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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 2023

INTERIM RESULTS

The board of directors (the “**Directors**”, each a “**Director**”) (the “**Board**”) of Quali-Smart Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) announces the unaudited condensed consolidated interim results of the Group for the six months ended 30 September 2023 (the “**Current Period**”) together with comparative figures for the corresponding period in 2022 (the “**Previous Period**”).

FINANCIAL HIGHLIGHTS

Revenue

The Group’s revenue for the Current Period was approximately HK\$127.1 million for which the Toy Division and the Financial Services Division contributed approximately HK\$120.6 million and HK\$6.6 million respectively, representing a decrease of approximately HK\$108.6 million or 46.1% as compared to the Group’s revenue of approximately HK\$235.7 million for the Previous Period.

Decrease in the Group’s revenue for the Current Period of approximately HK\$108.6 million was mainly attributable to the decrease in revenue from the Toy Division of approximately HK\$110.0 million whereas offsetting by an increase in revenue of the Financial Services Division of approximately HK\$1.4 million, representing a decrease of approximately 47.7% and an increase of approximately 28.2%, respectively, on a period-on-period basis.

Decrease in revenue of the Toy Division was mainly attributable to the decrease in orders placed by certain major customers.

* For identification purpose only

Revenue for the Financial Services Division for the Current Period was approximately HK\$6.6 million comparing to that of HK\$5.1 million in the Previous Period, representing an increase of about 28.2% over the Previous Period.

Gross margin for the Group increased from 11.7% in the Previous Period to approximately 16.0% in the Current Period. The Toy Division reported an increase in gross margin from approximately 9.7% for the Previous Period to approximately 11.4% for the Current Period. The improvement for the Toy Division was mainly due to the continuous effective cost control measures adopted during the Current Period. Meanwhile, the Financial Services Division also contributed to the margin increase with the increase in revenue on investment advisory fee during the Current Period. Nevertheless, the gross profit of the Group for the Current Period decreased by approximately HK\$7.1 million to approximately HK\$20.3 million from approximately HK\$27.5 million for the Previous Period because of the decrease in revenue of the Toy Division for the Current Period.

Net loss of the Group amounts approximately HK\$9.9 million for the Current Period, representing a decrease of about HK\$6.7 million on a period-on-period basis. The decrease in loss for the Current Period was mainly attributable to (i) an increase in gross profit of the Financial Services Division of approximately HK\$1.4 million for the Current Period; (ii) a decrease in selling expenses of approximately HK\$3.5 million for the Current Period; (iii) a decrease in administrative expenses for the Current Period attributable to the absence of provision of expected credit loss of a client for the Financial Service Division of approximately HK\$2.0 million; (iv) a decrease in operating leases expenses of about HK\$1.3 million; (v) a decrease in staff cost of approximately HK\$2.6 million for the Current Period; (vi) a decrease in finance costs of approximately HK\$3.5 million for the Current Period attributable to the absence of the bank borrowing interest for the Toy Division; (vii) a decrease in the effective interest of the convertible note issued by the Company by approximately HK\$2.9 million for the Current Period; and (viii) a decrease in income tax expense of approximately HK\$0.9 million for the Current Period.

Meanwhile, the above changes were partially offset by (i) a decrease in gross profit of approximately HK\$8.5 million attributable to the decrease in revenue of the Toy Division for the Current Period; and (ii) a decrease in other income, gains and losses of approximately HK\$1.3 million mainly due to the absence of subsidies from the Employment Support Scheme for the Current Period.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended	
		30 September	
		2023	2022
		<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Notes</i>		(Unaudited)	(Unaudited)
REVENUE	5	127,149	235,704
Cost of sales		<u>(106,806)</u>	<u>(208,248)</u>
Gross profit		20,343	27,456
Other income, gains and losses	5	541	1,826
Selling expenses		(2,062)	(5,606)
Administrative expenses		(25,661)	(32,763)
Finance costs	6	<u>(3,098)</u>	<u>(6,596)</u>
LOSS BEFORE INCOME TAX EXPENSE	7	(9,937)	(15,683)
Income tax expense	8	<u>10</u>	<u>(904)</u>
LOSS AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>(9,927)</u>	<u>(16,587)</u>
Loss and total comprehensive income attributable to:			
Owners of the Company		(10,091)	(16,587)
Non-controlling interests		<u>164</u>	<u>–</u>
		<u>(9,927)</u>	<u>(16,587)</u>
Loss per share			
— Basic and diluted (<i>HK cents</i>)	9	<u>(0.67)</u>	<u>(1.13)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 September 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10</i>	6,001	7,790
Right-of-use assets		3,861	6,091
Goodwill		45,508	45,508
Intangible assets	<i>11</i>	585	568
Statutory deposits for financial service business		370	383
Deposits		200	376
		<hr/>	<hr/>
Total non-current assets		56,525	60,716
CURRENT ASSETS			
Inventories	<i>12</i>	19,952	51,727
Trade receivables	<i>13</i>	57,117	38,354
Prepayments, deposits and other receivables		2,366	2,660
Cash and bank balances held on behalf of customers		29,587	28,471
Cash and cash equivalents		67,662	61,948
		<hr/>	<hr/>
Total current assets		176,684	183,160
CURRENT LIABILITIES			
Trade payables	<i>14</i>	52,209	54,764
Accruals and other payables		6,915	4,169
Lease liabilities	<i>19</i>	2,288	4,505
Convertible note		–	39,036
		<hr/>	<hr/>
Total current liabilities		61,412	102,474
NET CURRENT ASSETS		<hr/> 115,272 <hr/>	<hr/> 80,686 <hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 171,797 <hr/>	<hr/> 141,402 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

		At 30 September 2023	At 31 March 2023
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Audited)
NON-CURRENT LIABILITIES			
Promissory note		31,000	–
Convertible notes		5,660	–
Amount due to non-controlling interest		13,041	13,041
Lease liabilities	19	1,719	1,719
Deferred tax liabilities		178	178
		51,598	14,938
Total non-current liabilities		51,598	14,938
NET ASSETS		120,199	126,464
EQUITY			
Share capital	16	287	287
Reserves		119,673	126,102
		119,960	126,389
Non-controlling interests		239	75
		120,199	126,464
TOTAL EQUITY		120,199	126,464

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i> <i>(note 1)</i>	Property revaluation reserve <i>HK\$'000</i> <i>(note 2)</i>	Other reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i> <i>(note 3)</i>	Convertible notes equity reserve <i>HK\$'000</i> <i>(note 4)</i>	Retained earning <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interest <i>HK\$'000</i>	Total <i>HK\$'000</i>
Unaudited for										
the six months ended										
30 September 2023										
At 1 April 2023 (audited)	287	418,769	-	1,000	28,314	17,825	(339,806)	126,389	75	126,464
Redemption of convertible note	-	-	-	-	-	(17,825)	17,825	-	-	-
New convertible note	-	-	-	-	-	3,662	-	3,662	-	3,662
Lapse of share option <i>(note 17)</i>	-	-	-	-	(813)	-	813	-	-	-
Total comprehensive income for the period	-	-	-	-	-	-	(10,091)	(10,091)	164	(9,927)
At 30 September 2023 (unaudited)	287	418,769	-	1,000	27,501	3,662	(331,259)	119,960	239	120,199

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

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

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

	Six months ended	
	30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	<u>9,970</u>	<u>30,322</u>
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	252	19
Acquisition of a subsidiary	–	11,968
Purchase of property, plant and equipment	(462)	(4,442)
Purchase of intangible assets	(17)	–
Decrease in pledged bank deposits	–	<u>31,097</u>
Net cash (used)/generated from investing activities	<u>(227)</u>	<u>38,642</u>
 CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank borrowings	–	47,054
Repayment of bank borrowings	–	(63,061)
Repayment of lease liabilities	(2,217)	(3,373)
Interest paid on bank and other borrowings	(1,658)	(3,021)
Interest paid on lease liabilities	(154)	(121)
Redemption of promissory note	–	(13,000)
Proceeds from issue of Convertibles note	9,000	–
Proceeds from issue of Promissory note	31,000	–
Redemption of Convertibles note	(40,000)	–
Net cash (used in) financing activities	<u>(4,029)</u>	<u>(35,522)</u>
Net increase in cash and cash equivalents	5,714	33,442
Cash and cash equivalents at 1 April	<u>61,948</u>	<u>29,383</u>
Cash and cash equivalents at 30 September	<u><u>67,662</u></u>	<u><u>62,825</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2023 ("**Interim Condensed Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. Interim Condensed Financial Statements have not been audited by the Company's auditor but have been reviewed by the Audit Committee.

The Interim Condensed Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 March 2023 (the "**2023 Annual Financial Statements**").

The Interim Condensed Financial Statements were approved and authorised for issue by the Board on 29 November 2023.

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 2023. 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:

- HKAS 1 (Amendments), Classification of Liabilities as Current or Non-current
- HKAS 1 (Revised) (Amendments), Disclosure of Accounting Policies
- HKFRS Practice Statement 2 (Amendment), Making Materiality Judgements
- HKAS 8 (Amendments), Accounting Policies, Change in Accounting Estimates and Errors
- HKAS 12 (Amendments), Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- HK (IFRIC) — Int 5, Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

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

4. OPERATING SEGMENT INFORMATION

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

- Manufacturing and sales of toys; and
- Securities brokerage, underwriting, securities margin financing, investment and corporate finance advisory 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 2023 (Unaudited)			
External revenue	<u>120,583</u>	<u>6,566</u>	<u>127,149</u>
Segment profit/(loss)	<u>3,645</u>	<u>(8,887)</u>	<u>(5,242)</u>
Central administrative cost*			<u>(4,695)</u>
Loss before income tax expense			<u><u>(9,937)</u></u>
For the period ended			
30 September 2022 (Unaudited)			
External revenue	<u>230,581</u>	<u>5,123</u>	<u>235,704</u>
Segment profit/(loss)	<u>5,108</u>	<u>(13,130)</u>	<u>(8,022)</u>
Central administrative cost*			<u>(7,661)</u>
Loss before income tax expense			<u><u>(15,683)</u></u>

* Central administrative cost for the six months ended 30 September 2023 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 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Manufacturing and sales of toys	73,550	89,030
Financial Services	<u>91,139</u>	<u>92,899</u>
Total segment assets	164,689	181,929
Unallocated	<u>68,520</u>	<u>61,947</u>
Consolidated assets	<u><u>233,209</u></u>	<u><u>243,876</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 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Manufacturing and sales of toys	19,363	20,190
Financial Services	<u>55,596</u>	<u>56,530</u>
Total segment liabilities	74,959	76,720
Unallocated	<u>38,051</u>	<u>40,692</u>
Consolidated liabilities	<u><u>113,010</u></u>	<u><u>117,412</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 2023 (Unaudited)

	Manufacturing and sales of toys HK\$'000	Financial Services HK\$'000	Total HK\$'000
Additions to property, plant and equipment	371	91	462
Depreciation of property, plant and equipment	(2,209)	(42)	(2,251)
Depreciation of right-of-use assets	–	(2,230)	(2,230)
	<u>–</u>	<u>(2,230)</u>	<u>(2,230)</u>

For the period ended 30 September 2022 (Unaudited)

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

(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.

4. OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information (Continued)

(i) Revenue from external customers

	Six months ended	
	30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
North America (note 1)	74,814	139,144
Western Europe		
— United Kingdom	6,298	11,816
— France	4,900	10,908
— Netherlands	407	6,179
— Others (note 2)	8,216	20,508
South America	3,707	5,458
Mainland China, the PRC and Taiwan	4,391	2,421
Australia, New Zealand and Pacific Islands	2,545	7,717
Central America, Caribbean and Mexico	9,306	19,039
Others (note 3)	12,565	12,514
	<u>127,149</u>	<u>235,704</u>
Total	<u>127,149</u>	<u>235,704</u>

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.

(ii) Specified non-current assets

	At	At
	30 September	31 March
	2023	2023
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Mainland China, the PRC	5,778	7,598
Hong Kong	50,177	52,359
	<u>55,955</u>	<u>59,957</u>
Total	<u>55,955</u>	<u>59,957</u>

4. OPERATING SEGMENT INFORMATION (Continued)

(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	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Customer A	96,655	187,975
Customer B*	19,595	–

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

5. REVENUE, OTHER INCOME, GAINS AND LOSSES

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

	Six months ended 30 September	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue		
Manufacturing and sales of toys	120,583	230,581
Financial Services	6,566	5,123
	<u>127,149</u>	<u>235,704</u>
Other income, gains and (losses)		
Moulding income	(97)	208
Rental income	–	150
Interest income from bank deposits	252	19
Exchange gains, net	49	204
Gain on acquisition of a subsidiary	–	81
Others (including other income from the Employment Support Scheme)	337	1,164
	<u>541</u>	<u>1,826</u>

6. FINANCE COSTS

	Six months ended	
	30 September	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings:		
— Bank borrowings	–	678
— Promissory note	1,160	1,139
— Convertible note	1,784	4,658
	<u>2,944</u>	<u>6,475</u>
Interest on lease liabilities	154	121
	<u>3,098</u>	<u>6,596</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	
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	106,806	208,248
Depreciation of property, plant and equipment	2,251	1,764
Depreciation on right-of-use assets	2,230	3,237
Employee benefits expenses (including Directors' remuneration):	16,276	18,940
Wages and salaries	15,351	17,922
Contribution to defined contribution plan (<i>note</i>)	445	442
Other benefits	480	576
	<u>782</u>	<u>997</u>
Auditor's remuneration	782	997
Expense relating to short-term leases	678	1,128

7. LOSS BEFORE INCOME TAX EXPENSE (Continued)

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 2022: 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 2022: 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 2023, the aggregate amount of the Group’s contributions to the aforementioned pension schemes was approximately HK\$445,000 (2022: HK\$442,000). As at 30 September 2023, the Group was not entitled to any forfeited contributions to reduce its contributions (2022: 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 2023 and 2022 respectively. 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	
	2023	2022
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Current — Hong Kong Profits Tax		
Charge for the period	–	904
Over-provision in prior years	<u>(10)</u>	<u>–</u>
Income tax expense for the period	<u><u>(10)</u></u>	<u><u>904</u></u>

8. INCOME TAX EXPENSE (Continued)

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	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss before income tax expense	<u>(9,941)</u>	<u>(15,685)</u>
Tax at the applicable tax rate of 16.5% (2022: 16.5%)	(1,640)	(2,588)
Tax effect of revenue not taxable for tax purposes	–	(137)
Tax effect of expenses not deductible for tax purposes	803	278
Tax effect of tax loss not recognised	837	3,516
Tax concession	–	(165)
Over-provision in respect of prior years	<u>(10)</u>	<u>–</u>
Income tax expense	<u>(10)</u>	<u>904</u>

No deferred tax asset has been recognised in respect of the unused tax losses of HK\$239,095,000 (For the six months ended 30 September 2022: HK\$235,361,000) 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	
	2023	2022
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period attributable to the owners of the Company	<u>(9,927)</u>	<u>(16,587)</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 2023 of approximately HK\$9,927,000 (2022: HK\$16,587,000), and of the weighted average number of 1,474,232,000 (2022: 1,474,232,000) ordinary shares in issue during the period.

9. LOSS PER SHARE (Continued)

Diluted loss per share is the same as basic loss per share for the period ended 30 September 2023 (2022: 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 2023 (2022: anti-dilutive).

There is no dilutive effect on the convertible notes as they are anti-dilutive (2022: anti-dilutive).

10. PROPERTY, PLANT AND EQUIPMENT

HK\$'000

Net book value:

At 1 April 2023 (Audited)	7,790
Additions	462
Depreciation	<u>(2,251)</u>
At 30 September 2023 (Unaudited)	<u><u>6,001</u></u>

11. INTANGIBLE ASSETS

Trading rights,
trademarks
and website
HK\$'000

Net book value:

At 1 April 2023 (Audited)	568
Additions	<u>17</u>
At 30 September 2023 (Unaudited)	<u><u>585</u></u>

12. INVENTORIES

	At 30 September 2023 HK\$'000 (Unaudited)	At 31 March 2023 HK\$'000 (Audited)
Raw materials	12,721	21,377
Finished goods	<u>7,231</u>	<u>30,350</u>
	<u><u>19,952</u></u>	<u><u>51,727</u></u>

13. TRADE RECEIVABLES

	At 30 September 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Trade receivables from financial services segment	9,920	9,949
Trade receivables from manufacturing and sales of toys segment	<u>47,197</u>	<u>28,405</u>
	<u><u>57,117</u></u>	<u><u>38,354</u></u>
 Trade receivables from financial services segment		
	At 30 September 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Accounts receivable arising from the ordinary course of business of securities brokerage:		
— Cash clients	–	1,261
— Cleaning house	117	47
Accounts receivable arising from the ordinary course of business of provision of:		
— Placing commission	9,890	9,890
— Advisory services	<u>2,063</u>	<u>901</u>
	12,070	12,099
Less: Allowance for impairment loss	<u>(2,150)</u>	<u>(2,150)</u>
	<u><u>9,920</u></u>	<u><u>9,949</u></u>

13. TRADE RECEIVABLES (Continued)

Trade receivables from financial services segment (Continued)

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 2023 HK\$'000 (Unaudited)	At 31 March 2023 HK\$'000 (Audited)
Neither past due nor impaired	319	667
Less than 1 month past due	1,561	1,176
Over 3 months past due	8,040	8,106
	<u>9,920</u>	<u>9,949</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.

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.

As at 30 September 2023, included in the Group's trade receivables balance were debtors with aggregate carrying amount HK\$8,040,000 which was past due over 3 months and was considered as credit-impaired. ECL of HK\$2,150,000 was then recognised during the year ended 31 March 2023. For the remaining receivables related to cash clients, clearing house and issues clients, in the view of the historical settlement track records of the clients, and no significant increase in credit risk since initial recognition and the respective balance at the end of the reporting period, the Directors considered the ECL of those balances past due within 90 days was immaterial for the period ended 30 September 2023.

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

13. TRADE RECEIVABLES (Continued)

Trade receivables from financial services segment (Continued)

On 5 May 2022, a client of the Company's Financial Services Division was ordered to be wound up by the Grand Court of the Cayman Islands and the joint official liquidators of this client were appointed. On 27 July 2022, this client was also ordered to be wound up by the High Court of Hong Kong and the official receiver became the provisional liquidator. The official receiver and the provisional liquidator is still in the course of investigating into the financial position of this client, while at the same time also liaising with the joint official liquidators appointed by the Grand Court of the Cayman Islands on the affairs of this client. On 21 June 2023, an order was further made by the High Court of Hong Kong in appointing the joint and several liquidators of such client. As at 30 September 2023, the Group had a net exposure of about HK\$7.4 million of outstanding trade receivables from this client (after ECL of HK\$2.0 million recognised during the Previous Period) which accounted for about 3.2% of the total consolidated assets of the Group as at 30 September 2023 and such amount remains outstanding as of the date of this announcement. As this client has yet to provide more details of its financial position, it is currently unclear how this might affect the recoverability of the trade receivables and the Group will continue to monitor the development of the situation.

Trade receivables from manufacturing and sales of toys segment

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

	At 30 September 2023 HK\$'000 (Unaudited)	At 31 March 2023 HK\$'000 (Audited)
Current to 30 days	17,014	7,671
31 – 60 days	15,289	3,152
61 – 90 days	14,688	15,745
Over 90 days	206	1,837
	<u>47,197</u>	<u>28,405</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 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Trade payables from financial services segment	37,108	35,912
Trade payables from manufacturing and sales of toys segment	<u>15,101</u>	<u>18,852</u>
	<u><u>52,209</u></u>	<u><u>54,764</u></u>

Trade payables from financial services segment

	At 30 September 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Accounts payable arising from the ordinary course of business of securities brokerage and margin financing:		
— Cash clients	29,703	28,547
— Brokers and clearing house	7,388	7,365
— Corporate finance	<u>17</u>	<u>—</u>
	<u><u>37,108</u></u>	<u><u>35,912</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 2023, included in trade payable was an amount of approximately HK\$29,703,000 (31 March 2023: HK\$28,547,000) 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 2023 <i>HK\$'000</i> (Unaudited)	At 31 March 2023 <i>HK\$'000</i> (Audited)
Current to 30 days	13,622	16,495
31 to 60 days	628	2,068
61 to 90 days	844	11
More than 90 days but less than 365 days	7	278
	<u>15,101</u>	<u>18,852</u>

15. INTEREST-BEARING BANK BORROWINGS

As at 30 September 2023, these was nil interest-bearing bank borrowings outstanding (31 March 2023: nil). The Group's banking facilities and its interest-bearing bank borrowings are secured by legal charges over certain properties in Hong Kong owned by Mr. Lau Ho Ming, Peter ("Mr. Lau"), Madam Li Man Yee, Stella ("Madam Li") and their associates and personal guarantee by Mr. Lau.

16. SHARE CAPITAL

	Number of Shares	HK\$'000
Authorised:		
Ordinary Shares of US\$0.000025 each at 1 April 2023 (Audited) and at 30 September 2023 (Unaudited)	<u>6,000,000,000</u>	<u>1,168</u>
Issued and fully paid:		
Ordinary Shares of US\$0.000025 each at 1 April 2023 (Audited) and at 30 September 2023 (Unaudited)	<u>1,474,232,000</u>	<u>287</u>

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 2023 Annual Financial Statements. For the six months ended 30 September 2023 and 2022 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 2023:

	Exercise Price (note 1)	Number of share options		Balance as at 30 September 2023	Date of grant of share options	Exercisable periods of share options
		Balance as at 1 April 2023 (note 1)	Lapsed during the period			
Executive Directors						
— Mr. Lau (note 2)	HK\$1.02	4,000,000	—	4,000,000	3 July 2015	3 July 2015 to 2 July 2025
— 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
— Hau Yiu Por	HK\$1.02	5,400,000	—	5,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	6,800,000	—	6,800,000	24 March 2016	24 March 2016 to 23 March 2026

17. EQUITY SETTLED SHARE-BASED PAYMENTS (Continued)

	Exercise Price (note 1)	Number of share options			Date of grant of share options	Exercisable periods of share options
		Balance as at 1 April 2023 (note 1)	Lapsed during the period	Balance as at 30 September 2023		
Non-executive Director						
— Madam Li (note 3)	HK\$1.02	1,400,000	—	1,400,000	3 July 2015	3 July 2015 to 2 July 2025
Independent Non-executive Directors						
— Leung Po Wing, Bowen Joseph	HK\$1.02	1,400,000	—	1,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	1,400,000	—	1,400,000	24 March 2016	24 March 2016 to 23 March 2026
— Chan Siu Wing, Raymond	HK\$1.02	1,400,000	—	1,400,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	1,400,000	—	1,400,000	24 March 2016	24 March 2016 to 23 March 2026
— Wong Wah On, Edward	HK\$0.748	1,400,000	—	1,400,000	24 March 2016	24 March 2016 to 23 March 2026
Employees						
	HK\$1.02	3,200,000	(1,400,000)	1,800,000	3 July 2015	3 July 2015 to 2 July 2025
	HK\$0.748	15,056,000	(400,000)	14,656,000	24 March 2016	24 March 2016 to 23 March 2026
Total		<u>68,603,800</u>	<u>(1,800,000)</u>	<u>66,803,800</u>		

Notes:

1. Upon the share-division which became effective on 13 January 2016, pro-rata adjustments have been made to the exercise price and the number of outstanding share-options accordingly.
2. Mr. Lau retired as Chairman and executive Director on 9 November 2023.
3. Madam Li retired as Non-executive Director on 9 November 2023.

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

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

The exercise price of the share options granted on 3 July 2015 remained outstanding as at 30 September 2022 was HK\$1.02 and the weighted average remaining contractual life was 2.0 years (2022: 2.8 years). The exercise price of the share options granted on 24 March 2016 remained outstanding as at 30 September 2023 was HK\$0.748 and the weighted average remaining contractual life was 2.7 years (2022: 3.5 years). Of the total number of share options outstanding as at 30 September 2023 and 31 March 2023, no share options had not vested and were not exercisable.

18. DIVIDENDS

At the Board meeting held on 29 November 2023, the Directors did not propose an interim dividend for the Current Period (Previous Period: Nil).

BUSINESS REVIEW

For the Current Period, our Group's core business remains as the manufacture of toys operated under our wholly-owned subsidiary, Qualiman Industrial Co. Limited (the "**Toy Division**") and the provision of financial services operated under Crosby Asia Limited (the "**Financial Services Division**") respectively.

In this Current Period, the market was disappointed with the lackluster economic uplift expected from both the end of COVID lock down in Mainland China and the re-opening of Hong Kong/Mainland border. On 8 January 2023, the National Health Commission of China officially cancelled the centralized quarantine requirement for international arrivals in China. A month later, in February 2023, the border between Hong Kong and Mainland China was also re-opened. Many people in Hong Kong as well as in Mainland China, anticipated a swift economic rebound. However, to the surprise of many, the overall economic conditions in both Mainland China and Hong Kong deteriorated in various aspects over the Current Period. Compared to a weak base in 2022, Hong Kong's economic growth did show a rebound this year, which currently projected to reach an overall 3.8% in 2023 compared to 2022. Over a longer period, Hong Kong's economic growth averaged only a -1.3% per year between 2019 to 2022, compared to +2.7% per year between 2012 to 2018 (pre-COVID period). Hong Kong's economic rebound is perceived to remain challenging, as the Hong Kong Government recorded a new contraction of real GDP in quarter-on-quarter terms in Q2 2023. Activities seemed to be constrained by the tightening in monetary conditions, geopolitical conflicts and China's sluggish post-COVID growth rebound. Both exports and imports of goods in Hong Kong declined significantly in the first eight months of 2023 (by -12% and -10% year-on-year, respectively in USD value).

The prolonged war in Ukraine and the rising interest rates led by the United States of America (the "**United States**" or "**U.S.**") continued to adversely affect global businesses, economies, and financial markets. The extended geopolitical tensions between China and U.S., have forced many U.S. companies to reassess their longer term risks over the past year. Consequently, many U.S. companies have further expanded their reliance on OEM suppliers in more different regions than those in the past. The prolonged Ukraine and Russia war has resulted in elevated oil prices and other commodities prices. As a result, prices on petroleum byproducts, such as plastic raw materials, have significantly increased. These macro environments, extensively highlighted in 2023 annual report of the Company, have continued to adversely affect our businesses throughout the Current Period.

The Toy Division

During the Current Period, economies including but not limited to the U.S., Europe, PRC and other major countries still struggled much for restoring their economic performance to the pre-COVID condition. However, with the U.S. Federal continued to maintain the interest rates rising policy, the mainland China's weak economic environment and the ongoing inflationary pressure around the world still imposed enormous pressure on the general end consumers by carving out significantly on non-necessities spending including toys products, in turn affecting our major customers continued to reduce their inventory level by increasingly operated under the just-in-time orders placing strategies. Though there was steady resumption of the global economic activities following the peak phase of the Pandemic, the lower than expected rebounding extent of economic growth in general still force the business of the Toy Division facing tougher challenge during the Current Period comparing to the Previous Period. Moreover, our major customers continued to diversify their reliance on OEM suppliers in regions other than those in the past during the Current Period and hence our sales order received by the Toy Division was substantially decreased. Thus, the revenue of the Toy Division decreased by approximately HK\$110.0 million or 47.7% compared to the Previous Period.

The Financial Services Division

During the Current Period, the Hang Seng Index experienced a further 12% drop, falling from 20,400 level at the beginning of April 2023 to 17,809 at the end of September 2023. At 17,809 level, the Hang Seng Index was trading at around 8.8 times 2023 projected Price/Earnings multiples, compared to the S&P 500 Index which is trading at nearly 20 times Price/Earnings multiples during the same period. Market activity remained subdued throughout the Current Period, with a daily average volume of HK\$110 billion, compared to a daily average volume of about HK\$113 billion over the same period in 2022. The MSCI China Index is likely to end 2023 at a third straight year of losses that will mark the longest losing streak in over two decades. This bearish sentiment reflects the state of the economies in both Hong Kong and China, along with various factors such as China risks (e.g. LGFV, property stocks overhang, demographics, dependency ratio, regulatory driven market causing unexpected volatility, geopolitical isolation, etc.). Out of the 80 Hang Seng Index constituent stocks, 57 are Mainland Chinese companies (i.e. over 70%). These companies have an aggregate weighting of around 68% on the Hang Seng Index, making it more representative of the Mainland than Hong Kong or International. Since the start of the flood of property developers credit defaults in 2021, the numbers of defaulting companies, as well as their respective sizes have been growing. Defaults have further extended to non-property related companies. As highlighted in

our 2023 Annual Report, the whole corporate high yield debt markets, both on the primary and secondary sides, have come to a standstill in the last 2 years. The four biggest Chinese lenders, including Industrial & Commercial Bank of China Ltd., have continued to be priced lower, currently trading at an average of about 0.36 of their book value in Hong Kong after a sector index weakened to a 12-year low.

These factors have contributed to the worst extended bear markets in the last 3 decades for both the corporate high yield bond/credit market as well as the equities market in Hong Kong. At the current levels where the benchmark indices have been trading at (approximately 8x forward Price/Earnings Multiples), and with the lack of liquidity highlighted by the low averaged daily volume on the Hong Kong Stock Exchange, the equities primary/IPO market on the Hong Kong Stock Exchange in the Current Period has been the lowest in 24 years, since 1999. Only HK\$13.4 billion was raised in aggregate this year from 42 IPOs as of the end of September 2023, representing a 61% decrease in value compared to 2022, and placing Hong Kong eighth globally in terms of fund raising. Prior to COVID, Hong Kong consistently ranked within the top 3 for equities fund raising. The number of IPOs listed on the Hong Kong Stock Exchange went from 168 full year in 2019 to 154 in 2020, and down to 98 in 2021, 90 in 2022, and 42 at the end of September 2023.

The bonds origination and placing business, the equities IPO and placing business, as well as the equities brokerage business in the Current Period have largely been subdued, in line with the overall state of the markets as previously mentioned. All of the IPO projects in the pipeline were postponed mainly due to valuation concerns by the respective companies amidst the exceptionally low valuations of the benchmark stocks. While we continued to work on several fund raising and underwriting projects in the pipeline, no underwriting fee revenue was recorded for the Current Period due to the aforementioned reasons.

On the corporate finance side, financial advisory fees mainly from providing financial advisory and independent financial advisory services to corporations recorded gross revenues of HK\$2.7 million for the Current Period.

The investment advisory and investment management business improved over the Current Period as a result of the recovery of the U.S. market this year. On the whole, the NASDAQ Composite Index recovered 26% this year from 10,466 (close of 29 December 2022) to 13,219 (close of 29 September 2023). On an average run rate basis, investment advisory and investment management revenues increased over 53%, compared to half year 2022.

The overall revenues for the Financial Services Division increased just over approximately 28.2% for the Current Period compared to the Previous Period, amounting to approximately HK\$6.5 million for the Current Period comparing to approximately HK\$5.1 million for the Previous Period. Such improvements were attributable to the pleasant performance of the investment advisory, investment management businesses and the newly added corporate finance business.

FINANCIAL REVIEW

Revenue

The Group's revenue for the Current Period was approximately HK\$127.1 million for which the Toy Division and the Financial Services Division contributed approximately HK\$120.6 million and HK\$6.6 million respectively, representing a decrease of approximately HK\$108.6 million or 46.1% as compared to the Group's revenue of approximately HK\$235.7 million for the Previous Period.

The decrease in the Group's revenue for the Current Period of approximately HK\$108.6 million was mainly attributable to the decrease in revenue from the Toy Division of approximately HK\$110.0 million whereas an increase in revenue of the Financial Services Division of approximately HK\$1.4 million, representing a decrease of approximately 47.7% and an increase of approximately 28.2%, respectively, on a period-on-period basis.

The decrease in revenue of the Toy Division was mainly attributable to the decrease in orders placed by certain major customers from markets located in North America by approximately HK\$64.3 million, Western Europe by approximately HK\$29.6 million, and Central America, Caribbean and Mexico of approximately HK\$9.7 million compared with the Previous Period.

Revenue for the Financial Services Division for the Current Period was approximately HK\$6.6 million comparing to that of HK\$5.1 million in the Previous Period, representing an increase of about 28.2% over the Previous Period. Such increase was mainly attributable to an increase in revenue on investment advisory fee of approximately HK\$0.7 million, asset management fee of approximately HK\$0.3 million and corporate finance advisory fee of approximately HK\$0.5 million during the Current Period. Despite the aforesaid, such increase was partially offset by a decrease in brokerage commission of approximately HK\$0.2 million.

Gross Margin and Gross Profit

The Group's gross margin increased from 11.7% in the Previous Period to approximately 16.0% in the Current Period, with the Toy Division reported an increase in gross margin from approximately 9.7% for the Previous Period to approximately 11.4% for the Current Period. The improvement in the gross margin for the Toy Division was mainly due to the continuous effective cost control measures adopted during the Current Period. Meanwhile, the Financial Services Division also contributed to the increase with the increase in revenue on investment advisory fee during the Current Period. Nevertheless, the gross profit of the Group for the Current Period decreased by approximately HK\$7.1 million to approximately HK\$20.3 million from HK\$27.5 million for the Previous Period because of the decrease in revenue of the Toy Division for the Current Period.

Selling Expenses

Selling expenses for the Toy Division mainly consisted of transportation fees and declaration fees. During the Current Period, selling expenses for the Toy Division decreased by approximately HK\$3.5 million or 63.2% from approximately HK\$5.6 million for the Previous Period to approximately HK\$2.1 million for the Current Period. Such decrease was mainly due to decrease in sales orders for the Current Period as explained above.

Administrative Expenses

Administrative expenses mainly consisted of salaries to employees, depreciation on right-of-use assets, depreciation on property, plant and equipment, and other administrative expenses. Administrative expenses decreased by approximately HK\$7.1 million or 21.7% from approximately HK\$32.8 million for the Previous Period to approximately HK\$25.7 million for the Current Period as a result of the absence of provision for expected credit loss for a client of the Financial Services Division of approximately HK\$2 million for the Previous Period; a decrease in expenses related to staff cost to approximately HK\$16.3 million for the Current Period from approximately HK\$18.9 million for the Previous Period, representing a decrease of approximately HK\$2.6 million or 14.1% on a period-on-period basis; a decrease in operating leases expenses of about HK\$1.3 million for office rental of the Toy Division and the Financial Service Division; and a decrease in lease amortisation expenses by approximately HK\$0.4 million from approximately HK\$2.4 million for the Previous Period to approximately HK\$2.2 million for the Current Period.

Other Income, Gains and Losses

During the Current Period, other income, gain and losses resulted an overall gain of approximately HK\$0.5 million from an overall gain of approximately HK\$1.8 million for the Previous Period, representing a decrease in overall gain of approximately HK\$1.3 million or 70.4% during the Current Period. Such decrease was mainly attributable to the absence of subsidies from the Employment Support Scheme of approximately HK\$0.8 million as in the Previous Period, absence of rental income of approximately HK\$0.2 million as well as decrease in moulding income for the Toy Division by approximately HK\$0.3 million.

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 note and promissory note issued by the Company and interest on lease liabilities resulting from adoption of HKFRS 16 Leases as set out in note 6 to the financial statements. Finance costs decreased by 52.8% to approximately HK\$3.1 million for the Current Period when compared with approximately HK\$6.6 million for the Previous Period. Such decrease was primarily due to a decrease in the effective interest of the convertible note issued by the Company to approximately HK\$1.8 million for the Current Period from approximately HK\$4.7 million in the Previous Period and nil bank borrowing interest for the Current Period compared with approximately HK\$0.7 million for 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\$0.9 million for the Previous Period. Such decrease was mainly due to a decrease in taxable income generated in the Current Period as explained above.

Net Loss

The Group's net loss for the Current Period was approximately HK\$9.9 million, representing a decrease of loss of about HK\$6.7 million on a period-on-period basis. The decrease in loss for the Current Period was mainly attributable to (i) an increase in gross profit of the Financial Services Division of approximately HK\$1.4 million for the Current Period; (ii) a decrease in selling expenses of approximately HK\$3.5 million for the Current Period; (iii) a decrease in administrative expenses of approximately HK\$2.0 million for the Current Period attributable to the absence of provision of expected credit loss of a client for the Financial Service Division; (iv) a decrease in operating leases expenses of about HK\$1.3 million; (v) a decrease in staff cost of approximately HK\$2.6 million to approximately HK\$16.3 million for the Current Period from approximately HK\$18.9 million for the Previous Period; (vi) a decrease in finance costs of approximately HK\$3.5 million for the Current Period attributable to the absence of the bank borrowing interest for the Toy Division (HK\$0.7 million for the Previous Period); (vii) a decrease in the effective interest of the convertible note issued by the Company of approximately HK\$2.9 million to approximately HK\$1.8 million for the Current Period from approximately HK\$4.7 million in the Previous Period; and (viii) a decrease in income tax of approximately HK\$0.9 million for the Current Period.

Meanwhile, the above changes were partially offset by (i) a decrease in gross profit of approximately HK\$8.5 million attributable to the decrease in revenue of the Toy Division; and (ii) a decrease in other income, gains and losses of approximately HK\$1.3 million mainly due to the absence of subsidies from the Employment Support Scheme for the Current Period (HK\$0.8 million for the Previous Period).

Inventory

The inventory of the Group, comprising mainly inventory of the Toy Division, decreased by 61.4% to approximately HK\$20.0 million as at 30 September 2023 from approximately HK\$51.7 million as at 31 March 2023. 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 25.9% from 61.24 days for the year ended 31 March 2023 to 82.7 days for the Current Period. Such increase was mainly due to the decrease in sales orders during the Current Period.

Trade Receivables

Trade receivables from the Toy Division increased to approximately HK\$47.2 million as at 30 September 2023 from approximately HK\$28.4 million as at 31 March 2023, which was primarily due to the peak season of its business. 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 57.2 days for the Current Period, as compared with 44.3 days for the year ended 31 March 2023. The increase in trade receivables turnover days during the Current Period as compared to the year ended 31 March 2023 was due to the change in settlement method 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 remained on similar level as approximately HK\$9.9 million as at 30 September 2023 when compared to approximately HK\$9.9 million as at 31 March 2023.

Trade Payables

Trade payables of the Toy Division decreased to approximately HK\$15.1 million as at 30 September 2023 when compared with approximately HK\$18.9 million as at 31 March 2023, representing a decrease of approximately HK\$3.8 million or 19.9%, which was primarily due to the decrease in purchases and costs of service incurred for the Current Period.

The trade payables turnover days for the Toy Division for the Current Period, as calculated as dividing the average closing trade payables by the cost of sales for the period/year and multiplied by 182.5 days/365 days, were 29.0 days for Current Period as compared with 27.8 days for the year ended 31 March 2023.

Trade payables of 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 2023, such trade payables amounted to HK\$37.1 million, representing an increase of approximately 3.3% from approximately HK\$35.9 million as at 31 March 2023.

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 2023, cash and cash equivalents of the Group amounted to approximately HK\$67.7 million (31 March 2023: HK\$61.9 million), representing an increase in cash and cash equivalents of about HK\$5.8 million for the Current Period. There was no interest-bearing bank borrowings due as at 30 September 2023 (31 March 2023: nil). 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, slightly decreased to approximately 30.5% (31 March 2023: 30.9%) as a result of the decrease in outstanding amount of convertible notes issued by the Company, partially offset by the increase in outstanding amount of promissory notes issued by the Company. As at 30 September 2023, all bank borrowings were subject to floating interest rates. The current ratio of the Group, as calculated by total current assets over total current liabilities, was approximately 2.9 (31 March 2023: 1.8).

CONVERTIBLE NOTES

On 11 May 2020, the Company issued 6% convertible notes with a maturity of three years with principal value of HK\$40.0 million ("**2020 Convertible Notes**") to redeem the remaining HK\$80.0 million in principal value of the convertible notes issued in 2017 by itself. On 16 May 2023, the Company issued 6% convertible notes with a maturity of three years in principal amounts of HK\$9.0 million ("**2023 Convertibles Note**") and a 10.0% promissory note due 2026 in the principal amount of HK\$31.0 million (the "**Promissory Note**") to Benefit Global Limited, an independent third party, for redeeming the 2020 Convertible Notes. Net proceeds of the HK\$9.0 million was raised under the 2023 Convertible Note.

As at the date of this announcement, the net proceeds of HK\$9.0 million from the 2023 Convertible Note have been used as follows:

	<i>HK\$ millions</i>
Partial redemption of the 2020 Convertible Notes	<u>9.0</u>
TOTAL	<u><u>9.0</u></u>

CHARGE ON ASSETS

As at 30 September 2023, certain of the Group's banking facilities and its interest-bearing bank borrowings are secured by legal charges over certain properties in Hong Kong owned by Mr. Lau and Madam Li and their associates and personal guarantee by Mr. Lau.

CONTINGENT LIABILITIES

As at 30 September 2023, the Group had no contingent liabilities (31 March 2023: Nil).

CAPITAL COMMITMENTS

As at 30 September 2023, there was no capital commitment of the Group (31 March 2023: 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 2023 (31 March 2023: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

As at 30 September 2023, the Group did not have any plans to acquire or dispose 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 to manage foreign currency risk arising from fluctuation in exchange rate of the RMB against the US\$.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2023, the Group had a total of 47 employees (31 March 2023: 50). Total staff costs were approximately HK\$16.3 million for the Current Period (2022: HK\$18.9 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

Under the current backdrop our Toy Division is facing, particularly the uncertain economic condition of the western markets and the business strategies our customers keep modifying and changing especially in regional OEM selection, we will continue to review for feasible business strategies and focus to deploy our resources more efficiently as well as to continue adopting stringent cost controls in maintaining our profitability and growth.

The lack of funding and capital eliminates the ability of the Financial Services Division to diversify its businesses (e.g. businesses such as principle trading, financial products issuance and hedging, principle investments, etc.) against market downturns. The business mix and revenue drivers of the Financial Services Division are mostly brokerage, investment and financial advisory, as well as originations, which are all subject mainly to the bullishness or buoyancy of the capital markets. Under the circumstances, the growth of the financial services business is dependent on the growth of the size/asset under management (AUM) within the investment advisory and management business. The Financial Services Division will continue to look to on board more Private Wealth Bankers as well as to design more new investment management strategies to grow this business. Separately, as the rate hike cycle comes to an end, corporations will be more receptive to raising new funds through IPO and capital markets. The Financial Services Division will continue to look for and build its IPO pipeline.

INTERIM DIVIDEND

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

SUBSEQUENT EVENTS

Saved for disclosed under the heading “UPDATE ON DIRECTORS BIOGRAPHICAL DETAILS” on page 41 of this announcement, as at 30 September 2023 and up to the date of this announcement, there was no material subsequent events for the Group.

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 2023 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 2023 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 2023.

CORPORATE GOVERNANCE

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

Code C.2.1

Pursuant to the code provision under the Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. There has been no chief executive officer since the redesignation of Mr. Lau as the Executive Chairman of the Company with effect from 25 November 2013. He has ceased to act as the chief executive officer of the Group 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 Current Period and up to the date of this announcement.

SHARE OPTION SCHEME

The Company adopted a share option scheme pursuant to a resolution in writing passed by the Shareholders on 3 January 2013 (the “**Share Option Scheme**”) as incentives or rewards for eligible participants who contribute to the Group. Details of the Share Option Scheme are disclosed in note 17 to the condensed consolidated financial statements. The Share Option Scheme was valid and effective for a term of 10 years commencing on 3 January 2013 (i.e. the adoption date of the Share Option Scheme). As at 30 September 2023, there was no remaining life of the Share Option Scheme.

As at 30 September 2023, the number of shares that may be issued in respect of share options granted under the Share Option Scheme divided by the weighted average number of Shares in issue during the six months ended 30 September 2023 was approximately 4.5%.

Save as the above, there has been no share options granted, exercised, lapsed and cancelled during the six months ended 30 September 2023.

UPDATE ON DIRECTORS BIOGRAPHICAL DETAILS

Executive Directors

Mr. Lau Ho Ming, Peter

On 9 November 2023, Mr. Lau retired as the Chairman of the Board and an executive Director and ceased to be a member of the nomination committee and remuneration committee of the Board. On the same date, Mr. Lau agreed to serve as the senior advisor of the Company on matters specific to the business of the Toy Division of the Group.

Mr. Chu, Raymond

On 9 November 2023, Mr. Chu has been appointed as the Chairman of the Board and a member of the nomination committee, remuneration committee and corporate governance committee of the Board.

Mr. Poon Pak Ki, Eric

On 9 November 2023, Mr. Poon has been appointed as a member of the nomination committee and remuneration committee of the Board.

Ms. Tang Yuen Ching, Irene

Ms. Tang, aged 54, the Company Secretary of the Company, has also been appointed as an executive Director and a member of the corporate governance committee of the Board with effect from 9 November 2023.

Ms. Tang was appointed as the Company Secretary of the Company on 24 March 2015. She has extensive experience in company secretarial practices in respect of listed companies in Hong Kong and also has more than 20 years of experiences in the financial reporting and auditing field. As at date of this announcement, Ms. Tang is also as the company secretary of Apex Ace Holding Limited (stock code 6036), a company listed on the Main Board of the Stock Exchange.

Ms. Tang holds a Bachelor of Business Administration (Honours) in Accountancy from the Hong Kong Polytechnic University and is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of the Chartered Certified Accountants.

Non-executive Director

Madam Li Man Yee, Stella

On 9 November 2023, Madam retired as the non-executive Director and ceased to be a member of the corporate governance committee of the Board.

Independent Non-executive Director

Mr. Wong Wah On, Edward

On 9 November 2023, Mr. Wong has been appointed as a member of the nomination committee and remuneration committee of the Board.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2023/2024 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 2023/2024 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 2023.

By order of the Board
Quali-Smart Holdings Limited
Chu, Raymond
Chairman and Executive Director

Hong Kong, 29 November 2023

As at the date of this announcement, the Board comprises Mr. Chu, Raymond (Chairman), Mr. Poon Pak Ki, Eric, Mr. Hau Yiu Por and Ms. Tang Yuen Ching, Irene as executive Directors; and Mr. Leung Po Wing, Bowen Joseph GBS, JP, Mr. Chan Siu Wing, Raymond and Mr. Wong Wah On, Edward as independent non-executive Directors.