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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 2021

FINANCIAL HIGHLIGHTS

- Revenue for the Current Period amounted to approximately HK\$249.8 million, which represented a decrease of approximately HK\$59.4 million or 19.2% as compared to the Group's revenue for the Previous Period of approximately HK\$309.2 million. Net loss for the Current Period increased to approximately HK\$17.5 million when compared with a net loss of HK\$3.2 million in the Previous Period.
- The Toy Division and the Financial Services Division contributed approximately HK\$239.5 million and HK\$10.3 million, respectively, to the Group's total revenue for the Current Period, which represented a decrease of approximately 20.0% and an increase of approximately 3.9%, 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\$34.8 million, Western Europe, by approximately HK\$18.8 million and Central America, Caribbean and Mexico by approximately HK\$3.9 million, when compared with the Previous Period.
- The increase in revenue of the Financial Services Division was mainly due to an increase in investment advisory fee of approximately HK\$3.0 million whereas such increase was partially offset by a decrease in underwriting and placing commission of approximately HK\$2.0 million and a decrease in trading and brokerage revenue of approximately HK\$0.7 million during the Current Period.

* For identification purpose only

- Gross profit of the Group for the Current Period decreased by approximately HK\$13.7 million to approximately HK\$29.7 million from HK\$43.4 million for the Previous Period as a result of a decrease in revenue from the Toy Division and an increase in raw material costs for plastic resin and electronic components and together with rising salary and utilities costs of the Toy Division during the Current Period.
- Net loss for the Current Period amounted to approximately HK\$17.5 million, representing an increase of loss of about HK\$14.3 million on a period-on-period basis. The increase in loss for the Current Period was mainly attributable to (i) a decrease in gross profit of approximately HK\$13.7 million corresponding to the decrease in revenue of the Toy Division; (ii) an increase in property, plant and equipment relocation expenses from the Toy Division to HK\$1.0 million for the Current Period from nil for the Previous Period; (iii) the absence of other income from the Employment Support Scheme in Current Period as compared to HK\$1.8 million for the Previous Period; and (iv) an increase in interest on the promissory notes of approximately HK\$0.3 million for the Current Period. Meanwhile, such increase was offset by a decrease in interest on the convertible notes of approximately HK\$0.8 million and a decrease in income tax expenses of approximately HK\$3.0 million for the Current Period.
- The Board does not recommend the payment of any interim dividend for the six months ended 30 September 2021.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2021

		Six months ended	
		30 September	
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	5	249,796	309,199
Cost of sales		<u>(220,126)</u>	<u>(265,809)</u>
Gross profit		29,670	43,390
Other income, gains and losses	5	(277)	2,625
Selling expenses		(5,844)	(5,415)
Administrative expenses		(35,625)	(34,503)
Finance costs	6	<u>(5,396)</u>	<u>(6,211)</u>
LOSS BEFORE INCOME TAX EXPENSE	7	(17,472)	(114)
Income tax expense	8	<u>–</u>	<u>(3,038)</u>
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>(17,472)</u>	<u>(3,152)</u>
Loss per share			
– Basic and diluted (<i>HK cents</i>)	9	<u>(1.19)</u>	<u>(0.21)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2021

	<i>Notes</i>	At 30 September 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	959	2,016
Right-of-use assets	19	4,694	7,256
Investment property		6,600	6,600
Goodwill		130,182	130,182
Intangible assets	11	568	568
Statutory deposits for financial service business		396	392
Deposits		1,484	1,484
		<hr/>	<hr/>
Total non-current assets		144,883	148,498
CURRENT ASSETS			
Inventories	12	98,112	84,983
Trade receivables	13	161,509	62,771
Prepayments, deposits and other receivables		2,320	1,890
Cash and bank balances held on behalf of customers		46,997	42,146
Pledged bank deposits		31,035	30,985
Time deposits		–	19,355
Cash and cash equivalents		28,370	48,214
		<hr/>	<hr/>
Total current assets		368,343	290,344
CURRENT LIABILITIES			
Trade payables	14	91,607	81,448
Accruals and other payables		6,591	5,350
Interest-bearing bank borrowings	15	80,784	–
Lease liabilities	19	4,871	5,398
Promissory notes		25,000	25,000
Tax payables		35	371
		<hr/>	<hr/>
Total current liabilities		208,888	117,567
		<hr/>	<hr/>
NET CURRENT ASSETS		159,455	172,777
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		304,338	321,275
		<hr/>	<hr/>

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

As at 30 September 2021

	<i>Notes</i>	At 30 September 2021 HK\$'000 (Unaudited)	At 31 March 2021 HK\$'000 (Audited)
NON-CURRENT LIABILITIES			
Convertible notes		28,614	25,999
Lease liabilities	19	–	2,080
Deferred tax liabilities		112	112
		<hr/>	<hr/>
Total non-current liabilities		28,726	28,191
		<hr/>	<hr/>
NET ASSETS		275,612	293,084
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Share capital	16	287	287
Reserves		275,325	292,797
		<hr/>	<hr/>
TOTAL EQUITY		275,612	293,084
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2021

	Attributable to the owners of the Company							Total <i>HK\$'000</i>
	<i>Share capital HK\$'000</i>	<i>Share premium HK\$'000 (note 1)</i>	<i>Property revaluation reserve HK\$'000 (note 2)</i>	<i>Other reserve HK\$'000</i>	<i>Share option reserve HK\$'000 (note 3)</i>	<i>Convertible notes equity reserve HK\$'000 (note 4)</i>	<i>Accumulated losses HK\$'000</i>	
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 (note 17)	-	-	-	-	(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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 September 2020

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2021

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	<u>(114,350)</u>	<u>(19,555)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	64	153
Purchase of intangible asset	–	(14)
Purchase of property, plant and equipment	–	(487)
(Increase)/decrease in pledged bank deposits	(50)	31,443
Decrease in time deposits	<u>19,355</u>	<u>–</u>
Net cash generated from investing activities	<u>19,369</u>	<u>31,095</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	176,444	134,359
Repayment of bank borrowings	(95,660)	(111,384)
Repayment of lease liabilities	(2,867)	(4,651)
Interest paid on bank and other borrowings	(2,733)	(1,363)
Interest paid on lease liabilities	(47)	(230)
Issuance of convertibles notes	–	40,000
Issuance of promissory notes	–	25,000
Redemption of convertibles notes	<u>–</u>	<u>(80,000)</u>
Net cash generated from financing activities	<u>75,137</u>	<u>1,731</u>
Net (decrease)/increase in cash and cash equivalents	(19,844)	13,271
Cash and cash equivalents at 1 April	<u>48,214</u>	<u>59,957</u>
Cash and cash equivalents at 30 September	<u><u>28,370</u></u>	<u><u>73,228</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively known as the “**Group**”) for the six months ended 30 September 2021 (“**Interim Condensed Financial Statements**”) have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. Interim Condensed Financial Statements have not been audited by the Company’s auditor but have been reviewed by the audit committee of the board of directors of the Company (“**Board**”).

The Interim Condensed Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 March 2021 (the “**2021 Annual Financial Statements**”).

The Interim Condensed Financial Statements were approved and authorised for issue by the Board on 26 November 2021.

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 2021. 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:

- Amendment to HKFRS 16, COVID-19-Related Rent Concessions
- Amendment to HKFRS 16, COVID-19-Related Rent Concessions beyond 30 June 2021
- Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16 Interest Rate Benchmark Reform – Phase 2

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-maker 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 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>
For the period ended			
30 September 2020 (Unaudited)			
External revenue	<u>299,280</u>	<u>9,919</u>	<u>309,199</u>
Segment profit/(loss)	<u>15,940</u>	<u>(8,716)</u>	<u>7,224</u>
Central administrative cost*			<u>(7,338)</u>
Loss before income tax expense			<u><u>(114)</u></u>

* Central administrative cost for the six months ended 30 September 2021 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 assets

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

	At 30 September 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Manufacturing and sales of toys	255,440	136,847
Financial Services	<u>227,741</u>	<u>234,424</u>
Total segment assets	483,181	371,271
Unallocated	<u>30,045</u>	<u>67,571</u>
Consolidated assets	<u><u>513,226</u></u>	<u><u>438,842</u></u>

Segment liabilities

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

	At 30 September 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Manufacturing and sales of toys	120,606	24,961
Financial Services	<u>61,528</u>	<u>67,486</u>
Total segment liabilities	182,134	92,447
Unallocated	<u>55,480</u>	<u>53,311</u>
Consolidated liabilities	<u><u>237,614</u></u>	<u><u>145,758</u></u>

4. OPERATING SEGMENT INFORMATION (Continued)

(a) Reportable segments (Continued)

Other segment information

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

For the period ended 30 September 2021 (Unaudited)

	Manufacturing and sales of toys <i>HK\$'000</i>	Financial Services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Depreciation of property, plant and equipment	(1,046)	(11)	(1057)
Depreciation of right-of-use assets	–	(2,562)	(2,562)
Interest expenses	(277)	–	(277)
	<u> </u>	<u> </u>	<u> </u>

For the period ended 30 September 2020 (Unaudited)

	Manufacturing and sales of toys <i>HK\$'000</i>	Financial Services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Additions to property, plant and equipment	470	17	487
Depreciation of property, plant and equipment	(3,498)	(12)	(3,510)
Depreciation of right-of-use assets	(1,391)	(3,212)	(4,603)
Interest expenses	(390)	–	(390)
	<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	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
North America (<i>note 1</i>)	146,755	181,568
Western Europe		
– United Kingdom	17,756	26,576
– France	13,191	17,585
– Netherland	6,751	11,999
– Others (<i>note 2</i>)	24,284	24,604
South America	3,927	3,669
PRC and Taiwan	5,258	7,480
Australia, New Zealand and Pacific Islands	6,984	8,187
Central America, Caribbean and Mexico	8,328	12,265
Others (<i>note 3</i>)	16,562	15,266
	<hr/>	<hr/>
Total	249,796	309,199
	<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 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Mainland China, the PRC	926	1,970
Hong Kong	142,077	144,652
Total	143,003	146,622

(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	
	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Customer A	132,677	169,359
Customer B	29,121	40,548
Customer C	54,007	67,054

5. REVENUE, OTHER INCOME AND GAINS

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

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Manufacturing and sales of toys	239,493	299,280
Financial Services	10,303	9,919
	<u>249,796</u>	<u>309,199</u>
Other income, gains and (losses)		
Moulding income	20	21
Rental income	97	93
Interest income from bank deposits	64	153
Exchange gains, net	286	192
Property, plant and equipment relocation expenses	(1,026)	–
Others (including other income from the Employment Support Scheme)	282	2,166
	<u>(277)</u>	<u>2,625</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings:		
– Bank borrowings	277	390
– Promissory notes	1,253	973
– Convertible notes	3,819	4,618
	<u>5,349</u>	<u>5,981</u>
Interest on lease liabilities	47	230
	<u>5,396</u>	<u>6,211</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	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	220,126	265,809
Depreciation of property, plant and equipment	1,057	3,510
Depreciation on right-of-use assets	2,562	4,603
Employee benefits expenses (including Directors' remuneration):		
Wages and salaries	21,656	20,910
Contribution to defined contribution plan (<i>note</i>)	423	432
Other benefits	398	736
	22,477	22,078
Auditor's remuneration	972	1,004
Expense relating to short-term leases	1,128	–
	24,577	24,082

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 2020: 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 2020: 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 2021, the aggregate amount of the Group's contributions to the aforementioned pension schemes was approximately HK\$423,000 (2020: HK\$432,000). As at 30 September 2021, the Group was not entitled to any forfeited contributions to reduce its future contributions (2020: 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 2021 and 2020. 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	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – Hong Kong Profits Tax		
Charge for the period	–	3,038
	<u>–</u>	<u>3,038</u>
Income tax expense for the period	<u>–</u>	<u>3,038</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	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before income tax expense	<u>(17,472)</u>	<u>(114)</u>
Tax at the applicable tax rate of 16.5% (2020: 16.5%)	(2,883)	(19)
Tax effect of expenses not deductible for tax purposes	165	1,698
Tax effect of tax loss not recognised	2,718	1,524
Tax concession	–	(165)
	<u>–</u>	<u>(165)</u>
Income tax expense	<u>–</u>	<u>3,038</u>

No deferred tax asset has been recognised in respect of the unused tax losses of HK\$195,883,000 (For the six months ended 30 September 2020: HK\$164,316,000) 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	
	2021	2020
	HK\$'000	HK\$'000
Loss for the period attributable to the owners of the Company	<u>(17,472)</u>	<u>(3,152)</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 2021 of approximately HK\$17,472,000 (2020: HK\$3,152,000), and of the weighted average number of 1,474,232,000 (2020: 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 2021 (2020: 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 2021 (2020: anti-dilutive).

There is no dilutive effect on the convertible notes as they are anti-dilutive (2020: anti-dilutive).

10. PROPERTY, PLANT AND EQUIPMENT

	HK\$'000
Net book value:	
At 1 April 2021 (Audited)	2,016
Additions	–
Depreciation	<u>(1,057)</u>
At 30 September 2021 (Unaudited)	<u>959</u>

11. INTANGIBLE ASSETS

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

Net book value:

At 1 April 2021 (Audited) and **30 September 2021 (Unaudited)**

568

12. INVENTORIES

	At 30 September 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Raw materials	60,839	53,476
Finished goods	<u>37,273</u>	<u>31,507</u>
	<u>98,112</u>	<u>84,983</u>

13. TRADE RECEIVABLES

	At 30 September 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Trade receivables from financial services segment	12,087	20,867
Trade receivables from manufacturing and sales of toys segment	<u>149,422</u>	<u>41,904</u>
	<u>161,509</u>	<u>62,771</u>

13. TRADE RECEIVABLES (Continued)

Trade receivables from financial services segment

	At 30 September 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Accounts receivable arising from the ordinary course of business of securities brokerage:		
– Cash clients	374	1,499
Accounts receivable arising from the ordinary course of business of provision of:		
– Placing commission	10,389	18,364
– Advisory services	1,067	1,004
– Asset management services	257	–
	<u>12,087</u>	<u>20,867</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 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Neither past due nor impaired	374	1,499
Less than 1 month past due	1,324	5,113
More than 1 month but less than 2 months past due	–	1,665
More than 2 months but less than 3 months past due	644	763
Over 3 months past due	9,745	11,827
	<u>12,087</u>	<u>20,867</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.

Subsequent to the end of the Current Period, a client of the Company’s Financial Services Division filed a petition for winding up and application for the appointment of joint provisional liquidators on a “light touch” basis for restructuring purposes on 15 November 2021. The Group had an exposure of about HK\$9.9 million of outstanding trade receivables from this client as at 30 September 2021, which accounted for about 1.9% of the total consolidated assets of the Group as at 30 September 2021 and which remains outstanding as of the date of this announcement. As this client has yet to announce more details of its restructuring plan, 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 2021 <i>HK\$’000</i> (Unaudited)	At 31 March 2021 <i>HK\$’000</i> (Audited)
Current to 30 days	59,301	22,927
31 – 60 days	35,778	6,258
61 – 90 days	40,338	12,358
Over 90 days	14,005	361
	<u>149,422</u>	<u>41,904</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 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Trade payables from financial services segment	55,109	58,561
Trade payables from manufacturing and sales of toys segment	<u>36,498</u>	<u>22,887</u>
	<u><u>91,607</u></u>	<u><u>81,448</u></u>

Trade payables from financial services segment

	At 30 September 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Accounts payable arising from the ordinary course of business of securities brokerage and margin financing:		
– Cash clients	47,214	42,101
– Margin clients	47	47
– Brokers and clearing house	<u>7,848</u>	<u>16,413</u>
	<u><u>55,109</u></u>	<u><u>58,561</u></u>

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

As at the 30 September 2021, included in trade payable was an amount of approximately HK\$46,997,000 (31 March 2021: HK\$42,146,000) 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 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Current to 30 days	28,999	17,527
31 to 60 days	4,032	3,334
61 to 90 days	2,517	2,018
More than 90 days but less than 365 days	950	8
	<u>36,498</u>	<u>22,887</u>

15. INTEREST-BEARING BANK BORROWINGS

	At 30 September 2021 <i>HK\$'000</i> (Unaudited)	At 31 March 2021 <i>HK\$'000</i> (Audited)
Current		
Secured		
– bank loans due for repayment within one year	80,784	–
	<u>80,784</u>	<u>–</u>

As at 30 September 2021, the Group's banking facilities and its interest-bearing bank borrowings are secured either (i) by Company's corporate guarantees and cross guarantees from the Company's subsidiary, which is Qualiman Industrial Co. Limited; (ii) by legal charges over certain properties in Hong Kong owned by Mr. Lau Ho Ming, Peter, Madam Li Man Yee, Stella and their associates and personal guarantee by Mr. Lau Ho Ming, Peter; or (iii) by investment property of the Group with aggregate net book value of HK\$6,600,000 (31 March 2021: HK\$6,600,000).

16. SHARE CAPITAL

	Number of Shares	HK\$'000
Authorised:		
Ordinary Shares of US\$0.000025 each At 1 April 2021 (Audited) and at 30 September 2021 (Unaudited)	6,000,000,000	1,168
Issued and fully paid:		
Ordinary Shares of US\$0.000025 each At 1 April 2021 (Audited) and at 30 September 2021 (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 2021 Annual Financial Statements. For the six months ended 30 September 2021 and 2020 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 2021:

	Exercise price	Number of share options			Date of grant of share options	Exercisable periods of share options
		Balance as at 1 April 2021	Lapsed during the period	Balance as at 30 September 2021		
Executive Directors						
– Lau Ho Ming, Peter	HK\$1.02	4,000,000	–	4,000,000	3 July 2015	3 July 2015 to 2 July 2025
– Ng Kam Seng (<i>note 1</i>)	HK\$1.02	5,400,000	–	5,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	7,500,000	–	7,500,000	24 March 2016	24 March 2016 to 23 March 2026
– Poon Pak Ki, Eric	HK\$1.02	5,400,000	–	5,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	7,500,000	–	7,500,000	24 March 2016	24 March 2016 to 23 March 2026
– Chu, Raymond	HK\$0.748	12,847,800	–	12,847,800	24 March 2016	24 March 2016 to 23 March 2026
Non-executive Directors						
– Li Man Yee, Stella	HK\$1.02	1,400,000	–	1,400,000	3 July 2015	3 July 2015 to 2 July 2025
– Wang Zhao (<i>note 2</i>)	HK\$1.02	1,400,000	–	1,400,000	3 July 2015	3 July 2015 to 2 July 2025

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

	Exercise price	Number of share options			Date of grant of share options	Exercisable periods of share options
		Balance as at 1 April 2021	Lapsed during the period	Balance as at 30 September 2021		
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	36,203,800	(400,000)	35,803,800	24 March 2016	24 March 2016 to 23 March 2026
Consultants	HK\$0.25	1,120,000	-	1,120,000	17 March 2014	17 March 2014 to 16 March 2024
	HK\$1.02	19,600,000	-	19,600,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	12,300,000	-	12,300,000	24 March 2016	24 March 2016 to 23 March 2026
Total		<u>130,271,600</u>	<u>(400,000)</u>	<u>129,871,600</u>		

Notes:

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.

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

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

The exercise price of the first batch of share options outstanding was HK\$0.25 and the weighted average remaining contractual life was 2.46 years (2020: 3.46 years). The exercise price of the second batch of share options outstanding as at 30 September 2021 was HK\$1.02 and the weighted average remaining contractual life was 3.76 years (2020: 4.76 years). The exercise price of the third batch of share options outstanding as at 30 September 2021 was HK\$0.748 (2020: HK\$0.748) and the weighted average remaining contractual life was 4.46 years (2020: 5.46 years). Of the total number of share options outstanding as at 30 September 2021 and 31 March 2021, 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 26 November 2021, the Directors did not propose an interim dividend for the period ended 30 September 2021 (2020: 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 2021 HK\$'000 (Unaudited)	At 31 March 2021 HK\$'000 (Audited)
Right-of-use assets		
At 1 April	7,256	5,351
Additions	–	10,574
Depreciation charged	<u>(2,562)</u>	<u>(8,669)</u>
Net carry amount	<u>4,694</u>	<u>7,256</u>
Lease liabilities		
At 1 April	7,478	5,543
Additions	–	10,574
COVID-19-related rent concessions	–	(668)
Interest charged	166	618
Rental paid	<u>(2,773)</u>	<u>(8,589)</u>
Net carry amount	<u>4,871</u>	<u>7,478</u>
Lease liabilities		
Current portion	4,871	5,398
Non-current portion	<u>–</u>	<u>2,080</u>
	<u>4,871</u>	<u>7,478</u>

20. SUBSEQUENT EVENTS

Subsequent to the end of the Current Period, a client of the Company's Financial Services Division filed a petition for winding up and application for the appointment of joint provisional liquidators on a "light touch" basis for restructuring purposes on 15 November 2021. The Group had an exposure of about HK\$9.9 million of outstanding trade receivables from this client as at 30 September 2021, which accounted for about 1.9% of the total consolidated assets of the Group as at 30 September 2021 and which remains outstanding as of the date of this announcement. As this client has yet to announce more details of its restructuring plan, 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.

BUSINESS REVIEW

For the six months ended 30 September 2021 (the “**Current Period**”), our Group was engaged in the same core business divisions in the manufacture of toys operated under Qualiman Industrial Company Limited (the “**Toy Division**”) and the provision of financial services operated under Crosby Asia Limited (the “**Financial Services Division**”).

During the Current Period, impacts arising from the COVID-19 pandemic (the “**Pandemic**”) continued to trouble the business and investment environments globally, the latest developments being the disruption of the global supply chain which has caused chaos in many business disciplines across the world. This problem was further exacerbated in the United Kingdom as the adverse impacts arising from Brexit started to emerge. Many ports in the United States also encountered substantial backlogs which led to a spillover effect on the global logistics industry. The lack of available shipping capacity forced many manufacturers in this part of the world to delay their shipment of products to the western markets, which in turn had affected their performance in the upcoming holiday seasons. The pileup of inventory also increased the operating costs of the manufacturers and in some cases led to a more stringent working capital requirement. As the global economy started to recover from the Pandemic and demands started to pick up, we began to see inflationary pressures on many kinds of commodities, most notably reflected in oil and metal prices. This has had a ripple effect which led to a more general inflation in goods across the board.

Locally, the stock markets received a substantial shock in the summer as the Chinese Government started to crack down on anti-trust issues in many different sectors and enact its policy of “common prosperity”. Many leading companies in the technology, education and real estate sectors were severely affected and required to change their business models. This led to an effective revaluation of their stocks and bonds and caused investors to panic-sell the securities of those companies involved in the crackdown. The credit crisis of the real estate companies in China also worsened during the Current Period as many of them were effectively cut off from further bank financings, leading to multiple defaults in their debt obligations and a partial meltdown in the sector. This has further caused the local investment sentiments to sour and made it difficult to tap fundings from the capital markets. The U.S. capital markets, on the other hand, continued to show a robust performance during the Current Period, as the markets were buoyed by good corporate results which benefited from the economic recovery and were undaunted by the prospect of rising interest rates.

The Toy Division

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

During the Current Period, revenue of the Toy Division and its segment loss were approximately HK\$239.5 million and HK\$1.1 million respectively, representing a decrease of approximately 20.0% and 106.7% respectively over the six months ended 30 September 2020 (the “**Previous Period**”). The drop in revenue from the Toy Division was mainly due to a decrease in shipment of products to both North American and Western European customers. Most notably, revenues from North American customers, which accounted for approximately 61.3% of total revenues from the Toy Division in the Current Period, decreased by about 19.2% over the Previous Period. Western European customers, which accounted for about 25.9% of total revenues from the Toy Division in the Current Period, also decreased by about 23.3% over the Previous Period. The Toy Division was severely affected by the significant disruption to the global supply chain as the aftermath of the Pandemic. The severe shortage in available container shipping capacity led to a substantial delay in the shipment of our products to our end-customers in the United States and Western European markets in recent months, which led to an increase in our inventory and hence our storage costs. Delay in shipment of finished products also led to delay in recognition of revenues which further contributed to the drop in revenue of the Toy Division for the Current Period. In addition, global inflationary pressures on raw material costs led to an increase in the costs of plastic resins and electronic components in recent months, both important raw materials for our products. The sporadic lockdowns in mainland China and quarantine measures also led to some degree of labour shortage and increased the labour costs of our processing factory. The shortage in power in the late summer months in China also led to an increase in utilities costs associated with our production. All these factors caused a deterioration in the gross margins of the Toy Division and led to its segment loss for the Current Period.

Given the continued uncertainties in the logistics industry and uncertain orders from our end customers, the Group continued to focus on adopting effective cost control measures, such as inventory rationalisation and automation in manufacturing process. The Toy Division would work with our end customers to seek alternative delivery channels and managed their orders to avoid an excessive pile-up of inventory and hence a further increase in storage costs. The Toy Division would also request the processing factory to implement contingency plans to minimize any major disruptions to the production of our products in view of the uncertain energy situations in China. The Toy Division will continue to implement stringent cost controls in product manufacturing using lean production approach, logistic simplification management and minimization of inventory level particularly during non-peak business period and in view of the continued difficult operating environments.

The Financial Services Division

During the Current Period, the securities markets in Hong Kong suffered a major shock in the summer months as a result of a significant shift in Chinese policies in various sectors. The Hang Seng Index closed at 24,575.64 at the end of the Current Period, compared with a closing at 28,378.35 at the end of March 2021, representing a drop of about 13.4% during the Current Period. The Hang Seng China Enterprises Index dropped by about 20.5% during the same period. The bearish sentiments were mainly driven by the crack-down on the technology, education and real estate 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”. These policy shifts caught investors by surprise and led to a major revaluation of stocks across these important sectors, as investors sold in panic manners to stop loss. Furthermore, almost all channels of financings dried up for real estate companies in China and several issuers defaulted on their debt obligations. This in turn caused a meltdown in the high yield bond markets for these issuers, 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.

Based on data provided by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), total funds raised by IPO during the Current Period decreased from about HK\$201.5 billion for the Previous Period to about HK\$152.7 billion for the Current Period, representing a decrease of about 24.2% on a year-on-year basis. Total funds raised including IPOs also decreased from about HK\$384.1 billion for the Previous Period to about HK\$344.8 billion for the Current Period, representing a decrease of about 10.2% on a year-on-year basis. With the announcement of the new profit requirements for new listing on the Main Board of the Stock Exchange and the entry into the transition period to the enactment of the new rules early next year, new listing approvals have slowed down, particularly those related to applications from small-mid cap issuers. Bio-tech issuers listing under Chapter 18A appeared to continue to dominate the new issue markets during the Current Period, although overall fund-raising size shrank noticeably as investor sentiments became cold after the shift in Chinese policies as stated above. During the Current Period, the U.S. stock markets continued to show strong resilience despite repeated warnings of inflations and rising interest rates, with the NASDAQ rising from 13,246.87 as of 31 March 2021 to a close of 14,448.58 as of 30 September 2021, representing an increase of about 9.1%. Investors continued to put faith in the technology sector in the U.S. market as their performance was bolstered by strong corporate earnings results which benefited from a general recovery of the economy. The Dow Jones Industrial Average continued to show resilience during the Current Period, rising from 32,981.55 as of 31 March 2021 to a close of 33,843.92 as of 30 September 2021, representing a modest increase of about 2.6%.

The investment advisory and management business of Crosby Securities Limited (“**Crosby**”) under the Financial Services Division continued to perform well during the Current Period. This business segment continued to successfully grow its assets under advisory or management by about 36.5% during the Current Period by signing on new mandates and delivering investment returns, with an investment focus primarily in the technology segment of the US equities markets. The resilient performance of the US markets during the Current Period allowed Crosby to recognize a substantial growth both in its investment advisory and asset management fee revenues, as the business managed to book a performance fee income once again. As a result, the overall performance of the Financial Services Division showed a modest improvement in revenues of about 3.9% during the Current Period when compared with the Previous Period, despite a substantial reduction in underwriting and placing commission.

The change in sentiments in the Hong Kong capital markets arising from the shifts in Chinese policies this summer severely affected the underwriting and bond placement businesses of Crosby. 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.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Current Period amounted to approximately HK\$249.8 million for which the Toy Division and the Financial Services Division contributed approximately HK\$239.5 million and HK\$10.3 million, respectively, representing a decrease of approximately HK\$59.4 million or 19.2% as compared to the Group's revenues of approximately HK\$309.2 million for the Previous Period.

The decrease in the Group's revenue for the Current Period of approximately HK\$59.4 million was mainly attributable to the decrease in revenue from the Toy Division of approximately HK\$59.8 million, which was slightly offset by an increase in revenue of the Financial Services Division of approximately HK\$0.4 million, representing a decrease of approximately 20.0% and an increase of approximately 3.9%, respectively, on a period-on-period basis.

The decrease in the 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\$34.8 million, Western Europe, by approximately HK\$18.8 million and Central America, Caribbean and Mexico of approximately HK\$3.9 million when compared with the Previous Period.

Revenue for the Financial Services Division for the Current Period amounted to approximately HK\$10.3 million comparing to that of HK\$9.9 million in the Previous Period, representing a small increase of about 3.9% over the Previous Period. The change in revenue was mainly attributable to an increase in investment advisory fee of approximately HK\$3.0 million during the Current Period, whereas such increase was partially offset by a decrease in underwriting and placing commission of approximately HK\$2.0 million and a decrease in trading and brokerage revenue of approximately HK\$0.7 million.

Gross Margin and Gross Profit

The Toy Division reported a decrease in gross margin from approximately 11.2% for the Previous Period to approximately 8.1% for the Current Period. Overall, the Group's total gross margin decreased from 14.0% in the Previous Period to approximately 11.9% in the Current Period, mainly due to an increase in raw material costs for plastic resin and electronic components and together with rising salary and utilities costs in the processing factory of the Toy Division during the Pandemic. As a result, gross profit of the Group for the Current Period decreased by approximately HK\$13.7 million to approximately HK\$29.7 million from HK\$43.4 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 increased by approximately HK\$0.4 million or 7.9% from approximately HK\$5.4 million for the Previous Period to approximately HK\$5.8 million for the Current Period. Such increase was mainly due to a rise in shipping costs caused by a severe shortage in available container shipping capacity as an aftermath of the Pandemic.

Administrative Expenses

Administrative expenses mainly consisted of salaries to employees, depreciation on right- of- use assets, depreciation on property, plant and equipment, and other administrative expenses. Administrative expenses increased slightly by approximately HK\$1.1 million or 3.3% from approximately HK\$34.5 million for the Previous Period to approximately HK\$35.6 million for the Current Period as a result of expenses relating to short-term leases of about HK\$1.1 million for renting additional storage space due to delay in shipment of products to our customers caused by the shortage in container shipping capacity.

Other Income, Gains and Losses

During the Current Period, other income, gain and losses resulted in an overall loss of approximately HK\$0.3 million from an overall gain of approximately HK\$2.6 million for the Previous Period, representing a decrease in overall gain of approximately HK\$2.9 million or 110.6% during the Current Period. Such decrease was mainly attributable to an increase in property, plant and equipment relocation expenses from the Toy Division of approximately HK\$1.0 million for the Current Period from nil for the Previous Period and the absence of income from the Employment Support Scheme for the Current Period as compared to approximately HK\$1.8 million 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 19 in this announcement. Finance costs decreased by 13.1% to approximately HK\$5.4 million for the Current Period when compared with approximately HK\$6.2 million for the Previous Period. Such decrease was primarily due to a decrease in the effective interest of the convertible notes issued by the Company to approximately HK\$3.8 million for the Current Period from approximately HK\$4.6 million in the Previous Period and a decrease in bank borrowing interest of approximately HK\$0.1 million during the Current Period when compared with the Previous Period. Such decrease was partially offset by an increase in interest on the promissory notes issued in May 2020 of approximately HK\$0.3 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 decreased by 100% to Nil for the Current Period, as compared with approximately HK\$3.0 million for the Previous Period. Such decrease was mainly due to a decrease in taxable income attributable to the decrease in revenue generated in the Current Period as explained above.

Net Loss

The Group's net loss for the Current Period amounted to approximately HK\$17.5 million, representing an increase of loss of about HK\$14.3 million on a period-on-period basis. The increase in loss for the Current Period was mainly attributable to (i) a decrease in gross profit of approximately HK\$13.7 million corresponding to the decrease in revenue of the Toy Division; (ii) an increase in property, plant and equipment relocation expenses from the Toy Division to HK\$1.0 million for the Current Period compared to nil for the Previous Period; (iii) the absence of other income from the Employment Support Scheme in the Current Period as compared to HK\$1.8 million for the Previous Period and (iv) an increase in interest on the promissory notes of approximately HK\$0.3 million for the Current Period, which was offset by a decrease in interest on the convertible notes of approximately HK\$0.8 million and a decrease in income tax expenses approximately HK\$3.0 million for the Current Period.

Inventory

The inventory of the Group, comprising mainly inventory of the Toy Division, increased by 15.4% to approximately HK\$98.1 million as at 30 September 2021 from approximately HK\$85.0 million as at 31 March 2021. 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, increased by 10.5% from 68.7 days for the year ended 31 March 2021 to 75.9 days for the Current Period. Such increase was mainly due to the peak season of the business cycle and slower shipment during the Current Period.

Trade Receivables

Trade receivables from the Toy Division increased to approximately HK\$149.4 million as at 30 September 2021 from approximately HK\$41.9 million at 31 March 2021, which was primarily due to the peak season of its business cycle. The trade receivables turnover days, calculated as dividing the average closing trade receivables by the revenue for the period/year and multiplied by 182.5 days/365 days, was 72.9 days for Current Period, as compared with 39.1 days for the year ended 31 March 2021. The increase in the trade receivables turnover days during the Current Period as compared to the year ended 31 March 2021 was mainly attributable to the peak season of the toy manufacturing business and slower settlement due to the global supply chain disruption during the Current Period.

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\$12.1 million as at 30 September 2021 when compared to approximately HK\$20.9 million as at 31 March 2021, representing a decrease of approximately HK\$8.8 million or 42.1%. The decrease in trade receivables as at 30 September 2021 was mainly due to a decrease in outstanding receivable from cash clients for settlement purposes, and a decrease in placing commission receivable as at the end of the Current Period when compared with 31 March 2021 as some of such commission was settled during the Current Period.

Trade Payables

Trade payables from the Toy Division increased to approximately HK\$36.5 million as at 30 September 2021 when compared with approximately HK\$22.9 million as at 31 March 2021, representing an increase of approximately HK\$13.6 million or 59.4%, which was primarily due to the purchase of more raw materials and an increase in raw material costs to support the increase in production during the peak season for the Toy Division.

The trade payables turnover days for the Toy Division for the Current Period, as calculated as dividing the average closing trade payables by the cost of sales for the period/year and multiplied by 182.5 days/365 days, were 24.6 days for Current Period as compared with 13.9 days for the year ended 31 March 2021. The increase in the trade payables turnover days for the Current Period as compared to the year ended 31 March 2021 was mainly attributable to the increase in purchases of raw materials to cope with the customer orders during the Current Period which was the peak season of business.

Trade payables from the Financial Services Division were mainly payable to cash clients or the clearing house for settlement of trades or cash held on behalf of clients in their accounts. The settlement terms for such trade payable attributable to dealing in securities are typically one to two days after the trade date. As at 30 September 2021, such trade payables amounted to HK\$55.1 million, representing a decrease by approximately 6.0% from approximately HK\$58.6 million as at 31 March 2021.

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 2021 as a result of decreased 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 2021, cash and cash equivalents of the Group amounted to approximately HK\$28.4 million (31 March 2021: HK\$48.2 million). Besides, approximately HK\$31.0 million (31 March 2021: HK\$31.0 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 of about HK\$19.8 million during the Current Period was mainly to finance the working capital shortfall of the Group in both its Toy and Financial Services Divisions during the Current Period. The Toy Division also released about HK\$19.4 million previously held in time deposits as at 31 March 2021 to finance its working capital need during the peak production season in the Current Period. interest-banking bank borrowings as at 30 September 2021 amounted to approximately HK\$80.8 million, compared with nil as at 31 March 2021. The increase in interest bearing bank borrowings was mainly due to the working capital requirements of the Toy Division as it entered its cyclical peak production season. The debt to equity ratio of the Group, calculated as the ratio of the closing debt balance divided by the closing total equity of the period/year, increased to approximately 48.8% (31 March 2021: 17.4%) as a result of the increase in bank borrowings to facilitate the working capital requirements during the peak production season of the Toy Division. As at 30 September 2021, 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 1.8 (31 March 2021: 2.5), the decrease of which was mainly due to the drawdown of bank borrowings to finance the working capital of the Group in the peak production period as explained above.

CONVERTIBLE NOTES

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

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

(HK\$ millions)

Redemption of part of the outstanding principal of the of 2017 Convertible Notes in the same amount	40.0
TOTAL	<u>40.0</u>

CHARGE ON ASSETS

As at 30 September 2021, certain of the Group's banking facilities and its interest-bearing bank borrowings were secured and pledged by bank deposits of approximately HK\$31.0 million (31 March 2021: HK\$31.0 million) and properties of the Group located in Hong Kong with an aggregate net book value of approximately HK\$6.6 million (31 March 2021: HK\$6.6 million).

CONTINGENT LIABILITIES

As at 30 September 2021, the Group had no contingent liabilities (31 March 2021: Nil).

CAPITAL COMMITMENTS

As at 30 September 2021, there was no capital commitment of the Group (31 March 2021: 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 2021 (31 March 2021: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the six months ended 30 September 2021, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 September 2021, the Group did not have any plans to acquire any material investments or capital assets.

FOREIGN CURRENCY EXPOSURES

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

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2021, the Group had a total of 47 employees (31 March 2021: 48). Total staff costs were approximately HK\$22.5 million for the six months period ended 30 September 2021 (2020: HK\$22.1 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 in recent years. 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 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 China, which might further exacerbate the operational issues highlighted above.

For the Financial Services Division, the investment advisory and asset management business will continue to be our focus of growth in the near future. Our investment advisers and asset managers will continue to seek to grow our assets under advisory or management to generate more recurring AUM-based fee income. Notwithstanding the above, we are aware the U.S. market is near its historical high and with the announcement by the Federal Reserve to start tapering, the performance of our clients' portfolios could become more volatile. However, given the sub-optimal performance of the Greater China equity and debt markets in the Current Period, it would appear that the U.S. market, in particular the technology segment, remains the preferred choice of investors for the time being.

Finally, we expect our underwriting and bond placing businesses to be very challenging in the remainder of the financial year, as vetting of our IPO pipeline transactions seem to be progressing slowly before the enactment of the new listing requirements and sentiments turned further sour towards the small-mid cap sector given the unpredictable policy shifts. Investor confidence towards the high yield bond market in China also needs to be rebuilt before transactions are viable again. Our Financial Services Division will continue its endeavour to expand the transaction pipelines and explore more recurring revenues from our investment advisory and discretionary management business.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2021 (30 September 2020: Nil).

SUBSEQUENT EVENT

Subsequent to the end of the Current Period, a client of the Company's Financial Services Division filed a petition for winding up and application for the appointment of joint provisional liquidators on a "light touch" basis for restructuring purposes on 15 November 2021. The Group had an exposure of about HK\$9.9 million of outstanding trade receivables from this client as at 30 September 2021, which accounted for about 1.9% of the total consolidated assets of the Group as at 30 September 2021 and which remains outstanding as of the date of this announcement. As this client has yet to announce more details of its restructuring plan, 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.

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 2021 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 2021 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 2021.

CORPORATE GOVERNANCE

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

Code A.2.1

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

DIRECTORS’ SECURITIES TRANSACTIONS

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

UPDATE ON DIRECTORS BIOGRAPHY

Mr. Chan Siu Wing, Raymond is an independent non-executive Director of the Company and the chairman of each of the Audit Committee and Corporate Governance Committee of the Board. On 31 October 2021, Mr. Chan resigned as an independent non-executive director of Nature Home Holdings Limited (stock code: 2083), a company was listed on the main board of The Hong Kong Stock Exchange. Except for this matter, there is no other change in the biography of Mr. Chan as per those disclosed in the annual report 2021 of the Company.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2020/2021 INTERIM REPORT

This announcement is published on the website of The Stock Exchange and the Company at www.hkexnews.hk and www.quali-smart.com.hk respectively. The 2021/2022 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 2021.

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

Hong Kong, 26 November 2021

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