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 2020

FINANCIAL HIGHLIGHTS

- Total revenue for the year ended 31 March 2020 (the "**Current Year**") was approximately HK$413.3 million, representing a decrease of approximately 33.8% from approximately HK$624.2 million for the year ended 31 March 2019 (the "**Previous Year**").

- Revenue from the Toy Division for the Current Year decreased by approximately HK$235.8 million, or approximately 38.1% from the Previous Year to approximately HK$383.7 million, whereas revenue from the Financial Services Division increased by approximately HK$24.9 million, or approximately 534.3% from the Previous Year to approximately HK$29.6 million.

- Gross profit for the Current Year was approximately HK$64.6 million, representing a decrease of approximately 23.4% from approximately HK$84.4 million for the Previous Year.

- The Group's net loss for the Current Year amounted to approximately HK$87.7 million, as compared to a net loss of approximately HK$35.8 million for the Previous Year, representing an increase in the Group's net loss of approximately 145.0%. Such increase was mainly due to:

  - ➢ a decrease in gross profit of the Group of approximately HK$19.7 million in the Current Year;

  - ➢ an increase in impairment loss on goodwill of HK$43.9 million of the Financial Services Division;

  - ➢ a decrease in moulding income in the Toy Division of approximately HK$3.3 million in the Current Year which was recorded in the amount of HK$4.1 million in the Previous Year;

* *For identification purpose only*

- a decrease in net exchange gains of approximately HK$2.4 million in the Current Year;

- a decrease in gain on disposal of certain property, plant and equipment in the Toy Division of approximately HK$4.0 million in the Current Year; and

- an increase in finance costs due to the increase in effective interest expense of approximately HK$3.8 million for the convertible notes issued by the Company;

which was partially offset by the following reduction in costs and expenses:

- a decrease in selling expenses of approximately HK$4.9 million for the Current Year, primarily attributable to a decrease in selling expenses of the Toy Division resulting from a drop in revenue from the Toy Division in the Current Year;

- a decrease in administrative expenses of the Group of approximately HK$6.1 million in the Current Year, of which (i) approximately HK$4.8 million was from the non-cash, equity-settled share-based payment expenses related to the share options granted which decreased to nil in the Current Year; and (ii) approximately HK$1.9 million mainly related to a decrease in legal and professional fee as the proposed acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited and the proposed issuance of new shares and general offers as detailed in the joint announcements issued by the Company and Zhongtai International Investment Group Limited dated 25 February 2018 and 12 October 2018 respectively were already terminated;

- the absence of a fair value loss on financial assets at fair value through profit or loss in the Current Year which was recorded in the amount of approximately HK$11.1 million in the Previous Year; and

- a decrease in taxation expenses for the Toy Division of approximately HK$6.4 million for the Current Year;

• The Board does not recommend the payment of final dividend for the year ended 31 March 2020.

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Quali-Smart Holdings Limited (the "**Company**") is pleased to present the audited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 March 2020 together with the comparative audited figures for the preceding financial year in this announcement.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
Revenue	5	**413,297**	624,214
Cost of sales		**(348,655)**	(539,830)
Gross profit		**64,642**	84,384
Other income, gains and losses	7	**5,598**	8,891
Selling expenses		**(10,368)**	(15,311)
Administrative expenses		**(75,639)**	(81,727)
Impairment loss on goodwill	8	**(43,905)**	–
Finance costs	9	**(26,770)**	(24,439)
Loss before income tax expense	8	**(86,442)**	(28,202)
Income tax expense	10	**(1,220)**	(7,585)
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(87,662)**	(35,787)
LOSS PER SHARE ATTRIBUTABLE TO THE OWNERS OF THE COMPANY	12		
– Basic and diluted (HK cents)		**(5.95)**	(2.43)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 March	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**6,951**	21,031
Investment property		**6,700**	7,000
Right-of-use assets		**5,351**	–
Goodwill	13	**140,878**	184,783
Intangible assets	14	**554**	554
Statutory deposit for financial service business		**374**	1,319
Deposits		**3,388**	326
Promissory notes	19	**–**	4,584
Total non-current assets		**164,196**	219,597
CURRENT ASSETS			
Inventories	15	**71,036**	83,723
Trade receivables	16	**65,330**	59,143
Prepayments, deposits and other receivables		**6,996**	6,555
Promissory notes	19	**4,652**	–
Cash and bank balances held on behalf of customers		**43,211**	38,006
Pledged bank deposits		**62,400**	61,242
Cash and cash equivalents		**59,957**	140,467
Total current assets		**313,582**	389,136
CURRENT LIABILITIES			
Trade payables	17	**59,207**	84,019
Accruals and other payables		**6,778**	12,237
Interest-bearing bank borrowings	18	**16,962**	23,106
Lease liabilities		**5,505**	–
Convertible notes	20	**78,183**	–
Tax payables		**106**	1,848
Total current liabilities		**166,741**	121,210
NET CURRENT ASSETS		**146,841**	267,926
TOTAL ASSETS LESS CURRENT LIABILITIES		**311,037**	487,523

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		At 31 March	
		2020	2019
	Notes	***HK$'000***	*HK$'000*
NON-CURRENT LIABILITIES			
Convertible notes	20	**–**	88,429
Lease liabilities		**38**	–
Deferred tax liabilities		**112**	112
Total non-current liabilities		**150**	88,541
NET ASSETS		**310,887**	398,982
EQUITY			
Share capital	21	**287**	287
Reserves		**310,600**	398,695
Total equity		**310,887**	398,982

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the Company								
	Share capital	Share premium	Property revaluation reserve	Investment revaluation reserve	Other reserve	Share option reserve	Convertible notes equity reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2018	287	418,769	6,071	(260)	1,000	50,187	45,888	(92,211)	429,731
Equity settled share-based transactions *(note 23)*	–	–	–	–	–	4,778	–	–	4,778
Lapse of share options	–	–	–	–	–	(1,655)	–	1,655	–
Disposal of debt instruments at fair value through other comprehensive income	–	–	–	260	–	–	–	–	260
Loss and total comprehensive income for the year	–	–	–	–	–	–	–	(35,787)	(35,787)
At 31 March 2019 and 1 April 2019	**287**	**418,769**	**6,071**	**–**	**1,000**	**53,310**	**45,888**	**(126,343)**	**398,982**
Lapse of share options	**–**	**–**	**–**	**–**	**–**	**(1,055)**	**–**	**1,055**	**–**
Early redemption of convertible notes	**–**	**–**	**–**	**–**	**–**	**–**	**(12,047)**	**11,614**	**(433)**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(87,662)**	**(87,662)**
At 31 March 2020	**287**	**418,769**	**6,071**	**–**	**1,000**	**52,255**	**33,841**	**(201,336)**	**310,887**

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 2019

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

- HKFRS 16 Leases
- HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments
- Amendments to HKFRS 9 Prepayment Features and Negative Compensation
- Amendments to HKAS 19 Plan Amendment, Curtailment or Settlement
- Amendments to HKAS 28 Long-term Interests in Associates and Joint Ventures
- Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 included in Annual Improvements to HKFRSs 2015-2017 Cycle

The impact of the adoption of HKFRS 16 Leases have been summarised in below. The other new or amended HKFRSs that are effective from 1 April 2019 did not have any significant impact on the Group's accounting policies.

HKFRS 16 Leases

(i) Impact of the adoption of HKFRS 16

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases ("**HKAS 17**"), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease ("**HK(IFRIC)-Int 4**"), HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under HKFRS 16, please refer to sections (ii) to (v) of this note.

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

(a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(i) Impact of the adoption of HKFRS 16 (Continued)

The Group has applied HKFRS 16 using the modified retrospective approach and recognised all the cumulative effect of initially applying HKFRS 16, if any, as an adjustment to the opening balance of accumulated losses as at the date of initial application. The comparative financial information presented for 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The following table summarised the impact of transition to HKFRS 16 on consolidated statement of financial position as at 31 March 2019 to that as at 1 April 2019:

Consolidated statement of financial position as at 1 April 2019

	HK$'000
Right-of-use assets	14,792
Lease liabilities (current)	9,348
Lease liabilities (non-current)	5,444

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 March 2019 could be reconciled to the lease liabilities at the date of initial application recognised in the statement of financial position as at 1 April 2019:

Reconciliation of operating lease commitment to lease liabilities

	HK$'000
Operating lease commitment as at 31 March 2019	15,678
Less: short term leases for which lease terms end within 31 March 2020	(38)
Less: future interest expenses	(848)
Total lease liabilities as at 1 April 2019	14,792

The weighted average lessees' incremental borrowing rates applied to lease liabilities by the relevant group entities recognised in the consolidated statement of financial position as at 1 April 2019 is 7.45% per annum.

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

(a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(ii) The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected to separate non-lease components and recognised the non-lease components in profit or loss.

(iii) Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of whether they are operating leases or finance leases) are required to be capitalised in the statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets (the Group has leased photocopying machines) and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on a straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

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

(a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(iii) Accounting as a lessee (Continued)

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property or a class of property, plant and equipment to which the Group applies the revaluation model, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability. For right-of-use asset that meets the definition of an investment property, they are carried at fair value and for right-of-use asset that meets the definition of a leasehold land and buildings held for own use, they are carried at fair value.

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises it judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use assets arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

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

(a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(iii) Accounting as a lessee (Continued)

Lease liability (Continued)

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Accounting as a lessor

The Group has leased out its investment property to a tenant. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on these financial statements.

(v) Transition

As mentioned above, the Group has applied HKFRS 16 using the modified retrospective approach and recognised the right-of-use assets at the amount equal to the lease liabilities adjusted by amount of any prepaid or accrued lease payments relating to those leases recognised in the consolidated statement of financial position immediately before 1 April 2019. The comparative financial information presented in these financial statements has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

The Group has recognised the lease liabilities as at 1 April 2019 for leases previously classified as operating lease applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 April 2019.

The Group has elected to recognise all the right-of-use assets at 1 April 2019 for leases previously classified as operating lease under HKAS 17 at an amount equal to the amount recognised for the remaining lease liabilities and discounted using the lessee's incremental borrowing rate at the date of initial application.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in Hong Kong was determined on a portfolio basis; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 April 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 April 2019; and (iv) relied on the previous assessment for onerous contract provisions as at 31 March 2019 as an alternative to performing an impairment assessment when measuring the right-of-use assets at the date of initial application of HKFRS 16.

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

(a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

HKFRS 16 Leases (Continued)

(v) Transition (Continued)

In addition, the Group has also applied the practical expedients such that: (i) HKFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 and (ii) not to apply HKFRS 16 to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4.

Except as described above, the application of the new or amended HKFRSs below had no material impact on the consolidated financial statements.

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 has 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 HKAS 19 – Plan amendments, curtailment or settlement

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period. Additionally, the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

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.

Amendments to HKAS 28 - Long-term Interests in Associates and Joint Ventures

The amendments clarify that HKFRS 9 applies to long-term interests ("**LTI**") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

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

(a) Adoption of new/revised HKFRSs – effective 1 April 2019 (Continued)

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

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 3 which clarify that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

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

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 11 which clarify that when a party that participates in, but does not have joint control of, a joint operation which is a business and subsequently obtains joint control of the joint operation, the previously held equity interest should not be remeasured to its acquisition date fair value.

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

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 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

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

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 23 which clarify that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

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

The following new/revised HKFRSs, potentially relevant to the Group's consolidated 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.

Amendments to HKFRS 3	Definition of a business[1]
Amendments to HKAS 1 and HKAS 8	Definition of material[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[1]
Amendment to HKFRS 16	COVID-19 Related Rent Concessions[2]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 June 2020

Amendments to HKFRS 3 – Definition of a business

The amendments clarify that a business must include, as a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, together with providing extensive guidance on what is meant by a "substantive process".

Additionally, the amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs, whilst narrowing the definition of "outputs" and a "business" to focus on returns from selling goods and services to customers, rather than on cost reductions.

An optional concentration test has also been added that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to HKAS 1 and HKAS 8 – Definition of material

The amendments clarify the definition and explanation of "material", aligning the definition across all HKFRS Standards and the Conceptual Framework, and incorporating supporting requirements in HKAS 1 into the definition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 – Interest Rate Benchmark Reform

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainties caused by interest rate benchmark reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The Group is not yet in a position to state whether these new pronouncements will result in substantial changes to the Group's accounting policies and consolidated financial statements.

Amendment to HKFRS 16 COVID-19-Related Rent Concessions

The amendment is issued in June 2020 and is effective for annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including interim or annual financial statements not authorised for issue as at 4 June 2020, the date the amendment was issued.

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)

Amendment to HKFRS 16 COVID-19-Related Rent Concessions (Continued)

The amendment introduces a new practical expedient for lessees to elect not to assess whether COVID-19-related rent concessions is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of COVID-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lease applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes were not lease modifications. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the profit or loss in the period in which the event occurs.

The application of the amendment is expected to have impact on the financial position and performance of the Group if the Group would elect to early apply the amendment for the Group's annual period beginning on 1 April 2020.

3. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and interpretations (hereinafter collectively referred to as the "**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the disclosure requirements of the Hong Kong Companies Ordinance ("**CO**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

(b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for investment property, which is measured at fair values as explained in the accounting policies set out below.

(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.

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 represents the net invoiced value of goods sold from manufacturing and sales of toys, after allowances for returns and trade discounts, and the provision of financial services. An analysis of revenue is as follows:

	Year ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Manufacturing and sales of toys	**383,708**	619,549
Financial services		
– Commission income from securities brokerage	**2,079**	736
– Income from placing and underwriting services	**18,681**	3,231
– Advisory income and consultancy services income`	**7,928**	287
– Handling fee income and other services income	**901**	411
Total	**413,297**	624,214

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. The following summary describes the operations in each of the Group's reportable segments:

– Manufacturing and sales of toys; and

– Securities brokerage, underwriting securities margin financing, investment advisory, corporate finance and asset management services ("**Financial services**").

6. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments

Management assesses the performance of the operating segments based on the measurement 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 measurement 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:

Segment revenue and results

	Manufacturing and sales of toys *HK\$'000*	**Financial services** *HK\$'000*	**Total** *HK\$'000*
For the year ended 31 March 2020			
External revenue	**383,708**	**29,589**	**413,297**
Segment profit/(loss)	**270**	**(57,573)**	**(57,303)**
Corporate income			
– Others			**1,272**
Central administrative cost *(note)*			**(5,523)**
Finance cost			**(24,888)**
Loss before income tax expense			**(86,442)**

Note: Segment profit/(loss) for the financial services segment for the year ended 31 March 2020 includes an impairment loss on goodwill of approximately HK\$43.9 million.

6. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

Segment revenue and results (Continued)

	Manufacturing and sales of toys *HK$'000*	Financial services *HK$'000*	Total *HK$'000*
For the year ended 31 March 2019			
External revenue	619,549	4,665	624,214
Segment profit/(loss)	47,860	(46,644)	1,216
Corporate income			
– Others			2,619
Central administrative cost *(note)*			(6,196)
Equity settled share-based payment expenses			(4,778)
Finance cost			(21,063)
Loss before income tax expense			(28,202)

Note: 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 corporates income, 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 (other than promissory notes and cash and cash equivalents) are allocated to reportable segments.

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Manufacturing and sales of toys	**151,189**	140,346
Financial services	**261,978**	318,588
Total segment assets	**413,167**	458,934
Unallocated	**64,611**	149,799
Consolidated assets	**477,778**	608,733

Segment liabilities

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

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Manufacturing and sales of toys	**31,276**	47,577
Financial services	**55,031**	69,834
Total segment liabilities	**86,307**	117,411
Unallocated	**80,584**	92,340
Consolidated liabilities	**166,891**	209,751

6. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

Other segment information

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

For the year ended 31 March 2020

	Manufacturing and sales of toys *HK$'000*	**Financial services** *HK$'000*	**Total** *HK$'000*
Additions to property, plant and equipment	**665**	**48**	**713**
Additions to right-of-use assets	**–**	**124**	**124**
Depreciation of property, plant and equipment	**(10,436)**	**(21)**	**(10,457)**
Gain on disposal of property, plant and equipment	**1,092**	**–**	**1,092**
Depreciation of right-of-use assets	**2,782**	**6,783**	**9,565**
Impairment loss on goodwill	**–**	**43,905**	**43,905**
Interest expenses	**(1,381)**	**(501)**	**(1,882)**

For the year ended 31 March 2019

	Manufacturing and sales of toys *HK$'000*	Financial services *HK$'000*	Total *HK$'000*
Additions to property, plant and equipment	13,899	–	13,899
Depreciation of property, plant and equipment	(14,351)	(316)	(14,667)
Gain on disposal of property, plant and equipment	5,063	–	5,063
Fair value loss on financial assets through profit or loss	–	(11,054)	(11,054)
Interest expenses	(3,174)	(202)	(3,376)

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 services business, promissory notes and deposits (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	
	2020	2019
	HK$'000	*HK$'000*
North America *(note 1)*	**236,203**	422,603
Western Europe		
– United Kingdom	**11,889**	35,580
– France	**15,632**	17,975
– Others *(note 2)*	**59,367**	56,208
PRC and Taiwan	**18,265**	21,481
Central America, Caribbean and Mexico	**13,054**	18,871
Australia, New Zealand and Pacific Islands	**13,705**	19,587
Others *(note 3)*	**45,182**	31,909
Total	**413,297**	624,214

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

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

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

6. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

(ii) Specified non-current assets

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Mainland China, the PRC	**6,788**	20,647
Hong Kong	**153,646**	192,721
Total	**160,434**	213,368

(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	
	2020	2019
	HK$'000	*HK$'000*
Customer A	**136,550**	223,686
Customer B	**104,130**	213,425
Customer C	**83,959**	106,056
Total	**324,639**	543,167

(d) Disaggregation of revenue from contracts with customers

In the following table, revenue is disaggregated by timing over revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment.

	Manufacturing and sales of toys		Financial services		Total	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Timing of revenue recognition						
– At a point in time	**383,708**	619,549	**21,661**	4,378	**405,369**	623,927
– Over time	**–**	–	**7,928**	287	**7,928**	287
Total	**383,708**	619,549	**29,589**	4,665	**413,297**	624,214

7. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Other income		
Interest income from bank deposits	**1,551**	1,000
Interest income from debt instruments at fair value through other comprehensive income	**–**	471
Interest income from promissory notes	**68**	113
Moulding income	**847**	4,144
Rental income	**228**	680
	2,694	6,408
Other gains and losses		
Exchange gains, net	**979**	3,379
Fair value loss on financial assets at fair value through profit or loss	**–**	(11,054)
Fair value change on investment property	**(300)**	300
Gain on disposal of debt instruments at fair value through other comprehensive income	**–**	121
Loss on early redemption of convertible notes	**(910)**	–
Gain on disposal of property, plant and equipment	**1,092**	5,063
Others	**2,043**	4,674
	2,904	2,483
Other income, gains and losses	**5,598**	8,891

8. LOSS BEFORE INCOME TAX EXPENSE

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

	Year ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Cost of inventories sold	**348,655**	539,830
Depreciation of property, plant and equipment	**10,457**	14,667
Depreciation of right-of-use assets	**9,565**	–
Employee benefits expenses (excluding Directors' remuneration:		
Wages and salaries	**28,955**	30,933
Equity settled share-based payment expenses to employees	**–**	2,036
Pension scheme contributions	**782**	850
Other benefits	**1,137**	1,485
	30,874	35,304
Equity settled share-based payment expenses to eligible persons other than employees and Directors	**–**	941
Auditor's remuneration	**1,508**	1,528
Operating lease rental for leases previously classified as operating leases under HKAS17	**–**	11,862
Expense relating to short-term leases	**38**	–
Impairment loss on goodwill	**43,905**	–

9. FINANCE COSTS

	Year ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Interest on:		
– Bank borrowings	**1,140**	3,174
– Convertible notes	**24,888**	21,063
– Lease liabilities	**742**	–
– Others	**–**	202
	26,770	24,439

10. INCOME TAX EXPENSE

For the year ended 31 March 2020, Hong Kong Profits Tax of the selected entity was calculated at 8.25% (2019: 8.25%) of the first HK$2,000,000 estimated assessable profits and 16.5% (2019: 16.5%) of the remaining estimated assessable profits. Hong Kong Profits Tax for the remaining entities within the Group was calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year ended 31 March 2020.

Taxation arising from other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

	Year ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Current – Hong Kong		
Charge for the year	**1,229**	7,325
(Over)/under provision in prior years	**(9)**	260
Income tax expense for the year	**1,220**	7,585

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	
	2020	2019
	HK$'000	*HK$'000*
Loss before income tax expense	**(86,442)**	(28,202)
Tax at the applicable tax rate of 16.5% (2019: 16.5%)	**(14,263)**	(4,653)
Tax effect of revenue not taxable for tax purposes	**(198)**	(3,060)
Tax effect of expenses not deductible for tax purposes	**10,683**	9,714
Tax effect of tax loss not recognised	**6,045**	7,634
Tax effect of temporary difference not recognised	**(873)**	(282)
Utilisation of tax losses previously not recognised	**–**	(1,863)
Tax concession	**(165)**	(165)
(Over)/under provision in prior years	**(9)**	260
Income tax expense	**1,220**	7,585

No deferred tax asset has been recognised in respect of the unused tax losses of HK$155,080,000 (2019: HK$118,442,000) 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 year ended 31 March 2020, nor has any dividend been proposed since the end of the reporting period (2019: HK$ Nil).

12. LOSS PER SHARE

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	
	2020	2019
	HK$'000	*HK$'000*
Loss		
Loss for the year attributable to the owner of the Company	**(87,662)**	(35,787)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,474,232,000**	1,474,232,000

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 2020 of approximately HK$87,662,000 (2019: HK$35,787,000), and on the weighted average number of 1,474,232,000 (2019: 1,474,232,000) 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 2020 (2019: same) as the impact of the potential dilutive ordinary shares outstanding including the convertible notes and outstanding options under the share option scheme have an anti-dilutive effect on the basic loss per share presented for the year ended 31 March 2020 (2019: anti-dilutive).

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

13. GOODWILL

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

	Financial services *HK$'000* *(note a)*
Cost	
At 1 April 2018, 31 March 2019 and 31 March 2020	**184,783**
Impairment	
At 1 April 2018, 31 March 2019 and 1 April 2019	–
Impairment loss	(43,905)
At 31 March 2020	**(43,905)**
Carrying amount	
At 31 March 2020	**140,878**
At 31 March 2019	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) Approximately HK$180,737,000 and HK$554,000 of goodwill and intangible assets arose from acquisition of Crosby Securities Limited ("**CSL**") and HK$4,046,000 of goodwill from acquisition of Crosby Asset Management (Hong Kong) Limited ("**CAM**") in prior years, which were allocated to two different CGUs for impairment assessment.

As at 31 March 2020, 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 17.0% (2019: 18.1%) estimated by the management. Growth rate used to extrapolate the cash flows beyond the five-year budget plan is 3% (2019: 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, existing signed mandates and engagements, business plans and outlook and its expectations for the industry development. Despite an improvement in the operating financial performance (before impairment loss on goodwill) of CSL in the financial year ended 31 March 2020 when compared with its performance in the previous financial year, the cash flow projections in the next five years have been revised downwards in view of (i) potential disruptions or delays to some of the underwriting transactions of CSL as a result of the COVID-19 pandemic; (ii) more conservative assumptions on the performance of the US securities market in the next financial year affecting the investment advisory business of CSL; and (iii) reduced capital available for CSL to engage in principal-based activities after redemptions of the convertible notes by the Company. As a result of the more conservative business outlooks, the recoverable amount of CGU in relation to CSL was reduced to HK$140,000,000 (2019: HK$220,000,000), which is lower than its carrying amount. Accordingly, impairment loss on goodwill of approximately HK$43,905,000 (2019: Nil) was recognised for the year ended 31 March 2020 while no impairment loss was allocated to the intangible assets under HKAS 36.

All the discount rates used above are pre-tax and reflect specific risks relating to the relevant CGU. The following table illustrates the key assumptions such as EBIT margins, long-term growth rates and pre-tax discount rates used for the value in use calculations of the CGU in relation to CSL:

	At 31 March 2020	At 31 March 2019
Budgeted EBIT margin (average of next five years)	**19%**	27%
Range of budgeted EBIT margin during next five years	**-15% to 38%**	-3% to 53%
Long-term growth rate	**3%**	3%
Pre-tax discount rate	**17.0%**	18.1%

As at 31 March 2020, the recoverable amount of the CGU in relation to CAM was based on fair values less costs to disposal using direct comparison approach as detailed below. During the year ended 31 March 2020, no impairment was provided on goodwill for CAM as the recoverable amount exceeded the carrying amount of the CGU (2019: Nil).

The level in the fair value hierarchy in arriving at the above recoverable amount is considered under Level 3. The cost of disposal of CAM is estimated by the management as immaterial. 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, with an adjustment on the share price changes of the comparable companies from the transaction dates to the year-end date. Higher negative impact on the change of share price of the comparable companies will result in a lower fair value measurement, and vice versa.

Significant unobservable inputs	**Range**
Share price change on the comparable companies	-39% to -68%

14. INTANGIBLE ASSETS

	Trading rights, trademarks and website
	HK$'000
	(note)
Cost:	
At 1 April 2018, 31 March 2019 and 31 March 2020	**554**
Accumulated amortisation	
At 1 April 2018, 31 March 2019 and 31 March 2020	–
Carrying amount	
At 31 March 2020	**554**
At 31 March 2019	554

Note:

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 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. Details of impairment testing are set out in note 13.

15. INVENTORIES

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Raw materials	**51,511**	59,118
Finished goods	**19,525**	24,605
	71,036	83,723

16. TRADE RECEIVABLES

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Trade receivables from Financial services segment	**9,574**	31,111
Trade receivables from Manufacturing and sales of toys segment	**55,756**	28,032
	65,330	59,143

Trade receivables from Financial services segment

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Accounts receivable arising from the ordinary course of business of securities brokerage:		
– Cash clients *(note)*	**10**	31,076
– Clearing house *(note)*	**1,571**	–
Accounts receivable arising from the ordinary course of business of provision of:		
– Placing commission	**6,600**	–
– Advisory services	**1,393**	35
	9,574	31,111

16. **TRADE RECEIVABLES (Continued)**

Ageing analysis of trade receivables of the financial services segment based on due date and net of loss allowance is as follows:

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Neither past due nor impaired	**1,581**	31,111
Less than 1 month past due	**7,993**	–
	9,574	31,111

Note: The settlement terms of trade receivables arising from the ordinary course of business of dealing in securities from cash clients and clearing house are one or two days after the respective trade date.

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

In the view of the fact that those receivables related to a number of diversified cash clients and cleaning house and no significant increase in credit risk since initial recognition and the respective balance at the end of the reporting period, therefore, the Directors considered the ECL of those balances was immaterial to be recognised for both years.

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

Trade receivables from Manufacturing and sales of toys segment

The credit period on sales of toys ranges 30–90 days from the invoice date. An ageing 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	
	2020	2019
	HK$'000	*HK$'000*
Current to 30 days	**17,280**	14,764
31 to 60 days	**19,905**	3,413
61 to 90 days	**14,648**	7,859
Over 90 days	**3,923**	1,996
	55,756	28,032

16. TRADE RECEIVABLES (Continued)

Trade receivables from Manufacturing and sales of toys segment (Continued)

The ageing analysis of trade receivables as of the end of reporting period, based on past due dates and net of loss allowance, is as follows:

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Neither past due nor impaired	**37,592**	20,186
Less than 1 month past due	**15,120**	6,238
1 to 3 months past due	**1,347**	1,608
Over 3 months past due	**1,697**	–
	55,756	28,032

17. TRADE PAYABLES

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Trade payables from Financial services segment	**50,222**	69,018
Trade payables from Manufacturing and sales of toys segment	**8,985**	15,001
	59,207	84,019

Trade payables from Financial services segment

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Accounts payable arising from the ordinary course of business of securities brokerage and margin financing:		
– Cash clients	**44,776**	38,163
– Margin clients	**11**	–
– Brokers and clearing house	**5,435**	30,855
	50,222	69,018

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 31 March 2020, included in trade payable was an amount of approximately HK$43,211,000 (2019: HK$38,006,000) 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.

17. TRADE PAYABLES (Continued)

Trade payables from Manufacturing and sales of toys segment

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

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

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Current to 30 days	**5,076**	8,135
31 to 60 days	**1,952**	4,859
61 to 90 days	**1,793**	1,589
91 to 365 days	**164**	418
	8,985	15,001

18. INTEREST-BEARING BANK BORROWINGS

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
Current		
Secured		
– bank loans due for repayment within one year	**16,962**	23,106

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 (2019: HK$7,000,000);

ii) The corporate guarantee from the Company's subsidiary, which is Qualiman Industrial Co. Limited (2019: Qualiman Industrial Co. Limited); and/or

iii) Legal charges over certain properties in Hong Kong owned by Mr. Lau Ho Ming, Peter, Madam Li Man Yee, Stella and their associates and personal guarantee by Mr. Lau Ho Ming, Peter.

At 31 March 2020 and 2019, total bank borrowings were on demand or repayable within one year.

Certain banking facilities are subject to the fulfilment 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 2020, none of the covenants relating to drawn down facilities had been breached (2019: Nil).

19. PROMISSORY NOTES

On 29 December 2017, the Company received promissory notes with an aggregate principal amount of HK$8,500,000 as part of the consideration for disposal of the issued share capital of New Creation Global Limited. The promissory notes are unsecured and denominated in HK$. 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 2017 PN1 has been fully repaid on maturity.

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

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

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
2017 PN2	**4,652**	4,584
Less: balances due within one year included in current assets	**(4,652)**	–
Non-current portion	**–**	4,584

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 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 2020, none of the 2017 CN1 was converted into ordinary shares of the Company (2019: none).

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

20. CONVERTIBLE NOTES (Continued)

(a) (Continued)

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

	2020	2019
	HK$'000	*HK$'000*
At 1 April	**64,238**	53,554
Effective interest expense	**18,754**	15,502
Interest payable	**(4,809)**	(4,818)
At 31 March	**78,183**	64,238

(b) 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.

During the year ended 31 March 2020, none of the 2017 CN2 was converted into ordinary shares of the Company (2019: none).

The 2017 CN2 was early redeemed in full during the year ended 31 March 2020.

20. CONVERTIBLE NOTES (Continued)

(b) (Continued)

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:

	2020	2019
	HK$'000	*HK$'000*
At 1 April	**24,191**	20,430
Effective interest expense	**6,134**	5,561
Interest payable	**(1,667)**	(1,800)
Early redemption	**(28,658)**	–
At 31 March	**–**	24,191

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

	At 31 March	
	2020	2019
	HK$'000	*HK$'000*
2017 CN1	**78,183**	64,238
2017 CN2	**–**	24,191
Convertible notes	**78,183**	88,429
Less: balances due within one year included in current liabilities	**(78,183)**	–
Non-current portion	**–**	88,429

21. SHARE CAPITAL

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

	2020		2019	
	Number of shares	***HK$'000***	*Number of shares (note (a))*	*HK$'000*
Authorised:				
Ordinary shares of US$0.000025 each				
At 1 April	**6,000,000,000**	**1,168**	3,000,000,000	584
Increase *(note)*	**–**	**–**	3,000,000,000	584
At 31 March	**6,000,000,000**	**1,168**	6,000,000,000	1,168
Issued and fully paid:				
Ordinary shares of US$0.000025 each				
At 1 April and 31 March	**1,474,232,000**	**287**	1,474,232,000	287

Note:

Pursuant to an ordinary resolution passed by shareholders at the extraordinary general meeting of the Company held on 16 January 2019, the authorised share capital of the Company was increased to US$150,000 divided into 6,000,000,000 shares by creating an additional 3,000,000,000 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.

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.

23. **EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)**

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

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%

23. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

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.

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 2020:

	Number of share options					
	Exercise price *(note 1)*	Balance as at 1 April 2019 *(note 1)*	Lapsed during the year	Balance as at 31 March 2020	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 *(note 3)*	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

23. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

	Number of share options					
	Exercise price *(note 1)*	Balance as at 1 April 2019 *(note 1)*	Lapsed during the year	Balance as at 31 March 2020	Date of grant of share options	Exercisable periods of share options
Independent Non-executive Directors						
– Leung Po Wing, Bowen Joseph	HK$1.02	1,400,000	–	**1,400,000**	3 July 2015	3 July 2015 to 2 July 2025
	HK$0.748	1,400,000	–	**1,400,000**	24 March 2016	24 March 2016 to 23 March 2026
– Chan Siu Wing, Raymond	HK$1.02	1,400,000	–	**1,400,000**	3 July 2015	3 July 2015 to 2 July 2025
	HK$0.748	1,400,000	–	**1,400,000**	24 March 2016	24 March 2016 to 23 March 2026
– Wong Wah On, Edward	HK$0.748	1,400,000	–	**1,400,000**	24 March 2016	24 March 2016 to 23 March 2026
Employees	HK$1.02	8,600,000	–	**8,600,000**	3 July 2015	3 July 2015 to 2 July 2025
	HK$0.748	40,223,800	(3,220,000)	**37,003,800**	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		134,291,600	(3,220,000)	**131,071,600**		

Notes:

1. Upon the share sub-division which 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.

3. Mr. Ng Kam Seng resigned as an Executive Director of the Company on 1 January, 2020 and appointed as consultant on 2 January 2020.

23. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

Equity settled share-based payment expenses comprise:

	Year ended 31 March	
	2020	2019
	HK$'000	*HK$'000*
Equity settled schemes to employees (including Directors)	**–**	3,837
Equity settled schemes to eligible persons other than employees and Directors	**–**	941
	–	4,778

The following share options were outstanding during the year:

	2020		2019	
	Weighted average exercise price per share	**Number of options**	Weighted average exercise price per share	Number of options
	$		*$*	
At 1 April	**0.84**	**134,291,600**	0.84	138,591,600
Lapsed after the share sub-division	**0.86**	**(3,220,000)**	0.86	(4,300,000)
At 31 March	**0.84**	**131,071,600**	0.84	134,291,600

The weighted average share price at the date of exercise of options exercised during the year ended 31 March 2020 was HK$0.84. 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 5.71 years (2019: 6.71 years).

Of the total number of share options outstanding as at 31 March 2020, no share option had not been vested and were not exercisable (2019: Nil).

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 Company Limited (the "**Toy Division**") and the provision of financial services operated under Crosby Asia Limited (the "**Financial Services Division**").

The Current Year was unprecedented in many ways. Business and investment environments were already challenging at the beginning of the Current Year as the trade war between the United States and China escalated and threats of strengthening tariff measures ensued in multiple jurisdictions. Then in June 2019, local business sentiments were further jeopardized by the unprecedentedly large-scale social unrests and nihilism not seen in Hong Kong since 1967 with the crisis further deepening into the autumn months. Just as we thought we might be having some breathing space, a global pandemic in the form of the COVID-19 virus crept into our world as we celebrated Chinese New Year, and rapidly escalated into a global public health and economic crisis as many countries, including China, the United States and the United Kingdom, suffered staggering mortality and were forced to go into lockdowns, effectively shutting down the global economy in an unprecedented scale and causing a partial meltdown in securities prices in the global markets towards the end of the Current Year. What a year it has been!

Against this dire socio-economic backdrop, our Group faced challenging operating environments in all its business segments. Our overseas customers in the Toy Division, particularly those in the United States and Western Europe, themselves faced immense challenges in their operations as the retail markets for the toy industry already started on a low note at the beginning of the Current Year following closure of some major retailers before and the ongoing Sino-US trade war. The COVID-19 pandemic drove them further into the cold water as their economies went into lockdowns during the fourth quarter of the Current Year. Many of them became very cautious in placing orders as it was uncertain when their economies would reopen, and even so complicated by the fears that they might become the scapegoats in the ever-escalating trade war between China and the United States, as unexpected or unwanted tariff actions might be imposed by both governments. In view of the opaque macro-business environments, our Toy Division has continued its strategies to focus more on a more selected range of high-margin products starting from two years ago and imposed more effective cost control measures, preparing ourselves to weather through an extended period of difficult operating environments. On the other hand, our Financial Services Division had a very busy year amidst a highly volatile market. We successfully closed three initial public offering transactions acting in the lead role as global coordinator or joint bookrunner in June 2019 against substantial market volatility in reaction to the massive protests in Hong Kong. Such volatility in the markets caused securities issuers and investors to be more cautious as geo-political outlooks became uncertain, leading to a shake-up in investors' confidence and making it challenging to close transactions. Despite such difficulties, our Financial Services

Division closed three more initial public offering transactions in the lead role during the second half of the Current Year, making a total of six initial public offering transactions in the lead role during the Current Year and delivering a substantial improvement in its businesses over the Previous Year.

The Current Year was also marked by the termination of the subscription of new shares of the Company by Zhongtai Financial International Limited and the proposed acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited by the Company as a result of the non-fulfillment of some of the conditions precedent beyond our control, despite over nineteen months of hard work. As a result of the termination of the above transactions, the possible unconditional mandatory offers in cash for all the issued shares of the Company, all the outstanding convertible notes of the Company and the cancellation of all outstanding share options granted by the Company also lapsed and the offer period of such offers came to an end for the purposes of the Takeovers Code at the end of the second quarter of the Current Year. While this might not have been the result the Group had hoped for, our Financial Services Division has once again refocused all our energy onto its businesses, as evidenced by the substantial improvements in its business operating performance (before impairment loss on goodwill) in the Current Year over the Previous Year.

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$383.7 million and HK$0.3 million respectively, representing a decrease of 38.1% and 99.4% respectively over the Previous Year. The noticeable drop in revenue from the Toy Division was mainly due to a decrease in orders placed by customers in all major markets in which the Toy Division serviced. Most notably, revenues from North American customers, which accounted for approximately 61.6% of total revenues from the Toy Division in the Current Year, decreased by about 44.1% over the Previous Year. Western European customers, which accounted for about 22.6% of total revenues from the Toy Division in the Current Year, also dropped by about 20.8% over the Previous Year. Customers in the traditional western markets got cold feet because of the market uncertainty created by the ongoing Sino-US trade wars and the already weakened consumer sentiments as experienced by the retailer markets. Given the challenges in the top line, the Group continued to focus on adopting effective cost control measures, such as inventory rationalisation and automation in manufacturing process. In addition, the Toy Division continued to have a strong relationship with its major customers, many of which continued to place orders with us, albeit more cautiously. Towards the end of the Current Year, the operations of many sub-contractors of the Group were affected by the lock-downs in the Guangdong province as a result of the COVID-19 pandemic, thus bringing some of the production processes to a halt after Chinese Near Year. This had limited impact on the performance of the Group during the Current Year as the last quarter is usually the non-peak season of the production cycle of the Toy Division. As the outlook for the global toy industry remains clouded given the uncertainty in the reopening of the economies in North America and Western Europe, and the threats posed by new tensions between China and the US, 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 securities markets globally and in Hong Kong went through a roller-coaster ride. The Hang Seng Index opened on a high note and surpassed 30,000 once again in April 2019 only to fall to a low of 25,281.30 within four months as Hong Kong was rocked by the unprecedented social unrests following the protests against the proposed Extradition Bill during the summer months. While the markets did rebound subsequently just before Chinese Near Year after local tensions appeared to abate and the US markets reached record high, the world was shaken up again by the eruption of the COVID-19 pandemic in the last quarter, seeing the Hang Seng Index tank to 21,696.13 in late March 2020, an all-time low since 2016, and closing the year at 23,603.48, representing a drop of almost 19% during the Current Year. Based on data provided by The Stock Exchange of Hong Kong Limited, average daily turnover value on the Main Board and GEM was volatile following the movements of the markets in general, with an average daily turnover of about HK$87.2 million during the twelve months ended 31 December 2019, when compared with an average daily turnover of about HK$107.4 million during the twelve months ended 31 December 2018, representing a decrease of about 18.9%. The average daily turnover for the first three months of the calendar year 2020, however, saw a rebound to about HK$120.9 billion, representing an increase of about 20% when compared with the HK$101.1 billion for the same period last year, probably a result of the massive sell-down in equity in March 2020. The number of newly listed companies decreased by about 16.1% from 218 in 2018 to 183 in 2019, with total equity funds raised decreasing 16.9% from HK$544.1 billion in 2018 to HK$452.0 billion in 2019. The above statistics highlighted the dampening investment sentiments and momentum in the local securities markets as pricing became more conservative, posing challenges to fund raising transactions in the markets.

Crosby Securities Limited ("**Crosby**") under the Financial Services Division had a very busy year participating in a total of six initial public offering transactions in a lead role as global coordinator or lead bookrunner during the Current Year. Three transactions were closed between June and July in 2019 during a time of challenging local environments as massive protests started to erupt in Hong Kong. We completed three more initial public offering transactions before the end of 2019, allowing the Financial Services Division to record underwriting commission, brokerage commission and stabilisation profits from these transactions. In addition to underwriting in initial public offering transactions, Crosby also continued to place unlisted bonds for listed issuers in Hong Kong and acted as a placing agent to a listed issuer for its rights issue, generating placing commission for the Financial Services Division.

The Financial Services Division made substantial progress in its investment advisory business during the Current Year after it entered into an investment advisory agreement with a reputable international financial institution in the Previous Year. We managed to grow our assets under advisory by engaging new investors, with an investment focus primarily in the US equities markets. As the US markets reached record high during the Current Year, it allowed Crosby to recognize a substantial growth both in assets under advisory and its investment advisory fee revenues. During the second half of the Current Year, we also signed on a new portfolio manager who would provide discretionary portfolio management services for clients, with a focus in the US securities markets. We envisage that this would continue to help Crosby to grow its assets under advisory and diversify the businesses of our Financial Services Division in the long run.

FINANCIAL REVIEW

The Toy Division

The Toy Division's revenue for the Current Year amounted to approximately HK$383.7 million, representing a decrease of 38.1% over that of the Previous Year of approximately HK$619.5 million. Such decrease in revenue was due to a decrease in sales to some of the Toy Division's top 5 customers. Segment profit for this division decreased substantially to approximately HK$0.3 million or by approximately HK$47.6 million for the Current Year from approximately HK$47.9 million for the Previous Year, representing a decrease of 99.4%. Such significant decrease in segment profit was mainly due to a drastic drop in sales to certain of its top 5 customers because of the ongoing China-US trade war of which the associated segment costs decreased by a far less extent.

Revenue from North America decreased by approximately HK$186.4 million from HK$422.6 million for the Previous Year to approximately HK$236.2 million for the Current Year, while revenue from Western Europe decreased by approximately HK$22.9 million from HK$109.8 million for the Previous Year to approximately HK$86.9 million for the Current Year. Sales to customers in mainland China and Taiwan decreased by approximately HK$3.2 million from HK$21.5 million for the Previous Year to approximately HK$18.3 million for the Current Year. It was noted that the decrease in revenue during the Current Year was a global trend instead of a regional reallocation, as sentiments in the global toy industry was in general weakened due to the uncertain economic outlooks in all major markets amidst increasing tensions from multilateral trade wars.

The Financial Services Division

Revenue for the Financial Services Division for the Current Year amounted to approximately HK$29.6 million comparing to that of HK$4.7 million in the Previous Year, representing a substantial increase of 534.3% over the Previous Year. This is mainly attributable to a material increase in (i) securities brokerage commission income and income from placing and underwriting services arising from our initial public offering transactions of about HK$16.8 million or 423.3% over the Previous Year and (ii) investment advisory fee income of about HK$7.6 million or 2,662.4% over the Previous Year due to a growth in asset under advisory and the outstanding performance of the portfolio under advisory.

Overall, the Financial Services Division recorded a segment loss of approximately HK$57.6 million for the Current Year comparing to approximately HK$46.6 million for the Previous Year, representing an increase of segment loss of approximately 23.4%. The increase in segment loss of the Financial Services Division was mainly attributable to the impairment loss on goodwill in relation to Crosby Securities Limited of about HK$43.9 million, which is further explained in the next paragraph, which was partially offset by the improvement in the operating performances of the Financial Services Division during the Current Year as a result of (i) the substantial increase in revenues during the Current Year as explained above; and (ii) the absence of any fair value loss on financial assets at fair value through profit or loss in the Current Year when there was such loss in the amount of about HK$11.1 million arising from the disposal of certain listed securities in Hong Kong in the Previous Year. Excluding the impairment loss on goodwill, which is a non-cash item, the Financial Services Division would have recorded a segment loss of approximately HK$13.7 million in the Current Year, compared with HK$46.6 million in the Previous Year.

Impairment Loss on Goodwill

During the preparation of the audited financial statements of the Group for the Current Year, the Directors conducted an assessment of the value-in-use of the cash-generating unit of Crosby (the "**Crosby CGU**"), amongst others, and hired BMI Appraisals Limited, an independent valuer, to determine the value-in-use of the Crosby CGU in accordance with HKAS 36 "Impairment of Assets". With reference to the valuation report issued by the independent valuer for the calculation of the value-in-use of the Crosby CGU, the Directors determined that the value-in-use of the Crosby CGU was about HK$140.0 million as at 31 March 2020, which was less than the carrying value of the Crosby CGU of about HK$183.9 million immediately prior to the assessment. Therefore, an impairment loss on goodwill of about HK$43.9 million was recognized by the Group during the Current Year.

BMI Appraisal Limited adopted the income approach for the assessment of the value-in-use of the Crosby CGU. It was based on a five-year cash flow projection and extrapolated using a long-term terminal growth rate of 3%, and the cash flows were then discounted at a pre-tax discount rate of about 17.0%. The following table illustrates the key assumptions such as EBIT margins, long-term growth rates and pre-tax discount rates used for the value-in-use calculations of the Crosby CGU:

	At 31 March 2020	At 31 March 2019
Budgeted EBIT margin (average of next five years)	**19%**	27%
Range of budgeted EBIT margin during next five years	**-15% to 38%**	-3% to 53%
Long-term growth rate	**3%**	3%
Pre-tax discount rate	**17.0%**	18.1%

Budgeted EBIT margin is the average value of budgeted EBIT as a percentage of budgeted revenue over the five-year forecast period. It has been revised lower as we have adjusted the budgeted revenues in the forecast period downward by an average of about 32% when compared with the budget for the Previous Year to reflect the revised outlook of the Crosby CGU as explained below. The budgeted revenue and EBIT are determined based on past performance and expectations regarding our business development, including mandates currently secured or under negotiation and our assets under advisory and their expected growth with reference to historical market performance. The long-term growth rates used are consistent with the growth rates we used in the past for business in the markets in which the Crosby CGU operates and the pre-tax discount rates reflect the specific risks relating to the Crosby CGU. There was no material change in the methodology used to determine the value-in-use of the Crosby CGU for the Current Year and the Previous Year.

Despite showing a material increase in the revenues of the Financial Services Division and substantial narrowing of loss (before impairment loss on goodwill) during the Current Year, we revised our forecasts downwards for the Crosby CGU due to the following reasons:

(1) while we continue to have a healthy pipeline of initial public offering underwriting transactions, we envisage there might be increased uncertainty in the timetable of these transactions due to disruptions in the preparation process of their listing caused by travel lockdown situations arising from the COVID-19 pandemic. Business performance of the issuer clients might also be affected by the COVID-19 pandemic which might affect feasibility of the transactions. The increased volatility in the global capital markets as a result of the pandemic as well as the threats on the removal of the special status of Hong Kong by the United States may also

further hamper investors' sentiments towards the small-mid cap sectors in the equity markets in Hong Kong, which might cause capital raising windows to tighten abruptly. As a result, it is expected that more collaboration with other underwriters would be required to complete transactions and hence we have assumed a more conservative allocation for Crosby in its underwriting transactions going forward, which would affect our growth in underwriting fee revenues;

(2) while we recorded a substantial increase in investment advisory fees in the Current Year due to the outstanding performance of the US securities markets prior to the outbreak of the COVID-19 pandemic, the US markets have substantially corrected since March 2020, which might impact the performance of the investment advisory business in the next financial year; and

(3) as, in March and May 2020, the Company redeemed a material portion of the HK$110 million convertible notes which were issued in 2017 in cash, the capital base for the businesses of Crosby has decreased after the redemptions. With this development, it is envisaged that Crosby will no longer engage in businesses which rely on generating interest and fee income on deployment of capital, such as securities margin and principal financing businesses, in the foreseeable future.

While the assumptions and other relevant factors for determining the value-in-use of the Crosby CGU were considered reasonable by the Directors, they are inherently subject to significant political, market, business and economic uncertainties and contingencies, many of which are beyond the control of the Group. For further information on the outlook of the Crosby CGU and its business prospects in the coming year, please refer to the description related to the Financial Services Division in the Prospects section.

Overall Group Financial Performance

Revenue

The Group's revenue for the Current Year amounted to approximately HK$413.3 million, which represents a decrease of 33.8% from that for the Previous Year of approximately HK$624.2 million. The decrease in total revenue of approximately HK$210.9 million for the Current Year was mainly attributable to the decrease in revenues from the Toy Division of approximately HK$235.8 million because of a decrease in sales to certain of its top 5 customers, which was partially offset by an increase in revenues from the Financial Services Division of approximately HK$24.9 million resulting from an increase in underwriting and placement commissions and investment advisory fee income.

Gross Margin

The gross margin of the Toy Division dropped from approximately 12.9% for the Previous Year to approximately 9.1% for the Current Year due to a substantial drop in sales to certain of its top 5 customers because of the ongoing China-US trade war while the associated costs of sales decreased by a far less extent. This was partially offset by a decrease in warehouse storage expenses of HK$3.9 million incurred in the Previous Year which was no longer applicable in the Current Year because of a reduction in sales order and hence less external warehouse storage was required for a lower level of inventories. Meanwhile, the total gross profit of the Group for the Current Year decreased by 23.4% to approximately HK$64.6 million from approximately HK$84.4 million in the Previous Year. Despite the improvement in revenue of the Financial Services Division of approximately HK$24.9 million, the general decrease in revenue in the Toy Division led to a decrease in the total gross profit of the Group for the Current Year.

Net Loss

The Group's net loss for the Current Year amounted to approximately HK$87.7 million, as compared to a net loss of approximately HK$35.8 million for the Previous Year, representing an increase in the Group's net loss by approximately 145.0%. Such increase was mainly due to:

- a decrease in gross profit of the Group of approximately HK$19.7 million in the Current Year;

- an increase in impairment loss on goodwill of approximately HK$43.9 million in the Financial Services Division;

- a decrease in moulding income in the Toy Division of approximately HK$3.3 million in the Current Year which was recorded in the amount of HK$4.1 million in the Previous Year;

- a decrease in net exchange gains of approximately HK$2.4 million in the Current Year;

- a decrease in gain on disposal of certain property, plant and equipment in the Toy Division of approximately HK$4.0 million in the Current Year; and

- an increase in finance costs due to the increase in effective interest expense of approximately HK$3.8 million for the convertible notes issued by the Company;

which was partially offset by the following reduction in costs and expenses:

- a decrease in selling expenses of approximately HK$4.9 million for the Current Year, primarily attributable to a decrease in selling expenses of the Toy Division resulting from a drop in revenue from the Toy Division in the Current Year;

- a decrease in administrative expenses of the Group of approximately HK$6.1 million in the Current Year, of which (i) approximately HK$4.8 million was from the non-cash, equity-settled share-based payment expenses related to the share options granted which decrease to nil in the Current Year; and (ii) approximately HK$1.9 million mainly related to a decrease in legal and professional fee as the proposed acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited and the proposed issuance of new shares and general offers as detailed in the joint announcements issued by the Company and Zhongtai International Investment Group Limited dated 25 February 2018 and 12 October 2018 respectively were already terminated;

- the absence of a fair value loss on financial assets at fair value through profit or loss in the Current Year which was recorded in the amount of approximately HK$11.1 million in the Previous Year; and

- a decrease in taxation expenses for the Toy Division of approximately HK$6.4 million for the Current Year.

Selling Expenses

Selling expenses mainly consisted of transportation fees and declaration fees for the Toy Division and marketing expenses for the Financial Services Division. During the Current Year, selling expenses decreased 32.3% from approximately HK$15.3 million for the Previous Year to approximately HK$10.4 million for the Current Year which was primarily due to a decrease in transportation cost as a result of decreased sales for the Toy Division in the Current Year.

Administrative Expenses

Administrative expenses 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 7.5% from approximately HK$81.7 million for the Previous Year to approximately HK$75.6 million for the Current Year, which was primarily due to a decrease in the equity settled share-based payment expenses related to the grant of share options of approximately HK$4.8 million, and a decrease in legal and professional fee incurred in the Current Year of approximately HK$1.9 million, which was incurred in the Previous Year due to the proposed acquisitions of Zhongtai International Capital Limited and Zhongtai International Asset Management Limited and the proposed issuance of new shares and general offers as detailed in the joint announcements issued by the Company and Zhongtai International Investment Group Limited dated 25 February 2018 and 12 October 2018 respectively.

Other Income, Gains and Losses

Other income, gains and losses mainly consisted of moulding income, fair value loss on financial assets at fair value through profit and loss, loss early redemption of convertible notes, interest income from bank deposits and others. During the Current Year, other income, gains and losses decreased by 37.0% from approximately HK$8.9 million for the Previous Year to approximately HK$5.6 million. Such decrease was mainly attributable to (i) a decrease in gain on disposal of property, plant and equipment of approximately of HK$4.0 million for the Current Year; (ii) a decrease in moulding income approximately of HK$3.3 million for the Current Year; (iii) a decrease in net exchange gain of approximately HK$2.4 million for the Current Year; (iv) an increase in loss on the early redemption of the convertibles notes from nil for the Previous Year to approximately HK$0.9 million for the current year; and (v) a decrease in other gains and losses of approximately HK$2.6 million in the Current Year, which was partially offset by the absence of fair value loss on financial assets at fair value through profit and loss in the Current Year when compared with approximately HK$11.1 million for the Previous 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 convertible notes issued by the Company. Finance costs increased by 9.5% from approximately HK$24.4 million for the Previous Year to approximately HK$26.8 million for the Current Year, which was primarily due to an increase in the effective interest expense of approximately HK$3.8 million of the convertible notes issued by the Company in 2017.

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 decreased by 83.9% from approximately HK$7.6 million for the Previous Year to approximately HK$1.2 million. Such decrease was mainly due to a decrease in taxable income attributable to the decrease in revenue generated in the Current Year as explained above.

Inventory

The inventory of the Group decreased by 15.1% to approximately HK$71.0 million as at 31 March 2020 from approximately HK$83.7 million as at 31 March 2019. 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, increased by 34.3% from 60.3 days for the Previous Year to 81.0 days for the Current Year arising from customers requisition for lengthened delivery schedule on products during the Current Year.

Trade Receivables

Trade receivables from the Toy Division was approximately HK$55.8 million as at 31 March 2020 when compared with approximately HK$28.0 million as at 31 March 2019. The increase in trade receivables of the Toy Division as at 31 March 2020 was primarily due to a rise in shipment of products in March 2020 as requested by one of our major customers to manage the risks of lockdowns affecting delivery of products. Accordingly, the trade receivables turnover days for the Toy Division, as calculated by dividing the averaging closing trade receivables by the revenue from the Toy Division multiplied by 365 days, was 39.9 days for the Current Year as compared with 15.4 days for the Previous Year.

Trade receivables from the Financial Services Division decreased from approximately HK$31.1 million as at 31 March 2019 to approximately HK$9.6 million at 31 March 2020, which was mainly the result of a decrease in outstanding trade pending normal settlement from its clients in its ordinary course of business on 31 March 2020.

Trade Payables

Trade payables from the Toy Division as at 31 March 2019 amounted to approximately HK$15.0 million, which decreased to approximately of HK$9.0 million at 31 March 2020. 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 for the Previous Year and the Current Year, as calculated by dividing the averaging closing trade payables by the cost of sales from the Toy Division multiplied by 365 days, was 18.6 days and 12.6 days, respectively.

Trade payables from the Financial Services Division as at 31 March 2020 decreased from approximately HK$69.0 million at 31 March 2019 to approximately HK$50.2 million at 31 March 2020, which was mainly due to a decrease in normal outstanding trade settlement with CCASS pending outstanding trade in its normal and ordinary course of business on 31 March 2020.

LIQUIDITY AND FINANCIAL RESOURCES

For the Current Year, the Group continued to maintain a prudent and cautious financial management approach towards its treasury policies and maintained a healthy liquidity position. The Group strived to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risks, the Board continued to closely monitor the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

For the Current Year, the Group mainly financed its working capital by internal resources and bank borrowings. As at 31 March 2020, cash and cash equivalents amounted to approximately HK$60.0 million (31 March 2019: HK$140.5 million) and an additional HK$62.4 million (31 March 2019: HK$61.2 million) were pledged bank deposits to secure an undrawn banking facility granted to the Group to facilitate settlement purposes of the Financial Services Division. The decrease in cash and cash equivalents was mainly due to (i) the redemptions of part of the convertible notes issued in 2017; (ii) the repayment of certain bank borrowings and (iii) an increase in net cash used in operating activities during the Current Year. Interest-bearing bank borrowings decreased from approximately HK$23.1 million as at 31 March 2019 to approximately HK$17.0 million as at 31 March 2020. 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 30.6% (31 March 2019: 28.0%) which was due to a decrease in bank borrowings as at 31 March 2020 partially offset by a decrease in equity of the Group. As at 31 March 2020, all bank borrowings were subject to floating interest rates. The current ratio of the Group, as calculated by total current assets over total current liabilities, was approximately 1.9 (31 March 2019: 3.2).

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 million and HK$30.0 million (the "**2017 Convertible Notes**") on 11 May 2017 and 2 June 2017, respectively, to Benefit Global Limited, an independent third party, for repayment of liabilities of the Group, business expansion of the Group's Financial Services Division and as general working capital of the Group. The 2017 Convertible Notes were unsecured, bore interest at 6% per annum and carried rights to convert the principal amount into shares of the Company at an initial conversion price of HK$0.39 per share. The Company had 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.

The net proceeds from the 2017 Convertible Notes were fully utilized 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

On 5 March 2020, the Company redeemed HK$30.0 million in principal value of the 2017 Convertible Notes in cash. Subsequent to the year end, on 11 May 2020, the Company redeemed the remaining HK$80.0 million in principal value of the 2017 Convertible Notes with the issuance of a new 6.0% convertible notes due 2023 in the principal amount of HK$40.0 million, a 10.0% promissory note due 2021 in the principal amount of HK$25 million and the remaining HK$15.0 million in cash.

CHARGE ON ASSETS

As at 31 March 2020, certain of the Group's banking facilities and its interest-bearing bank borrowings were secured by pledged bank deposits of approximately HK$62.4 million (31 March 2019: HK$61.2 million) and properties of the Group located in Hong Kong with an aggregate carrying amount of approximately HK$6.7 million (31 March 2019: HK$7.0 million).

CONTINGENT LIABILITIES

As at 31 March 2020, the Group had no contingent liabilities (31 March 2019: Nil).

CAPITAL COMMITMENTS

As at 31 March 2020, there was no capital commitment of the Group (31 March 2019: Nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, the Group did not hold any significant investment in equity interest in any other company as at 31 March 2020 (31 March 2019: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the Current Year, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 31 March 2020, the Group did not have any plans to acquire any material investments or capital assets.

FOREIGN CURRENCY EXPOSURES

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

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 2020, the Group had a total of 52 employees (31 March 2019: 54). Total staff costs (excluding equity settled share-based payment expenses to eligible persons other than employees and directors) were approximately HK$43.1 million for the year ended 31 March 2020 (2019: HK$47.6 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.

TERMINATION OF PROPOSED SUBSCRIPTION, PROPOSED ACQUISITIONS, PROPOSED SHARE PURCHASE AGREEMENT AND LAPSE OF POSSIBLE UNCONDITIONAL MANDATORY CASH OFFERS

As set out in the announcement jointly issued by Zhongtai Financial International Limited (the "**Offeror**") and the Company on 30 September 2019, (i) the restated subscription agreement (the "**Restated Subscription Agreement**") entered into by the Company and Zhongtai International Investment Group Limited (the "**Original Offeror**"), Taifu Capital Investments Limited and Great Boom Group Limited on 11 October 2018, (ii) the sale and purchase agreement entered into between Zhongtai International Financial Corporation ("**ZTI Financial**") and the Company regarding the acquisition of Zhongtai International Capital Limited dated 23 February 2018 and all subsequent supplemental agreements regarding the same (the "**ZTI Capital Agreements**"); (iii) the sale and purchase agreement entered into between Zhongtai Financial International Limited ("**Zhongtai Financial International**") and the Company regarding the acquisition of Zhongtai International Asset Management Limited dated 23 February 2018 and all subsequent supplemental agreements regarding the same (the "**ZTI Asset Management Agreements**"); and (iv) the share purchase agreement entered into between Smart Investor Holdings Limited, the controlling shareholder of the Company, Mr. Lau Ho Ming, Peter, being the Executive Chairman of the Company, and Madam Li Man Yee, Stella, being the non-executive Director of the Company, and the

Original Offeror dated 11 October 2018 (the "**Share Purchase Agreement**"), all lapsed on 30 September 2019 as certain conditions precedent contained therein were not fulfilled by 30 September 2019. Therefore, the Restated Subscription Agreement, the ZTI Capital Agreements, the ZTI Asset Management Agreements and the Share Purchase Agreement were all terminated on 30 September 2019.

As completion of the above agreements did not take place, the possible unconditional mandatory offers in cash to be made by the Offeror for all the issued shares of the Company, all the outstanding convertible notes issued by the Company and the cancellation of all outstanding share options granted by the Company also lapsed on the same date and the offer period of such offers also came to an end for the purposes of the Takeovers Code.

For further details, please refer to the joint announcement issued by the Company and the Offeror dated 30 September 2019.

EVENT AFTER REPORTING PERIOD

For the year ended 31 March 2020, the operating results of the Group have been adversely affected by the outbreak of the COVID-19 pandemic in early 2020. A series of precautionary and control measures have been and continued to be implemented across mainland China, including but not limited to certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices and encouraged social distancing. Following the spread of the COVID-19 pandemic subsequent to the year end (from April 2020 till the date of authorisation for issue of these financial statements) to other locations, including but not limited to the United States, Europe and Central and South America, which are also the principal export markets of the Toy Division, management has also taken relevant actions to minimise the unfavourable impact. The Group will pay close attention to the development of the COVID-19 pandemic and evaluate its impact on the financial position and operating results of the Group.

Subsequent to the year end, on 11 May 2020, the Company redeemed the remaining HK$80.0 million in principal value of the 2017 Convertible Notes with the issuance of a new 6.0% convertible notes due 2023 in the principal amount of HK$40.0 million, a 10.0% promissory note due 2021 in the principal amount of HK$25 million and the remaining HK$15.0 million in cash.

PROSPECTS

The Current Year was a challenging year for the Group in both its Toy Division and the Financial Services Division amidst chaotic global and local political and economic environments. As we enter the new financial year, there is no sign that things will become easier and in fact, there is increased tension between the United States on one side, and China and Hong Kong on the other side. This may continue to impact businesses engaged in trading between China/Hong Kong and the Western markets as represented by the United States, our Toy Division being one. While we continue to see orders from our long-term customers in the western developed markets, the COVID-19 pandemic has substantially changed consumer behaviours across different retail channels, further consolidating the shift from traditional bricks-and-mortars to online distribution channels. We expect this may have adverse impacts on some of our major customers in the Toy Division which might in turn negatively affect our top line in the Toy Division. We will continue to pursue prudent strategies in focusing on higher-margin products and tightened cost controls in order to mitigate further potential deterioration of its performance amidst such challenges in the global industry environment. Our sub-contractors have also slowly come back into operations after the COVID-19 situation in the Guangdong province has eased, hopefully allowing them to support our peak production period during the summer months. Our Toy Division will also continue to seek to further diversify its supply chains, including but not limited to increased co-operations with sub-contractors in other jurisdictions in order to mitigate the risks arising from increased frictions in the Sino-US relationship and potential future shutdowns.

For the Financial Services Division, both the Hong Kong and global securities markets are expected to remain highly volatile amidst the political and economic uncertainties locally and worldwide. While we continue to have a healthy pipeline of initial public offering underwriting transactions, we expect that there might be increased uncertainty in the timetable of these transactions given capital raising windows might continue to open and close abruptly in response to global socio-economic events, leading to the lack of visibility in the timing of the recognition of revenues related to them. We currently expect to participate in an initial public offering transaction of a substantial size as a joint bookrunner in June 2020, with a few other transactions in which Crosby assumes a lead role expected to come to the markets before the end of 2020, depending on market conditions and progress on regulatory approval process. We also envisage to continue to help issuers to place unlisted bonds in the markets, as some of them have refinancing needs in the next financial year. Finally, as indicated in our Business Review section, we have brought on-board a new portfolio manager to engage new investor clients in our discretionary management business. This, together with our existing investment advisory mandate with an international financial institution, will hopefully help grow our assets under advisory continuously, amidst the challenge of an increasingly volatile US market which suffered from a major correction after the outbreak of the COVID-19 pandemic. While this should help generate new, recurring AUM-based fee income, our financial performance in this area will nonetheless largely depend on the ultimate performance of the US securities market in the coming financial year. In view of the uncertainty of the overall macro-environments and further potential disruptions from the ongoing COVID-19 pandemic situations, the Financial Services Division has also adopted substantial cost-cutting measures such as reduction in fixed salary and rental expenses. To the extent we could maintain our revenue level in the Financial Services Division and benefit from some relief measures to the industry from the government in the coming year, this might hopefully help improve the operating margins of the Financial Services Division. In these difficult times, our Financial Services Division will continue to focus on expanding our transaction pipelines and exploring more recurring revenues from our investment advisory and discretionary management business.

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 ("**Auditor**"), 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 audited 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 audited 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 2020 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 2020.

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

Hong Kong, 24 June 2020

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