# Quantum Thinking Limited
# 量子思維有限公司

*(Incorporated in the Cayman Islands with limited liability)*
**(Stock code: 8050)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

### CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**



*This announcement, for which the directors (the "**Directors**") of Quantum Thinking Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

The board of Directors (the "**Board**") of the Company hereby presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 September 2018 together with the comparative figures for the corresponding period in 2017 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the three and six months ended 30 September 2018*

| | | Three months ended 30 September | | Six months ended 30 September | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | ***HK\$'000*** | *HK\$'000* | ***HK\$'000*** | *HK\$'000* |
| | *Note* | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| **Revenue** | *4* | **3,636** | 3,342 | **7,686** | 5,357 |
| Cost of sales and services | | **(2,987)** | (718) | **(4,800)** | (2,261) |
| **Gross profit** | | **649** | 2,624 | **2,886** | 3,096 |
| Other income | | **7,021** | 319 | **7,489** | 2,282 |
| Distribution costs | | **(1,742)** | (1,498) | **(2,565)** | (2,396) |
| Administrative expenses | | **(8,419)** | (5,993) | **(11,603)** | (10,499) |
| **Loss before income tax** | *5* | **(2,491)** | (4,548) | **(3,793)** | (7,517) |
| Income tax expense | *6* | **–** | (29) | **(194)** | (16) |
| **Loss for the period** | | **(2,491)** | (4,577) | **(3,987)** | (7,533) |
| **Other comprehensive (expense)/income** | | | | | |
| Exchange differences arising on translation of foreign operations that will be reclassified subsequently to profit or loss | | **(1,054)** | 388 | **(1,891)** | 847 |
| **Other comprehensive (expense)/income for the period, net of tax** | | **(1,054)** | 388 | **(1,891)** | 847 |
| **Total comprehensive expense for the period, net of tax** | | **(3,545)** | (4,189) | **(5,878)** | (6,686) |

| | Note | Three months ended 30 September **2018** *HK$'000* **(unaudited)** | 2017 *HK$'000* (unaudited) | Six months ended 30 September **2018** *HK$'000* **(unaudited)** | 2017 *HK$'000* (unaudited) |
|---|---|---|---|---|---|
| **Loss for the period attributable to:** | | | | | |
| Owners of the Company | | **(387)** | (2,213) | **(1,399)** | (5,355) |
| Non-controlling interests | | **(2,104)** | (2,364) | **(2,588)** | (2,178) |
| | | **(2,491)** | (4,577) | **(3,987)** | (7,533) |
| **Total comprehensive expense for the period attributable to:** | | | | | |
| Owners of the Company | | **(1,687)** | (1,601) | **(4,298)** | (4,087) |
| Non-controlling interests | | **(1,858)** | (2,588) | **(1,580)** | (2,599) |
| | | **(3,545)** | (4,189) | **(5,878)** | (6,686) |
| **Loss per share attributable to the owners of the Company** | | | | | |
| — Basic loss per share: (HK cents) | *7* | **(0.03)** | (0.16) | **(0.10)** | (0.39) |
| — Diluted loss per share: (HK cents) | *7* | **(0.03)** | (0.16) | **(0.10)** | (0.39) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 September 2018*

| | Note | 30 September 2018 HK$'000 (unaudited) | 31 March 2018 HK$'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **3,596** | 987 |
| Intangible assets | | **386** | 393 |
| Prepayment of leasehold improvement | | **2,258** | 1,267 |
| | | **6,240** | 2,647 |
| **Current assets** | | | |
| Trade and other receivables | 9 | **9,768** | 46,208 |
| Financial assets designated at fair value through profit or loss | 10 | **50,248** | 24,365 |
| Cash and cash equivalents | | **66,110** | 76,790 |
| Restricted Cash | | **38,441** | 42,063 |
| | | **164,567** | 189,426 |
| **Current liabilities** | | | |
| Trade and other payables | 11 | **116,578** | 141,054 |
| Tax payable | | **448** | 522 |
| | | **117,026** | 141,576 |
| **Net current assets** | | **47,541** | 47,850 |
| **Total assets less current liabilities** | | **53,781** | 50,497 |
| **Net assets** | | **53,781** | 50,497 |
| **Equity** | | | |
| **Equity attributable to the Owners of the Company** | | | |
| Share capital | 12 | **135,625** | 135,625 |
| Reserves | | **(75,269)** | (70,971) |
| | | **60,356** | 64,654 |
| **Non-controlling interests** | | **(6,575)** | (14,157) |
| **Total equity** | | **53,781** | 50,497 |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
*For the six months ended 30 September 2018*

| | | Six months ended 30 September | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | ***HK$'000*** | *HK$'000* |
| | *Note* | **(unaudited)** | (unaudited) |
| **Net cash used in operating activities** | | **(3,487)** | (22,831) |
| **Cash flows from investing activities** | | | |
| Acquisition of Shenzhen Quantum Technology Information Co., Ltd.* ("**Shenzhen Quantum**") | *15* | **29,242** | – |
| Cash paid for acquisition of financial assets designated at fair value through profit or loss | | **(99,072)** | (115,320) |
| Cash received from redemption of financial assets designated at fair value through profit or loss | | **70,697** | 124,546 |
| Interest received from bank | | **114** | 42 |
| Investment income from financial assets designated at fair value through profit or loss | | **764** | 854 |
| Increase in prepayment of leasehold improvement | | **(1,154)** | – |
| Increase in restricted cash | | **(87)** | – |
| Purchase of property, plant and equipment | | **(811)** | – |
| Net cash (used in)/generated from investing activities | | **(307)** | 10,122 |
| **Cash flows from financing activities** | | | |
| Repayment of advance from a director | | **(2,946)** | – |
| Net cash used in financing activities | | **(2,946)** | – |
| **Net decrease in cash and cash equivalents** | | **(6,740)** | (12,709) |
| **Cash and cash equivalents at the beginning of the period** | | **76,790** | 124,897 |
| Effect on foreign exchange rate changes, on cash held | | **(3,940)** | (621) |
| **Cash and cash equivalents at the end of the period, represented by cash at banks and in hand** | | **66,110** | 111,567 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2018*

| | Attributable to the owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share Capital** *HK$'000* (unaudited) | **Share premium** *HK$'000* (unaudited) | **Warrant reserve** *HK$'000* (unaudited) | **Translation Reserve** *HK$'000* (unaudited) | **Accumulated Losses** *HK$'000* (unaudited) | **Total** *HK$'000* (unaudited) | **Non-controlling Interests** *HK$'000* (unaudited) | **Total Equity** *HK$'000* (unaudited) |
| As at 1 April 2017 | 135,625 | 99,935 | 900 | (5,701) | (161,060) | 69,699 | (9,089) | 60,610 |
| **Comprehensive expense** | | | | | | | | |
| Loss for the period | – | – | – | – | (5,355) | (5,355) | (2,178) | (7,533) |
| **Other comprehensive income/ (expense)** | | | | | | | | |
| Exchange differences arising on translation of foreign operations | – | – | – | 1,268 | – | 1,268 | (421) | 847 |
| **Total comprehensive income/ (expense)** | – | – | – | 1,268 | (5,355) | (4,087) | (2,599) | (6,686) |
| **Release upon expiry of warrants** | – | – | (900) | – | 900 | – | – | – |
| **As at 30 September 2017** | 135,625 | 99,935 | – | (4,433) | (165,515) | 65,612 | (11,688) | 53,924 |
| As at 1 April 2018 | **135,625** | **99,935** | **–** | **(2,324)** | **(168,582)** | **64,654** | **(14,157)** | **50,497** |
| **Comprehensive expense** | | | | | | | | |
| Loss for the period | **–** | **–** | **–** | **–** | **(1,399)** | **(1,399)** | **(2,588)** | **(3,987)** |
| **Other comprehensive (expense)/ income** | | | | | | | | |
| Exchange differences arising on translation of foreign operations | **–** | **–** | **–** | **(2,899)** | **–** | **(2,899)** | **1,008** | **(1,891)** |
| **Total comprehensive expense** | **–** | **–** | **–** | **(2,899)** | **(1,399)** | **(4,298)** | **(1,580)** | **(5,878)** |
| **Transaction with owners** | | | | | | | | |
| Acquisition of Shenzhen Quantum | **–** | **–** | **–** | **–** | **–** | **–** | **9,162** | **9,162** |
| **As at 30 September 2018** | **135,625** | **99,935** | **–** | **(5,223)** | **(169,981)** | **60,356** | **(6,575)** | **53,781** |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 September 2018*

### 1. GENERAL INFORMATION

Quantum Thinking Limited (the "**Company**") was incorporated in the Cayman Islands on 8 May 2000 as an exempted company with limited liability under the Companies Law of the Cayman Islands. The Company's registered office is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's principal place of business is situated at Unit 1201–5, China Resources Building, No. 26 Harbour Road, Wan Chai, Hong Kong.

The Company's shares are listed on GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The Company and its subsidiaries (collectively referred to as the "**Group**") are principally engaged in the provision of system development services and other value-added technical consultation services and hardware-related business. The Group has also expanded into the People's Republic of China (the "**PRC**") market in the areas of manufacturing of ancillary high-tech software and hardware products; developing and establishing integrated online platforms for distribution of mobile products and provision of value-added services; and setting up joint ventures with multinational companies to introduce and procure mobile application services, among other things.

In the opinion of the directors of the Company, the parent and ultimate holding company of the Company is Happy On Holdings Limited ("**Happy On**"), which is incorporated in the British Virgin Islands.

### 2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2018 (the "**Condensed Financial Report**") have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**").

The Condensed Financial Report should be read in conjunction with the annual financial statements of the Company for the year ended 31 March 2018 (the "**2018 Annual Financial Statements**"). The principal accounting policies used in the Condensed Financial Report are consistent with those adopted in the 2018 Annual Financial Statements, except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("**HKFRSs**") which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 April 2018. Details of these changes in accounting policies are set out in note 3.

The preparation of the Condensed Financial Report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Condensed Financial Report has been prepared under the historical cost convention, except for financial instruments classified as financial assets designated at fair value through profit or loss which are stated at fair values. The Condensed Financial Report is presented in Hong Kong dollars ("**HK$**") which is also the functional currency of the Company and all values are rounded to the nearest thousands ("**HK$'000**") unless otherwise stated.

## 3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES

### 3.1 New and amended HKFRSs adopted as at 1 April 2018

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, HKFRS 9 "Financial Instruments" ("**HKFRS 9**") and HKFRS 15 "Revenue from Contracts with Customers" ("**HKFRS 15**") are relevant to the Group's financial statements.

The Group has early adopted the amendments to HKFRS 9 "Prepayment Features with Negative Compensation" at the same time as the adoption of HKFRS 9 as at 1 April 2018.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 3.1(a) for HKFRS 9 and note 3.1(b) for HKFRS 15.

***(a) HKFRS 9, including the amendments to HKFRS 9 "Prepayment Features with Negative Compensation"***

HKFRS 9 replaces HKAS 39 "Financial Instruments: Recognition and Measurement" ("**HKAS 39**"). It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 April 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 April 2018. Therefore, comparative information continues to be reported under HKAS 39.

Further details of the nature and effect of the changes of the previous accounting policies and the transition approach are set out below:

*(i) Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("**FVOCI**") and at fair value through profit or loss ("**FVPL**"). These supersede HKAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to accumulated profits. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The measurement categories for all financial assets remain the same. The carrying amounts for all financial asset as at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

*(ii)* *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("**ECL**") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including bank balances and cash, pledged bank deposits and trade and other receivables).

Financial assets measured at fair value, including unlisted equity securities measured at FVPL, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls on bank balances and cash, pledged bank deposits and trade and other receivables are discounted using effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

— significant financial difficulties of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

— the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

***(iii) Transition***

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

— Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in accumulated profits as at 1 April 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- The following assessment has been made on the basis of the facts and circumstances that existed as at 1 April 2018 (the date of initial application of HKFRS 9 by the Group):

  - the determination of the business model within which a financial asset is held.

- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

*(b) HKFRS 15 "Revenue from Contracts with Customers" and related Amendments*

HKFRS 15 "Revenue from Contracts with Customers" and related Amendments replaced HKAS 18 "Revenue", HKAS 11 "Construction contracts" and related interpretation, which resulted in changes in accounting policies. The new accounting policies in relation to revenue recognition are set out below. To determine whether to recognise revenue, the Group follows a 5-step approach:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) performance obligations are satisfied

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as receipts in advance in the condensed consolidated statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its condensed consolidated statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

The directors of the Company consider that the adoption of HKFRS 15 has no material impact on the Group's financial position and results of operations and there is no significant impact on the Group recognise the revenue from contracts.

**3.2 Issued but not yet effective HKFRSs**

In the current period, the HKICPA has issued a number of new and amended HKFRSs but not yet effective. Except for the amendments to HKFRS 9 "Prepayment Features with Negative Compensation", which have been adopted at the same time as HKFRS 9, the Group has not early adopted any new or amended standards in preparing this Interim Financial Report.

The Group has the following updates to the information provided in the last annual financial statements in respect of HKFRS 16 "Leases", which may have a significant impact on the Group's consolidated financial statements.

*HKFRS 16 "Leases" ("HKFRS 16")*

As discussed in the last annual financial statements, currently the Group classifies leases into operating leases. The Group enters into some leases as the lessor and others as the lessee. HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for office and factory premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease. However, based on an initial assessment, the Group expects that the adoption of HKFRS 16 will not materially affect the Group's consolidated financial statements.

## 4. REVENUE AND SEGMENT INFORMATION

All significant transactions amongst the companies comprising the Group have been eliminated on consolidation. Revenue recognised by segments during the period is as follows:

| | **Three months ended 30 September** | | **Six months ended 30 September** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| **Revenue:** | | | | |
| Hardware | **–** | 33 | **–** | 2,048 |
| Service | | | | |
| — System development | **3,540** | 3,223 | **4,143** | 3,223 |
| — Consultancy | **–** | – | **3,374** | – |
| — Maintenance | **96** | 31 | **169** | 31 |
| — Others | **–** | 55 | **–** | 55 |
| | **3,636** | 3,309 | **7,686** | 3,309 |
| | **3,636** | 3,342 | **7,686** | 5,357 |

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make operating decisions. Executive directors are considered as the chief operating decision maker ("**CODM**").

The CODM review the Group's financial information from hardware and services perspectives. The reportable segments are classified in a manner consistent with the information reviewed by the CODM.

The CODM assess the performance of the operating segments based on a measure of reportable segment (loss)/profit. This measurement basis excludes other income and unallocated expenses.

Segment assets mainly exclude assets that are managed on a central basis. Segment liabilities mainly exclude liabilities that are managed on a central basis.

| | **Hardware Six months ended 30 September** | | **Services Six months ended 30 September** | | **Total Six months ended 30 September** | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| Reportable segment revenue: | | | | | | |
| **From external customers** | **–** | 2,048 | **7,686** | 3,309 | **7,686** | 5,357 |
| **Reportable segment (loss)/profit** | **–** | (3,687) | **1,872** | (1,980) | **1,872** | (5,667) |

| | **Hardware Three months ended 30 September** | | **Services Three months ended 30 September** | | **Total Three months ended 30 September** | |
|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| Reportable segment revenue: | | | | | | |
| **From external customers** | **–** | 33 | **3,636** | 3,309 | **3,636** | 3,342 |
| **Reportable segment (loss)/profit** | **–** | (953) | **75** | (1,756) | **75** | (2,709) |

| | **Hardware** | | **Services** | | **Total** | |
|---|---|---|---|---|---|---|
| | **30 September 2018** | 31 March 2018 | **30 September 2018** | 31 March 2018 | **30 September 2018** | 31 March 2018 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) | **(unaudited)** | (audited) | **(unaudited)** | (audited) |
| **Reportable segment assets** | **2,845** | 1,759 | **445** | 6,788 | **3,290** | 8,547 |
| **Reportable segment liabilities** | **93,255** | 101,731 | **589** | 10,185 | **93,844** | 111,916 |

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the Condensed Financial Report as follows:

| | **Three months ended 30 September** | | **Six months ended 30 September** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| Reportable segment profit/(loss) | **75** | (2,709) | **1,872** | (5,667) |
| Depreciation | **(522)** | (289) | **(784)** | (571) |
| Unallocated corporate expenses* | **(9,065)** | (1,869) | **(12,370)** | (3,561) |
| Unallocated corporate income | **7,021** | 319 | **7,489** | 2,282 |
| Loss before income tax | **(2,491)** | (4,548) | **(3,793)** | (7,517) |

* Unallocated Corporate expenses mainly include operating lease charges in respect of rented premises and headquarter expenses.

| | 30 September 2018 | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Total segment assets | **3,290** | 8,547 |
| Unallocated assets* | **167,517** | 183,526 |
| Total assets per condensed consolidated statement of financial position | **170,807** | 192,073 |
| Total segment liabilities | **93,844** | 111,916 |
| Unallocated liabilities* | **23,182** | 29,660 |
| Total liabilities per condensed consolidated statement of financial position | **117,026** | 141,576 |

* Unallocated assets mainly include property, plant and equipment, other receivables, financial assets designated at fair value through profit or loss, restricted cash and cash and cash equivalents. Unallocated liabilities mainly include certain other payables, accruals and tax payable.

## 5. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

| | **Three months ended 30 September** | | **Six months ended 30 September** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| Cost of inventories sold | **–** | 84 | **–** | 1,448 |
| Depreciation of property, plant and equipment | **522** | 289 | **784** | 571 |
| Employee benefit expense | **4,858** | 2,082 | **6,836** | 4,491 |
| Net foreign exchange (gain)/loss | **(36)** | 93 | **(145)** | 203 |
| Operating lease charges in respect of rented premises | **841** | 44 | **951** | 213 |

## 6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the six months and three months ended 30 September 2018 and 2017 as the Group had incurred losses for taxation purpose. The PRC enterprise income tax has been provided at the rate of 25% (six months and three months ended 30 September 2017: 25%) on the estimated assessable profit for the six months and three months ended 30 September 2018.

| | **Three months ended 30 September** | | **Six months ended 30 September** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| **PRC enterprise income tax** | | | | |
| Current period | **–** | 19 | **6** | 19 |
| Under provision/ (overprovision) in respect of prior years | **–** | 10 | **188** | (3) |
| Income tax expense | **–** | 29 | **194** | 16 |

Deferred tax has not been provided for the Group because the Group had no material temporary differences at the reporting date (30 September 2017: Nil).

## 7. LOSS PER SHARE

Basic loss per share for the three months and six months ended 30 September 2018 is calculated by dividing the loss attributable to owners of the Company for the period of HK$387,000 and HK$1,399,000 respectively (three months and six months ended 30 September 2017: loss of HK$2,213,000 and HK$5,355,000 respectively) by the weighted average number of 1,356,250,000 (three months and six months ended 30 September 2017: weighted average number of 1,356,250,000) ordinary shares in issue during the period.

Diluted loss per share for the three months and six months ended 30 September 2017 equals to the basic loss per share as the potential ordinary shares on exercise of warrants were not included in the calculation of diluted loss per share because they are anti-dilutive.

No adjustment has been made to the basic earnings per share presented for the three and six months ended 30 September 2018 as the Group had no potential dilutable ordinary shares in issue during the three and six months ended 30 September 2018.

## 8. DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 September 2018 (six months ended 30 September 2017: Nil).

## 9. TRADE AND OTHER RECEIVABLES

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Trade receivables *(Note a)* | **1,941** | 8,154 |
| Prepayments, deposits and other receivables | **7,827** | 38,054 |
| | **9,768** | 46,208 |

*Note a:* The credit period granted by the Group to its customers generally ranged from 0 to 120 days. As at 30 September 2018 and 31 March 2018, the ageing analysis of the Group's trade receivables (net of provision for impaired receivables) based on invoice date is as follows:

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| 0–30 days | **100** | 6,110 |
| 31–60 days | **–** | – |
| 61–90 days | **–** | – |
| 91–180 days | **–** | – |
| 181–365 days | **201** | – |
| Over 365 days | **1,640** | 2,044 |
| | **1,941** | 8,154 |

All amounts are short term and hence the carrying values of the Group's trade and other receivables are considered to be a reasonable approximation of fair values.

## 10. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Wealth management products | **50,248** | 24,365 |

As at 30 September 2018, the Group had short term investments linked wealth management products that were denominated in RMB44,100,000 (equivalent to HK$50,248,000) (At 31 March 2018: RMB19,500,000 (equivalent to HK$24,365,000)) with banks.

Interest rates of the wealth management products vary depending on the return rate of the relevant short term bonds, money market investment fund and bank deposits.

Wealth management products are carried at fair value and their dealing price is derived from net asset values of the investment funds with reference to observable quoted price of underlying investment portfolio in active markets and inputs other than quoted market price for respective wealth management products (note 13.1).

## 11. TRADE AND OTHER PAYABLES

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Trade payables *(Note a)* | **92,562** | 111,046 |
| Other payables and accruals *(Note b)* | **22,735** | 29,139 |
| Sales deposits received *(Note c)* | **1,281** | 869 |
| | **116,578** | 141,054 |

*Note a*: The ageing analysis of the Group's trade payables based on invoice date is as follows:

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| 0–30 days | **–** | 4,225 |
| 31–60 days | **90** | – |
| 61–90 days | **–** | – |
| 91–180 days | **498** | – |
| 181–365 days | **–** | – |
| Over 365 days | **91,974** | 106,821 |
| | **92,562** | 111,046 |

*Note b*: Included in the above balances as of 30 September 2018 is the amount of HK$194,000 (31 March 2018: HK$194,000) due to Mr. Chan Foo Wing, the ultimate beneficial owner of the Company. The amount due is unsecured, interest-free and repayable on demand.

*Note c*: As at 30 September 2018, sales deposits of HK$1,281,000 (At 31 March 2018: HK$869,000) was received from customers of which the transaction had not yet completed.

The carrying values of the Group's trade and other payables are considered to be a reasonable approximation of fair values.

## 12. SHARE CAPITAL

| | **Authorised Ordinary shares of HK$0.10 each** | |
|---|---|---|
| | **Number of Shares** *(in thousands)* | ***HK$'000*** **(unaudited)** |
| As at 31 March 2018 and 30 September 2018 | **2,000,000** | **200,000** |

| | Issued and fully paid Ordinary shares of HK$0.10 each | |
|---|---|---|
| | **Number of Shares** *(in thousands)* | ***HK$'000*** **(unaudited)** |
| As at 1 April 2017, 31 March 2018 and 30 September 2018 | **1,356,250** | **135,625** |

*Note:* 30,000,000 warrants issued on 4 June 2012 and 60,000,000 warrants issued on 26 July 2012 have initial subscription prices of HK$0.185 per share and HK$0.141 per share respectively for one ordinary share of the Company exercisable for a period of five years. Up to 26 July 2017, 90,000,000 warrants were expired and the warrant holders had not exercised any of the subscription rights attached to the warrants. As at 30 September 2018, there is no outstanding warrants issued by the Company.

## 13. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

### 13.1 Financial assets and liabilities measured at fair value

The following table presents financial assets and liabilities measured at fair value in the condensed consolidated statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the condensed consolidated statement of financial position are grouped into the fair value hierarchy as follows:

| | **Level 2** | |
|---|---|---|
| | **30 September 2018** ***HK$'000*** **(unaudited)** | 31 March 2018 *HK$'000* (audited) |
| **Assets** | | |
| Financial assets designated at fair value through profit or loss: | | |
| Wealth management products | **50,248** | 24,365 |

Wealth management products are derived from net asset values of the investment funds with reference to observable quoted price of underlying investment portfolio in active markets.

### 13.2 Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the financial instruments carried at amortised cost are not materially different from their fair values as at 30 September 2018 and 31 March 2018.

## 14. COMMITMENTS

### 14.1 Capital commitments

At the reporting date, the Group had the following capital commitments:

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Contracted but not provided for | | |
| — purchase of property, plant and equipment | **2,051** | – |

### 14.2 Operating lease commitments

At the reporting dates, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises and equipment are as follows:

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Within one year | **6,783** | 182 |
| In the second to fifth years inclusive | **6,030** | – |
| | **12,813** | 182 |

The Group leases a number of premises and equipment under operating leases. The leases run for an initial period of one to five years, with an option to renew the leases and renegotiate the terms at the expiry date.

## 15. ACQUISITION OF SUBSIDIARIES

On 4 July 2018, the Group acquired of its entire 100% equity interests in the Shenzhen Quantum Technology Information Co., Ltd.* ("**Shenzhen Quantum**") together with its subsidiary Shenzhen CITIC Cyber Security Authentication Co., Ltd.* ("**CITIC Cyber Security**") (70% equity interest held by Shenzhen Quantum) for a cash consideration of RMB3,500,000 (equivalent to approximately HK$4,139,000). CITIC Cyber Security is engaged in the technical development and software development of credible identity authentication services related products in the PRC.

The non-controlling interests recognised at the acquisition date were measured by reference to the proportionate share of the recognised amounts of the acquiree's identifiable net assets.

The following table summarises the consideration paid for the acquisitions, the aggregate amounts of provisional fair value of the assets acquired and liabilities assumed at the acquisition date.

| | 2018 |
|---|---|
| | ***HK$'000*** |
| | **(unaudited)** |
| Property, plant and equipment, net | **2,730** |
| Deposits and other receivables | **1,833** |
| Financial assets designated at air value through profit or loss | **948** |
| Cash and cash equivalents | **33,381** |
| Other payables | **(7,118)** |
| Amount due to a group subsidiary | **(11,862)** |
| Total identifiable net assets | **19,912** |
| Less: non-controlling interests | **(9,162)** |
| Identifiable net assets acquired | **10,750** |
| Cash consideration | **4,139** |
| Gain on bargain purchase | **6,611** |
| Cash paid on acquisition | **(4,139)** |
| Cash and cash equivalents acquired | **33,381** |
| Cash inflow on acquisition of subsidiaries | **29,242** |

## 16. MATERIAL RELATED PARTY TRANSACTION

The Group had no significant transactions with related parties during the reporting period (six months ended 30 September 2017: Nil).

The remuneration of key management personnel for the six months ended 30 September 2018 amounted to HK$880,000 (six months ended 30 September 2017: HK$1,027,000).

As at 30 September 2018, amount due to a substantial shareholder approximately HK$194,000. These balances are unsecured, interest-free and repayable on demand.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

For the six months ended 30 September 2018, the Company and its subsidiaries (collectively referred to as the "**Group**") recorded revenue of approximately HK$7,686,000, representing an increase of approximately 43% when compared with that of approximately HK$5,357,000 for the corresponding period last year.

Loss before income tax of the Group for the six months ended 30 September 2018 was approximately HK$3,793,000, compared with loss before income tax of approximately HK$7,517,000 for the corresponding period last year. Loss attributable to owners of the Company for the six months ended 30 September 2018 was approximately HK$1,399,000 compared with loss attributable to owners of the Company of approximately HK$5,355,000 for the corresponding period last year.

## INDUSTRY OVERVIEW

In the People's Republic of China ("**PRC**"), value of the payments processed by non-bank financial institutions through public information technology networks grew by 53.35% year on year to RMB48.29 trillion in the second quarter of 2018, according to the People's Bank of China. In the first quarter of 2018, that value surged by 93.15% year on year to RMB51.13 trillion. The growth was attributable to the non-bank financial institutions' efforts to tap the growing popularity of the internet and smartphone in the country. As at 30 June 2018, the number of internet users in the PRC increased to 802 million, representing the internet penetration rate of 57.7%, according to China Internet Network Information Center ("**CNNIC**") (中國互聯網絡信息中心). Meanwhile, the number of mobile internet users through handsets in the country grew to 788 million as at 30 June 2018 (Source: "2018年中國第三方移動支付市場分析及預測：交易規模將超150萬億元(圖)" — 中商產業研究院 ("**ASKCI Consulting Co., Ltd**"), dated 11 October 2018). In particular, mobile payment in the PRC has been the main driving force behind the growth in the transaction value of the third-party comprehensive payment. The total transaction value of the country's third-party mobile payment grew rapidly from about RMB1.3 trillion in 2013 to about RMB109 trillion in 2017, according to a research report titled "2018中國第三方支付行業專題分析" by a PRC-based market research firm, Analysys.

## BUSINESS REVIEW

For the six months ended 30 September 2018 (the "**Reporting Period**"), the Group pressed on with its strategy for constructing an ecosystem of online/offline digital payments in which comprehensive, online shopping platforms are connected to digital payment systems for public utilities with a technology for unified communications. It continued to cooperate with companies engaging in various types of businesses to tap China's rapidly growing market for digital and mobile payments.

The Group made progress in its mainstay business of developing systems and solutions for online/offline digital payments as it finished different phases of several projects and started a new one. It also diversified into authentication services in connection with network electronic identities by acquiring a 70% equity stake in Shenzhen CITIC Cyber Security Authentication Co., Ltd. ("**CITIC Cyber Security**"). The acquisition will bolster the Group's technological capability to develop business in other fields that require authentication services in connection with network electronic identities and also fit in with its strategy for building an ecosystem of online/offline digital payments.

1. **Development and construction of unified payment system and platform, and the provision of Product Business Operation Support Systems ("PBOSS") solution of the Internet of Things ("IoT") for monitoring and managing such system and platform**

   The Company, through its wholly-owned subsidiary Guangzhou YBDS IT Co., Ltd.* (廣州韻博信息科技有限公司) ("**Guangzhou YBDS**"), undertook the construction of the fifth phase of the unified payment platform of a Shenzhen-based subsidiary of a leading telecommunications company during the Reporting Period. The system and platform enable mobile wallet users to make mobile payments such as that of phone bills and to redeem consumption points and gift cards. During the Reporting Period, 10% of the project was completed. Guangzhou YBDS also provided repair and maintenance services for such system. In addition, Guangzhou YBDS provided PBOSS, which was the solution of the IOT for monitoring and managing such system and platform, and the second phase of the work was completed during the Reporting Period.

   Guangzhou YBDS intends to replicate the unified payment system and platform and then sell them to other units and/or subsidiaries of that leading telecommunications company in 31 provinces in the PRC.

2. **Construction of an e-commerce network platform for payment and clearing, and installation of point-of-sales ("POS") terminals**

   Guangzhou YBDS and its business partner, a Shanghai-based subsidiary of a third-party payment service company, had finished the construction of an e-commerce network platform for payment and clearing, and the installation of POS terminals at more than 100 outlets of a retail chain in Beijing. The two parties also leased out the POS terminals to such outlets of the retail chain. During the Reporting Period, Guangzhou YBDS and that Shanghai-based subsidiary of a third-party payment service company extended their market coverage to the surrounding areas of Beijing. They plan to install and lease out the POS terminals at the outlets of the businesses in other service industries such as a convenience store chain.

3. **Development of software for a comprehensive payment platform of a leading property developer in the PRC**

   Shenzhen YBDS IT Co., Ltd.* (深圳市韻博信息科技有限公司) ("**Shenzhen YBDS**"), the Company's indirect, wholly-owned subsidiary, was developing software for the first phase of the construction of a comprehensive payment platform of a leading property developer in the PRC for the latter's commercial properties and e-commerce. The platform will enable the club members or users of the property developer's commercial properties to digitise consumption points, gift cards, coupons and other membership services so as to create a delightful experience of faster, smoother shopping. As at 30 September 2018, 85% of the project was completed. Shenzhen YBDS will assist that property developer in leveraging its traditional real estate business as a springboard to internet-enabled businesses. It will do so by forming an e-commerce platform on which the developer can provide comprehensive online services that can complement its offline services.

4. **Provision of technical support for and localisation of an automatic system for vending and checking tickets of an intercity railway in Shandong province**

   The Company, through its indirect subsidiary, Hua Strong Network Science and Technology Limited Company* (華天網絡科技有限公司), was cooperating with a software development and system integration company in providing technical support for and localising an automatic system for vending and checking tickets of an intercity railway in Shandong province, the PRC. Approximately 50% of the project had been completed during the Reporting Period.

## PROSPECT

The transaction value of the third-party mobile payment in the PRC is projected by ASKCI Consulting Co., Ltd. to grow by approximately 68.0% to approximately RMB171.5 trillion in 2018 on the back of the growing popularity of the smartphone and payment through two-dimensional barcode. The predicted growth will also be fostered by the increasing number of consumers who switch over from personal computers to mobile devices. To capitalise on the situation, the Group will continue to cooperate with companies engaging in various types of businesses in building an ecosystem of online/offline digital payments.

For instance, the Company, through Guangzhou YBDS, will continue to cooperate with a third-party payment service company in developing a system and software that enable a leading property developer to diversify into e-commerce through its comprehensive, online shopping platform with a built-in payment system. Such platform and system will enable the property developer to implement an online-to-offline business model. Guangzhou YBDS will fully utilise its capability of developing internet-enabled systems and platforms for finance and payment as well as its capability of big data processing and cloud computing. The objective of the project is to enhance the users' experience of ordering a comprehensive range of services and products on that property developer's online platform at the commercial and residential properties that it has built. During the Reporting Period, 85% of the first phase of the comprehensive, online shopping platform with a built-in payment system was completed. Guangzhou YBDS is now negotiating with that property developer about the second phase of the project.

As part of its strategy for development, the Group has also been developing digital systems that enable citizens to pay for public utilities. It has undertaken the construction of a smart traffic platform in Urumqi, Xinjiang that comprises systems for a traffic control centre, the comprehensive monitoring of the traffic, traffic signal control and communication network. In that project, the Group also provides technical support for the security of such systems. The smart traffic platform has potential for enabling digital payment, and the Group will explore such a possibility. The Group plans to replicate the smart traffic platform and sell it to other provinces in the PRC.

In May 2018, Shenzhen YBDS entered into an agreement with a leading information system integration and services firm. Under the agreement, Shenzhen YBDS implements a mobile client technology, which is an application that runs on mobile devices to enable a company to promote its products and services through such devices on a leading telecommunications company's instant messaging and social media platform. Shenzhen YBDS will also provide technical support for that application.

To enter the business of providing authentication services in connection with network electronic identities, the Company, through an indirect wholly-owned subsidiary, acquired Shenzhen Quantum Technology Information Co., Ltd.* (深圳市量子科技訊息有限公司) ("**Shenzhen Quantum**"), which held a 70% equity stake in CITIC Cyber Security on 4 July 2018. The acquisition will enable the Group to develop business in other fields that require authentication services in connection with network electronic identities and also fit in with its business strategy for constructing an ecosystem of online/offline digital payments. For the details of the transaction, please refer to "Acquisition of 100% interests in Shenzhen Quantum" in this announcement and the announcement of the Company dated 12 October 2018.

The Group will keep its eye open for opportunities to further its development.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

To ensure that the Company is financially stable with sufficient financial resources to continue the development of its proposed projects, the Company had on 5 August 2013, raised net proceeds of approximately HK$100 million through a subscription (the "**Subscription**"). Immediately after the completion of the Subscription, Happy On held 987,888,771 shares of the Company, representing approximately 72.83% of the total issued share capital of the Company.

As stipulated in the circular of the Company dated 11 July 2013, such proceeds were to be applied in the following manner:

(i) approximately HK$30,000,000 will be used to pay up the remaining registered capital of Guangzhou YBDS and Beijing YBDS IT Co., Ltd.* (北京韻博港信息科技有限公司) ("**Beijing YBDS**");

(ii) approximately HK$50,000,000 will be used as further investment for contribution towards the total investment amounts of Guangzhou YBDS and Beijing YBDS; and

(iii) the remaining balance as general working capital of the Company.

The Company had previously applied approximately HK$9,400,000 (or approximately RMB7,350,000) and approximately HK$5,500,000 (or approximately RMB4,330,000) of the proceeds to pay up the remaining initial registered capital of RMB20,000,000 and increased registered capital of RMB20,000,000 of Guangzhou YBDS, respectively. During the year ended 31 March 2015, the Company had applied approximately HK$19,785,000 (or approximately RMB15,670,000) of the proceeds to pay up the outstanding remaining increased registered capital of Guangzhou YBDS.

At the time of the Subscription, only 20% of the registered capital or RMB4 million of Beijing YBDS has been paid up with the remaining 80% or RMB16 million due to be paid on or before 18 December 2014. The Company had intended to apply to the Bureau of Foreign Trade and Economic Cooperation of Beijing Municipality (北京市對外貿易經濟合作局) to increase the registered capital of Beijing YBDS from RMB20 million to RMB40 million and its total investment from RMB40 million to RMB80 million. A sum of approximately HK$45.5 million from the proceeds of the Subscription was earmarked for paying up the initial registered capital and increased registered capital of Beijing YBDS (the "**Capital Increase**"). The intent of the Capital Increase was to enable the Group's subsidiaries to meet the minimum capital threshold requirement when submitting bids for proposed projects offered by the relevant telecommunications service providers in the PRC.

Given the Company has acquired China Mobile Payment on 23 December 2014, a holding company that owns a subsidiary with the aforesaid threshold requirement for bids submission, this corporate action is no longer deemed to be necessary. The Company has already commenced the process of deregistration of Beijing YBDS. De-registration has entered into the final stage and is pending for the approval of PRC authority.

Moreover, the Company intends to apply the aforesaid earmarked proceeds of approximately HK$45.5 million for new potential projects and for general working capital purposes.

As at 30 September 2018, the shareholders' funds of the Group amounted to approximately HK$60,356,000. Current assets of approximately HK$164,567,000 were mainly comprised of cash and cash equivalents of approximately HK$66,110,000, and trade and other receivables of approximately HK$9,768,000. Current liabilities of approximately HK$117,026,000 were mainly comprised of trade and other payables of approximately HK$116,578,000. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30 September 2018, the Group did not have any borrowings or long-term debt. The liquidity ratio of the Group, represented by a ratio of current assets over current liabilities, was 1.43 (As at 31 March 2018: 1.34), reflecting the adequacy of financial resources.

## PROVISION OF FINANCIAL ASSISTANCE AND ADVANCE TO AN ENTITY

The Group has entered into two loan agreements as lender on 1 July 2017 (the "**1st Loan Agreement**") and 24 April 2018 (the "**2nd Loan Agreement**", together with the 1st Loan Agreement, the "**Loan Agreements**"), respectively, amongst others, the details of the Loan Agreements which each of them constituted discloseable transactions for the Company under Chapter 19 of the GEM Listing Rules are as follows:

On 1 July 2017, an indirect non wholly-owned subsidiary of the Company ("**Subsidiary A**"), as lender, entered into the 1st Loan Agreement with, Shenzhen Quantum, as borrower, and an independent third party ("**Company A**"), as paying agent of Subsidiary A, in relation to a loan of RMB16,944,500 for a term of 21 months (from 1 July 2017 to 31 March 2019) at an annual interest rate of 1% (the "**1st Loan**"). Shenzhen Quantum shall repay the 1st Loan in full in one lump sum together with the interest accrued thereon upon due date. As at the date of this announcement, the outstanding principal under the 1st Loan is RMB16,944,500.

On 24 April 2018, an indirect wholly-owned subsidiary of the Company ("**Subsidiary B**"), as lender, entered into the 2nd Loan Agreement with Shenzhen Quantum, as borrower, and an independent third party holding the entire issued share capital of Shenzhen Quantum before the Acquisition (to be defined thereafter), as chargor (the "**Chargor**"), in relation to a loan of RMB3,500,000 for a term of 1 month (from 24 April 2018 to 23 May 2018) at an annual interest rate of 4.36% secured by the share charge dated 24 April 2018 executed by the Chargor and Subsidiary B (the "**2nd Loan**", together with the 1st Loan, the "**Loans**")), pursuant to which the Chargor charged in favour of Subsidiary B over her equity interest in Shenzhen Quantum (representing its entire issued share capital). Shenzhen Quantum failed to repay the 2nd Loan upon expiry. For the further details of the 2nd Loan, please refer to "Acquisition of 100% interests in Shenzhen Quantum" in this announcement and the announcement of the Company dated 12 October 2018.

The Loan Agreements also constituted advance to an entity under Rules 17.15 and 17.16 of the GEM Listing Rules. For details of the Loan Agreements, please refer to the announcement of the Company dated 12 October 2018.

## ACQUISITION OF 100% INTERESTS IN SHENZHEN QUANTUM

On 23 May 2018, Subsidiary B, Shenzhen Quantum and the Chargor entered into a supplemental agreement to the 2nd Loan Agreement, pursuant to which the Chargor agreed to transfer the entire equity interest in Shenzhen Quantum to Subsidiary B for a consideration of RMB3,500,000 in the event that Shenzhen Quantum fails to perform its obligations under the 2nd Loan Agreement upon the expiry of the 2nd Loan. Shenzhen Quantum failed to repay the 2nd Loan upon expiry, and therefore Subsidiary B effected the acquisition which was completed on 4 July 2018 (the "**Acquisition**"). For details of the Acquisition, please refer to the announcement of the Company dated 12 October 2018.

Shenzhen Quantum is a company established in the PRC in June 2017 which focuses on investment in the development of software and the platform of services. It holds 70% of the equity interest in CITIC Cyber Security. CITIC Cyber Security is a joint venture company established in the PRC where CITIC Technology, a subsidiary of CITIC Group Corporation, is its shareholder. CITIC Cyber Security focuses on technical development and software development of credible identity authentication services related products in the PRC.

Provision of system integration services and other value-added technical consultation services and hardware-related business are core businesses of the Group. As mentioned above, the Company had been exploring opportunities to participate in the business of provision of authentication services in connection with network electronic identities, where Shenzhen Quantum (through CITIC Cyber Security) engages in such business area.

## SIGNIFICANT INVESTMENTS

As at 30 September 2018, the Group held financial assets at fair value through profit or loss of RMB44,100,000 (equivalent to approximately HK$50,248,000) (31 March 2018: RMB19,500,000 (equivalent to approximately HK$24,365,000)).

It recorded a total revenue of approximately HK$656,000 during the period, mainly attributable to the dividend income received from the investment portfolio.

The financial assets are investment fund which was invested in various types of bonds issued by the interbank and exchange markets, as well as capital lending, reverse repurchase, bank deposits, brokerage beneficiary certificates, trust plans, asset management plans etc. that financial assets meet the requirements of the regulatory authority.

## EXPOSURE TO EXCHANGE RATE FLUCTUATIONS

Most of the transactions of the Group are denominated in Hong Kong Dollar ("**HKD**") and Renminbi ("**RMB**"). The Group adopts a conservative treasury policy with most of the bank deposits being kept in HKD, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30 September 2018, the Group had no foreign exchange contracts, interests or currency swaps or other financial derivatives for hedging purposes.

## OPERATING LEASE COMMITMENTS

As at 30 September 2018, the Group had operating lease commitments of approximately HK$12,813,000.

## CAPITAL COMMITMENTS

As at 30 September 2018, the Group's contracted capital commitments of approximately HK$2,051,000 which was primarily related to the capital expenditures in respect of acquisition of plant and equipment.

## CONTINGENT LIABILITIES

As at 30 September 2018, the Group had no material contingent liabilities.

## CHARGES ON THE GROUP'S ASSETS

As at 30 September 2018, the Group had no charges on the Group's assets.

## SEGMENT INFORMATION

The analysis of the principal activities of the operations of the Group is set out in note 4 to the Condensed Financial Report.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2018, the Group had 71 employees (2017: 50 employees). The total remuneration paid to employees, including Directors, for the six months ended 30 September 2018 was approximately HK$5,539,000 (2017: HK$3,826,000). Remuneration is determined by reference to market terms and the performance, qualification and experience of each individual employee. Annual year-end double pay is paid based on each individual employee's performance as recognition of and reward for their contributions. Other benefits accruing to the employees include contributions made to statutory mandatory provident fund scheme and a group medical scheme. We also subsidise our employees for pursuing further studies in related fields.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 September 2018, (i) Mr. Wang Xiaoqi is interested in 382,000 ordinary shares of the Company, representing approximately 0.028% of the total number of ordinary shares of the Company; (ii) Mr. Ho Yeung is interested in 18,083,500 ordinary shares of the Company, representing approximately 1.333% of the total number of ordinary shares of the Company. Saved as disclosed above, none of the other Directors or their respective associates and the chief executive of the Company had any interests or short positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES OR UNDERLYING SHARES OF THE COMPANY

As at 30 September 2018, so far as the Directors are aware of and having made due enquires, the following persons (not being a Director or chief executive of the Company) had, or were deemed to have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

| Name of shareholder | Capacity | Number of issued ordinary shares held *(Note 2)* | Approximate percentage of issued share capital as at 30 September 2018 *(Note 3)* |
|---|---|---|---|
| Happy On *(Note 1)* | Beneficial owner | 987,888,771 (L) | 72.83% |
| Mr. Chan Foo Wing ("**Mr. Chan**") *(Note 1)* | Interest in a controlled corporation | 987,888,771 (L) | 72.83% |

*Notes:*

1. As Mr. Chan is the ultimate beneficial owner and the sole director of Happy On, by virtue of the SFO, Mr. Chan is deemed to be interested in the 987,888,771 shares held by Happy On.

2. "L" means long positions in the shares.

3. Based on 1,356,250,000 shares of the Company in issue as at 30 September 2018.

Save as disclosed above, as at 30 September 2018, so far as the Directors are aware of and having made due enquiries, there were no other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and/or were directly or indirectly interested in 5% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the six months ended 30 September 2018 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

A share option scheme was adopted on 1 August 2011 by the shareholders of the Company under which the Directors may, at their discretion, grant options to themselves and any employees of the Group entitling them to subscribe for shares representing up to a maximum of 10 per cent of the shares in the Company in issue as at the date of approval of the share option scheme. The purpose of the share option scheme is to enable the Company to grant options to participants as incentives and rewards for their contribution to the Company or its subsidiaries.

No options were granted under the share option scheme since its adoption by the Company or outstanding, lapsed, cancelled or exercised at any time during the six months ended 30 September 2018.

## PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities during the six months ended 30 September 2018.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the date of this announcement, none of the Directors, or the initial management shareholders or the substantial shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competed with or might compete with any business of the Group and had or might have any other conflicts of interest with the Group.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 September 2018.

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "**Code**") as set out in Appendix 15 to the GEM Listing Rules. The Company has complied with the code provisions set out in the Code throughout the six months ended 30 September 2018 except for the deviations from code provisions A.1.8 and A.2.1 of the Code as explained as follows:

**Code Provision A.1.8**

Code provision A.1.8 stipulates that the Company should arrange appropriate insurance cover in respect of legal action against its directors.

During the Period, the Board considered that under the current situations of close management of the Group and business scale, the possibility of actual litigation against the Directors is very low. The Company will consider reviewing various insurance cover proposals and will make such an arrangement as appropriate.

**Code Provision A.2.1**

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated.

The executive Directors, namely, Mr. Wang Xiaoqi and Mr. Ho Yeung are focused on evaluating new potential business and investment opportunities and formulating and implementing business strategies to enhance the revenue and growth potential of the Company. Hence, a new chairman and chief executive officer will not be appointed until suitable candidates have been identified for such purpose.

**Code Provision C.2**

The Board has conducted a review of its risk management and internal control systems under Code Provision C.2 of Appendix 15 of the GEM Listing Rule.

The Board has engaged independent consultants to execute the internal audit and risk management functions. The Board reviews risk management and internal control systems on an annual basis and when necessary.

A review of the effectiveness of the risk management and internal control systems has been conducted and the Company considers them effective and adequate during the Period.

However, the announcements in relation to the Loans and the Acquisition were not timely published. For details of the Loans and the Acquisition, please refer to "Provision of financial assistance and advance to an entity" and "Acquisition of 100% interests in Shenzhen Quantum" in this announcement and the announcement of the Company dated 12 October 2018. The Company will review and revise its internal control policies and procedures in order to prevent the occurrence of similar non-compliance of the GEM Listing Rules in the future.

In 2018, the Company has followed up on those recommendations made by Zhonghui Anda Risk Services Limited as part of its comprehensive review on the internal controls of the Group. As such, the Group's internal supervision and risk prevention measures continue to improve.

## AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established in May 2000, and the Company had adopted a revised specific terms of reference as of 11 November 2016 in accordance with Rules 5.28 to 5.33 of the GEM Listing Rules. Currently, the Audit Committee comprised Mr. Tse Yee Hin, Tony, Mr. Lau Chor Ki and Mr. Wong Kin Kee, all of whom are independent non-executive Directors. Mr. Tse Yee Hin, Tony is the current chairman of the Audit Committee. The primary duties of the Audit Committee are to review the Group's audit findings, accounting policies and standards, changes of accounting rules (if any), compliance to the GEM Listing Rules, internal and audit control, and cash flow forecast.

The unaudited consolidated results of the Group for the six months ended 30 September 2018 have been reviewed by the Audit Committee.

By order of the Board
**Quantum Thinking Limited**
**Wang Xiaoqi**
*Director*

Hong Kong, 14 November 2018

*As at the date of this announcement, the executive directors of the Company are Mr. Wang Xiaoqi and Mr. Ho Yeung; and the independent non-executive directors of the Company are Mr. Lau Chor Ki, Mr. Tse Yee Hin, Tony and Mr. Wong Kin Kee.*

*This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for at least 7 days from the date of its posting and on the Company's website at http://www.8050hk.com.*

* *For identification purpose only*