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QUALI-SMART HOLDINGS LIMITED

滙達富控股有限公司 *

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1348)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

INTERIM RESULTS

The board (the “**Board**”) of directors (the “**Directors**”, each a “**Director**”) of Quali-Smart Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) announces the unaudited condensed consolidated interim results of the Group for the six-month period ended 30 September 2022 (the “**Current Period**”) together with comparative figures for the corresponding period in 2021 (the “**Previous Period**”).

FINANCIAL HIGHLIGHTS

- Revenue for the Current Period was approximately HK\$235.7 million, representing a decrease of approximately HK\$14.1 million or 5.6% as compared to the Group’s revenue for the Previous Period of approximately HK\$249.8 million. Net loss for the Current Period decreased to approximately HK\$16.6 million when compared with a net loss of HK\$17.5 million for the Previous Period.
- The Toy Division and the Financial Services Division contributed approximately HK\$230.6 million and HK\$5.1 million, respectively, to the Group’s total revenue for the Current Period, representing a decrease of approximately 3.7% and of approximately 50.3%, respectively, over the Previous Period.
- The decrease in revenue of the Toy Division was mainly attributable to the decrease in orders placed by certain major customers from markets located in North America by approximately HK\$7.6 million and Western Europe by approximately HK\$12.6 million whereas partially offset by an increase in Central America, Carribean and Mexico by approximately HK\$10.7 million, when compared with the Previous Period.

* For identification purpose only

- The decrease in revenue of the Financial Services Division was mainly due to a decrease in investment advisory fee of approximately HK\$5.8 million and a decrease in placing commission of approximately HK\$1.4 million during the Current Period.
- Gross profit of the Group for the Current Period decreased by approximately HK\$2.2 million to approximately HK\$27.5 million from HK\$29.7 million for the Previous Period as a result of a decrease in revenue from the Financial Services Division during the Current Period.
- Net loss for the Current Period was approximately HK\$16.6 million, representing a decrease in loss of about HK\$0.9 million on a period-on-period basis. The decrease in loss for the Current Period was mainly attributable to (i) an increase in gross profit of the Toy Division of approximately HK\$3.0 million for the Current Period; (ii) an increase in other income, gains and losses of approximately HK\$2.1 million for the Current Period compared to a loss of approximately HK\$0.3 million for the Previous Period due to the subsidies received from the Employment Support Scheme of approximately HK\$0.8 million for the Current Period (nil for the Previous Period) and no property, plant and equipment relocation expenses from the Toy Division for the Current Period (approximately HK\$1.0 million for the Previous Period); (iii) a decrease in administrative expenses for the Current Period attributable to the absence of short-term leases costs of about HK\$2.3 million for renting additional storage space due to delay in shipment of products to our customers caused by the shortage in container shipping capacity for the Toy Division and a decrease in staff costs of about HK\$1.4 million and consultancy fees paid to portfolio managers for the Financial Services Division, about HK\$3.8 million, for the Previous Period; and (iv) a decrease in selling expenses of approximately HK\$0.2 million for the Current Period attributable to a decrease in sales by the Toy Division.

Meanwhile, the above changes were partially offset by (i) a decrease in gross profit of approximately HK\$5.2 million corresponding to the decrease in revenue of the Financial Services Division; (ii) an increase in administrative expenses for the provision of expected credit loss of a client for the Financial Services Division of approximately HK\$2.0 million for the Current Period; (iii) an increase in the effective interest of the convertible notes issued by the Company of approximately HK\$0.8 million and bank borrowing interests of approximately HK\$0.4 million for the Current Period; and (iv) an increase in income tax expenses of approximately HK\$0.9 million for the Current Period.

- The Board does not recommend the payment of any interim dividend for the Current Period.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2022

		Six months ended	
		30 September	
		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	5	235,704	249,796
Cost of sales		<u>(208,248)</u>	<u>(220,126)</u>
Gross profit		27,456	29,670
Other income, gains and losses	5	1,826	(277)
Selling expenses		(5,606)	(5,844)
Administrative expenses		(32,763)	(35,625)
Finance costs	6	<u>(6,596)</u>	<u>(5,396)</u>
LOSS BEFORE INCOME TAX EXPENSE	7	(15,683)	(17,472)
Income tax expense	8	<u>(904)</u>	–
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>(16,587)</u>	<u>(17,472)</u>
Loss and total comprehensive income attributable to:			
Owners of the company		(16,587)	(17,472)
Non-controlling interests		<u>–</u>	<u>–</u>
		<u>(16,587)</u>	<u>(17,472)</u>
Loss per share			
– Basic and diluted (<i>HK cents</i>)	9	<u>(1.13)</u>	<u>(1.19)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	8,731	6,053
Right-of-use assets	19	8,453	1,980
Investment property		7,000	7,000
Goodwill		81,669	81,669
Intangible assets	11	568	568
Statutory deposits for financial service business		5,374	402
Deposits		376	376
		112,171	98,048
CURRENT ASSETS			
Inventories	12	65,174	82,829
Trade receivables	13	37,426	88,034
Prepayments, deposits and other receivables		4,092	6,403
Tax receivables		568	1,104
Cash and bank balances held on behalf of customers		47,173	44,609
Pledged bank deposits		–	31,097
Cash and cash equivalents		62,825	29,383
		217,258	283,459
CURRENT LIABILITIES			
Trade payables	14	73,817	103,260
Accruals and other payables		5,159	4,727
Interest-bearing bank borrowings	15	–	16,007
Lease liabilities	19	2,298	2,087
Promissory notes		12,000	25,000
Convertible notes		35,058	–
		128,332	151,081
NET CURRENT ASSETS		88,926	132,378
TOTAL ASSETS LESS CURRENT LIABILITIES		201,097	230,426

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

As at 30 September 2022

		At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Convertible notes		–	31,604
Amount due to non-controlling interest		12,563	–
Lease liabilities	19	6,224	–
Deferred tax liabilities		112	112
		<hr/>	<hr/>
Total non-current liabilities		18,899	31,716
		<hr/>	<hr/>
NET ASSETS		182,198	198,710
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Share capital	16	287	287
Reserves		181,911	198,423
		<hr/>	<hr/>
TOTAL EQUITY		182,198	198,710
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2022

	Share capital	Share premium	Property revaluation reserve	Other reserve	Share option reserve	Convertible notes equity reserve	Retained earning	Total	Non- controlling interest	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(note 1)</i>	<i>(note 2)</i>		<i>(note 3)</i>	<i>(note 4)</i>				
Unaudited for the six months ended 30 September 2022										
At 1 April 2022 (audited)	287	418,769	6,071	1,000	51,680	17,825	(296,922)	198,710	-	198,710
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	75	75
Lapse of share option	-	-	-	-	(19,669)	-	19,669	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	(16,587)	(16,587)	-	(16,587)
At 30 September 2022 (unaudited)	287	418,769	6,071	1,000	32,011	17,825	(293,840)	182,123	75	182,198

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 September 2021

	Attributable to the owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000 <i>(note 1)</i>	Property revaluation reserve HK\$'000 <i>(note 2)</i>	Other reserve HK\$'000	Share option reserve HK\$'000 <i>(note 3)</i>	Convertible notes equity reserve HK\$'000 <i>(note 4)</i>	Accumulated losses HK\$'000	
Unaudited for the six months ended 30 September 2021								
At 1 April 2021 (audited)	287	418,769	6,071	1,000	51,967	17,825	(202,835)	293,084
Lapse of share options <i>(note 17)</i>	-	-	-	-	(144)	-	144	-
Total comprehensive income for the period	-	-	-	-	-	-	(17,472)	(17,472)
At 30 September 2021 (unaudited)	287	418,769	6,071	1,000	51,823	17,825	(220,163)	275,612

Notes:

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2022

	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash generated from/(used) in operating activities	<u>30,322</u>	<u>(114,350)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	19	64
Acquisition of a subsidiary	11,968	–
Purchase of property, plant and equipment	(4,442)	–
Decrease/(increase)in pledged bank deposits	31,097	(50)
Decrease in time deposits	<u>–</u>	<u>19,355</u>
Net cash generated from investing activities	<u>38,642</u>	<u>19,369</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	47,054	176,444
Repayment of bank borrowings	(63,061)	(95,660)
Repayment of lease liabilities	(3,373)	(2,867)
Interest paid on bank and other borrowings	(3,021)	(2,733)
Interest paid on lease liabilities	(121)	(47)
Redemption of promissory notes	<u>(13,000)</u>	<u>–</u>
Net cash (used in)/generated from financing activities	<u>(35,522)</u>	<u>75,137</u>
Net increase/(decrease) in cash and cash equivalents	33,442	(19,844)
Cash and cash equivalents at 1 April	<u>29,383</u>	<u>48,214</u>
Cash and cash equivalents at 30 September	<u><u>62,825</u></u>	<u><u>28,370</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2022 ("**Interim Condensed Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. Interim Condensed Financial Statements have not been audited by the Company's auditor but have been reviewed by the Audit Committee.

The Interim Condensed Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 March 2022 (the "**2022 Annual Financial Statements**").

The Interim Condensed Financial Statements were approved and authorised for issue by the Board on 28 November 2022.

2. BASIS OF PREPARATION

The accounting policies applied in preparing the Interim Condensed Financial Statements are consistent with those applied in preparing the 2021 Annual Financial Statements, except for the amendments and interpretations of Hong Kong Financial Reporting Standards ("**New/amended HKFRSs**") issued by HKICPA which have become effective for the first time for periods beginning on or after 1 April 2022. The adoption of such New/amended HKFRSs has no material impact on the accounting policies in the Group's Interim Condensed Financial Statements for the period.

3. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

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

- Amendments to HKFRS 3, Reference to the Conceptual Framework
- Amendments to HKAS 16, Proceeds before Intended Use
- Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract
- Annual improvements to HKFRSs 2018-2020

The application of the amendments to HKFRS in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

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

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

(a) Reportable segments

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

4. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

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

Segment revenue and results

	Manufacturing and sales of toys HK\$'000	Financial Services HK\$'000	Total HK\$'000
For the period ended			
30 September 2022 (Unaudited)			
External revenue	<u>230,581</u>	<u>5,123</u>	<u>235,704</u>
Segment profit/(loss)	<u>5,108</u>	<u>(13,130)</u>	<u>(8,022)</u>
Central administrative cost*			<u>(7,661)</u>
Loss before income tax expense			<u><u>(15,683)</u></u>
For the period ended			
30 September 2021 (Unaudited)			
External revenue	<u>239,493</u>	<u>10,303</u>	<u>249,796</u>
Segment (loss)	<u>(1,074)</u>	<u>(9,443)</u>	<u>(10,517)</u>
Central administrative cost*			<u>(6,955)</u>
Loss before income tax expense			<u><u>(17,472)</u></u>

* Central administrative cost for the six months ended 30 September 2022 mainly includes directors' remuneration, finance costs of promissory notes and convertible notes and legal and professional fees.

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

4. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

Segment revenue and results (Continued)

Segment assets

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

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Manufacturing and sales of toys	108,878	148,908
Financial Services	155,168	202,111
Total segment assets	264,046	351,019
Unallocated	65,383	30,488
Consolidated assets	329,429	381,507

Segment liabilities

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

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Manufacturing and sales of toys	21,249	43,515
Financial Services	77,484	80,719
Total segment liabilities	98,733	124,234
Unallocated	48,498	58,563
Consolidated liabilities	147,231	182,797

4. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

Segment revenue and results (Continued)

Other segment information

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

For the period ended 30 September 2022 (Unaudited)

	Manufacturing and sales of toys HK\$'000	Financial Services HK\$'000	Total HK\$'000
Additions to property, plant and equipment	4,439	3	4,442
Depreciation of property, plant and equipment	(1,741)	(23)	(1,764)
Depreciation of right-of-use assets	–	(3,237)	(3,237)
Interest expenses	(678)	–	(678)
	<u> </u>	<u> </u>	<u> </u>

For the period ended 30 September 2021 (Unaudited)

	Manufacturing and sales of toys HK\$'000	Financial Services HK\$'000	Total HK\$'000
Depreciation of property, plant and equipment	(1,046)	(11)	(1,057)
Depreciation of right-of-use assets	–	(2,562)	(2,562)
Interest expenses	(277)	–	(277)
	<u> </u>	<u> </u>	<u> </u>

4. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information

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

(i) Revenue from external customers

	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
North America (<i>note 1</i>)	139,144	146,755
Western Europe		
– United Kingdom	11,816	17,756
– France	10,908	13,191
– Netherland	6,179	6,751
– Others (<i>note 2</i>)	20,508	24,284
South America	5,458	3,927
PRC and Taiwan	2,421	5,258
Australia, New Zealand and Pacific Islands	7,717	6,984
Central America, Caribbean and Mexico	19,039	8,328
Others (<i>note 3</i>)	12,514	16,562
	<hr/>	<hr/>
Total	235,704	249,796
	<hr/> <hr/>	<hr/> <hr/>

Notes:

1. North America includes United States of America and Canada.
2. Others include Germany, Belgium, Italy, Czech Republic, Spain and Netherlands.
3. Others include Hong Kong, Africa, India, Japan, Korea, Israel, Saudi Arabia and Southeast Asia and South America.

4. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information(Continued)

(ii) *Specified non-current assets*

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Mainland China, the PRC	8,580	5,917
Hong Kong	<u>97,841</u>	<u>91,353</u>
Total	<u><u>106,421</u></u>	<u><u>97,270</u></u>

(c) Information about major customers

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

	Six months ended 30 September	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Customer A	187,975	132,677
Customer B*	–	29,121
Customer C*	–	54,007
	<u><u> </u></u>	<u><u> </u></u>

* The customer contributed less than 10% of the Group's revenue during the period ended 30 September 2022.

5. REVENUE, OTHER INCOME GAINS AND LOSSES

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

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Manufacturing and sales of toys	230,581	239,493
Financial Services	5,123	10,303
	<u>235,704</u>	<u>249,796</u>
Other income, gains and (losses)		
Moulding income	208	20
Rental income	150	97
Interest income from bank deposits	19	64
Exchange gains, net	204	286
Property, plant and equipment relocation expenses	–	(1,026)
Gain on acquisition of a subsidiary	81	–
Others (including other income from the Employment Support Scheme)	1,164	282
	<u>1,826</u>	<u>(277)</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings:		
– Bank borrowings	678	277
– Promissory notes	1,139	1,253
– Convertible notes	4,658	3,819
	<u>6,475</u>	<u>5,349</u>
Interest on lease liabilities	121	47
	<u>6,596</u>	<u>5,396</u>

7. LOSS BEFORE INCOME TAX EXPENSE

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

	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	208,248	220,126
Depreciation of property, plant and equipment	1,764	1,057
Depreciation on right-of-use assets	3,237	2,562
Employee benefits expenses (including Directors' remuneration):		
Wages and salaries	17,922	21,656
Contribution to defined contribution plan (<i>note</i>)	442	423
Other benefits	576	398
	18,940	22,477
Auditor's remuneration	997	972
Expense relating to short-term leases	1,128	1,128

Note: The Group has arranged for its employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong, a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, the Group and its employees make monthly contributions to the scheme at 5% (30 September 2021: 5%) of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the Group's and the employees' contributions were subject to a cap of HK\$1,500 (30 September 2021: HK\$1,500) and thereafter contributions are voluntary. Contributions to the MPF Scheme are recognised as an expense in profit or loss when the services are rendered by the employees. During the period ended 30 September 2022, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK\$442,000 (2021: HK\$423,000). As at 30 September 2022, the Group was not entitled to any forfeited contributions to reduce its contributions (2021: nil).

8. INCOME TAX EXPENSE

Hong Kong Profits Tax were calculated at 8.25% on the first HK\$2 million of estimated assessable profits and at 16.5% for the portion of the estimated assessable profits above HK\$2 million for the six months ended 30 September 2022 and 2021. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

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

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – Hong Kong Profits Tax Charge for the period	<u>904</u>	–
Income tax expense for the period	<u>904</u>	–

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

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before income tax expense	<u>(15,685)</u>	<u>(17,472)</u>
Tax at the applicable tax rate of 16.5% (2021: 16.5%)	(2,588)	(2,883)
Tax effect of revenue not taxable for tax purposes	(137)	–
Tax effect of expenses not deductible for tax purposes	278	165
Tax effect of tax loss not recognised	3,516	2,718
Tax concession	<u>(165)</u>	–
Income tax expense	<u>904</u>	–

No deferred tax asset has been recognised in respect of the unused tax losses of HK\$235,361,000 (For the six months ended 30 September 2021: HK\$195,883,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward indefinitely.

9. LOSS PER SHARE

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

	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to the owners of the Company	<u>(16,587)</u>	<u>(17,472)</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purposes of basic loss per share	<u>1,474,232</u>	<u>1,474,232</u>

The calculation of basic loss per share attributable to the owners of the Company is based on the loss for the period ended 30 September 2022 of approximately HK\$16,587,000 (2021: HK\$17,472,000), and of the weighted average number of 1,474,232,000 (2021: 1,474,232,000) ordinary shares in issue during the period.

Diluted loss per share is the same as basic loss per share for the period ended 30 September 2022 (2021: same) as the impact of the potential dilutive ordinary shares outstanding has an anti-dilutive effect on the basic loss per share presented for the period ended 30 September 2022 (2021: anti-dilutive).

There is no dilutive effect on the convertible notes as they are anti-dilutive (2021: anti-dilutive).

10. PROPERTY, PLANT AND EQUIPMENT

	<i>HK\$'000</i>
Net book value:	
At 1 April 2022 (Audited)	6,053
Additions	4,442
Depreciation	<u>(1,764)</u>
At 30 September 2022 (Unaudited)	<u>8,731</u>

11. INTANGIBLE ASSETS

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

Net book value:

At 1 April 2022 (Audited) and **30 September 2022 (Unaudited)**

568

12. INVENTORIES

	At 30 September 2022 HK\$'000 (Unaudited)	At 31 March 2022 HK\$'000 (Audited)
Raw materials	39,447	55,785
Finished goods	<u>25,727</u>	<u>27,044</u>
	<u>65,174</u>	<u>82,829</u>

13. TRADE RECEIVABLES

	At 30 September 2022 HK\$'000 (Unaudited)	At 31 March 2022 HK\$'000 (Audited)
Trade receivables from financial services segment	10,041	36,194
Trade receivables from manufacturing and sales of toys segment	<u>27,385</u>	<u>51,840</u>
	<u>37,426</u>	<u>88,034</u>

13. TRADE RECEIVABLES (Continued)

Trade receivables from financial services segment

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Accounts receivable arising from the ordinary course of business of securities brokerage:		
– Cash clients	234	25,143
Accounts receivable arising from the ordinary course of business of provision of:		
– Placing commission	7,890	9,890
– Advisory services	955	1,161
– Asset management services	147	–
– Management services	815	–
	<u>10,041</u>	<u>36,194</u>

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

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Neither past due nor impaired	234	25,143
Less than 1 month past due	1,376	1,161
More than 1 month but less than 2 months past due	190	–
Over 3 months past due	8,241	9,890
	<u>10,041</u>	<u>36,194</u>

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

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

13. TRADE RECEIVABLES (Continued)

Trade receivables from financial services segment (Continued)

In the view of the fact that those receivables related to a number of diversified cash clients, clearing houses and issuer clients, the historical settlement track records of these clients and no significant increase in credit risk since initial recognition and the respective balance at the end of the reporting period, therefore, the directors of the Company considered the expected credit losses (“ECLs”) of those balances was immaterial to be recognised for both period/year.

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

On 5 May 2022, a client of the Company’s Financial Services Division was ordered to be wound up by the Grand Court of the Cayman Islands and the joint official liquidators of this client were appointed. On 27 July 2022, this client was also ordered to be wound up by the High Court of Hong Kong and the official receiver became the provisional liquidator. The official receiver and the provisional liquidator is still in the course of investigating into the financial position of this client, while at the same time also liaising with the joint official liquidators appointed by the Grand Court of the Cayman Islands on the affairs of this client. As at 30 September 2022, the Group had an exposure of about HK\$9.4 million of outstanding trade receivables from this client which accounted for about 2.9% of the total consolidated assets of the Group as at 30 September 2022 and such amount remains outstanding as of the date of this announcement. Accordingly, the Group has provided for expected credit loss on this client for approximately HK\$2 million as net exposure to us with reference to the latest available information on the financial position of this client. As this client has yet to announce more details of its financial position, it is currently unclear how this might affect the recoverability of the trade receivables and the Group will continue to monitor the development of the situation.

Trade receivables from manufacturing and sales of toys segment

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

	At 30 September 2022 HK\$’000 (Unaudited)	At 31 March 2022 HK\$’000 (Audited)
Current to 30 days	18,706	9,987
31 – 60 days	3,731	8,034
61 – 90 days	2,194	27,639
Over 90 days	2,754	6,180
	<u>27,385</u>	<u>51,840</u>

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

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

14. TRADE PAYABLES

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Trade payables from financial services segment	54,700	76,969
Trade payables from manufacturing and sales of toys segment	19,117	26,291
	73,817	103,260

Trade payables from financial services segment

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Accounts payable arising from the ordinary course of business of securities brokerage and margin financing:		
– Cash clients	47,173	44,563
– Margin clients	–	46
– Brokers and clearing house	7,527	32,360
	54,700	76,969

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

As at the 30 September 2022, included in trade payable was an amount of approximately HK\$47,173,000 (31 March 2022: HK\$44,609,000) payable to clients to other institutions in respect of trust and segregated bank balances received and held for clients and other institutions in the course of the conduct of regulated activities.

14. TRADE PAYABLES (Continued)

Trade payables from manufacturing and sales of toys segment

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

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

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Current to 30 days	13,741	18,524
31 to 60 days	840	4,269
61 to 90 days	3,710	2,952
More than 90 days but less than 365 days	826	546
	<u>19,117</u>	<u>26,291</u>

15. INTEREST-BEARING BANK BORROWINGS

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Current		
Secured		
– bank loans due for repayment within one year	–	16,007
	<u>–</u>	<u>16,007</u>

As at 30 September 2022, the Group's banking facilities and its interest-bearing bank borrowings are secured either (i) by Company's corporate guarantees and cross guarantees from the Company's subsidiary, which is Qualiman Industrial Co. Limited; (ii) by legal charges over certain properties in Hong Kong owned by Mr. Lau Ho Ming, Peter ("Mr. Lau"), Madam Li Man Yee, Stella ("Madam Li") and their associates and personal guarantee by Mr. Lau; or (iii) by investment property of the Group with aggregate net book value of HK\$7,000,000 (31 March 2022: HK\$7,000,000).

16. SHARE CAPITAL

	Number of Shares	HK\$'000
Authorised:		
Ordinary Shares of US\$0.000025 each At 1 April 2022 (Audited) and at 30 September 2022 (Unaudited)	6,000,000,000	1,168
Issued and fully paid:		
Ordinary Shares of US\$0.000025 each At 1 April 2022 (Audited) and at 30 September 2022 (Unaudited)	1,474,232,000	287

17. EQUITY SETTLED SHARE-BASED PAYMENTS

There has been no changes in the Company's share option scheme, details of which are disclosed in the 2022 Annual Financial Statements. For the six months ended 30 September 2022 and 2021 respectively, there was no equity settled share-based payments incurred as all outstanding share options granted were fully vested before 31 March 2019.

Set out below are details of movements of the outstanding share options granted under the Share Option Scheme during the period ended 30 September 2022:

	Exercise price	Number of share options			Date of grant of share options	Exercisable periods of share options
		Balance as at 1 April 2022	Lapsed during the period	Balance as at 30 September 2022		
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 1)	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

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

	Exercise price	Number of share options			Date of grant of share options	Exercisable periods of share options
		Balance as at 1 April 2022	Lapsed during the period	Balance as at 30 September 2022		
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	35,403,800	(13,547,800)	21,856,000	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		129,471,600	(46,567,800)	82,903,800		

Note:

1. Mr. Ng Kam Seng resigned as an executive Director of the Company on 1 January 2020 and was re-appointed as an executive Director of the Company on 1 May 2021.
2. Mr. Wang Zhao resigned as a Non-executive Director of the Company on 27 November 2015.

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

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

The exercise price of the first batch of share options outstanding was HK\$0.25 and the weighted average remaining contractual life was 1.46 years (2021: 2.46 years). The exercise price of the second batch of share options outstanding as at 30 September 2022 was HK\$1.02 and the weighted average remaining contractual life was 2.76 years (2021: 3.76 years). The exercise price of the third batch of share options outstanding as at 30 September 2022 was HK\$0.748 (2021: HK\$0.748) and the weighted average remaining contractual life was 3.46 years (2021: 4.46 years). Of the total number of share options outstanding as at 30 September 2022 and 31 March 2022, no share options had not vested and were not exercisable. The weighted average share price at the date of exercise of options exercised during the period was HK\$0.84.

18. DIVIDENDS

At the Board meeting held on 28 November 2022, the Directors did not propose an interim dividend for the Current Period (Previous Period: Nil).

19. RIGHT-OF-USE ASSETS/LEASE LIABILITIES

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

	At 30 September 2022 <i>HK\$'000</i> (Unaudited)	At 31 March 2022 <i>HK\$'000</i> (Audited)
Right-of-use assets		
At 1 April	1,980	7,256
Acquisition of subsidiary	789	–
Additions	8,921	–
Depreciation charged	<u>(3,237)</u>	<u>(5,276)</u>
Net carry amount	<u>8,453</u>	<u>1,980</u>
Lease liabilities		
At 1 April	2,087	7,478
Acquisition of subsidiary	887	–
Additions	8,921	–
Interest charged	121	408
Rental paid	<u>(3,494)</u>	<u>(5,799)</u>
Net carry amount	<u>8,522</u>	<u>2,087</u>
Lease liabilities		
Current portion	2,298	2,087
Non-current portion	<u>6,224</u>	<u>–</u>
	<u>8,522</u>	<u>2,087</u>

BUSINESS REVIEW

For the Current Period, our Group's 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**") remained unchanged.

In this Current Period, impacts of the COVID-19 pandemic (the "**Pandemic**"), the war in Ukraine as well as the effects from rising interest rates led by the United States of America (the "**United States**" or "**U.S.**") have impacted global businesses, economies, and financial markets adversely. While the world is still working through the supply chain disruptions and delays caused by both the Pandemic and the war in Ukraine, the surge in energy costs prompted by the war in Ukraine have been a catalyst in soaring inflation globally. In response to this looming inflation threat, we are witnessing the world's most aggressive and synchronized monetary policy tightening in the last 40 years. The United States Federal Reserve has turned unanimously hawkish towards the latter part of 2021. U.S. core prices (excluding food and energy) rose 5.1% in the 12 months through September 2022. Economists' consensus forecast that the United States Federal Reserve is to continue rate rise to reach a terminal funds rate of between 5% to 5.25% through middle of 2023 to contain the impending inflation. The commitment of the United States Federal Reserve in containing inflationary pressures leads to the possibility of a hard landing and conceivably recessions in not only the United States but setting off recessions in many other countries. Meanwhile, the increased costs of logistics, the supply chain disruptions causing a build up in inventories, increase in energy prices extending to oil byproducts such as plastic raw materials, are all contributing to not only inflations, but also an actual increased cost in doing business for most of the manufacturers especially in Asia.

Locally, Hong Kong is in a quagmire, hit by a "triple assault" from rising U.S. interest rates, China's weak economic outlook, and a shrinking global trade. During a time when the Hong Kong economy is already in a crumbling condition, the Hong Kong Monetary Authority is forced to defend the currency peg by shadowing the rate rise in lockstep of the United States Federal Reserve. All at the same time, Hong Kong's retail, tourism, trading as well as financial services businesses continued to be depressed by the different degrees of COVID-Zero quarantine policy in both Hong Kong and Mainland China. The stock markets, continued to be under tremendous pressure from a combination of the weakening global economy, regional geo-political instability, Chinese Government's aim to achieve both a "Common Prosperity" and meeting a "Three Red-Line Property Developers" policy which specifically targeted leading industries such as education, technology, property, as well as healthcare and spilling over to the credit markets and the banking and finance industries. The results are both a systemic revaluation of stocks prices and a flood of defaults in corporate debts. The Hang Seng Index, at a 13-year low, currently trades at a 5 times forward earnings multiple, compared to around 12 times at the end of 2019 (the beginning of the Pandemic), while the four biggest Chinese lenders, including Industrial & Commercial Bank of China Ltd., are currently priced at near record low valuations of about 0.4 of their book value in Hong Kong after a sector index weakened to an 11-year low. That depressed level roughly matches where investors priced JPMorgan Chase & Co. and Bank of America Corp. among others during the depths of the 2008 crash.

The Toy Division

During the Current Period, our Toy Division was still facing business challenges as a result of the Pandemic by way of supply chain disruption, increase in raw materials cost caused by the continuous political tension extended by the war between Russia and Ukraine and the gloomy outlook on the U.S. economy and the Western Europe as perceived by the market since its interest rate surge policy, all such factors affected our customers to adopt more prudent and cautious approach in placing orders with us. With the inflationary pressure continued in place that putting more pressure on our costs of raw materials, labour and overheads and hence narrowed our profit margin, our Toy Division continued to work with its sub-contractors in order to further explore more costs saving measures in order to maintain its profitability. Meanwhile, our Toy Division continued working with its major customers to preserve long-term relationships and revenue stability during the Current Period and there was improvement in the gross margin on businesses with such major customers.

The Financial Services Division

During the Current Period, the Hang Seng Index dropped a further 22%, from around 22,039 level at the beginning of April 2022 to 17,222 level at the end of September, 2022. The bearish sentiments were mainly driven by the continued crack-down on the technology, education and properties sectors by the Chinese Government during the Current Period, which aimed at removing monopolistic behaviours of certain leading companies in these sectors and enacting the new policy goal of “common prosperity”. The results of policy shifts led to a major revaluation of stocks across these sectors, as investors continued to sell stocks in these sectors relentlessly. Furthermore, almost all channels of financings dried up for property and properties related companies in Hong Kong and China and as a result, a widespread of issuers defaulted on their debt obligations. This in turn caused a meltdown in the high yield bond markets, leading to a collapse in investors’ confidence towards high yield issuers in general across the board. Thus, both the local investment and capital markets encountered substantial difficulty during the Current Period. The Stock Exchange’s averaged daily turnover over the Current Period continued to retract from HK\$129.5 billion at the start of April 2022 to HK\$97.5 billion in September 2022.

During the Current Period, there were only 37 IPOs launched on the Stock Exchange. From January 2022 to the end of September 2022, in this 9-month period, there were only 50 IPOs, compared to the same 9-month period, pre-pandemic in 2019 of 94 IPOs. Total IPOs launched for the full year of 2019 were 159 with an aggregate volume of just over HK\$320 billion. Total issuance decreased by over 71%, compared to 2021 over the same period, in terms of total funds raised from Hong Kong IPOs. A combination of many factors attributed to the depressed IPO market in Hong Kong. An increased profit requirements for new listing on the Main Board of the Hong Kong Stock Exchange which was introduced in January 2022 has weeded out a number of potential small capitalized companies. The anticipation of the implementation of a new Sponsor Coupling regime by the Hong Kong Securities Futures Commissions in August 2022 has also caused a slow down in listing approvals. The Hang Seng Index has dropped from 27,472 in January 2022 to 17,222 at the end of September 2022, a decrease of over 37% over a 9-month period. At the current level, the Hang Seng Index, representing a list of the largest benchmark stocks, trades at just over 5 times forward earnings multiples. When the benchmark blue chips are trading at only 5 times multiples, the market is certainly not conducive for any companies to raise fundings by selling part of their company to the public. As such, most companies have decided to hold off or simply withdraw their IPO applications pending a more bullish market environment, even the bio-tech listing applicants under Chapter 18A of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) have abstained from their listings during the Current Period. The Hang Seng Healthcare Sub-index has dropped from this January’s high of 24,952 to a low of 9,494 in September 2022, a drop of over 66% over the year, mainly attributed to from China’s national drug bulk-buy scheme and in turn causing revaluations on the sector.

These factors mentioned above, together with a downward spiraling economy affected the equity and bond underwriting and placement businesses of Crosby Securities Limited (“**Crosby**”) drastically. While we continued to place unlisted bonds for listed issuers in Hong Kong which generated placing commission for the Financial Services Division, the total amount placed decreased substantially and was entirely related to re-financings of previous outstanding bonds. Many investors opted to stay out of this asset class for the time being due to the credit crisis related to the high yield bond markets in China. The IPO projects in which Crosby would act as underwriters continued to suffer delays as listing approvals for the candidates concerned had yet to be granted. In some cases where we are assisting the candidates to raise pre-IPO funding, we have requested the candidates to make pre-submissions to the Stock Exchange in order to improve the likelihood of success before a substantial amount of resources would be committed. While we continued to work on several pipeline underwriting projects during the Current Period, no underwriting fee revenue was recorded for the Current Period due to the above reasons.

The investment advisory and management business under the Financial Services Division was also affected by the overall market downturn in the United States during the Current Period. The performance of the assets under management was down approximately 25% during the Current Period. The NASDAQ Composite Index retracted just over 21% during the Current Period. Rising interest rates, the potential of an impending hard landing, the inflationary pressure caused by both the supply chain disruptions and the war in Ukraine have together finally ended the equities bull run of the U.S. markets. The lackluster performance of the U.S. markets was a clear signal of the beginning of a cyclical downturn or bear market of the largest economy of the world. As a result, the overall performance of the Financial Services Division showed a drop in revenue of approximately HK\$5.2 million or about 50.3% for the Current Period when compared with the Previous Period.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Current Period was approximately HK\$235.7 million for which the Toy Division and the Financial Services Division contributed approximately HK\$230.6 million and HK\$5.1 million respectively, representing a decrease of approximately HK\$14.1 million or 5.6% as compared to the Group's revenue of approximately HK\$249.8 million for the Previous Period.

The decrease in the Group's revenue for the Current Period of approximately HK\$14.1 million was mainly attributable to the decrease in revenue from the Toy Division of approximately HK\$8.9 million, and a decrease in revenue of the Financial Services Division of approximately HK\$5.2 million, representing a decrease of approximately 3.7% and a decrease of approximately 50.3%, respectively, on a period-on-period basis.

The decrease in revenue of the Toy Division was mainly attributable to the decrease in orders placed by certain major customers from markets located in North America by approximately HK\$7.6 million and Western Europe by approximately HK\$12.6 million, which was offset by an increase in Central America, Caribbean and Mexico of approximately HK\$10.7 million when compared with the Previous Period.

Revenue for the Financial Services Division for the Current Period was approximately HK\$5.1 million comparing to that of HK\$10.3 million in the Previous Period, representing a decrease of about 50.3% over the Previous Period. The change in revenue was mainly attributable to a decrease in revenue on investment advisory fee of approximately HK\$5.8 million and a decrease in placing commission of approximately HK\$1.4 million during the Current Period. Despite the aforesaid, such decrease was partially offset by an increase in corporate finance advisory fee of approximately HK\$2.1 million.

Gross Margin and Gross Profit

The Toy Division reported an increase in gross margin from approximately 8.1% for the Previous Period to approximately 9.7% for the Current Period. Overall, the Group's total gross margin decreased from 11.9% in the Previous Period to approximately 11.7% in the Current Period, mainly due to a decrease in revenue on investment advisory fee of the Financial Services Division during the Current Period. As a result, gross profit of the Group for the Current Period decreased by approximately HK\$2.2 million to approximately HK\$27.5 million from HK\$29.7 million for the Previous Period.

Selling Expenses

Selling expenses for the Toy Division mainly consisted of transportation fees and declaration fees. During the Current Period, selling expenses for the Toy Division decreased by approximately HK\$0.2 million or 4.1% from approximately HK\$5.8 million for the Previous Period to approximately HK\$5.6 million for the Current Period. Such decrease was mainly due to decrease in sales orders for the Current Period as explained above.

Administrative Expenses

Administrative expenses mainly consisted of salaries to employees, depreciation on right- of- use assets, depreciation on property, plant and equipment, and other administrative expenses. Administrative expenses decreased by approximately HK\$2.8 million or 8.0% from approximately HK\$35.6 million for the Previous Period to approximately HK\$32.8 million for the Current Period as a result of the absence of expenses relating to short-term leases of about HK\$2.3 million for renting additional storage space due to delay in shipment of products to our customers caused by the shortage in container shipping capacity for the Toy Division, and the decrease in staff costs of about HK\$1.4 million and consultancy fees paid to portfolio managers of about HK\$3.8 million for the Financial Services Division, for the Previous Period. Such decrease was partially offset by an increase in the expenses attributable to the consolidation of the expenses of the newly acquired Ballas Group Limited and its subsidiary (“**Ballas**”) during the Current Period of approximately HK\$2.0 million (nil for the Previous Period). Meanwhile, there was a provision for expected credit loss of approximately HK\$2.0 million made for a client of the Financial Services Division for the Current Period (nil for the Previous Period) as the net exposure to us. On 5 May 2022, a client of the Company's Financial Services Division was ordered to be wound up by the Grand Court of the Cayman Islands and the joint official liquidators of this client were appointed. On 27 July 2022, this client was also ordered to be wound up by the High Court of Hong Kong and the official receiver became the provisional liquidator. The provisional liquidator is still in the course of investigating into the financial position of this client, while at the same time also liaising with the joint official liquidators appointed by the Grand Court of the Cayman Islands on the affairs of this client. Based on the latest available information on the financial position of this client, the Company considers that such provision is appropriate at this stage.

Other Income, Gains and Losses

During the Current Period, other income, gain and losses resulted an overall gain of approximately HK\$1.8 million from an overall loss of approximately HK\$0.3 million for the Previous Period, representing an increase in overall gain of approximately HK\$2.1 million or 759.2% during the Current Period. Such increase was mainly attributable to the absence of property, plant and equipment relocation expenses from the Toy Division as nil for the Current Period from approximately HK\$1.0 million for the Previous Period and the increase in subsidies from the Employment Support Scheme of approximately HK\$0.8 million for the Current Period as compared to nil for the Previous Period.

Finance Costs

Finance costs mainly consisted of interest on the Group's interest-bearing bank borrowings, factoring arrangement from banks, the effective interest of the convertible notes and promissory notes issued by the Company and interest on lease liabilities resulting from adoption of HKFRS 16 Leases as set out in note 6 in this announcement. Finance costs increased by 22.2% to approximately HK\$6.6 million for the Current Period when compared with approximately HK\$5.4 million for the Previous Period. Such increase was primarily due to an increase in the effective interest of the convertible notes issued by the Company to approximately HK\$4.7 million for the Current Period from approximately HK\$3.8 million in the Previous Period and an increase in bank borrowing interest of approximately HK\$0.4 million during the Current Period when compared with the Previous Period. Such increase was partially offset by a decrease in interest on the promissory notes issued in May 2020 of approximately HK\$0.1 million when compared with the Previous Period.

Income Tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdiction in which members of the Group are domiciled and operated. The income tax expense increased by 100% to approximately HK\$0.9 million for the Current Period, as compared with nil for the Previous Period. Such increase was mainly due to an increase in taxable income generated in the Current Period as explained above.

Net Loss

The Group's net loss for the Current Period was approximately HK\$16.6 million, representing a decrease of loss of about HK\$0.9 million on a period-on-period basis. The decrease in loss for the Current Period was mainly attributable to (i) an increase in gross profit of the Toy Division of approximately HK\$3.0 million for the Current Period; (ii) an increase in other income, gains and losses of approximately HK\$2.1 million for the Current Period compared to a loss of approximately HK\$0.3 million for the Previous Period due to the subsidies received from the Employment Support Scheme of approximately HK\$0.8 million for the Current Period (nil for the Previous Period) and no property, plant and equipment relocation expenses from the Toy Division for the Current Period (approximately HK\$1.0 million for the Previous Period); (iii) a decrease in administrative expenses for the Current Period attributable to the absence of short-term leases costs of about HK\$2.3 million for renting additional storage space due to delay in shipment of products to our customers caused by the shortage in container shipping capacity for the Toy Division and the decrease in staff cost of about HK\$1.4 million and consultancy fees of about HK\$3.8 million paid to portfolio managers for the Financial Services Divisions, for the Previous Period; and (iv) a decrease in selling expenses of approximately HK\$0.2 million for the Current Period attributable to the decrease in sales by the Toy Division.

Meanwhile, the above changes were partially offset by (i) a decrease in gross profit of approximately HK\$5.2 million corresponding to the decrease in revenue of the Financial Services Division; (ii) an increase in administrative expenses for the provision of expected credit loss of a client for the Financial Service Division of approximately HK\$2.0 million for the Current Period; (iii) an increase in the effective interest of the convertible notes issued by the Company and bank borrowing interests of approximately HK\$0.8 million and HK\$0.4 million, respectively, for the Current Period and (iv) an increase in income tax expense of approximately HK\$0.9 million for the Current Period.

Inventory

The inventory of the Group, comprising mainly inventory of the Toy Division, decreased by 21.3% to approximately HK\$65.2 million as at 30 September 2022 from approximately HK\$82.8 million as at 31 March 2022. The inventory turnover period, as calculated by dividing the average closing inventories by the cost of sales for the year/period and multiplied by 365 days/182.5 days, decreased by 21.3% from 77.7 days for the year ended 31 March 2022 to 64.9 days for the Current Period. Such decrease was mainly due to the decrease in sales orders during the Current Period.

Trade Receivables

Trade receivables from the Toy Division decreased to approximately HK\$27.4 million as at 30 September 2022 from approximately HK\$51.8 million as at 31 March 2022, which was primarily due to the decrease in sales during the Current Period. The trade receivables turnover days, calculated as dividing the average closing trade receivables by the revenue for the period/year and multiplied by 182.5 days/365 days, was 31.4 days for the Current Period, as compared with 41.2 days for the year ended 31 March 2022. The decrease in trade receivables turnover days during the Current Period as compared to the year ended 31 March 2022 was mainly attributable to early settlement by a major customer of the Toy Division.

For the Financial Services Division, trade receivables mainly arose from dealing in securities on behalf of our cash clients and placing and investment advisory businesses which decreased to approximately HK\$10.0 million as at 30 September 2022 when compared to approximately HK\$36.2 million as at 31 March 2022, representing a decrease of approximately HK\$26.2 million or 72.3%. The decrease in trade receivables as at 30 September 2022 was mainly due to a decrease in outstanding receivable from cash clients for settlement purposes as at the end of the Current Period when compared with 31 March 2022.

Trade Payables

Trade payables from the Toy Division decreased to approximately HK\$19.1 million as at 30 September 2022 when compared with approximately HK\$26.3 million as at 31 March 2022, representing a decrease of approximately HK\$7.2 million or 27.3%, which was primarily due to the decrease in purchases and costs of service incurred for the Current Period.

The trade payables turnover days for the Toy Division for the Current Period, as calculated as dividing the average closing trade payables by the cost of sales for the period/year and multiplied by 182.5 days/365 days, were 19.9 days for Current Period as compared with 22.8 days for the year ended 31 March 2022. The decrease in the trade payables turnover days for the Current Period as compared to the year ended 31 March 2022 was mainly attributable to early settlement with the suppliers during the Current Period.

Trade payables from the Financial Services Division were mainly payable to cash clients or the clearing house for settlement of trades or cash held on behalf of clients in their accounts. The settlement terms for such trade payable attributable to dealing in securities are typically one to two days after the trade date. As at 30 September 2022, such trade payables amounted to HK\$54.7 million, representing a decrease of approximately 28.9% from approximately HK\$77.0 million as at 31 March 2022.

The decrease was mainly due to an increase in cash deposited by clients in their accounts held with us accompanied by a decrease in outstanding trade settlements payable to counterparties in the securities brokerage business as at the end of the Current Period when compared with 31 March 2022 as a result of reduced trading activities of clients pending settlement at the end of the Current Period.

LIQUIDITY AND FINANCIAL RESOURCES

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

For the Current Period, the Group mainly financed its working capital by internal resources and bank borrowings. As at 30 September 2022, cash and cash equivalents of the Group amounted to approximately HK\$62.8 million (31 March 2022: HK\$29.4 million). As at 30 September 2022, no bank deposits was pledged to secure an undrawn banking facility granted to the Group to facilitate settlement purposes of the Financial Services Division (31 March 2022: HK\$31.1 million). The increase in cash and cash equivalents of about HK\$33.4 million as at 30 September 2022 was mainly due to the release of pledged bank deposits of approximately HK\$31.1 million in Financial Services Divisions during the Current Period and the cash and cash equivalents of about HK\$10.7 million attributable to Ballas. As at 30 September 2022, interest-bearing bank borrowings was nil, compared with approximately of HK\$16.0 million as at 31 March 2022. The decrease in interest-bearing bank borrowings was mainly due to early settlement by a major customer of the Toy Division during the Current Period as compared to the Previous Period and hence reducing the need for the use of bank borrowings by the Toy Division. The debt to equity ratio of the Group, calculated as the ratio of the closing debt balance divided by the closing total equity of the period/year, decreased to approximately 25.8% (31 March 2022: 36.5%) as a result of the decrease in bank borrowings and early partial redemptions of the promissory notes. As at 30 September 2022, 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 1.7 (31 March 2022: 1.9), the decrease of which was mainly due to the classification of the 6.0% convertible notes due in May 2023 (the “**2020 Convertible Notes**”) which was classified as non-current liabilities on 31 March 2022, was classified as current liabilities at end of the Current Period.

CONVERTIBLE NOTES

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

As at the date of this announcement, the net proceeds of HK\$40.0 from the 2020 Convertible Notes have been used as follows:

	<i>(HK\$ millions)</i>
Partial redemption of the 2017 Convertible Notes	40.0
TOTAL	40.0

CHARGE ON ASSETS

As at 30 September 2022, certain of the Group’s banking facilities and its interest-bearing bank borrowings was secured and pledged by properties of the Group located in Hong Kong with an aggregate net book value of approximately HK\$7.0 million (31 March 2022: HK\$7.0 million).

CONTINGENT LIABILITIES

As at 30 September 2022, the Group had no contingent liabilities (31 March 2022: Nil).

CAPITAL COMMITMENTS

As at 30 September 2022, there was no capital commitment of the Group (31 March 2022: Nil).

SIGNIFICANT INVESTMENT HELD

Except for investments in subsidiaries, the Group did not hold any significant investment in equity interest in any other company as at 30 September 2022 (31 March 2022: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Acquisition of Ballas

On 10 February 2022, Crosby Asia Limited, a wholly-owned subsidiary of the Company, entered into a subscription agreement with Ballas to subscribe for such number of ordinary shares in Ballas as representing about 52% of the enlarged issued share capital of Ballas. Ballas owns the entire issued share capital of Ballas Capital Limited, which is a company incorporated in Hong Kong and licensed to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance of Hong Kong. Ballas Capital Limited is also licensed to act as sponsors for listings on the Stock Exchange and advise on matters relating to the Hong Kong Codes on Takeovers and Mergers. The subscription did not constitute a notifiable transaction of the Company under the Listing Rules. The transaction completed on 3 May 2022. Upon the completion of the transaction, Ballas Group and Ballas Capital Limited became indirect non-wholly owned subsidiaries of the Company. Ballas and Ballas Capital Limited are principally engaged in provision of corporate finance advisory services and underwriting and placing services.

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

On 17 November 2022, the Group, as vendor, entered into a sale and purchase agreement (the “SPA”) with Qualiman Technology and Products Co., Limited (“**Qualiman Technology**”), a connected person of the Company, as purchaser in relation to the disposal of a property, namely Workshop 3, 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Hong Kong (the “**Property**”) at a consideration of HK\$7.1 million. Qualiman Technology is indirectly held by Mr. Lau, a controlling shareholder and an executive Director and Madam Li, a controlling shareholder and a non-executive Director and the spouse of Mr. Lau. According to the SPA, completion shall take place on or before 21 December 2022. Details of the SPA are set out in the announcement of the Company dated 17 November 2022.

Save as disclosed, the Group did not have any plans to acquire or dispose any material investments or capital assets as at 30 September 2022.

FOREIGN CURRENCY EXPOSURES

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2022, the Group had a total of 57 employees (31 March 2022: 48). Total staff costs were approximately HK\$18.9 million for the six months period ended 30 September 2022 (2021: HK\$22.5 million).

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

PROSPECTS

The Current Period was one of the more difficult periods faced by the Toy Division. Operating environments were challenging in multiple fronts. We expect the various adverse factors, including but not limited to the disruptions in logistic arrangements, higher inventory and storage costs, unstable power and labour supply and inflationary pressures on raw material costs would continue to plague our Toy Division in the second half of the financial year. The delay in product shipment and the challenging outlook on the western economies would in turn adversely affect future orders from our customers, and we might expect to see a contraction in revenues in our Toy Division for the full financial year. In light of this challenging short-term outlook, we will continue to adopt prudent strategies in managing our costs and seek alternative logistic arrangements if supported by our end customers. We would also maintain a more flexible work schedule in order to work around any energy and labour shortage issues experienced by the processing factory. We believe the operating environments would only improve more markedly when the disruptions to global supply chains could be resolved. However, the outlook continues to be a bit worrying as recently there seems to be new COVID-19 outbreak clusters in various provinces in Mainland China, which might further exacerbate the operational issues highlighted above.

For the Financial Services Division, the lack of capital means that we must continue to focus on non-principal based financial services and products to generate revenues. The build out of our investment advisory and asset management business in offering new strategies and introducing new investors through our private wealth management division to grow the overall assets under management will be of primary and natural focus. The objective is to build a sizeable assets under management (AUM) which will generate a stable management and advisory fee income to provide us with a core recurring cash flow stream. This will give us time to continue our build out on the larger paid-out initiatives such as our origination businesses (e.g. equities IPO and pre-IPO). With the successful acquisition of a controlling stake in Ballas on 3 May 2022, it will

not only give us the ability to adapt to the newly sponsor coupling regime introduced by the Securities and Futures Commission of Hong Kong, but it will also give us the ability to capture both takeover code advisory as well as sponsoring businesses. Having these added capabilities, in turn, give us a more pivotal position in our underwriting and syndication businesses.

Separately, we will continue to expand our private wealth management and investment advisory businesses through hiring contracted seasoned bankers on a fee sharing structure with no base paid. This enables us to expand the business opportunities while not directly increasing our overhead costs. This scheme also better incentivizes the bankers and aligns their interest with the clients' which shall ultimately benefit all parties involved.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the Current Period (Previous Period: Nil).

SUBSEQUENT EVENTS

Subsequent to the end of the Current Period, by 11 November 2022, the Promissory Note was early redeemed in full.

Furthermore, on 17 November 2022, the Group, as vendor, entered into the SPA for the disposal of the Property at a consideration of HK\$7.1 million with Qualiman Technology as purchaser. Qualiman Technology is indirectly held by Mr. Lau and Madam Li who are controlling shareholders and Directors. Pursuant to the SPA, completion shall take place on or before 21 December 2022. Details of which are set out in the announcement of the Company dated 17 November 2022 and 25 November 2022, respectively.

As at date of this announcement, the Company has appointed Ms. Hau Yiu Por as executive Director of the Company with effect from 1 December 2022 (“**Appointment**”). Details of the Appointment are set out under “Update on Directors’ Information” on P.42 of this announcement.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited condensed consolidated financial statements and the interim report for the six months ended 30 September 2022 and discussed the financial related matters, including the accounting principles and practices adopted by the Group, with the management during the period under review. The Audit Committee was satisfied that the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2022 have been prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 September 2022.

CORPORATE GOVERNANCE

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

Code C.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. There has been no chief executive officer since the redesignation of Mr. Lau as the Executive Chairman of the Company with effect from 25 November 2013. He has ceased to act as the chief executive officer of the Group (“**CEO**”) since then. The role of chief executive officer has been taken up by all executive Directors. The Directors believe such arrangement would achieve a better balance of power and responsibilities.

DIRECTORS’ SECURITIES TRANSACTIONS

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

UPDATE ON DIRECTORS’ INFORMATION

On 1 November 2022, Mr. Chan Siu Wing, Raymond, an independent non-executive Director, resigned as an independent non-executive director of Hong Kong Finance Group Limited (stock code: 1273), whose shares are listed on the Main Board of the Stock Exchange.

On 28 November 2022, the Company has appointed Mr. Hau Yiu Por as executive Director of the Company with effect from 1 December 2022.

Mr. Hau, aged 65, is the General Manager and a director of Qualiman Industrial Co., Limited, a wholly owned subsidiary of the Company. Mr. Hau is responsible for the Group’s operation in the Mainland China. He joined the Group in January 1999. Mr. Hau leads a team of managers that schedules and executes productions, and coordinates related logistics.

Mr. Hau has experience of over 20 years in the toy manufacturing industry. Prior to joining the Group in January 1999, Mr. Hau held senior positions with international reputable toy companies. Mr. Hau obtained a Higher Certificate in Textile Technology from The Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) in November 1981. He also obtained a Technician Certificate in Fashion & Clothing Manufacture from Technical Education and Industrial Training Department Hong Kong in July 1982 and a Management Services Certificate (work study / Operation & Management) from Institute of Management Services in August 1983.

Details of the Appointment are set out in the announcement of the Company dated 28 November 2022.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2022/2023 INTERIM REPORT

This announcement is published on the website of The Stock Exchange and the Company at www.hkexnews.hk and www.quali-smart.com.hk respectively. The 2022/2023 interim report of the Company containing all information requiring by the Listing Rules will be published on the above websites and despatched to the Shareholders on or about mid December 2022.

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

Hong Kong, 28 November 2022

As at the date of this announcement, the Board comprises Mr. Lau Ho Ming, Peter (Executive Chairman), Mr. Poon Pak Ki, Eric, Mr. Chu, Raymond and Mr. Ng Kam Seng 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.