

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 2019

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*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 2019 together with the comparative figures for the corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three and six months ended 30 September 2019

		Three months ended 30 September		Six months ended 30 September	
		2019	2018	2019	2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
	Note	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	4	4,531	3,636	6,034	7,686
Cost of sales and services		<u>(4,201)</u>	<u>(2,987)</u>	<u>(5,619)</u>	<u>(4,800)</u>
Gross profit		330	649	415	2,886
Other income		271	7,021	923	7,489
Distribution costs		(976)	(1,742)	(2,530)	(2,565)
Administrative expenses		(8,524)	(8,419)	(17,384)	(11,603)
Finance costs		(34)	–	(133)	–
Loss before income tax	5	(8,933)	(2,491)	(18,709)	(3,793)
Income tax expense	6	(3)	–	172	(194)
Loss for the period		<u>(8,936)</u>	<u>(2,491)</u>	<u>(18,537)</u>	<u>(3,987)</u>
Other comprehensive income/(expense)					
Exchange differences arising on translation of foreign operations that will be reclassified subsequently to profit or loss		<u>14</u>	<u>(1,054)</u>	<u>220</u>	<u>(1,891)</u>
Other comprehensive income/(expense) for the period, net of tax		<u>14</u>	<u>(1,054)</u>	<u>220</u>	<u>(1,891)</u>
Total comprehensive expense for the period, net of tax		<u><u>(8,922)</u></u>	<u><u>(3,545)</u></u>	<u><u>(18,317)</u></u>	<u><u>(5,878)</u></u>

		Three months ended 30 September		Six months ended 30 September	
		2019	2018	2019	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Note</i>	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Loss for the period attributable to:					
Owners of the Company		(7,153)	(387)	(14,854)	(1,399)
Non-controlling interests		(1,783)	(2,104)	(3,683)	(2,588)
		<u>(8,936)</u>	<u>(2,491)</u>	<u>(18,537)</u>	<u>(3,987)</u>
Total comprehensive expense for the period attributable to:					
Owners of the Company		(7,780)	(1,687)	(15,782)	(4,298)
Non-controlling interests		(1,142)	(1,858)	(2,535)	(1,580)
		<u>(8,922)</u>	<u>(3,545)</u>	<u>(18,317)</u>	<u>(5,878)</u>
Loss per share attributable to the owners of the Company:					
— Basic loss per share:					
(HK cents)	7	<u>(0.53)</u>	<u>(0.03)</u>	<u>(1.10)</u>	<u>(0.10)</u>
— Diluted loss per share:					
(HK cents)	7	<u>(0.53)</u>	<u>(0.03)</u>	<u>(1.10)</u>	<u>(0.10)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

		30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
	Note		
Non-current assets			
Property, plant and equipment		14,129	5,723
Intangible assets		47	54
Prepayment of leasehold improvement		–	279
		<u>14,176</u>	<u>6,056</u>
Current assets			
Trade and other receivables	9	10,203	5,338
Financial assets designated at fair value through profit or loss	10	40,238	49,204
Time deposit with maturity over three months		3,000	–
Cash and cash equivalents		32,655	51,278
Restricted Cash		774	735
		<u>86,870</u>	<u>106,555</u>
Current liabilities			
Trade and other payables	11	89,401	87,542
Tax payable		464	494
		<u>89,865</u>	<u>88,036</u>
Net current (liabilities)/assets		<u>(2,995)</u>	<u>18,519</u>
Total assets less current liabilities		<u>11,181</u>	<u>24,575</u>
Non-current liabilities			
Long-term lease liabilities		4,923	–
Net assets		<u>6,258</u>	<u>24,575</u>
Equity			
Equity attributable to the Owners of the Company			
Share capital	12	135,625	135,625
Reserves		(110,152)	(94,370)
		<u>25,473</u>	<u>41,255</u>
Non-controlling interests		<u>(19,215)</u>	<u>(16,680)</u>
Total equity		<u>6,258</u>	<u>24,575</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

		Six months ended 30 September	
		2019	2018
		HK\$'000	HK\$'000
	Note	(unaudited)	(unaudited)
Net cash used in operating activities		(181)	(3,487)
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		(45,290)	(99,072)
Cash received from redemption of financial assets designated at fair value through profit or loss		51,443	70,697
Interest received from bank		36	114
Investment income from financial assets designated at fair value through profit or loss		622	764
Increase in prepayment of leasehold improvement		–	(1,154)
Increase in time deposits with maturity over three months		(3,000)	–
Increase in restricted cash		(86)	(87)
Purchase of property, plant and equipment		(20,675)	(811)
Net cash used in investing activities		(16,950)	(307)
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		(17,131)	(6,740)
Cash and cash equivalents at the beginning of the period		51,278	76,790
Effect on foreign exchange rate changes, on cash held		(1,492)	(3,940)
Cash and cash equivalents at the end of the period		32,655	66,110
Analysis of balances of cash and cash equivalents			
Cash and cash equivalents with an original maturity of three months or less:			
Cash at banks and in hand		17,455	66,110
Short-term time deposits in banks		15,200	–
		32,655	66,110

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2019

	Attributable to the owners of the Company						Non-controlling Interests	Total Equity
	Share Capital <i>HK\$'000</i> (unaudited)	Share premium <i>HK\$'000</i> (unaudited)	Warrant reserve <i>HK\$'000</i> (unaudited)	Translation Reserve <i>HK\$'000</i> (unaudited)	Accumulated Losses <i>HK\$'000</i> (unaudited)	Total <i>HK\$'000</i> (unaudited)		
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	<u>135,625</u>	<u>99,935</u>	<u>–</u>	<u>(5,223)</u>	<u>(169,981)</u>	<u>60,356</u>	<u>(6,575)</u>	<u>53,781</u>
As at 1 April 2019	135,625	99,935	–	(4,587)	(189,718)	41,255	(16,680)	24,575
Comprehensive expense								
Loss for the period	–	–	–	–	(14,854)	(14,854)	(3,683)	(18,537)
Other comprehensive (expense)/income								
Exchange differences arising on translation of foreign operations	–	–	–	(928)	–	(928)	1,148	220
Total comprehensive expense	–	–	–	(928)	(14,854)	(15,782)	(2,535)	(18,317)
As at 30 September 2019	<u>135,625</u>	<u>99,935</u>	<u>–</u>	<u>(5,515)</u>	<u>(204,572)</u>	<u>25,473</u>	<u>(19,215)</u>	<u>6,258</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2019

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 2019 (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 2019 (the “**2019 Annual Financial Statements**”). The principal accounting policies used in the Condensed Financial Report are consistent with those adopted in the 2019 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 2019. 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.

As at 30 September 2019, the Group had net current liabilities of approximately HK\$2,995,000 and incurred net loss of approximately HK\$18,537,000 during the period, indicating the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The Directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 30 September 2019 after taking into consideration of the following:

- the management is in discussion with certain potential investors with a view to secure long term financing;
- the management will consider other financing arrangements with a view to increase the Group's capitalisation/equity; and
- internal funds shall be generated from the Group's operations.

The Directors believe that, taking into account the above factors, the Group will have sufficient working capital to satisfy its present requirements for at least the next 12 months from the end of the reporting period. However, should the above financing be unavailable, the Group may be unable to continue as a going concern, in which case adjustments might have to be made to the carrying values of the Group's assets to state them at their realisable values, to provide for any further liabilities which might arise and to reclassify its non-current assets and non-current liabilities to current assets and current liabilities, respectively. The effect of these adjustments has not been reflected in these consolidated financial statements.

3. ADOPTION OF NEW AND AMENDED HKFRSS AND CHANGES IN ACCOUNTING POLICIES

3.1 New and amended HKFRSs adopted as at 1 April 2019

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 16 "Leases" ("**HKFRS 16**") is relevant to the Group's financial statements.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this Condensed Financial Report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Adoption of HKFRS 16 "Leases"

During the six months ended 30 September 2019, the Group has applied HKFRS 16 and the related consequential amendments to other HKFRSs which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 16, the Group has elected to apply the new standard retrospectively with the cumulative effect of initial application recognised at 1 April 2019. The Group elects the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets and not to perform a full review of existing leases and apply HKFRS 16 only to new contracts. Furthermore, the Group uses the practical expedient to account for leases for which the lease term ends within 12 months from the date of initial application as short-term lease.

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities under HKAS 17. Operating lease rental expenses were recognised in the consolidated statement of profit or loss and other comprehensive income over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognised the full lease liabilities in relation to leases which had previously been classified as operating leases if they meet certain criteria set out in HKFRS 16. These liabilities were subsequently measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of respective entities. The difference between the present value and the total remaining lease payments represents the cost of financing. Such finance cost will be charged to the consolidated statement of profit or loss and other comprehensive income in the period in which it is incurred using effective interest method.

At the inception of a contract that contains a lease component, as a lessee, the Group should allocate the consideration in the contract to each lease component on the basis of their relative stand-alone price. The Group, as a lessee, assessed its leases for non-lease components and separated non-lease components from lease components for certain classes of assets if the non-lease components were material.

The associated right-of-use assets were measured at the amount equal to the initial measurement of lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The right-of-use assets were recognised in the consolidated statement of financial position.

Depreciation was charged on a straight-line basis over the shorter of the asset's useful life and the lease term.

The impacts of HKFRS16 on the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 September 2019 are set out as below:

	As per HKFRS 16 HK\$'000 (Unaudited)	As per HKAS 17 HK\$'000 (Unaudited)	Impact due to change HK\$'000 (Unaudited)
Depreciation (included in administrative expenses)	(2,709)	–	(2,709)
Lease expenses (included in administrative expenses)	–	(2,109)	2,109
Finance costs	(133)	–	(133)
Loss for the period	<u>(18,537)</u>	<u>(17,804)</u>	<u>(733)</u>

The preparation of the Condensed Financial Report in conformity with HKFRSs requires management to make judgments, 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 following is a reconciliation of total operating lease commitments at 31 March 2019 to the lease liabilities recognized at 1 April 2019:

	<i>HK\$'000</i> (Unaudited)
Total operating lease commitments disclosed at 31 March 2019	9,992
Recognition exemptions:	
— Leases with remaining lease term of less than 12 months	(599)
Total leases liabilities before discounting	9,393
Discounting using incremental borrowing rate as at 1 April 2019	(329)
Total lease liabilities recognised under HKFRS 16 at 1 April 2019	9,064

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 March 2019.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impact of transition to HKFRS 16 on the Group’s condensed consolidated statement of financial position at 1 April 2019:

	Carrying amount at 31 March 2019 <i>HK\$'000</i> (audited)	Capitalisation of operating lease contracts <i>HK\$'000</i>	Carrying amount at 1 April 2019 <i>HK\$'000</i> (unaudited)
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Property, plant and equipment	5,723	9,064	14,787
Total non-current assets	6,056	9,064	15,120
Lease liabilities (current)	—	6,296	6,296
Current liabilities	88,036	6,296	94,332
Net current assets	18,519	(6,296)	12,223
Total assets less current liabilities	24,575	2,768	27,343
Lease liabilities (non-current)	—	2,768	2,768
Total non-current liabilities	—	2,768	2,768
Net assets	24,575	—	24,575

3.2 Issued but not yet effective HKFRSs

In addition to HKFRS 16 Leases, HKICPA has issued a number of new and revised HKFRSs. For those which are effective for accounting periods beginning on 1 April 2019, the adoption has no material effect on how the results and the financial position of the Group for the current or prior accounting periods have been prepared and presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

In the current period, the HKICPA has issued a number of new and amended HKFRSs but not yet effective and which have not been adopted in this Condensed Financial Report. These development include the following which may be relevant to the Group.

Amendments to HKFRS 3	Definition of a business ³
Amendments to HKAS 1 and HKAS 8	Definition of material ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ²

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

² Effective date not yet determined

³ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

3.3 Significant accounting policies

The Condensed Financial Report has been prepared in accordance with the accounting policies adopted in the Group's most recent annual financial statements for the year ended 31 March 2019, except for the effects of applying HKFRS 16.

As described in note 3.1, the Group has applied HKFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under HKAS 17 and HK(IFRIC)-Int 4.

Accounting policy applicable from 1 April 2019

The Group as a lessee

For any new contracts entered into on or after 1 April 2019, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition, the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group;
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Group has the right to direct the use of the identified asset throughout the period of use. The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of office and factory premises in which the Group is a lessee, the Group elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

Measurement and recognition of leases as a lessee

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability on the condensed consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the underlying asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any lease incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term unless the Group is reasonably certain to obtain ownership at the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicator exists.

At the lease commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable payments based on an index or rate, and amounts expected to be payable under a residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payment of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Subsequent to initial measurement, the liability will be reduced for lease payments made and increased for interest cost on the lease liability. It is remeasured to reflect any reassessment or lease modification, or if there are changes in in-substance fixed payments.

When the lease is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit or loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these leases are recognised as an expense in profit or loss on a straight-line basis over the lease term. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise small items of office equipment.

On the condensed consolidated statement of financial position, right-of-use assets have been included in property, plant and equipment, the same line as it presents the underlying assets of the same nature that it owns. The prepaid lease payments for leasehold land are presented as "Land lease prepayments".

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	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue:				
Hardware	4,011	–	4,011	–
Service				
— System development	321	3,540	1,623	4,143
— Consultancy	159	–	159	3,374
— Maintenance	40	96	241	169
	<u>520</u>	<u>3,636</u>	<u>2,023</u>	<u>7,686</u>
	<u>4,531</u>	<u>3,636</u>	<u>6,034</u>	<u>7,686</u>

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		Services		Total	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reportable segment revenue:						
From external customers	<u>4,011</u>	<u>–</u>	<u>2,023</u>	<u>7,686</u>	<u>6,034</u>	<u>7,686</u>
Reportable segment (loss)/profit	<u>(5,433)</u>	<u>–</u>	<u>(4,567)</u>	<u>1,872</u>	<u>(10,000)</u>	<u>1,872</u>

	Hardware		Services		Total	
	Three months ended		Three months ended		Three months ended	
	30 September		30 September		30 September	
	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reportable segment revenue:						
From external customers	4,011	–	520	3,636	4,531	3,636
Reportable segment (loss)/profit	(3,676)	–	(1,131)	75	(4,807)	75

	Hardware		Services		Total	
	30 September	31 March	30 September	31 March	30 September	31 March
	2019	2019	2019	2019	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(unaudited)	(audited)	(unaudited)	(audited)
Reportable segment assets	4,662	357	522	2,230	5,184	2,587
Reportable segment liabilities	60,379	59,793	1,568	–	61,947	59,793

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		Six months ended	
	30 September		30 September	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reportable segment (loss)/profit	(4,807)	75	(10,000)	1,872
Depreciation	(2,015)	(522)	(3,905)	(784)
Unallocated corporate expenses*	(2,382)	(9,065)	(5,727)	(12,370)
Unallocated corporate income	271	7,021	923	7,489
Loss before income tax	(8,933)	(2,491)	(18,709)	(3,793)

* Unallocated Corporate expenses mainly include short-term leases/operating lease charges in respect of rented premises and headquarter expenses.

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Total segment assets	5,184	2,587
Unallocated assets*	95,862	110,024
Total assets per condensed consolidated statement of financial position	101,046	112,611
Total segment liabilities	61,947	59,793
Unallocated liabilities*	32,841	28,243
Total liabilities per condensed consolidated statement of financial position	94,788	88,036

* Unallocated assets mainly include property, plant and equipment, other receivables, financial assets designated at fair value through profit or loss, restricted cash, time deposit with maturity over three months 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 2019 HK\$'000 (unaudited)		Six months ended 30 September 2019 HK\$'000 (unaudited)	
		2018 HK\$'000 (unaudited)		2018 HK\$'000 (unaudited)
Cost of inventories sold	5,619	–	5,619	–
Depreciation of property, plant and equipment	2,015	522	3,905	784
Research and development costs	2,033	–	4,631	–
Employee benefit expense	2,507	4,858	5,244	6,836
Net foreign exchange (gain)/loss	(432)	(36)	(240)	(145)
Short-term leases/ operating lease charges in respect of rented premises	180	841	436	951

6. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made for the six months and three months ended 30 September 2019 and 2018 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 2018: 25%) on the estimated assessable profit for the six months and three months ended 30 September 2019.

	Three months ended 30 September 2019 HK\$'000 (unaudited)		Six months ended 30 September 2019 HK\$'000 (unaudited)	
		2018 HK\$'000 (unaudited)		2018 HK\$'000 (unaudited)
PRC enterprise income tax				
Current period	–	–	–	6
Under provision/ (overprovision) in respect of prior years	<u>3</u>	<u>–</u>	<u>(172)</u>	<u>188</u>
Income tax expense	<u><u>3</u></u>	<u><u>–</u></u>	<u><u>(172)</u></u>	<u><u>194</u></u>

Deferred tax has not been provided for the Group because the Group had no material temporary differences at the reporting date (30 September 2018: Nil).

7. LOSS PER SHARE

Basic loss per share for the three months and six months ended 30 September 2019 is calculated by dividing the loss attributable to owners of the Company for the period of HK\$7,153,000 and HK\$14,854,000 respectively (three months and six months ended 30 September 2018: loss of HK\$387,000 and HK\$1,399,000 respectively) by the weighted average number of 1,356,250,000 (three months and six months ended 30 September 2018: weighted average number of 1,356,250,000) ordinary shares in issue during the period.

No adjustment has been made to the basic earnings per share presented for the three and six months ended 30 September 2019 and 2018 as the Group had no potential dilutable ordinary shares in issue during the three and six months ended 30 September 2019 and 2018.

8. DIVIDEND

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 September 2019 (six months ended 30 September 2018: Nil).

9. TRADE AND OTHER RECEIVABLES

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Trade receivables (<i>Note a</i>)	<u>5,137</u>	<u>287</u>
Prepayments, deposits and other receivables	<u>5,066</u>	<u>5,051</u>
	<u><u>10,203</u></u>	<u><u>5,338</u></u>

Note a: The credit period granted by the Group to its customers generally ranged from 0 to 120 days. As at 30 September 2019 and 31 March 2019, the ageing analysis of the Group's trade receivables (net of provision for impaired receivables) based on invoice date is as follows:

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
0–30 days	4,818	–
31–60 days	49	–
61–90 days	–	–
91–180 days	–	287
181–365 days	270	–
Over 365 days	–	–
	<u>5,137</u>	<u>287</u>

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 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Wealth management products	<u>40,238</u>	<u>49,204</u>

As at 30 September 2019, the Group had short term investments linked wealth management products that were denominated in RMB36,650,000 (equivalent to HK\$40,238,000) (At 31 March 2019: RMB42,080,000 (equivalent to HK\$49,204,000)) 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 time 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 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
Trade payables (<i>Note a</i>)	59,904	58,979
Other payables and accruals (<i>Note b</i>)	29,497	28,563
	<u>89,401</u>	<u>87,542</u>

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

	30 September 2019 HK\$'000 (unaudited)	31 March 2019 HK\$'000 (audited)
0–30 days	4,482	–
31–60 days	44	–
61–90 days	–	–
91–180 days	–	–
181–365 days	–	–
Over 365 days	55,378	58,979
	<u>59,904</u>	<u>58,979</u>

Note b: Included in the above balances as of 30 September 2019 is the amount of HK\$194,000 (31 March 2019: 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.

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 2019 and 30 September 2019	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 2018, 31 March 2019 and 30 September 2019	1,356,250	135,625

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	31 March
	2019	2019
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Assets		
Financial assets designated at fair value through profit or loss:		
Wealth management products	40,238	49,204

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 2019 and 31 March 2019.

14. COMMITMENTS

14.1 Short-term leases/Operating lease commitments

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

	30 September	31 March
	2019	2019
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Within one year	102	7,054
In the second to fifth years inclusive	–	2,938
	102	9,992

At 31 March 2019, 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.

	2019 HK\$’000 (unaudited)
Property, plant and equipment, net	2,730
Deposits and other receivables	1,833
Financial assets designated at fair value through profit or loss	948
Cash and cash equivalents	33,381
Other payables	(7,118)
Amount due to a group subsidiary	(11,862)
	<hr/>
Total identifiable net assets	19,912
Less: non-controlling interests	(8,285)
	<hr/>
Identifiable net assets acquired	11,627
Cash consideration	(4,139)
	<hr/>
Gain on bargain purchase	7,488
Cash paid on acquisition	(4,139)
Cash and cash equivalents acquired	33,381
	<hr/>
Cash inflow on acquisition of subsidiaries	29,242
	<hr/> <hr/>

Before the acquisition, Shenzhen Quantum has entered into an investment agreement containing certain profit guarantee arrangement with the non-controlling shareholder of CITIC Cyber Security:

- (1) In the event that the net profit attributable to the shareholders of CITIC Cyber Security (after deducting non-recurring profit and loss) for the year ending 31 December 2019, 31 December 2020 and 31 December 2021 is less than RMB800,000, RMB40,000,000 and RMB85,000,000 (the “**Guaranteed Net Profit**”), respectively, Shenzhen Quantum shall compensate CITIC Technology in accordance with the following formula:

$$\text{Compensation amount} = (\text{Guaranteed Net Profit for the year} - \text{actual net profit for the year}) \times 30\% \times 10$$

- (2) In the event that the average net profit attributable to the shareholders of CITIC Cyber Security (after deducting non-recurring profit and loss) for the 3 years ending 31 December 2021 is less than RMB40,000,000, the aggregate net profit attributable to the shareholders of CITIC Cyber Security (after deducting non-recurring profit and loss) for the 3 years ending 31 December 2021 is less than RMB120,000,000, there is material default, or serious illegal business has been undertaken by CITIC Cyber Security, CITIC Technology may request Shenzhen Quantum to acquire the equity interest in CITIC Cyber Security held by CITIC Technology in accordance with the terms and conditions of such investment agreement.

Details of the investment agreement have been set out in the Company’s announcement dated 12 October 2018. The Directors of the Company consider the fair value of the liability arising from the profit guarantee as at the acquisition date and at 30 September 2019 were insignificant by reference to a cash flow forecast prepared by the Directors.

16. MATERIAL RELATED PARTY TRANSACTION

The Group had no significant transactions with related parties during the reporting period (six months ended 30 September 2018: Nil).

The remuneration of key management personnel for the six months ended 30 September 2019 amounted to HK\$819,000 (six months ended 30 September 2018: HK\$880,000).

As at 30 September 2019, amount due to a substantial shareholder was 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 2019 (the “**Reporting Period**”), Quantum Thinking Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) recorded a revenue of approximately HK\$6,034,000, representing a decrease of approximately 21% when compared with that of approximately HK\$7,686,000 for the corresponding period in the last year.

Loss before income tax of the Group for the Reporting Period was approximately HK\$18,709,000, compared with loss before income tax of approximately HK\$3,793,000 for the corresponding period in the last year. Loss attributable to owners of the Company for the Reporting Period was approximately HK\$14,854,000 compared with loss attributable to owners of the Company of approximately HK\$1,399,000 for the corresponding period in the last year.

INDUSTRY OVERVIEW

In the third quarter of 2019, the quarterly gross domestic product growth of the People’s Republic of China (the “**PRC**” or “**China**”) hit the lowest of 6.0% since the record in March of 1992. This partly resulted from the ongoing, protracted Sino-United States trade war. China’s economic slowdown dampened investor appetite. The country’s government departments, state-owned enterprises and private businesses alike are cautious about budgeting and spending. This sentiment has also affected their spending on online/offline payment solutions and systems.

In the second quarter of 2019, the value of the payments processed by non-bank payment institutions through public information technology networks grew by 22.84% year on year to RMB59.32 trillion while the number of such payments grew by 44.52% year on year to about 177.78 billion in the PRC, according to the People’s Bank of China.

The increase was mainly driven by the rapid growth in the transaction value of the country’s third-party mobile payment, which more than offset the decline in the transaction value of the country’s third-party online payment, according to a PRC-based market research firm, Analysys.

BUSINESS REVIEW

The protracted Sino-United States trade war already caused China’s economic growth to decelerate, arousing caution among both the government and businesses about budget, including the spending on online/offline payment solutions and systems.

To mitigate the impact on its mainstay business of developing systems and solutions for online/offline digital payments, the Company explored different business opportunities to broaden the stream of income during the Reporting Period. Firstly, its wholly-owned subsidiary, Shenzhen YBDS IT Co., Ltd. (深圳市韻博信息科技有限公司) (“**Shenzhen YBDS**”) signed framework contracts to supply electrical and electronic components, namely inductors and master control chips to a Shenzhen-based company. Secondly, its 70%-held internet electronic identity authentication company, Shenzhen CITIC Cyber Security Authentication Co., Ltd. (深圳市中信網安認證有限公司) (“**CITIC Cyber Security**”), began to engage in office rental which is bundled with its information technology services and some office administration services. It leases out co-working spaces to mainly financial technology start-ups.

This was in addition to the Group’s earlier move to diversify into and expand its business of internet electronic identity authentication through the acquisition of a majority stake in CITIC Cyber Security. Such business also fits in with the Company’s mainstay business of developing systems and solutions for online/offline digital payments because internet electronic identity authentication can help prevent the leakage of personal data in online transactions and payment.

In June of 2019, CITIC Cyber Security signed an agreement with a Shenzhen branch of a PRC-based bank to jointly promote each other’s respective services, namely CITIC Cyber Security’s internet electronic identity authentication and the bank’s financial services. Under that agreement, eCitizen (“e 公民” in Chinese), which is CITIC Cyber Security’s proprietary mobile phone SIM (“**subscriber identification module**”) card-based system for electronic identity authentication, will be applied to the bank’s financial services. The system will enable its digital identity holders to safely log in, sign digitally and have their personal data protected in online transactions. In the same month, CITIC Cyber Security also reached an agreement with a Shenzhen-based certificate authority to cooperate in combining eCitizen SIM card and digital certificates and in applying the two combined technologies to such fields as electronic signature.

Meanwhile, the Company’s mainstay business of developing systems and solutions for online/offline digital payments also sought to capitalize on the trend of retrenchment by both the businesses and government departments in China. That line of business intended to use its expertise to develop and provide a platform and software for reduction of both the operating cost and electric energy consumption for a leading PRC-based telecommunications firm. It has been negotiating with the latter about the project.

1. Development and construction of unified payment system and platform, and the provision of repair and maintenance services for such system and platform

The Company's wholly-owned subsidiary Guangzhou YBDS IT Co., Ltd. (廣州韻博信息科技有限公司) ("Guangzhou YBDS") finished 90% of the construction of the fifth phase of the unified payment system and 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 those of phone bills and to redeem consumption points and gift cards. Guangzhou YBDS also undertook renewed contracts to develop a unified payment platform for that Shenzhen-based subsidiary of the leading telecommunications company and to provide repair and maintenance services for that unified payment platform for the years 2018 and 2019. During the Reporting Period, 43% of the work under the renewed contract on developing a unified payment platform was accomplished, and 29% of the work under the renewed contract on providing repair and maintenance services for that unified payment platform was completed. 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 together 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 the 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. Developing software and new functions for a system for the clearing of payment made by customers with prepaid cards at petrol filling stations

The Company's another wholly-owned subsidiary, Shenzhen YBDS, cooperated with a third-party payment service company in developing software and new functions for a system for the clearing of payment made by customers with prepaid cards at the petrol filling stations of a leading PRC-based petroleum company and for topping up such prepaid cards. The two parties also worked together to develop and construct an electronic commerce platform for the clearance of payments and to install POS terminals at the gas stations. Their work lasted from April to June of 2019.

4. Business of office rental which is bundled with information technology services and office administration services in Shenzhen

CITIC Cyber Security started a business of leasing out co-working spaces of an office building in Shenzhen to mainly financial technology start-ups. The office rental is bundled with its information technology services and some office administration services. It has leased out some co-working spaces to seven companies.

PROSPECT

The operating environment has been complicated by the ongoing trade disputes between China and the United States. The resultant slowdown in China's economic growth has compelled the government departments, state-owned enterprises and the private sector to be more cautious about their spending on online/offline payment solutions and systems. To mitigate the impact, the Group has explored ways to broaden its source of income by starting a business of supplying electrical and electronic components and by engaging in co-working space rental which is bundled with information technology services and some office administration services. In the near future, CITIC Cyber Security will lease out the co-working spaces to three more start-ups.

The Group has already earlier diversified into internet electronic identity authentication while pressing ahead with its strategy of constructing an ecosystem of online/offline digital payments. In that ecosystem, comprehensive online shopping platforms are connected to digital payment systems for public utilities with a technology for unified communications. The Group made progress in its business of internet electronic identity authentication during the Reporting Period by signing agreements respectively with a bank and a certificate authority to promote its proprietary mobile phone SIM card-based system for electronic identity authentication.

In June of 2019, the Company's 70%-held internet electronic identity authentication company, CITIC Cyber Security, signed an agreement with a Shenzhen branch of a PRC-based bank to jointly promote each other's respective services, namely CITIC Cyber Security's internet electronic identity authentication and the bank's financial services. Under that agreement, eCitizen ("e 公民" in Chinese), which is CITIC Cyber Security's proprietary mobile phone SIM card-based system for electronic identity authentication, will be applied to the bank's financial services. The system will enable its digital identity holders to safely log in, sign digitally and have their personal data protected in online transactions.

In June of 2019, CITIC Cyber Security signed an agreement with a Shenzhen-based certificate authority to cooperate in combining eCitizen SIM card and digital certificates and in applying the two combined technologies to such fields as electronic signature.

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.

In October 2019, Guangzhou YBDS won a tender for a contract to develop a unified payment platform of a Shenzhen-based subsidiary of that leading telecommunications company for years 2019 to 2021.

As the businesses and government departments are curtailing their budgets amid China's economic slowdown, the Group's principal business of developing systems and solutions for online/offline digital payments will seek to leverage its expertise to help both the public and private sectors to reduce both operating cost and electric energy consumption. For instance, Shenzhen YBDS, the Company's wholly-owned subsidiary, is negotiating with a leading PRC-based telecommunications firm on the development and provision of a platform and software for reduction of both the operating cost and electric energy consumption for the latter.

Looking ahead, the Group will explore different business opportunities to broaden the stream of income while it takes time for its business of internet electronic identity authentication to become profitable. It will also keep constructing an ecosystem of online/offline digital payments through cooperation with various types of businesses.

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 Holdings Limited ("**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 2019, the shareholders’ funds of the Group amounted to approximately HK\$25,473,000. Current assets of approximately HK\$86,870,000 were mainly comprised of cash and cash equivalents of approximately HK\$32,655,000, and trade and other receivables of approximately HK\$10,203,000. Current liabilities of approximately HK\$89,865,000 were mainly comprised of trade and other payables of approximately HK\$89,401,000. The Group expresses its gearing ratio as a percentage of bank borrowings and long-term debts over total equity. As at 30 September 2019, 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 0.97 (As at 31 March 2019: 1.21), 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 Rules (the “**GEM Listing Rules**”) Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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 Technology Information Co., Ltd. (“**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 the 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 Co., Ltd. (中信技術公司), a subsidiary of CITIC Group Corporation, is its shareholder. CITIC Cyber Security focuses on the technical development and software development of credible identity authentication services related products in the PRC.

The 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 2019, the Group held financial assets at fair value through profit or loss of RMB36,650,000 (equivalent to approximately HK\$40,238,000) (31 March 2019: RMB42,080,000 (equivalent to approximately HK\$49,204,000)).

It recorded a total revenue of approximately HK\$622,000 during the Reporting Period, mainly attributable to the dividend income received from the investment portfolio.

The financial assets are the investment funds which invests in various types of bonds issued by the interbank and exchange markets, as well as capital lending, reverse repurchase, time deposits, brokerage beneficiary certificates, trust plans, asset management plans and etc. that 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 the exposure to foreign exchange risks. As at 30 September 2019, 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 2019, the Group had operating lease commitments of approximately HK\$102,000.

CAPITAL COMMITMENTS

As at 30 September 2019, the contracted capital commitments of the Group were nil.

CONTINGENT LIABILITIES

As at 30 September 2019, the Group had no material contingent liabilities.

CHARGES ON THE GROUP’S ASSETS

As at 30 September 2019, 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 2019, the Group had 60 employees (2018: 71 employees). The total remuneration paid to employees, including Directors, for the six months ended 30 September 2019 was approximately HK\$5,244,000 (2018: HK\$5,539,000). The remuneration is determined by reference to the market terms and the performance, qualification and experience of each individual employee. The annual year-end double pay is paid based on each individual employee’s performance as a 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 2019, (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 2019, 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 2019 (Note 3)
Happy On Holdings Limited ("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:

- 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.
- "L" means long positions in the shares.
- Based on 1,356,250,000 shares of the Company in issue as at 30 September 2019.

Save as disclosed above, as at 30 September 2019, 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 Reporting Period 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 Reporting Period.

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 Reporting Period.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the date of this announcement, none of the Directors 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 enquiries, 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 Reporting Period.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions (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 Reporting Period 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 actions against its directors.

During the Reporting Period, the Board considered that under the current situations of the close management and the business scale of the Group, 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.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has conducted a review of its risk management and internal control systems under Code Provision C.2 of the Code as set out in Appendix 15 to 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 Reporting Period.

During the Reporting Period, 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 comprises 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 Reporting Period have been reviewed by the Audit Committee.

By order of the Board
Quantum Thinking Limited
Wang Xiaoqi
Director

Hong Kong, 14 November 2019

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

This announcement, for which the Directors 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, 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