Quali-Smart Holdings Limited
滉達富控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1348)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2013

FINANCIAL HIGHLIGHTS

- Revenue for the year ended 31 March 2013 was approximately HK$794.1 million, representing a decrease of 9.4% from approximately HK$876.7 million for the year ended 31 March 2012.
- Gross profit for the year ended 31 March 2013 was approximately HK$97.6 million, representing a decrease of 1.8% from approximately HK$99.4 million for the year ended 31 March 2012.
- Profit for the year ended 31 March 2013 was approximately HK$22.7 million, representing a decrease of 52.4% from approximately HK$47.7 million for the year ended 31 March 2012.
- The Board does not recommend the payment of a final dividend for the year ended 31 March 2013.

* *For identification purpose only*

ANNUAL RESULTS

The Board (the "Board") of directors (the "Directors") of Quali-Smart Holdings Limited (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 March 2013 together with the comparative figures for the preceding financial year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 March	
		2013	**2012**
	Notes	*HK$'000*	*HK$'000*
REVENUE	*6*	**794,098**	876,667
Cost of sales		**(696,458)**	(777,295)
Gross profit		**97,640**	99,372
Other income and gains	*6*	**10,383**	15,648
Selling expenses		**(20,163)**	(22,306)
Administrative expenses		**(52,384)**	(32,646)
Finance costs	*8*	**(1,985)**	(1,900)
PROFIT BEFORE INCOME TAX EXPENSE	*7*	**33,491**	58,168
Income tax expense	*9*	**(10,800)**	(10,492)
PROFIT FOR THE YEAR		**22,691**	47,676
Other comprehensive income:			
Exchange differences on translating foreign operations		**58**	780
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**22,749**	48,456
Earnings per share for profit attributable to the owners of the Company (HK Cents/share)			
Basic	*10*	**11.87**	26.49
Diluted	*10*	**N/A**	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 March	
		2013	**2012**
	Notes	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**34,659**	25,849
Prepaid land lease payments		**7,782**	7,962
Total non-current assets		**42,441**	33,811
CURRENT ASSETS			
Inventories	*11*	**153,579**	162,153
Trade receivables	*12*	**58,473**	83,829
Prepayments, deposits and other receivables		**2,834**	2,881
Derivative financial instruments	*13*	**1,014**	6,191
Amount due from a related company		**-**	7,740
Cash and cash equivalents	*14*	**80,391**	40,485
Total current assets		**296,291**	303,279
CURRENT LIABILITIES			
Trade payables	*15*	**50,969**	83,025
Receipts in advance, accruals and other payables		**32,691**	57,244
Amount due to a director		**-**	52
Interest-bearing bank borrowings	*16*	**50,937**	76,164
Loan from a director		**-**	15,000
Income tax payable		**2,396**	5,795
Total current liabilities		**136,993**	237,280
NET CURRENT ASSETS		**159,298**	65,999
TOTAL ASSETS LESS CURRENT LIABILITIES		**201,739**	99,810
Net assets		**201,739**	99,810
EQUITY			
Share capital	*17*	**187**	2,178
Reserves	*18*	**201,552**	97,632
Total equity		**201,739**	99,810

NOTES TO FINANCIAL INFORMATION

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 3 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chaiwan, Hong Kong. The ordinary shares of the Company (the "Shares") have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 23 January 2013.

2. THE REORGANISATION EXERCISE AND BASIS OF PRESENTATION

Pursuant to a reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Shares on the Main Board of the Stock Exchange ("Reorganisation"), the Company became the holding company of the companies now comprising the Group on 16 April 2012.

Details of the Reorganisation are set out in the section headed "History, Reorganisation and Group Structure" in the prospectus of the Company dated 11 January 2013 (the "Prospectus").

The Reorganisation upon completion is accounted for as reorganisation under common control using the principle of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidation financial statements as set out in this announcement for the year ended 31 March 2012 have been prepared by adopting the merger basis of accounting. The consolidated statement of comprehensive income for the year ended 31 March 2012 includes the results of all companies now comprising the Group, as if the current structure had been in existence throughout the period of 2012, or since their respective dates of acquisition or incorporation/establishment, where this is a shorter period. The consolidated statement of financial position of the Group as at 31 March 2012 and 31 March 2013 have been prepared to present the state of affairs of the Group as if the current structure had been in existence at these dates or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period.

3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of amendments to HKFRSs effective on 1st January 2012

The Group has adopted the following amendments to HKFRSs for the first time for the financial year beginning 1 January 2012:

- Amendments to HKFRS 1 "Severe Hyper Inflation and Removal of Fixed Dates for First-time Adopters"
- Amendments to HKFRS 7 "Disclosures – Transfers of Financial Assets"
- Amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets"

The adoption of these amendments has no significant impact on the Group's financial statements.

(b) New/amended HKFRSs that have been issued but not yet effective

The following new/amended HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle [2]
Amendments to HKAS 1 (Revised)	Presentation of financial statements – Presentation of items of other comprehensive income [1]
Amendments to HKAS 32	Financial instruments – Presentation – Offsetting financial assets and financial liabilities [3]
Amendments to HKFRS 7	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities [2]
HKFRS 9	Financial instruments [4]
HKFRS 10	Consolidated financial statements [2]
HKFRS 11	Joint arrangements [2]
HKFRS 12	Disclosure of interests in other entities [2]
HKFRS 13	Fair value measurements [2]
HKAS 19 (2011)	Employee benefits [4]
HKAS 27 (2011)	Separate financial statements [2]
HKAS 28 (2011)	Investments in associates and joint ventures [2]

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the potential impact of these pronouncements. The Directors so far concluded that the application of these new pronouncements will have no material impact on the Group's financial statements.

4. (a) STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with HKFRSs, which collective terms include all applicable individual HKFRSs, Hong Kong Accounting Standards (‘‘HKASs’’) and Interpretations issued by the HKICPA. The consolidated financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and applicable Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (Listing Rules”).

(b) BASIS OF COMBINATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year (if any) are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

5. 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.

(a) Reportable segments

No separate business segment information is presented as the Group has only one business segment which is the manufacture and sale of toys.

(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 and prepaid land lease payments (‘‘specified non-current assets’’). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the assets in the case of property, plant and equipment.

(i) Revenue from external customers

	Year ended 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
North America (note 1)	**415,742**	498,166
Western Europe		
- United Kingdom	**81,406**	86,197
- France	**39,191**	51,154
- Netherland	**19,896**	27,037
- Others (note 2)	**104,705**	79,532
South America	**24,565**	21,070
People's Republic of China ("PRC") and Taiwan	**32,216**	41,545
Australia, New Zealand and Pacific Islands	**23,879**	18,053
Central America, Caribbean and Mexico	**21,084**	24,750
Others (note 3)	**31,414**	29,163
Total	**794,098**	876,667

Note 1: North America includes United States of America and Canada.

Note 2: Others include Germany, Belgium, Italy, Ireland and Spain.

Note 3: Others include Africa, India, Japan, Korea, Mediterranean, Russia and Southeast Asia.

(ii) Specified non-current assets

	Year ended 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Mainland China, the PRC	**41,505**	31,921
Hong Kong	**936**	1,890
Total	**42,441**	33,811

(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:

	Year ended 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Customer A	**366,793**	448,982
Customer B	**130,494**	104,431
Customer C *	**N/A**	109,734

* The customer contributed less than 10% of the Group's revenue during the year ended 31 March 2013.

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts. An analysis of revenue, other income and gains is as follows:

	Year ended 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Revenue		
Sale of goods	**794,098**	876,667
Other income and gains		
Moulding income	**9,333**	4,124
Net (losses)/gains on derivative financial instruments	**(107)**	8,221
Interest income		
- from bank deposits	**17**	3
- from interest-bearing loan	-	140
- from other loan	-	69
Exchange gains, net	**279**	1,769
Gain on disposal of property, plant and equipment	-	60
Others	**861**	1,262
	10,383	15,648

7. PROFIT BEFORE INCOME TAX EXPENSE

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

	Year ended 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Cost of inventories sold	**696,458**	777,295
Depreciation	**8,589**	7,768
Amortisation of prepaid land lease payments	**202**	200
Employee benefits expenses (excluding Directors' remuneration):		
- Wages and salaries	**38,302**	34,685
- Pension scheme contributions	**3,766**	2,577
- Other benefits	**3,775**	3,881
	45,843	41,143
Auditor's remuneration	**855**	460
Operating lease charges in respect of land and buildings	**2,204**	1,814

8. FINANCE COSTS

	Year ended 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Interest on bank advance and other borrowings:		
- Wholly repayable within five years	**1,985**	1,900
- Not wholly repayable within five years	-	-
	1,985	1,900

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the year ended 31 March 2013, the interest on bank borrowings which contain a repayment on demand clause amounted to HK$1,985,000 (2012: HK$1,828,000).

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided on the estimated assessable profit arising in Hong Kong at the rate of 16.5% during the year (2012: 16.5%). Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

The PRC corporate income tax rate of the Group's subsidiary operating in the PRC during the year was 25% on its taxable profit (2012: 25%).

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

	Year ended 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Current - Hong Kong		
Charge for the year	**10,451**	10,114
Over provision in prior years	**-**	(30)
	10,451	10,084
Current - PRC		
Charge for the year	**349**	408
Total tax charge for the year	**10,800**	10,492

The income tax expense for the year can be reconciled to the profit before income tax expense per the consolidated statement of comprehensive income as follows:

	Year ended 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Profit before income tax expense	**33,491**	58,168
Tax at the applicable tax rate of 16.5% (2012 : 16.5%)	**5,526**	9,598
Effect of different tax rate of a subsidiary operating in other jurisdiction	**4**	(139)
Tax effect of revenue not taxable for tax purposes	**(34)**	(256)
Tax effect of expenses not deductible for tax purposes	**5,064**	979
Tax effect of temporary difference not recognised	**240**	340
Over provision in respect of prior years	**-**	(30)
Income tax expense	**10,800**	10,492

As at 31 March 2013, no deferred tax asset has been recognised in respect of the deductible temporary differences of HK$240,000 (2012: HK$340,000) as the amounts are immaterial to the Group. In addition, no deferred tax liabilities of HK$4,875,000 as at 31 March 2013 (2012: HK$3,972,000) has been recognised for withholding taxes that would be repayable on the unremitted earnings of the Group's subsidiary established in the PRC. It is because in the opinion of the Directors, it is not probable that this subsidiary will distribute its earnings accrued from 1 January 2008 to 31 March 2013 in the foreseeable future. Accordingly no deferred tax liabilities have been recognised as at 31 March 2013.

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit attributable to owners of the Company for the year ended 31 March 2013 of approximately HK$22,691,000 (2012: HK$47,676,000), and of the weighted average number of 191,178,082 (2012: 180,000,000, being the number of Shares immediately prior to the listing of the Shares on the Main Board of the Stock Exchange) Shares issued.

No diluted earnings per share are presented as the Group has no potential Shares in issue for the year (2012: Nil).

11. INVENTORIES

	At 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Raw materials	**110,279**	108,440
Work in progress	**11,570**	14,834
Finished goods	**31,730**	38,879
	153,579	162,153

12. TRADE RECEIVABLES

The credit period on sales of goods ranges from 30 to 75 days from the invoice date. An aged analysis of the trade receivables at the end of the reporting period, based on the invoice date, is as follows:

	At 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Current to 30 days	**35,837**	41,024
31 to 60 days	**9,014**	15,880
61 to 90 days	**7,043**	15,151
Over 90 days	**6,579**	11,774
	58,473	83,829

An aged analysis of the trade receivables that are not considered to be impaired is as follows:

	At 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Neither past due nor impaired	**47,438**	52,183
Less than 1 month past due	**5,826**	10,214
1 to 3 months past due	**3,484**	18,043
Over 3 months past due	**1,725**	3,389
	58,473	83,829

Receivables that were neither past due nor impaired relate to the customers for which there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

13. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments represent certain RMB/US$ foreign exchange forward contracts held by the Group, in which the contract periods were within 1 year (2012: ranged from 9 months to 2 years). The Group would sell US Dollars to the bank in exchange for Renminbi ("RMB") at the agreed forward rate.

As at 31 March 2013, the notional amount of the outstanding forward contracts were US$10.0 million (2012: US$28.6 million).

The below table reconciled the movement of the derivative financial instruments during the year.

	At 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Balance as at 1 April	**6,191**	3,563
Net (losses)/gains on derivative financial instruments during the year	**(107)**	8,221
Settlements during the year	**(5,070)**	(5,593)
Balance as at 31 March	**1,014**	6,191

14. CASH AND CASH EQUIVALENTS

	At 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Cash and cash equivalents were denominated in:		
HK$	**76,183**	29,797
RMB	**1,399**	9,169
US$	**2,809**	1,519
	80,391	40,485

RMB is not freely convertible into other currencies. Under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

15. TRADE PAYABLES

The Group normally obtains credit terms of 15 to 90 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 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Current to 30 days	**28,375**	37,318
31 to 60 days	**13,801**	22,357
61 to 90 days	**7,351**	22,240
Over 90 days	**1,442**	1,110
	50,969	83,025

16. INTEREST-BEARING BANK BORROWINGS

	At 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
Current		
Secured		
- bank overdraft	-	658
- bank loans due for repayment within one year	**50,437**	73,806
- bank loans due for repayment after one year which contain a repayment on demand clause	**500**	1,700
	50,937	76,164

The Group's banking facilities and its interest-bearing bank borrowings are secured by:

(i) the pledge of the related companies' (King Wealth International Limited, Goldrich International Limited, and Loyal Gold (Hong Kong) Limited) property, plant and equipment. The related companies are controlled by a Director, Mr. Lau Ho Ming, Peter and the non-executive chairperson, Madam Li Man Yee, Stella;

(ii) personal guarantee by one of a Director, Mr. Lau Ho Ming, Peter;

(iii) corporate guarantee by related companies, Goldrich International Limited, Goldrich International Properties Limited, Loyal Gold (Hong Kong) Limited and King Wealth International Limited. The related companies are controlled by a Director, Mr. Lau Ho Ming, Peter and the non-executive chairperson, Madam Li Man Yee, Stella;

(iv) guarantee duly issued by The Government of the Hong Kong Special Administrative Region in favour of the bank in respect of the facilities under the Special Loan Guarantee Scheme;

(v) rental assignment of property, plant and equipment owned by related companies, Goldrich International Limited and Loyal Gold (Hong Kong) Limited. The related companies are controlled by a Director, Mr. Lau Ho Ming, Peter and the non-executive chairperson, Madam Li Man Yee, Stella; and

(vi) During the year, the guarantees by the Director and related companies in notes (ii) and (iii) were replaced by the Company's corporate guarantees and cross guarantees from the Company's subsidiaries, which are Qualiman Industrial Co. Limited, Qualiman Technology & Products Co. Limited and Sunmart Company Limited. As at 31 March 2013, the Group was in the process of completing the documents for releasing securities as mentioned in notes (i) and (v) and replaced by the pledge of certain leasehold land and buildings of the Group, which were subsequently completed on 31 May 2013.

At 31 March 2013, total current and non-current bank borrowings and overdraft were scheduled to be repaid as follows:

	At 31 March	
	2013	**2012**
	HK$'000	*HK$'000*
On demand or within one year	**50,437**	74,464
More than one year, but not exceeding two years	**500**	1,200
More than two years, but not exceeding five years	-	500
	50,937	76,164

Note: The amounts due are based on the scheduled repayment dates in the loan agreements and ignore the effect of any repayment on demand clause.

Certain of the banking facilities are subject to the fulfillment of covenants relating to certain of the Group's financial position ratios, which are to maintain (i) the combined tangible net worth at not less than certain amount; and (ii) specific gearing ratio of the Group as are commonly found in lending arrangements with financial institutions. If the Group breaches the covenants, the drawn down facilities shall become repayable on demand. In addition, certain of the Group's term loan agreements contain clauses which give the lender the right at its sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations.

The Group regularly monitors its compliance with these covenants and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. As at 31 March 2013, none of the covenants relating to drawn down facilities had been breached (2012: Nil).

17. SHARE CAPITAL

Group

The Reorganisation was completed on 16 April 2012, hence, share capital as at 31 March 2012 represents the combined share capital of the companies comprising the Group. As at 31 March 2013, share capital represents the Company's issued share capital after elimination of the Company's investments in subsidiaries.

Company

The movements in the issued ordinary share capital during the year are as follows:

	Notes	2013 Number of shares	2013 HKD'000	2012 Number of shares	2012 HKD'000
Authorised:					
Ordinary Shares of US$0.0001 each					
At 1 April or date of incorporation	(a)	**500,000,000**	**389**	500,000,000	389
At 31 March		**500,000,000**	**389**	500,000,000	389
Issued and fully paid:					
Ordinary Shares of US$0.0001 each					
At 1 April or date of incorporation		**100,000,000**	**78**	1	-
Arising from the Reorganisation	(b)	-	-	99,999,999	78
Issuance of ordinary Shares in connection with the Global Offering	(c)	**60,000,000**	**47**	-	-
Share capitalisation	(d)	**80,000,000**	**62**	-	-
At 31 March		**240,000,000**	**187**	100,000,000	78

Notes:

(a) On 14 March 2012, the Company was incorporated in the Cayman Islands with an authorised capital of US$50,000 divided into 500,000,000 ordinary shares of US$0.0001 each. One subscriber Share was issued at par for cash.

(b) As part of the Reorganisation:

(i) on 23 March 2012, the Company allotted and issued 69,999,999 new Shares as nil-paid which were subsequently credited as fully paid on 16 April 2012.

(ii) On 27 March 2012, the Company allotted and issued 30,000,000 new Shares at an aggregate subscription price of HK$25,000,000 in cash.

(c) In connection with the Company's global offering completed on 23 January 2013 ("Global Offering"), the Company issued 60,000,000 Shares of US$0.0001 each at a price of HK$1.5 per Share for a total subscription price (before related fees and expenses) of HK$90,000,000. Dealings in the Shares on the Main Board of the Stock Exchange commenced on 23 January 2013.

(d) Pursuant to a resolution in writing of all shareholders of the Company (the "Shareholders") passed on 3 January 2013, 80,000,000 Shares were allotted and issued and credited as fully paid at par to the Shareholders whose names appeared on the register of members of the Company on such date in proportion to their then existing respective shareholdings by way of capitalising a sum of US$8,000 (equivalent to HK$62,000) standing to the credit of the share premium account of the Company, immediately following the completion of the Global Offering. All the Shares allotted and issued pursuant to this resolution ranked pari passu in all respects with the then existing issued Shares.

18. RESERVES

Details of the movements in the reserves of the Group during the year are set out below:

	Share premium	Capital reserve	Statutory reserve	Translation reserve	Other reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2011	-	9,271	355	3,626	-	64,902	78,154
Shares issued	24,977	-	-	-	-	-	24,977
Dividends paid	-	-	-	-	-	(53,955)	(53,955)
Profit for the year	-	-	-	-	-	47,676	47,676
Other comprehensive income:							
Exchange differences arising on translation of foreign operations	-	-	-	780	-	-	780
Total comprehensive income for the year	-	-	-	780	-	47,676	48,456
Transfer to statutory reserve	-	-	124	-	-	(124)	-
At 31 March 2012 and 1 April 2012	24,977	9,271	479	4,406	-	58,499	97,632
Reduction in share premium upon Reorganisation note 17(b)(i)	**(54)**	-	-	-	-	-	**(54)**
Issuance of ordinary shares in connection with the Global Offering note 17(c)	**89,953**	-	-	-	-	-	**89,953**
Share capitalisation note 17(d)	**(62)**	-	-	-	-	-	**(62)**
Reduction in capital upon Reorganisation	-	-	-	-	**2,100**	-	**2,100**
Share issue expenses	**(10,766)**	-	-	-	-	-	**(10,766)**
Profit for the year	-	-	-	-	-	**22,691**	**22,691**
Other comprehensive income:							
Exchange differences arising on translation of foreign operations	-	-	-	**58**	-	-	**58**
Total comprehensive income for the year	-	-	-	**58**	-	**22,691**	**22,749**
Transfer to statutory reserve	-	-	**105**	-	-	**(105)**	-
At 31 March 2013	**104,048**	**9,271**	**584**	**4,464**	**2,100**	**81,085**	**201,552**

Share premium

The share premium account of the Group represents the premium arising from the issuance of Shares at premium.

Capital reserve

Capital reserve represents the difference between issued share capital of the Company and the aggregate nominal value of the respective share capital/paid-in capital of the companies now comprising the Group. The capital reserve also resulted from the acquisition of additional interest in a subsidiary which represents the difference between fair value of the considerations given and the carrying amount of the net assets attributable to the additional interest in a subsidiary acquired from non-controlling interests.

Statutory reserve

In accordance with the Company Law of the PRC, the Company's subsidiary registered in the PRC is required to appropriate 10% of the annual statutory net profit after taxation (after offsetting any prior years' losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of the entity's registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 50% of the registered capital after such usages.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

BUSINESS REVIEW

The Group is a toy manufacturer offering services primarily on an OEM basis. The Group manufactures products for its customers according to their specifications, and the products are sold by its customers under their own brand names. Same as in previous years, the Group's key customers mainly comprise internationally reputable toy brands. Headquartered in Hong Kong, the Group has a production base which is located in Foshan, Guangdong Province, the PRC.

Aiming to provide the customers with one-stop development services, the Group offer its customers a wide spectrum of manufacturing services encompassing design, prototyping, mould making, product validation, multi-skilled manufacturing processes, general assembly and packaging. Equipped with multi-production lines and multi-disciplinary engineering experience, the Group is capable of manufacturing diversified product classes in its production operations with focus on toy products for infants aged 3 or below which require very stringent safety standards. The key manufacturing capabilities of the Group include plastics processing such as injection moulding, metal tube forming, electronic assembly such as printed circuit board assembly, sewing operation for handling different types of fabric products, decoration process such as silk-screen printing and spray coating.

During the year ended 31 March 2013, the Group expanded its customer base by bringing in a new major customer which became one of its top 5 customers for the year ended 31 March 2013. The Group will continue to look for opportunities to expand its customer base through collaboration in product development and marketing, as well as through referral by our existing customers.

FINANCIAL REVIEW

The Group's revenue for the year ended 31 March 2013 amounted to approximately HK$794.1 million, representing a decrease of 9.4% from that of last year of approximately HK$876.7 million. The decrease in revenue was mainly due to the decrease in sales orders from several existing customers which adopted a more conservative approach in placing orders with their suppliers, including the Group. This was mitigated by the introduction of a new major customer which became one of the top 5 customers of the Group by revenue.

Revenue from North America decreased from approximately HK$498.2 million to approximately HK$415.7 million for the year ended 31 March 2013 due to the more conservative approach adopted by customers from that region in placing orders, while the revenue from Western Europe remained stable at approximately HK$245.2 million for the year ended 31 March 2013 as compared to that of last year of HK$243.9 million.

Gross profit of the Group for the year ended 31 March 2013 slightly decreased by 1.8% to approximately HK$97.6 million from that of last year of approximately HK$99.4 million. The impact of the decrease in revenue was mitigated by an increase in the gross profit margin from approximately 11.3% for the year ended 31 March 2012 to 12.3% for the year ended 31 March 2013.

The Group's net profit for the year ended 31 March 2013 decreased by 52.4% from approximately HK$47.7 million to approximately HK$22.7 million which is mainly due to the one-off financial impact from the expenses and underwriting fees related to the Global Offering of 60,000,000 new Shares of approximately HK$16.1 million ("Listing Expenses") and a loss on derivative financial instruments of approximately HK$0.1 million for dealing with the RMB exchange risk arising from normal operations of the Group as compared with a gain of approximately HK$8.2 million in the previous financial year.

Selling expenses mainly consisted of transportation fees and declaration fees. Selling expenses for the year ended 31 March 2013 decreased by 9.4% from approximately HK$22.3 million to approximately HK$20.2 million, which was in line with the decrease in revenue of the Group for the year.

Administrative expenses mainly consisted of salaries to employees, rents and rates for office spaces, depreciation on fixed assets and other administrative expenses. Administrative expenses for the year under audit increased by 60.7% from approximately HK$32.6 million to approximately HK$52.4 million, which was primarily due to the one-off financial impact from the Listing Expenses of HK$16.1 million.

Other income and gains mainly consisted of moulding income, net gains/losses on financial assets, interest income and others. Other income and gains decreased by 33.3% from approximately HK$15.6 million for the year ended 31 March 2012 to approximately HK$10.4 million for the year ended 31 March 2013, which was primarily due to a loss on derivative financial instruments of approximately HK$0.1 million for dealing with the Renminbi exchange risk arising from normal operations of the Group as compared with a gain of approximately HK$8.2 million in the previous financial year and was partially offset by an increase in moulding income.

Finance costs mainly consisted of interest on the Group's interest-bearing bank borrowings and factoring arrangement from banks. Finance costs for the year ended 31 March 2013 increased by 5.3% from approximately HK$1.9 million to approximately HK$2.0 million, which was primarily due to an increase in banking facilities in the form of factoring arrangement from the banks.

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 operate. The income tax expense remained stable at approximately HK$10.8 million for the year ended 31 March 2013, as compared with that of last year of approximately HK$10.5 million. Despite the decrease in net profit, the income tax expense remained stable primarily due to the non-tax deductible nature of the Listing Expenses.

The inventory of the Group decreased by 5.3% to approximately HK$153.6 million as at 31 March 2013 from that of last year of approximately HK$162.2 million, which was primarily due to the decrease in revenue of our Group. The inventory days, as calculated by dividing the average closing inventories by the cost of sales for the year and multiplied by 365 days, increased from 69.5 days for the year ended 31 March 2012 to 82.7 days for the year ended 31 March 2013, which was due to a decrease in revenue for the year ended 31 March 2013 while inventory position of raw materials remained at similar level to cope with the anticipated sales in the upcoming peak season from June to July.

Trade receivables as at 31 March 2013 decreased from approximately HK$83.8 million to approximately HK$58.5 million, which was primarily due to decrease in revenue for the year under audit and a non-recourse factoring arrangement with some of the customers. It is the Group's policy to grant interest free credit periods ranging from 30 to 75 days, in general, to its customer from the invoice date. The Group seeks to maintain strict control over outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. The trade receivables turnover days, as calculated by dividing the average closing trade receivables by the revenue for the year and multiplied by 365 days, for the year ended 31 March 2013 was 32.7 days as compared with 29.2 days for the year ended 31 March 2012, which is in general within the credit period granted by us to the customers.

Trade payables as at 31 March 2013 decreased from approximately HK$83.0 million to approximately HK$51.0 million, which was primarily due to the decrease in revenue for the year. The trade payables turnover days, as calculated by dividing the average closing trade payables by the cost of sales for the year and multiplied by 365 days, for the year ended 31 March 2013 were 35.1 days as compared with 37.1 days for the year ended 31 March 2012. This is in line with the Group's working capital management policy in trying to shorten its cash conversion cycle to ensure cash disbursements are made after receipts from customers in general.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has adopted a prudent financial management approach toward its treasury policies and thus maintained a healthy liquidity position during the year ended 31 March 2013. 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 closely monitors 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.

During the year ended 31 March 2013, the Group mainly financed its working capital by internal resources and bank borrowings. As at 31 March 2013, cash and cash equivalents amounted to approximately HK$80.4 million (2012: approximately HK$40.5 million). The increase was mainly due to the additional capital of HK$63.1 million raised from the Global Offering with an offsetting effect from less bank borrowings drawn during the year. Accordingly, interest-bearing bank borrowings dropped to approximately HK$50.9 million as at 31 March 2013 (2012: approximately HK$76.2 million). Approximately HK$50.4 million of the total bank borrowings would be due for repayment within one year while the remaining of HK$0.5 million would be due for repayment after one year. The current ratio of the Group, as calculated by total current assets over total current liabilities, was approximately 2.2 as at 31 March 2013 (2012: approximately 1.3). As at 31 March 2013, all bank borrowings were subject to floating interest rates.

As a result of a decrease in bank borrowings and the issuance of new Shares under the Global Offering conducted during the year, the debt to equity ratio of the Group, calculated as the ratio of the closing debt balance of the year (debts are defined as payables not arising in the ordinary course of business, which includes interest-bearing bank borrowings, amount due to a Director and loan from a Director in this case) divided by the closing total equity of the year, was approximately 25.2% as at 31 March 2013 (2012: approximately 91.4%).

Charge of Assets

As at 31 March 2012 and prior to the listing of the Company on the Stock Exchange on 23 January 2013, certain of the Group's banking facilities were secured by the pledge and rental assignment of the related companies' property, plant and equipment. The related companies are controlled by a Director, Mr. Lau Ho Ming, Peter and the non-executive chairperson, Madam Li Man Yee, Stella.

Subsequent to the Listing, all securities provided by the related companies have been released and replaced by the Group's leasehold land and properties located in Hong Kong. Details of the securities for the banking facilities are stated in Note 16 to the financial information in this announcement.

Global Offering

In January 2013, the Company allotted and issued 60,000,000 new Shares at an offer price of HK$1.50 per Share pursuant to terms and conditions of the Global Offering. Net proceeds raised therefrom were approximately HK$63.1 million after deducting the Listing Expenses.

By a resolution in writing of all the Shareholder passed on 3 January 2013, 80,000,000 new Shares were allotted, issued and credited as fully paid by capitalising a sum of US$8,000 (equivalent to HK$62,000) standing to the credit of the share premium account of the Company upon completion of the Global Offering. Movements of share capital and reserves are stated in notes 17 and 18 to the financial information in this announcement.

FOREIGN CURRENCY EXPOSURES

Substantially all the transactions of the Group's subsidiaries in Hong Kong are carried out in US$ and HK$. As HK$ is linked to US$, the Group does not have material exchange rate risk on such currency. The expenses or expenditures incurred in the operations of the Group's subsidiary in the PRC were denominated in RMB, which expose the Group to foreign currency risk.

The Group had outstanding non-deliverable forward contracts with a notional amount of US$10.0 million (2012: US$28.6 million) to manage the foreign currency risk arising from fluctuation in exchange rate of the RMB against the US$. The Group implemented a foreign currency forward contract policy in relation to the foreign currency contracts during the year. The Group performed cash flow analysis, ongoing monitoring and review of the foreign currency forward contracts on a monthly basis in accordance with the Group's risk management policy. Foreign exchange exposure reports were presented to the Board for review on a quarterly basis. The foreign currency forward contract policy was also reviewed by the Board to ensure it remains consistent with the overall objectives of our Group and the current financial trends in the market.

Major terms of the foreign currency forward contracts outstanding as of 31 March 2013 are summarised as follows:-

Notional amount	Forward contract rates	Commencement date	Maturity date
2 contracts to buy RMB in total of US$5,000,000	US$1 to RMB6.3050	12 September 2011	12 September 2013
1 contract to buy RMB in total of US$5,000,000	US$1 to RMB6.4000	30 September 2011	9 October 2013

Note : No gain or loss has been realised for these contracts as at year ended 31 March 2013.

CONTINGENT LIABILITIES

As at 31 March 2013, the Group had no contingent liabilities (2012: HK$21,346,000).

OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

As at 31 March 2013, the Group had total future minimum lease payments under non-cancellable operating leases of approximately HK$4.1 million, of which approximately HK$2.2 million would fall due within one year and approximately HK$1.9 million would fall due in the second to fifth year, inclusive.

CAPITAL COMMITMENTS

As at 31 March 2013, the commitments of the Group for the acquisition of property, plant and equipment amounted to HK$634,000 (2012: HK$8,351,000) which has been contracted, but not provided for in the financial statements.

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 March 2013 (2012: HK$53,955,000).

EMPLOYEES AND REMUNERTION POLICY

As at 31 March 2013, the Group had a total of 801 employees. Total staff costs were approximately HK$50.2 million for the year ended 31 March 2013 as compared to approximately HK$44.2 million for the year ended 31 March 2012.

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 the chief executive officer of the Group. Staff employed by a subsidiary established in the PRC is also provided with pension funds, medical insurance, unemployment insurance and other relevant insurance in accordance with the prevailing regulatory requirements of the PRC.

Pursuant to the written resolution of the Shareholders on 3 January 2013, the Company has adopted a share option scheme (the "Scheme") for the purpose of rewarding eligible participants for their contribution to the Group. No share options were granted by the Company since the adoption of the Scheme.

SIGNIFICANT INVESTMENTS HELD

Except for investments in subsidiaries, the Group did not hold any significant investment in equity interest in any other company during the year ended 31 March 2013.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year ended 31 March 2013, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

USE OF NET PROCEEDS FROM GLOBAL OFFERING

In January 2013, the Company conducted the Global Offering under which the Company issued and allotted 60,000,000 Shares at an offer price of HK$1.50 per Share. Net proceeds raised were approximately HK$63.1 million after deducting underwriting fees and other expenses in connection to the Global Offering as disclosed in the Prospectus.

As at 31 March 2013, the Group has utilised HK$23.1 million of the net proceeds from the Global Offering according to the intended purposes.

PROSPECTS

The Group's key customers mainly comprise internationally reputable toy brands which mainly distribute their products in North America and Western Europe. Based on the current market situations, the Group's current production level and the on-going business relationship with the existing customers, the Directors expect the revenue of the Group would remain stable in the next financial year. With the aim of further developing the business of the Group and continuing its growth, the Group will continue to focus on further expanding its production capacity, improving the production efficiency, strengthening and expanding the customer base, and enhancing the design and product development capabilities.

PURCHASE, SALE OF REDEMPTION OF LISITED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities from 23 January 2013, the date on which the Shares listed on the Stock Exchange (the "Listing date") up to 31 March 2013.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors is committed to maintaining high standards of corporate governance and recognises the importance of incorporating elements of good corporate governance practices in the management structures and internal control procedures of the Group so as to achieve effective accountability. Prior to the listing of the shares of the Company on The Stock Exchange on 23 January 2013, the Company adopted the Corporate Governance Code set out in Appendix 14 of the Listing Rules (the "Code") as its own code of corporate governance practice on 3 January 2013. Throughout the period from 23 January 2013 to 31 March 2013 (the "CG Reporting Period"), the Company has complied with all applicable code provisions under the Code.

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 CG Reporting Period and up to the date of this announcement.

SCOPE OF WORK OF AUDITORS

The financial figures in this announcement have been agreed by the Group's auditor, BDO Limited ("Auditors"), to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2013. The work performed by Auditors in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA, and consequently no assurance has been expressed by Auditors on this announcement.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Board (the "Audit Committee") reviewed the consolidated financial statements for the year ended 31 March 2013 in conjunction with the Auditors. Based on the review and discussions with management, the Audit Committee was satisfied that the consolidated financial statements were prepared in accordance with applicable accounting standards, and fairly presented the Group's financial position and results for the year ended 31 March 2013.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL 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 2013 annual report of the Company containing all information required by the Listing Rules will be published on the above websites and dispatched to the shareholders of the Company on or about 15 July 2013.

By Order of the Board
Quali-Smart Holdings Limited
Lau Ho Ming, Peter
Executive Director
and Chief Executive Officer

Hong Kong, 21 June 2013

As at the date of this announcement, the Board comprises Mr. Lau Ho Ming, Peter (Chief Executive Officer), Mr. Poon Pak Ki, Eric and Mr. Ng Kam Seng as executive Directors; Madam Li Man Yee, Stella (Chairperson) and Mr. Tang Yu Ming, Nelson as non-executive Directors; and Mr. Leung Po Wing, Bowen Joseph GBS, JP, Mr. Chan Siu Wing, Raymond and Mr. Chu, Raymond as independent non-executive Directors.