extension of maturity date, all other terms and conditions of the 2014 CN remain unchanged from the original terms. The extended maturity date is not accounted for as an extinguishment of the original financial liability of 2014 CN as the discounted present value of the cash flow of the 2014 CN with extended maturity date is less than 10% difference from the discounted present value of the cash flow of the outstanding 2014 CN prior to the extension of maturity date. As such, the amount of future cash flow of the extended 2014 CN as at 17 December 2016 discounted by the original effective interest rate amount to approximately HK$53,758,000. The difference between the carrying amount of extended 2014 CN and the amount of discounted future cash flow of the extended 2014 CN of approximately HK$4,242,000 has been recognised in other income, gains or losses.

20. CONVERTIBLE NOTES – CONTINUED

(a) – Continued

The decrease in fair value of the derivative financial asset before the extension of maturity date of approximately HK$2,939,000 and the decrease in fair value of the derivative financial asset after the extension of maturity date of approximately HK$2,190,000 have been recognised in profit or loss for the year ended 31 March 2017.

During the year ended 31 March 2018 and 2017, none of the 2014 CN was converted into ordinary share of the Company.

The 2014 CN was repaid in full during the year ended 31 March 2018.

The convertible notes recognised in the consolidated statement of financial position at initial recognition are as follows:

	HK$'000
Fair value of the 2014 CN at 17 December 2014	90,698
Equity component	(42,725)
Derivative financial asset – company redemption options on convertible notes	2,161
Liability component on initial recognition	50,134

The movements of the liability component of 2014 CN for the year are set out below:

	2018	2017
	HK$'000	*HK$'000*
At 1 April	**54,944**	55,055
Gain on extension of convertible notes	**–**	(4,242)
Effective interest expense	**850**	4,131
Redemption	**(55,794)**	–
At 31 March	**–**	54,944

20. CONVERTIBLE NOTES – CONTINUED

(a) – Continued

The movements of the derivative financial asset of the 2014 CN for the year are set out below:

	2018	2017
	HK$'000	*HK$'000*
At 1 April	**592**	5,721
Changes in fair value recognised in profit or loss during the year	**–**	(5,129)
Exercise of redemption option	**(592)**	–
At 31 March	**–**	592

(b) On 11 May 2017, the Company issued unsecured convertible notes (the "2017 CN1") with principal amount of HK$80,000,000 to Benefit Global Limited, an independent third party, for repayment of liabilities of the Group, expansion of the Group's Financial services business and as general working capital of the Group. The 2017 CN1 bears interest at 6% per annum and carries a right to convert the principal amount into shares of US$0.000025 each in the share capital of the Company at an initial conversion price of HK$0.39 per share during the period from 11 May 2017 to 11 May 2020. The Company may at any time before the maturity date redeem the 2017 CN1 (in whole or in part) at 100% of the principal amount of the 2017 CN1 together with any accrued but unpaid interest. Any amount of the 2017 CN1 which remains outstanding on the maturity date will be redeemed at their then outstanding principal amount together with any accrued but unpaid interest.

2017 CN1 contains two components, liability component and equity component. Liability component represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, with the issuer early redemption option. The early redemption option is not separately accounted for because it is considered to be closely related to the host debt. Equity component represents the conversion options, which is determined by deducting the fair value of the liability component from the proceeds of issue of the 2017 CN1 as a whole. The effective interest rate of the liability component is 26.60% per annum.

During the year ended 31 March 2018, none of the 2017 CN1 was converted into ordinary share of the Company.

20. CONVERTIBLE NOTES – CONTINUED

(b) – Continued

The 2017 CN1 recognised in the consolidated statement of financial position at initial recognition is as follows:

	HK$'000
Fair value of the 2017 CN 1 at 11 May 2017	80,000
Equity component	(33,841)
Fair value of liability component on initial recognition	46,159

The movements of the liability component of 2017 CN1 for the year are set out below:

	HK$'000
At 1 April 2017	–
Convertible notes issued	46,159
Effective interest expense	11,656
Interest payable	(4,261)
At 31 March 2018	**53,554**

(c) On 2 June 2017, the Company issued unsecured convertible notes (the "2017 CN2") with principal amount of HK$30,000,000 to Benefit Global Limited, an independent third party, for repayment of liabilities of the Group, expansion of the Group's Financial services business and as general working capital of the Group. The 2017 CN2 bears interest at 6% per annum and carries a right to convert the principal amount into shares of US$0.000025 each in the share capital of the Company at an initial conversion price of HK$0.39 per share during the period from 2 June 2017 to 2 June 2020. The Company may at any time before the maturity date redeem the 2017 CN2 (in whole or in part) at 100% of the principal amount of the 2017 CN2 together with any accrued but unpaid interest. Any amount of the 2017 CN2 which remains outstanding on the maturity date will be redeemed at their then outstanding principal amount together with any accrued but unpaid interest.

2017 CN2 contains two components, liability component and equity component. Liability component represents the present value of the contractually determined stream of future cash flows discounted at the prevailing market interest rate at that time applicable to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, with the issuer early redemption option. The early redemption option is not separately accounted for because it is considered to be closely related to the host debt. Equity component represents the conversion options, which is determined by deducting the fair value of the liability component from the proceeds of issue of the 2017 CN2 as a whole. The effective interest rate of the liability component is 25.19% per annum.

20. CONVERTIBLE NOTES – CONTINUED

(c) – Continued

During the year ended 31 March 2018, none of the 2017 CN2 was converted into ordinary share of the Company.

The 2017 CN2 recognised in the consolidated statement of financial position at initial recognition is as follows:

	HK$'000
Fair value of the 2017 CN 2 at 2 June 2017	30,000
Equity component	(12,047)
Fair value of liability component on initial recognition	17,953

The movements of the liability component of 2017 CN2 for the year are set out below:

	HK$'000
At 1 April 2017	–
Convertible notes issued	17,953
Effective interest expense	3,966
Interest payable	(1,489)
At 31 March 2018	**20,430**

The convertible notes recognised in the consolidated statement of financial position are as follows:

	At 31 March	
	2018	2017
	HK$'000	*HK$'000*
2014 CN	**–**	54,944
2017 CN1	**53,554**	–
2017 CN2	**20,430**	–
Convertible notes	**73,984**	54,944
Less: balances due within one year included in current liabilities	**–**	(54,944)
Non-current portion	**73,984**	–

21. SHARE CAPITAL

The movements in the issued ordinary share capital during the year are as follows:

		2018		2017	
	Notes	***Number of Shares***	***HK$'000***	*Number of Shares*	*HK$'000*
Authorised:					
Ordinary Shares of US$0.000025 each					
At 1 April		**2,000,000,000**	**389**	2,000,000,000	389
Increase	(a)	**1,000,000,000**	**195**	–	–
At 31 March		**3,000,000,000**	**584**	2,000,000,000	389
Issued and fully paid:					
Ordinary Shares of US$0.000025 each					
At 1 April		**1,474,232,000**	**287**	1,446,780,000	281
Issue of ordinary shares upon exercise of share options		**–**	**–**	27,452,000	6
At 31 March		**1,474,232,000**	**287**	1,474,232,000	287

Note:

(a) 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 an additional 1,000,000,000 shares, which shall rank pari passu with each other and with the existing shares in all respect upon issue.

22. RESERVES

Details of the movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

23. EQUITY SETTLED SHARE-BASED PAYMENTS

The Company adopted a share option scheme pursuant to a resolution in writing passed by the Shareholders on 3 January 2013 (the "Share Option Scheme") for the purpose to grant share options to selected participants as incentives or rewards for their contribution to the Group. Eligible participants of the Share Option Scheme include directors of the Company or any of its subsidiaries, including non-executive directors and independent non-executive directors, other employees of the Group and consultants.

23. EQUITY SETTLED SHARE-BASED PAYMENTS – CONTINUED

Pursuant to the Share Option Scheme, shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue at the time dealings in the shares of the Company first commence on the Stock Exchange. The Company may renew this 10% limit with shareholders' approval provided that each such renewal may not exceed 10% of the shares of the Company in issue as at the date of the shareholders' meeting.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company in issue from time to time.

Unless approved by the Shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of options granted to each eligible participant (including exercised and unexercised options) under the Share Option Scheme or any other share option schemes adopted by the Company in any 12-month period must not exceed 1% of the shares of the Company in issue.

On 17 March 2014, the Company granted 10,800,000 share options (the "first share option") to certain eligible participants of the Group under the Share Option Scheme. Set out below were details of the outstanding share options granted under the Share Option Scheme:

(1) All share options granted were at an exercise price of HK$1 per share;

(2) All holders of share options might only exercise their options in the following manner:

The share options will be vested in 3 tranches, i.e. the first 30% from the date immediately after the first anniversary of the offer date until the last day of the option period, the second 30% from the date immediately after the second anniversary of the offer date until the last day of the option period, the balance 40% from the date immediately after the third anniversary of the offer date until the last day of the option period; and

(3) All outstanding or unexercised share options granted to the grantees shall lapse on 16 March 2019 or 16 March 2024.

The estimated fair values of share options vested on 17 March 2014 were HK$3,911,000. These fair values were calculated using the Binomial model. The inputs into the model are as follows:

Share price	HK$0.95
Exercise price	HK$1.00
Expected volatility	50.554%
Expected life	5 years/10 years
Risk-free interest rate	1.2010%/2.1656%
Dividend yield	4.274%
Suboptimal factor	2.2

23. EQUITY SETTLED SHARE-BASED PAYMENTS – CONTINUED

The risk-free rate was based on market yield rate from Hong Kong Monetary Authority Exchange Fund Bills Yield Curve as at the valuation date on 17 March 2014. Expected volatility was estimated by the average of historical daily volatilities of the comparable companies with similar business operation as at valuation date. Dividend yield was estimated by the trailing 12-month dividend payout of the Company divided by Company's closing share price as at the dividend declaration date.

On 3 July 2015, the Company granted 13,400,000 share options (the "second share option") to certain eligible participants of the Group under the Share Option Scheme. Set out below were details of the outstanding share options granted under the Share Option Scheme.

(1) All share options granted were at a subscription price of HK$4.07 per Share;

(2) All holders of share options might only exercise their options in the following manner:

    The share options will be vested in 3 tranches, i.e. the first 30% from the date immediately after the first anniversary of the Offer Date until the last day of the option period, the second 30% from the date immediately after the second anniversary of the Offer Date until the last day of the option period, the balance 40% from the date immediately after the third anniversary of the Offer Date until the last day of the option period; and

(3) All outstanding or unexercised share options granted to the grantees shall lapse on 2 July 2025.

The estimated fair values of share options granted on 3 July 2015 were HK$25,864,188. These fair values were calculated using the Binomial Model. The inputs into the model are as follows:

Share price	HK$3.70
Exercise price	HK$4.07
Expected volatility	61.8%
Expected life	10 years
Risk-free interest rate	1.87%
Expected dividend yield	2.04%

The risk-free rate was based on the yield rate of the Hong Kong Government Bond with duration similar to the expected life of the share options. Expected volatility was estimated by the historical volatilities of the Company's share price. Expected dividend yield was estimated by the senior management of the Company.

23. EQUITY SETTLED SHARE-BASED PAYMENTS – CONTINUED

On 24 March 2016, the Company granted 109,411,600 share options (the "third share option") to certain eligible participants of the Group under the Share Option Scheme. Set out below were details of the outstanding share options granted under the Share Option Scheme.

(1) All share options granted were at a subscription price of HK$0.748 per Share;

(2) All holders of share options might only exercise their options in the following manner:

The share options will be vested in 3 tranches, i.e. the first 30% from the date immediately after the first anniversary of the Offer Date until the last day of the option period, the second 30% from the date immediately after the second anniversary of the Offer Date until the last day of the option period, the balance 40% from the date immediately after the third anniversary of the Offer Date until the last day of the option period; and

(3) All outstanding or unexercised share options granted to the grantees shall lapse on 23 March 2026.

The estimated fair values of share options granted on 24 March 2016 were HK$38,068,913. These fair values were calculated using the Binomial Model. The input into the model are as follows:

Share price	HK$0.7
Exercise price	HK$0.748
Expected volatility	61.5%
Expected life	10 years
Risk-free interest rate	1.36%
Expected dividend yield	1.8%

The risk-free rate was based on the yield rate of the Hong Kong Government Bond with duration similar to the expected life of the share options. Expected volatility was estimated based on the historical volatilities of the Company's share price. Expected dividend yield was estimated by the historical dividend payment record of the Company.

23. EQUITY SETTLED SHARE-BASED PAYMENTS – CONTINUED

Set out below are details of movements of the outstanding share options granted under the Share Option Scheme during the year ended 31 March 2018:

	Number of share options						
	Exercise price *(note 1)*	Balance as at 1 April 2017 *(note 1)*	Exercised during the year	Lapsed during the year	Balance as at 31 March 2018	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
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 2)*	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

23. EQUITY SETTLED SHARE-BASED PAYMENTS – CONTINUED

Set out below are details of movements of the outstanding share options granted under the Share Option Scheme during the year ended 31 March 2018 – Continued:

	Number of share options						
	Exercise price *(note 1)*	Balance as at 1 April 2017 *(note 1)*	Exercised during the year	Lapsed during the year	Balance as at 31 March 2018	Date of grant of share options	Exercisable periods of share options
Employees	HK$1.02	12,200,000	–	(1,800,000)	10,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK$0.748	60,187,800	–	(17,464,000)	42,723,800	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	–	(19,264,000)	138,591,600		

Notes:

1. Upon the share sub-division became effective on 13 January 2016, pro-rata adjustments have been made to the exercise price and the number of outstanding share options accordingly.

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

Equity settled share-based payment expenses comprise:

	Year ended 31 March	
	2018	2017
	HK$'000	*HK$'000*
Equity settled schemes to employees (including Directors and ex-Directors)	**10,535**	24,351
Equity settled schemes to eligible persons other than employees and Directors	**3,006**	6,331
	13,541	30,682

Share options were granted to the consultants in light of their continuous contribution to the Group. The Group measured the fair value of services received 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.

23. EQUITY SETTLED SHARE-BASED PAYMENTS – CONTINUED

The following share options were outstanding during the year:

	2018		2017	
	Weighted average exercise price per share *$*	**Number of options**	Weighted average exercise price per share *$*	Number of options
At 1 April	**0.83**	**157,855,600**	0.75	192,495,600
Exercised after the share sub-division	**–**	**–**	0.25	(27,452,000)
Lapsed after the share sub-division	**0.77**	**(19,264,000)**	0.74	(7,188,000)
At 31 March	**0.84**	**138,591,600**	0.83	157,855,600

The weighted average share price at the date of exercise of options exercised during the year ended 31 March 2017 was HK$0.63. The exercise price of share options outstanding at the end of the reporting period ranged between HK$0.25 to HK$1.02 (after the share sub-division) and their weighted average remaining contractual life was approximately 7.71 years (2017: 8.73 years).

Of the total number of share options outstanding as at 31 March 2018, 54,988,640 share options had not been vested and were not exercisable (2017: 109,714,920).

24. DISPOSAL OF SUBSIDIARIES

Year ended 31 March 2018

On 14 December 2017, the Company, as vendor, entered into a sale and purchase agreement (the "Agreement") with Octagon Special Opportunities Limited, as a purchaser, an independent third party, to dispose of the entire issued share capital of New Creation Global Limited ("New Creation") at a consideration of HK$16,500,000. New Creation is an investment holding company which holds Pulse Mediatech Limited that is principally engaged in provision of digital publishing and the development of mobile and web application solutions. The disposal was completed on 29 December 2017.

In accordance with the Agreement, the consideration comprised of: (i) cash of HK$8,000,000; (ii) 1.5% interest bearing promissory note with principal amount of HK$4,000,000 and a term of 12 months (the "2017 PN1") and (iii) 1.5% interest bearing promissory note with principal amount of HK$4,500,000 and a term of 30 months (the "2017 PN2"). The principal amount of the promissory notes are considered as the fair value at the date of issuance.

24. **DISPOSAL OF SUBSIDIARIES – CONTINUED**

Year ended 31 March 2018 – Continued

	HK$'000
Net assets disposed of:	
Property, plant and equipment	34
Intangible assets	19,321
Interests in a joint venture	–
Prepayments, deposits and other receivables	755
Trade receivables	518
Cash and cash equivalents	28
Trade payables	(627)
Receipts in advance, accruals and other payables	(1,661)
Tax payables	(69)
Deferred tax liabilities	(3,189)
Less: non-controlling interests	(590)
	14,520
Gain on disposal of subsidiaries	1,980
	16,500
Total consideration satisfied by:	
Cash	8,000
Promissory notes issued by purchaser *(note 19)*	8,500
	16,500
Net cash inflow arising on disposal:	
Cash received	8,000
Cash and cash equivalents disposed of	(28)
Net cash inflow on disposal	7,972

Year ended 31 March 2017

On 7 October 2016, the Company, as vendor, entered into a sale and purchase agreement with Mr. Yau Wing Hay, Uri, as a purchaser, an independent third party, to dispose of the entire issued share capital of Next Horizon Holdings Limited ("Next Horizon") at a consideration of HK$32,000,000. The transaction was completed on 17 October 2016.

Next Horizon is an investment holding company which holds Sunmart Company Limited and Foshan Nanhai Haoda Precison Toys Company Limited (佛山市南海浩達精密玩具有限公司), both of which are principally engaged in trading and manufacture of toys and other products.

24. DISPOSAL OF SUBSIDIARIES – CONTINUED

Year ended 31 March 2017 – Continued

	HK$'000
Net assets disposed of:	
Property, plant and equipment	17,239
Cash and cash equivalents	5,814
Prepaid land lease payments	6,588
Deferred tax assets	1,717
Inventories	4,673
Trade receivables	2,226
Prepayments, deposits and other receivables	145
Tax recoverable	2,008
Trade payables	(1,706)
Accrued liabilities, other payables and deposits received	(15,464)
Amount due to fellow subsidiaries	(100)
	23,140
Release of translation reserve	(3,017)
Gain on disposal of subsidiaries	11,877
Total consideration satisfied by:	
Cash	32,000
Net cash inflow arising on disposal:	
Cash received	32,000
Cash and cash equivalents disposed of	(5,814)
Net cash inflow on disposal	26,186

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Current Year, our Group was engaged in the same core business divisions in the manufacture of toys operated under Qualiman Industrial Limited (the "**Toy Division**"), financial services operated under Crosby Asia Limited (the "**Financial Services Division**") and information technology operated under Pulse MediaTech Limited (the "**IT Division**"). Subsequent to the disposal of the IT Division in December 2017, the IT Division became a discontinued operation and the subsidiaries attributable to the IT Division ceased to be subsidiaries of the Group from 29 December 2017 onwards.

2017 was a turbulent year for the global toy industry as the major retail giant Toys R Us filed for Chapter 11 protection in the United States in September 2017. Although Toys R Us was a downstream player in the toy industry, this event did send a chill to the entire value chain of the global toy industry and other major global toy brands had adopted a more cautious approach and embarked on tightened cost control measures, streamlining their upstream manufacturers. As we are an OEM/ODM supplier to the downstream toy companies, we were not directly affected by the liquidation of Toys R Us from the perspective of goods liability. Amidst this challenging environment, our Toy Division remained vigilant and tried to capture opportunities as a result of this change in industry landscape. During the Current Year, our Toy Division enjoyed a marked improvement in its performance as a result of a shift in product mix to higher margin products as demanded by one of its major customers. Furthermore, the full benefits of the removal of some fixed overhead costs after the disposal of certain loss-making subsidiaries in the year ended 31 March 2017 (the "**Previous Year**") were reflected in the Current Year, leading to an improvement in the gross margins of the Toy Division from 9.9% in the Previous Year to 11.4% in the Current Year.

The securities markets in Hong Kong also showed significant improvement during the Current Year, with the Hang Seng Index rising by about 24.8% from 1 April 2017 to 31 March 2018. Against this backdrop, the Financial Services Division also improved steadily and completed two major equity mandates of aggregate transaction sizes of over HK$500 million as bookrunner and lead manager for issuers listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**HKEx**"), substantially improving its underwriting commission revenues. Towards the end of the Current Year, the Group also entered into a conditional agreement with Zhongtai International Investment Group Limited, a state-owned diversified financial institution from China, to provide more capital for the development of the Group's Financial Services Division. If successfully consummated, this will breathe new life into the future development of our Financial Services Division, given the vast business and financial resources of the Zhongtai Financial Group in China.

On the other hand, in view of the persisting internal and external constraints limiting the business growth of the IT Division, the Group disposed of the IT Division in December 2017. We believe that such disposal would allow the Group to focus its business and financial resources on the remaining two core businesses and avoid incurring further losses from this segment.

Continuing Operations

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 Year, revenue of the Toy Division and its segment profit were approximately HK$752.7 million and HK$33.3 million respectively, representing a decrease of 2.0% and an increase of 43.3% respectively over the Previous Year. The revenue from the Toy Division remained relatively stable as the Group continued to maintain strong orders from several existing major customers of international repute. Contributions from the North American and the Western European markets remained at a similar level as that for the Previous Year and represented the majority of our toy revenues. On the other hand, the PRC/Taiwan and the South American markets showed some contractions, although such reduction in revenue contribution was relatively minor in absolute terms and was partially offset by a slight improvement in contributions from the Australian markets. The shift in product mix to higher margin products as demanded by one of our major customers and the full 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 Previous Year led to an improvement in the Toy Division's gross margin from 9.9% during the Previous Year to 11.4% during the Current Year. Given the difficult environment experienced by the global toy industry, especially the downstream players, in the Current Year, we believe that we made a right decision in focusing on customers of better credit worthiness and more resilient, diversified product portfolios. 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 Year, the Hong Kong securities markets improved substantially with strong capital inflow. Average daily turnover value of the HKEx increased by approximately 77.3% from approximately HK$74.2 billion in April 2017 to approximately HK$131.6 billion in March 2018. The market capitalization of the Hong Kong securities market also increased by approximately 26.4% during the Current Year from HK$27.2 trillion as of closing on 31 March 2017 to approximately HK$34.4 trillion as of closing on 31 March 2018. 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 Year. The Financial Services Division continued to participate actively in the primary issue markets during the Current Year and completed two major IPO mandates of aggregate transaction sizes of over HK$500 million as bookrunner and lead manager for two issuers listed on the Main Board of the HKEx. Furthermore, the Financial Services Division also continued to act as placing agents for several bond issuances of listed companies in Hong Kong during the Current Year. These two activities contributed the majority of the revenues of the Financial Services Division and both showed significant increase in their revenue contributions to the Financial Services Division during the Current Year. We expect that underwriting and placement commissions will continue to be the major revenue contributors of our Financial Services Division going forward.

Contributions from securities margin financings remained relatively insignificant during the Current Year 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 approximately HK$3.0 million when compared with a fair value gain of approximately HK$2.7 million during the Previous Year, which was a result of a decrease in the fair value of the investments of the Financial Services Division during the Current Year. We remain committed to seeking ways to free up or expand the capital base of the Financial Services Division in order to increase its capacity to participate in more principal-based activities.

Discontinued Operation

The IT Division

The Group came to the difficult decision to dispose of the IT Division in December 2017 for a consideration of approximately HK$16.5 million. As previously disclosed, the performance of the IT Division had been disappointing and it was struggling to compete in the highly fragmented and fast-changing local digital publishing and mobile web application development markets. The Directors weighed the risks of further capital exposure to the business (and hence potentially further losses) against the possibility of recovering some of its investment costs and decided that disposal of the IT Division would be in the best interests of the Group as a whole. As a result of the disposal, the IT Division ceased to be subsidiaries of the Group from 29 December 2017 onwards. The disposal of the IT Division generated a modest gain on disposal of subsidiaries of approximately HK$2.0 million for the Current Year.

As a result, only about 9 months of the results of the IT Division were reflected in the Group's consolidated financial statements for the Current Year. During this period, the performance of the IT Division remained disappointing, generating revenue of approximately HK$1.1 million over this 9-month period when compared with approximately HK$2.8 million during the Previous Year which was a full 12-month period. Its revenue was mainly derived from services rendered on mobile and web application development and other ancillary services on a project basis. During this time, 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.

In view of the struggling performance and negative business outlook of the IT Division during the first half of the Current Year, the Directors conducted an interim assessment of the intangible assets carried by the IT Division and decided a provision of impairment loss on its intangible assets of approximately HK$11.7 million was necessary with reference to the applicable business outlook and condition of the IT Division, which was recorded in the interim consolidated financial statements of the Group for the 6 months ended 30 September 2017 and is also reflected in the full year consolidated financial statements of the Group for the Current Year.

FINANCIAL REVIEW

Continuing Operations

The Toy Division

The Toy Division's revenue for the Current Year amounted to approximately HK$752.7 million, representing a decrease of 2.0% over that of the Previous Year of approximately HK$768.1 million. Such decrease in revenue was due to a mild decrease in sales to some of the Toy Division's top 5 customers. However, segment profit for this division increased substantially to approximately HK$33.3 million for the Current Year from approximately HK$23.2 million for the Previous Year, representing an increase of 43.3%. Such increase in segment profit was mainly due to an improvement in gross profit margin benefiting from a change in products mix from smaller product items to more scalable and sophisticated products which generated higher gross profit margin as demanded by one of our major customers, and the full impact of fixed overhead savings from the disposal of certain manufacturing subsidiaries in the Previous Year. The increase in the segment profit attributable to the above factors was partially offset by the increase in costs incurred on operating lease payment of approximately HK$0.8 million in respect of the increase in that applicable to Directors' quarter upon the renewal of the lease for the directors' quarter during the Current Year.

Revenue from North America decreased from approximately HK$462.6 million for the Previous Year to approximately HK$451.1 million for the Current Year, while revenue from Western Europe increased from approximately HK$141.9 million for the Previous Year to approximately HK$147.5 million for the Current Year. Sales to customers in new developing regions, namely mainland China and Taiwan and South America decreased from approximately HK$84.8 million for the Previous Year to approximately HK$75.2 million for the Current Year and from approximately HK$14.2 million for the

Previous Year to approximately HK$8.7 million for the Current Year, respectively, representing a decrease of approximately 11.3% and 38.6% over the Previous Year, respectively. Generally, the change in regional distribution was mainly due to change in delivery destination as requested by the customers during the year under review in order to cope with their distribution plan. As our Toy Division mainly serves customers of international reputable brands, their global marketing network and hence delivery plans varied from time to time in accordance with their respective marketing strategies.

The Financial Services Division

Revenue for the Financial Services Division for the Current Year amounted to approximately HK$22.2 million comparing to that of HK$16.8 million in the Previous Year, representing an increase of 32.4% over the Previous Year. This is mainly attributable to an increase in underwriting and placement commissions of approximately 376.1% and 70.6%, respectively, earned during the Current Year as the Financial Services Division completed more equity and bond underwriting and placement mandates during the Current Year. Such increase in revenues from underwriting and placement commissions was partially offset by a decrease in revenues from brokerage services commissions and investment advisory fee income during the Current Year.

Overall, the Financial Services Division recorded segment loss of approximately HK$25.2 million for the Current Year comparing to approximately HK$34.1 million for the Previous Year, representing a decrease in loss of approximately 26.3%. Such narrowing of loss of the Financial Services Division was mainly attributable to (i) the increase in revenues during the Current Year as highlighted above; and (ii) a substantial reduction of employee benefits expenses in the Financial Services Division of approximately 25.4% during the Current Year as no replacement staff were hired for some positions following natural staff turnover.

Discontinued Operation

The IT Division

For the IT Division, revenue and segment loss for the Current Year were approximately HK$1.1 million and HK$15.1 million, respectively, inclusive of impairment loss on intangible assets of approximately HK$11.7 million and a gain on disposal of subsidiaries of approximately HK$2.0 million. This compares with the revenue and segment loss of the IT Division of approximately HK$2.8 million and HK$49.5 million, respectively, during the Previous Year, which included an impairment loss on goodwill of approximately HK$3.7 million and impairment loss on intangible assets of approximately HK$33.9 million. The decrease in revenue and segment loss as compared to the Previous Year was mainly due to (i) a shorter financial period of about 9-month period being consolidated into the Group's consolidated results for the Current Year as a result of the disposal of the IT Division in December 2017; (ii) a decrease in impairment loss on goodwill and intangible assets of approximately HK$25.9 million in the Current Year; and (iii) a gain on disposal of the subsidiaries attributable to the IT Division of approximately HK$2.0 million which was absent in the Previous Year.

Overall Group Financial Performance

Revenue

The Group's revenue from continuing operations for the Current Year amounted to approximately HK$774.9 million, which represents a decrease of 1.3% from that for the Previous Year of approximately HK$784.9 million. The decrease in total revenue of approximately HK$9.9 million for the Current Year was mainly contributed by the Toy Division because of a decrease in sales to certain of its top 5 customers whereas such impact was partially offset by the increase in revenues contributed by the Financial Services Division of approximately HK$5.4 million resulting from an increase in underwriting and placement commissions.

Gross Margin

The gross margin of the Toy Division recorded a favorable increase from approximately 9.9% for the Previous Year to approximately 11.4% for the Current Year due to a shift to new higher margin products which are more scaleable and sophisticated as demanded by a major customer during the Current Year. The Toy Division also received more orders for more scalable products in general which typically generated higher margins during the Current Year. Besides, the disposal of certain subsidiaries of the Toy Division in the Previous Year allowed further costs saving for the Current Year. Meanwhile, the total gross profit from continuing operations of the Group for the Current Year increased by 16.2% to approximately HK$108.0 million from that of the Previous Year of approximately HK$93.0 million. Other than the improvement in gross margins of the Toy Division, revenue contribution from the Financial Services Division also helped increase the Group's overall gross profits from continuing operations as there is effectively no direct costs of goods sold in the Financial Services Division.

Net Loss

The Group's net loss from continuing operations for the Current Year amounted to approximately HK$34.5 million, as compared to a net loss from continuing operations of approximately HK$51.5 million for the Previous Year. Inclusive of the Group's net loss from a discontinued operation for the Current Year of approximately HK$12.7 million, the Group's total net loss for the Current Year was approximately HK$47.2 million, as compared to a total net loss for the Group of approximately HK$94.1 million for the Previous Year (which included net loss from a discontinued operation for the Previous Year of approximately HK$42.6 million), representing a decrease in the Group's net loss of approximately 49.9%. Such decrease in net loss was mainly due to:

(i) a significant improvement in the segment profit of the Toy Division by approximately HK$10.1 million or 43.3% as a result of an increase in the gross profit margin of this segment;

(ii) a decrease in segment loss of the Financial Services Division by approximately of HK$9.0 million or 26.3% as a result of an increase in the revenue of this segment and a decrease in its employee benefits expenses;

(iii) a decrease in costs of approximately HK$17.1 million or 55.9% 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 Year as compared to the Previous Year;

(iv) a decrease in fair value loss on derivative financial asset of approximately HK$5.1 million for the Current Year following the full redemption of the convertible bonds issued in 2014; and;

(v) a decrease in segment loss of the IT Division, a discontinued operation, of approximately HK$34.4 million from approximately HK$49.5 million for the Previous Year to approximately HK$15.1 million for the Current Year as a result of a shorter period of consolidation of its results following the disposal of the IT Division by the Group at the end of December 2017, a decrease in impairment loss on goodwill and the intangible assets of approximately HK$25.9 million and a gain of disposal of subsidiaries of approximately HK$2.0 million.

Such decrease in loss for the Current Year was partially offset by a decrease in gain on disposal of subsidiaries of approximately HK$9.9 million, a reversal in fair value change on the financial assets at fair value through profit and loss of approximately HK$5.7 million and an increase in finance costs of approximately HK$8.6 million arising from the new convertibles notes issued during the Current Year.

Selling Expenses

Selling expenses for the Toy Division mainly consisted of transportation fees and declaration fees. During the Current Year, selling expenses increased 13.3% from approximately HK$21.7 million for the Previous Year to approximately HK$24.6 million for the Current Year which was due to an increase in transportation cost as a result of increased sales to certain customer in the Current Year.

Administrative Expenses

Administrative expenses from continuing operations mainly consisted of salaries to employees, equity-settled share-based payment expenses, rents and rates for office spaces, depreciation of property, plant and equipment, and other administrative expenses. Administrative expenses decreased by 18.7% from approximately HK$128.0 million for the Previous Year to approximately HK$104.0 million for the Current Year, which was primarily due to a decrease in the total number of staff which in turn led to a decrease in staff costs arising from salary and the equity settled share-based payment expenses related to the grant of share options of approximately HK$16.4 million and HK$13.7 million, respectively.

Other Income, Gains and Losses

Other income, gains and losses mainly consisted of moulding income, gain on disposal of subsidiaries, fair value loss on financial assets at fair value through profit and loss, gain on extension/early redemption of convertible notes, interest income from bank deposits and others. During the Current Year, other income, gains and losses from continuing operations decreased 59.8% from approximately HK$28.7 million for the Previous Year to approximately HK$11.5 million. Such decrease was mainly attributable to (i) a decrease in gain on the disposal of subsidiaries by approximately HK$9.9 million from approximately HK$11.9 million for the Previous Year to approximately HK$2.0 million for the Current Year; (ii) a reversal in fair value change on financial assets at fair value through profit or loss by approximately HK$5.7 million from a fair value gain of approximately HK$2.7 million for the Previous Year to a fair value loss of approximately HK$3.0 million for the Current Year from the Financial Services Division; (iii) a decrease in gain arising from the extension of the maturity date of the convertibles notes from approximately HK$4.2 million for the Previous Year to nil for the Current Year; and (iv) an increase in gain on early redemption of convertible notes from nil for the Previous Year to approximately HK$1.3 million for the Current Year and a decrease in loss on early redemption of promissory notes of approximately HK$0.9 million from approximately HK$0.9 million for the Previous Year to nil for the Current Year.

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 from continuing operations increased by 79.5% from approximately HK$10.8 million for the Previous Year to approximately HK$19.4 million for the Current Year, which is primarily due to a increase in the effective interest expense of the convertible notes issued by the Company in the Current Year of approximately HK$12.3 million, and a decrease in the effective interest expense of the promissory notes from approximately HK$3.4 million for the Previous Year to nil for the Current Year, as the promissory notes were fully repaid during the Previous Year.

Income Tax Expenses

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 from continuing operations decreased 19.1% from approximately HK$7.6 million for the Previous Year to approximately HK$6.1 million. Such decrease was mainly due to the tax effect arising from the increase in exchange gain for the Current Year compared to exchange loss in the Previous Year for the Toy Division and the increase of deductible expenses in forms of increase in finance costs for interest on convertible notes issued in May 2017 and June 2017 respectively for the Current Year. Besides, there was the decrease in PRC tax provision from approximately HK$0.2 million for the Previous Year to nil for the Current Year.

Loss for the Year from a Discontinued Operation and 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$1.1 million during the Current Year when compared with HK$2.8 million during the Previous Year, representing a decrease of approximately 62.5% on a year-on-year basis. Gross profit for the IT Division also decreased accordingly from HK$0.8 million during the Previous Year to approximately HK$0.3 million for the Current Year, representing a decrease of approximately 64.8% on a year-on-year basis. Administrative expenses for the IT Division decreased substantially from approximately HK$12.8 million during the Previous Year to approximately HK$5.6 million for the Current Year due to a drop in salary expenses and amortization costs of intangible assets.

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. Furthermore, given the decision to minimize further capital outlays to the IT Division and cost tightening measures, 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 30 September 2017. 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 statement of financial position. 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 first half of the Current Year 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-in-use of the intangible assets of the IT Division as of mid-year end 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 Year.

In December 2017, the Group decided to dispose of the subsidiaries attributable to the IT Division to an independent third party for a consideration of HK$16.5 million. As a result of the disposal, the Group recorded a gain on disposal of subsidiaries of approximately HK$2.0 million arising from the difference between the consideration received and the net asset value of the subsidiaries being disposed of at completion.

Other factors which affected the loss for the year from a discontinued operation included the absence of an impairment loss on goodwill in the Current Year, which amounted to approximately HK$3.7 million in the Previous Year. Income tax credit also decreased from approximately HK$6.9 million in the Previous Year to approximately HK$2.4 million in the Current Year. The above factors led to a loss for the year from a discontinued operation of approximately HK$12.7 million for the Current Year, compared with the same of approximately HK$42.6 million in the Previous Year.

Inventory

The inventory of the Group increased by 2.8% to approximately HK$94.6 million as at 31 March 2018 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 of the Toy Division for the period and multiplied by 365 days, decreased by 3.6% from 53.0 days for the Previous Year to 51.1 days for the Current Year arising from customers requisition for moderately sooner delivery of products during the Current Year.

Trade Receivables

Trade receivables from the Toy Division and the IT Division were approximately HK$24.1 million as at 31 March 2018 when compared with approximately HK$37.6 million as at 31 March 2017. The above balance of trade receivables as at 31 March 2018 only included trade receivables of the Toy Division as the IT Division was already disposed of in December 2017. The decrease in trade receivables of the Toy Division as at 31 March 2018 was primarily due to sooner settlement from certain customers during the Current Year. Accordingly, the trade receivables turnover days for the Toy Division and the IT Division, as calculated by dividing the averaging closing trade receivables by the revenues from the Toy Division and the IT Division multiplied by 365 days, was 14.7 days for the Current Year as compared with 25.2 days for the Previous Year.

Trade receivables from the Financial Services Division decreased slightly from approximately HK$7.1 million as at 31 March 2017 to approximately HK$6.6 million at 31 March 2018, which was mainly a result of a decrease in outstanding receivable from broker and margin clients as at the end of the Current Year accompanying with a smaller increase in outstanding receivable from cash clients when compared to those in the Previous Year.

Trade Payables

Trade payables from the Toy Division and the IT Division as at 31 March 2017 amounted to approximately HK$52.7 million, which decreased to approximately of HK$40.2 million at 31 March 2018, which was only attributable to the Toy Division following the disposal of the IT Division in December 2017. The decrease was primarily due to the decrease in purchases and costs of service incurred for the Current Year. The trade payables turnover days for the Toy Division and the IT Division for the Previous

Year and that solely for Toy Division for the Current Year, as calculated by dividing the averaging closing trade payables by the cost of sales from the Toy Division and the IT Division multiplied by 365 days, was 25.4 days and 21.0 days, respectively.

Trade payables from the Financial Services Division as at 31 March 2018 decreased from approximately HK$210.1 million at 31 March 2017 to approximately HK$70.9 million at 31 March 2018, which was mainly a decrease in payable to cash clients or the clearing house for settlement of trades arising from the same set of factors explained in the previous paragraph on trade receivables from the Financial Services Division. The substantially higher trade payables as at 31 March 2017 was due to a substantially higher amount of cash and bank balances held on behalf of customers by the Financial Services Division on the same date. The settlement terms for such trade payable attributable to dealing in securities are typically one to two days after the trade date.

LIQUIDITY AND FINANCIAL RESOURCES

For the Current Year, the Group mainly financed its working capital by internal resources, bank borrowings and the issue of convertible notes. As at 31 March 2018, cash and cash equivalents amounted to approximately HK$141.2 million (31 March 2017: HK$130.0 million) and an additional HK$60.4 million (31 March 2017: nil) were pledged bank deposits to secure an undrawn banking facility granted to the Group to facilitate settlement purposes of the Financial Services Division. The increase in cash and cash equivalents was mainly due to the issue of new convertible notes in May 2017 and June 2017 during the Current Year. Interest-bearing bank borrowings, on the other hand, decreased from approximately HK$33.6 million as at 31 March 2017 to approximately HK$13.9 million as at 31 March 2018. Hence, the debt to equity ratio of the Group, calculated as the ratio of the closing debt balance divided by the closing total equity at end of Current Year, was approximately 20.5% (31 March 2017: 21.0%). As at 31 March 2018, 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 2.88 (31 March 2017: 1.51).

During the Current Year, no new shares were issued by the Company.

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 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. The 2017 Convertible Notes are unsecured, bear interest at 6% per annum and carry rights to convert the principal amount into shares of the Company at an initial conversion price of HK$0.39 per share, representing 282,051,281 conversion shares or 19.1% of the issued share capital of the Company as at the date of this announcement, or 16.1% of the issued share capital of the Company as at the date of this announcement as enlarged by the conversion shares. The Company has the option to redeem the 2017 Convertible Notes at any time before their maturity at 100% of their principal value plus any accrued but unpaid interest.

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

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

CHARGE ON ASSETS

As at 31 March 2018, certain of the Group's banking facilities and its interest-bearing bank borrowings were secured by pledged bank deposits of approximately HK$60.4 million (31 March 2017: nil) and properties of the Group located in Hong Kong with an aggregate carrying amount of approximately HK$6.7 million (31 March 2017: HK$6.2 million).

CONTINGENT LIABILITIES

As at 31 March 2018, the Group had no contingent liabilities (31 March 2017: Nil).

OPERATING LEASE ARRANGEMENTS

The Group leases 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 31 March 2018, 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$8.2 million and HK$0.04 million respectively (31 March 2017: HK$13.0 million and HK$8.2 million).

CAPITAL COMMITMENTS

As at 31 March 2018, there is no capital commitment of the Group (31 March 2017: Nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, certain financial assets with carrying value of approximately HK$11.5 million held by the Financial Services Division and an available-for-sale investment in an unlisted 5% fixed coupon unsecured bond with carrying value of approximately HK$11.7 million, the Group did not hold any significant investment in equity interest in any other company as at 31 March 2018.

The total carrying value of financial assets at fair value through profit or loss and available-for-sale investments held by the Group amounted to approximately HK$23.3 million and represented approximately 3.6% of the total consolidated assets of the Group as of 31 March 2018 (31 March 2017: HK$14.5 million and 1.8%). The increase in such carrying value was mainly due to the subscription of the above unlisted 5% fixed coupon unsecured bond by the Group during the Current Year which was partially offset by a fair value loss on financial assets through profit or loss of approximately HK$3.0 million during the Current Year.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

On 14 December 2017, the Company, as vendor, entered into a sale and purchase agreement with Octagon Special Opportunities Limited, as a purchaser, an independent third party, to dispose of the entire issued share capital of New Creation Global Limited ("**New Creation**") for a consideration of HK$16.5 million of which HK$8.0 million was settled in cash and HK$8.5 million was settled by way of the issuance of a 12-month HK$4.0 million promissory note and a 30-month HK$4.5 million promissory note by the purchaser. Both promissory notes are unsecured, bear an interest rate of 1.5% per annum payable in arrears and can be early redeemed in part or in full by the purchaser at any time prior to maturity. The transaction was completed on 29 December 2017.

Save as disclosed otherwise, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the Current Year.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save for the proposed acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited by the Group as set out in the joint announcement issued by the Company and Zhongtai International Investment Group Limited (the "**Offeror**") dated 25 February 2018 (the "**Joint Announcement**"), which shall be subject to the fulfillment of various conditions precedent including but not limited to independent shareholders' approval, the Group did not have any plans to acquire any material investments or capital assets as at 31 March 2018.

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$, the Group does not have material exchange rate risk on such currency. During the Current Year, the Group did not enter into any deliverable forward contracts ("**DF**") to manage the foreign currency risk arising from fluctuation in exchange rate of the RMB against the US$.

The Group implemented a foreign currency forward contract policy in relation to the foreign currency contracts for the year. The Group performed cash flow analysis, ongoing monitoring and review of the 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 31 March 2018, the Group had a total of 62 employees (31 March 2017: 76). Total staff costs (excluding equity settled share-based payment expenses to eligible persons other than employees and directors) were approximately HK$66.3 million for the year ended 31 March 2018 (2017: HK$98.0 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.

PROPOSED SUBSCRIPTION, POSSIBLE UNCONDITIONAL MANDATORY CASH OFFERS AND PROPOSED ACQUISITIONS

(I) Subscription Agreement and Possible Unconditional Mandatory Cash Offers

On 23 February 2018, (a) the Company and (b) Zhongtai International Investment Group Limited, Taifu Capital Investments Limited and Great Boom Group Limited (together, the "**Subscribers**") entered into a subscription agreement (the "**Subscription Agreement**") pursuant to which the Company conditionally agreed to allot and issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 2,283,848,000 new ordinary shares of the Company, for an aggregate consideration of HK$799,346,800 in cash at the subscription price of HK$0.35 per subscription share. Completion of the transactions contemplated under the Subscription Agreement is subject to the satisfaction of various conditions precedent as set out in the announcement of the Company dated 25 February 2018 (the "Joint Announcement"). As at date of this announcement, such conditions precedent have not yet been satisfied in full and completion of the Subscription Agreement has not yet taken place.

As detailed in the Subscription Agreement, immediately following completion of the Subscription Agreement, the Offeror and its concert parties (including the Subscribers and their respective concert parties) will be interested in a total of 2,283,848,000 issued shares of the Company, representing (i) approximately 60.77% of the enlarged issued share capital of the Company (as enlarged by the subscription shares and assuming no outstanding share options or the 2017 Convertible Notes will be exercised or converted and no other shares will be allotted or issued at or prior to completion of the Subscription Agreement); and (ii) approximately 58.64% of the enlarged issued share capital of the Company (as enlarged by the subscription shares and assuming all the share options (except the share options held by Mr. Lau Ho Ming, Peter and Madam Li Man Yee, Stella) will be exercised but no 2017 Convertible Notes will be converted and no other shares will be allotted or issued at or prior to completion of the Subscription Agreement).

Pursuant to Rule 26.1 and Rule 13 of the Takeovers Code, the Offeror is required to make unconditional mandatory offers in cash in relation to (A) the share offer for all the issued shares (excluding the shares already owned by or agreed to be acquired by the Offeror and its concert parties at the time when the share offer is made); (B) the option offer for the cancellation of all outstanding share options; and (C) the convertible notes offer for all outstanding 2017 Convertible Notes.

For details of the Subscription Agreement, the share offer, the option offer and the convertible notes offer, please refer to the Joint Announcement.

(II) Proposed Acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited

On 23 February 2018, the Company, as purchaser, and Zhongtai International Financial Corporation ("**ZTI Financial**"), as vendor, entered into a sale and purchase agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and ZTI Financial conditionally agreed to dispose of, all issued shares of Zhongtai International Capital Limited for a consideration of HK$30,000,000.

On the same date, the Company, as purchaser, and Zhongtai Financial International Limited ("**Zhongtai Financial International**"), as vendor, entered into a sale and purchase agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and Zhongtai Financial International conditionally agreed to dispose of, all issued shares of Zhongtai International Asset Management Limited for a consideration of HK$102,000,000.

Completion of the transactions in relation to the acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited is conditional upon the completion of the Subscription Agreement having taken place and other various conditions precedent as set out in the Joint Announcement. As at date of this announcement, such conditions precedent have not yet been satisfied in full and completion of the above acquisitions has not yet taken place.

For details of the above transactions, please refer to the Joint Announcement.

PROSPECTS

After the disposal of the IT Division during the Current Year, the Group is expected to be able to focus its resources and energy in its two core businesses, namely the Toy Division and the Financial Services Division, going forward. Despite a marked improvement in the performance of the Toy Division in the Current Year, the rippling effects of the liquidation of Toys R Us are expected to be felt in the global toy industry in the coming financial year given a lot of the major downstream players are adopting cost control measures and will likely place orders more cautiously in view of the Toys R Us liquidation in the United States. We also expect that there might be an increase in plastic and component costs going forward. As a results, the Directors expect that the Toy Division may face pressures in maintaining its gross margins and sales volume as a result and we will continue to seek ways to tighten our cost structure while exploring the possibilities of new products with our customers, including the adoption of more automation technology in the manufacturing process to improve labour efficiency and reduce inventory to cope with the expected volatility in sales demand in the coming financial year.

The Financial Services Division made some respectable progress during the Current Year and is gaining increasing market traction in the primary issuance markets. However, we are also aware of the aggressive competitions in the markets and the increasing volatility of the securities markets in the future given expected change in the interest rate cycle in the coming year. We will continue to seek ways to strengthen our capital base and resources in order to compete effectively in this industry and to expand and strengthen our product offerings. We believe the potential introduction of Zhongtai International Investment Group Limited as our new controlling shareholder and the proposed acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited will, if successfully consummated, not only strengthen the capital base of the Group and increase the product offerings of the Financial Services Division, but will also allow us to tap the vast business networks of the Zhongtai Group in China. We will strive to work with them to try to complete the various transactions as set out above during the coming year.

WARNING: as each of the Subscription Agreement and the proposed acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited is subject to the fulfilment and/or waiver, as applicable, of various conditions precedent as set out in the Joint Announcement and the share offer, the option offer and the convertible notes offer will only be made if completion of the Subscription Agreement takes place, the share offer, the option offer and the convertible notes offer may or may not be made. Therefore, shareholders, optionholders, the convertible noteholders and/or potential investors of the Company should exercise caution when dealing in the securities of the Company. Persons who are in doubt as to the action they should take should consult their licensed securities dealers or registered institutions in securities, bank managers, solicitors, professional accountants or other professional advisers.

PURCHASE, SALE OF REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Current Year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company adopted the Corporate Governance Code set out in Appendix 14 (the "**Code**") of the Listing Rules as its own code of corporate governance practice. Throughout the Current Year, 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 re-designation of Mr. Lau Ho Ming, Peter as the Executive Chairman of the Company with effect from 25 November 2013. He 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 the 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 and members of the audit committee. Having made specific enquiries of all Directors, each Director has complied with the required standard set out in the Model Code during the Current Year and up to the date of this announcement.

SCOPE OF WORK OF AUDITORS

The financial figures in this announcement have been agreed by the Company's auditor, BDO Limited ("**Auditors**"), to the amounts set out in the Group's audited consolidated financial statements for the Current Year. The work performed by Auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by Auditors on this announcement.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board (the "**Audit Committee**") reviewed the consolidated financial statements for the Current Year in conjunction with the Auditors. Based on the review and discussions with management, the Audit Committee was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards, and fairly presented the Group's financial position and results for the Current Year.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Hong Kong Exchanges and Clearing Limited and the Company at www.hkexnews.hk and www.quali-smart.com.hk respectively. The 2018 Annual Report of the Company containing all information required by the Listing Rules will be published on the above websites and dispatched to the shareholders of the Company about mid July 2018.

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

Hong Kong, 15 June 2018

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.