# QUALI-SMART HOLDINGS LIMITED
# 滉達富控股有限公司*

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1348)**

## ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2014
## PROPOSED FINAL DIVIDEND
## AND
## CLOSURE OF REGISTER OF MEMBERS

**FINANCIAL HIGHLIGHTS**

- Revenue for the year ended 31 March 2014 was approximately HK$773.2 million, representing a decrease of 2.6% from approximately HK$794.1 million for the year ended 31 March 2013.

- Gross profit for the year ended 31 March 2014 was approximately HK$87.3 million, representing a decrease of 10.6% from approximately HK$97.6 million for the year ended 31 March 2013.

- Profit for the year ended 31 March 2014 was approximately HK$20.2 million, representing a decrease of 11.0% from approximately HK$22.7 million for the year ended 31 March 2013.

- The Board recommends the payment of a final dividend of HK cents 2 per Share for the year ended 31 March 2014, together with the interim dividend of HK cents 5 per Share declared and paid during the year, the total dividend for the year ended 31 March 2014 amounts to HK cents 7 per Share, representing a payout ratio of 83.2%.



* *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 financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 March 2014 together with the comparative figures for the preceding financial year in this announcement.

## DIVIDENDS

The Board recommends the payment of a final dividend of HK cents 2 per share (2013: Nil) for the year ended 31 March 2014. The proposed final dividend will be payable on or about Thursday, 11 September 2014, subject to approval of the Company’s shareholders (the “Shareholders”) at the forthcoming annual general meeting to be held on Monday, 25 August 2014 (“2014 AGM”), to the Shareholders whose names appear on the register of members of the Company (the Register of Members”) on Wednesday, 3 September 2014.

## CLOSURE OF REGISTER OF MEMBERS

1. Book closure for determining the eligibility to attend and vote at 2014 AGM

   The Register of Members will be closed from Thursday, 21 August 2014 to Monday, 25 August 2014, both days inclusive, during which period no transfer of shares will be registered, for the purpose of determining Shareholders who are eligible to attend and vote at 2014 AGM. In order to be eligible for attending and voting at 2014 AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 20 August 2014.

2. Book closure for determining the entitlement of the proposed final dividend

   The Register of Members will be closed from Monday, 1 September 2014 to Wednesday, 3 September 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company’s Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Friday, 29 August 2014.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Notes | Year ended 31 March 2014 HK$'000 | Year ended 31 March 2013 HK$'000 |
|---|---|---|---|
| REVENUE | 6 | **773,235** | 794,098 |
| Cost of sales | | **(685,903)** | (696,458) |
| Gross profit | | **87,332** | 97,640 |
| Other income and gains | 6 | **10,264** | 10,383 |
| Selling expenses | | **(20,449)** | (20,163) |
| Administrative expenses | | **(49,068)** | (52,384) |
| Finance costs | 8 | **(2,464)** | (1,985) |
| PROFIT BEFORE INCOME TAX EXPENSE | 7 | **25,615** | 33,491 |
| Income tax expense | 9 | **(5,426)** | (10,800) |
| PROFIT FOR THE YEAR | | **20,189** | 22,691 |
| Other comprehensive income attributable to the owners of the Company may be classified to profit or loss in subsequent periods : | | | |
| Exchange differences on translating foreign operations | | **371** | 58 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **20,560** | 22,749 |
| Earnings per share | | | |
| Basic (HK cents) | 11 | **8.41** | 11.87 |
| Diluted (HK cents) | 11 | **8.41** | N/A |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | At 31 March 2014 HK$'000 | At 31 March 2013 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **122,025** | 34,659 |
| Prepaid land lease payments | | **7,718** | 7,782 |
| Total non-current assets | | **129,743** | 42,441 |
| CURRENT ASSETS | | | |
| Inventories | *12* | **157,747** | 153,579 |
| Trade receivables | *13* | **28,203** | 58,473 |
| Prepayments, deposits and other receivables | | **3,920** | 2,834 |
| Derivative financial instruments | *14* | **-** | 1,014 |
| Tax recoverable | | **1,807** | - |
| Cash and cash equivalents | | **75,240** | 80,391 |
| Total current assets | | **266,917** | 296,291 |
| CURRENT LIABILITIES | | | |
| Trade payables | *15* | **45,539** | 50,969 |
| Receipts in advance, accruals and other payables | | **32,210** | 32,691 |
| Interest-bearing bank borrowings | *16* | **68,119** | 50,937 |
| Income tax payable | | **-** | 2,396 |
| Total current liabilities | | **145,868** | 136,993 |
| NET CURRENT ASSETS | | **121,049** | 159,298 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **250,792** | 201,739 |
| NON-CURRENT LIABILITY | | | |
| Interest-bearing bank borrowings | *16* | **40,400** | - |
| Total non-current liability | | **40,400** | - |
| Net assets | | **210,392** | 201,739 |
| EQUITY | | | |
| Share capital | *17* | **187** | 187 |
| Reserves | *18* | **210,205** | 201,552 |
| Total equity | | **210,392** | 201,739 |

## 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, Chai Wan, Hong Kong. The ordinary shares in the capital of the Company (the "Shares") are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective terms include all applicable individual HKFRSs, Hong Kong Accounting Standards (''HKASs'') and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements also include the applicable disclosures requirements of the Hong Kong Companies Ordinance and applicable Rules Governing the Listing of Securities on the Main Broad of the Stock Exchange (the "Listing Rules").

#### (b) Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis except for derivative financial instruments which are stated at fair values. Item included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Hong Kong dollars (''HK$''), which is the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

### 3. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS

#### (a) Adoption of new/revised HKFRSs

The Group has adopted the following new/revised HKFRSs for the first time for the financial year beginning 1 April 2013:

| | |
|---|---|
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2009-2011 Cycle |
| Amendments to HKAS 1 (Revised) | Presentation of financial statements – Presentation of items of other comprehensive income |
| Amendments to HKFRS 7 | Financial instruments: Disclosures – Offsetting financial assets and financial liabilities |
| HKFRS 10 | Consolidated financial statements |
| HKFRS 12 | Disclosure of interests in other entities |
| HKFRS 13 | Fair value measurements |
| HKAS 19 (2011) | Employee benefits |
| HKAS 27 (2011) | Separate financial statements |

The adoption of these amendments has no significant impact on the Group's consolidated 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 consolidated financial statements, have been issued, but are not yet effective in the financial year and have not been early adopted by the Group.

| | |
|---|---|
| Amendments to HKAS 32 | Financial instruments – Presentation – Offsetting financial assets and financial liabilities [1] |
| HKFRS 9 | Financial instruments [*] |
| Amendments to HKAS 19 (2011) | Defined benefit plans: Employee contributions [2] |

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[*] No mandatory effective date yet determined but is available for immediate adoption

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncements. Information on new or amended HKFRSs that are expected to have impact on the Group's accounting policies is provided below. Certain other new or amended HKFRSs have been issued but are not expected to have a material impact on the Group's consolidated financial statements.

**Amendments to HKAS 32 — Offsetting Financial Assets and Financial Liabilities**

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

**HKFRS 9 – Financial Instruments**

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

**Amendments to HKAS 19 (2011) – Defined Benefit Plans : Employee Contributions**

The amendments permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to periods of service.

## 4. BASIS OF CONSOLIDATION

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.

Except for those acquisitions which qualify as common control combination, which accounted for using merger accounting, acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interests that represent present ownership interests in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interests that represent present ownership interests in the subsidiary is the amount of those interests at initial recognition plus such non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to such non-controlling interests even if this results in those non-controlling interests having a deficit balance.

## 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** | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| North America (note 1) | **430,385** | 415,742 |
| Western Europe | | |
| - United Kingdom | **96,922** | 81,406 |
| - France | **34,788** | 39,191 |
| - Netherland | **19,672** | 19,896 |
| - Others (note 2) | **91,800** | 104,705 |
| South America | **13,884** | 24,565 |
| People's Republic of China (the "PRC") and Taiwan | **21,722** | 32,216 |
| Australia, New Zealand and Pacific Islands | **22,909** | 23,879 |
| Central America, Caribbean and Mexico | **16,299** | 21,084 |
| Others (note 3) | **24,854** | 31,414 |
| Total | **773,235** | 794,098 |

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 | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Mainland China, the PRC | **59,413** | 41,505 |
| Hong Kong | **70,330** | 936 |
| Total | **129,743** | 42,441 |

**(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 | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Customer A | **279,556** | 366,793 |
| Customer B | **183,182** | 130,494 |
| Customer C * | **82,900** | N/A |

* Customer C contributed less than 10% of the Group's revenue for 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 | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| *Revenue* | | |
| Sale of goods | **773,235** | 794,098 |
| *Other income and gains* | | |
| Moulding income | **7,044** | 9,333 |
| Net gain/(loss) on derivative financial instruments | **1,776** | (107) |
| Interest income from bank deposits | **21** | 17 |
| Exchange gains, net | **278** | 279 |
| Others | **1,145** | 861 |
| | **10,264** | 10,383 |

## 7. PROFIT BEFORE INCOME TAX EXPENSE

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

| | Year ended 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold | **685,903** | 696,458 |
| Depreciation of property, plant and equipment | **11,293** | 8,589 |
| Amortisation of prepaid land lease payments | **207** | 202 |
| Employee benefits expenses (excluding Directors' remuneration): | | |
| - Wages and salaries | **38,168** | 38,302 |
| - Equity settled share-based payment expenses to employees | **20** | - |
| - Pension scheme contributions | **3,931** | 3,766 |
| - Other benefits | **4,765** | 3,775 |
| | **46,884** | 45,843 |
| Auditor's remuneration | **950** | 855 |
| Equity settled share-based payment expenses to eligible persons other than employees and Directors | **9** | - |
| Operating lease charges in respect of land and buildings | **2,191** | 2,204 |
| Impairment loss on trade receivables | **2,270** | - |

## 8. FINANCE COSTS

| | Year ended 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Interest on bank advance and other borrowings: | | |
| - Wholly repayable within five years | **2,375** | 1,985 |
| - Not wholly repayable within five years | **89** | - |
| | **2,464** | 1,985 |

## 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 (2013: 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 Company's subsidiary operating in the PRC during the year was 25% on its taxable profit (2013: 25%).

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

| | Year ended 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Current - Hong Kong | | |
| Charge for the year | **5,809** | 10,451 |
| Over provision in prior years | **(757)** | - |
| | **5,052** | 10,451 |
| Current - PRC | | |
| Charge for the year | **374** | 349 |
| Income tax expense | **5,426** | 10,800 |

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 | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Profit before income tax expense | **25,615** | 33,491 |
| Tax at the applicable tax rate of 16.5% (2013 : 16.5%) | **4,226** | 5,526 |
| Effect of different tax rate of a subsidiary operating in other jurisdiction | **79** | 4 |
| Tax effect of revenue not taxable for tax purposes | **(14)** | (34) |
| Tax effect of expenses not deductible for tax purposes | **1,739** | 5,064 |
| Tax effect of temporary difference not recognised | **153** | 240 |
| Over provision in respect of prior years | **(757)** | - |
| Income tax expense | **5,426** | 10,800 |

As at 31 March 2014, no deferred tax asset has been recognised in respect of the deductible temporary differences of HK$927,000 (2013: HK$1,454,000) as the amounts are immaterial to the Group. In addition, as at 31 March 2014, the aggregate amount of temporary differences associated with the unremitted earnings of the Company's subsidiary established in the PRC, of which deferred tax liabilities have not been recognised are approximately of HK$5,885,000 (2013: HK$4,875,000). 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 2014 in the foreseeable future. Accordingly no deferred tax liabilities have been recognised as at 31 March 2014.

## 10. DIVIDENDS

| | Year ended 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Interim dividend of HK cents 5 per Share (2013: Nil) | **12,000** | - |
| Proposed final dividend of HK cents 2 per Share (2013 : Nil) | **4,800** | - |
| | **16,800** | - |

The interim dividend of HK cents 5 per Share, totalling HK$12,000,000, (2013: Nil) for the year ended 31 March 2014 was declared in November 2013 and paid in December 2013.

At the Board meeting held on 24 June 2014, the Directors proposed a final dividend of HK cents 2 per Share, amounting to HK$4,800,000 for the year ended 31 March 2014 (2013: Nil) and the proposal will be submitted for formal approval by the Shareholders at the forthcoming annual general meeting to be held on 25 August 2014. This final dividend will be reflected as an appropriation of retained earnings for the year ending 31 March 2015.

## 11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year ended 31 March 2014 of approximately HK$20,189,000 (2013: HK$22,691,000), and of the weighted average number of 240,000,000 Shares (2013: 191,178,082 Shares) issued.

Diluted earnings per share are the same as basic earnings per share for the year ended 31 March 2014 as the impact of the potential dilutive ordinary Shares outstanding has an anti-dilutive effect on the basic earnings per share presented for the year as the exercise price of the Company's share options was higher than the average price of Shares for the year ended 31 March 2014.

No diluted earnings per share are presented for the year ended 31 March 2013 as the Company has no potential Shares for the last year.

## 12. INVENTORIES

| | At 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Raw materials | **82,911** | 110,279 |
| Work in progress | **31,360** | 11,570 |
| Finished goods | **43,476** | 31,730 |
| | **157,747** | 153,579 |

## 13. 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, net of allowance for impairment loss, at the end of the reporting period, based on the invoice date, is as follows:

| | At 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Current to 30 days | **19,276** | 35,837 |
| 31 to 60 days | **3,314** | 9,014 |
| 61 to 90 days | **4,451** | 7,043 |
| Over 90 days | **1,162** | 6,579 |
| | **28,203** | 58,473 |

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

| | At 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Neither past due nor impaired | **22,606** | 47,438 |
| Less than 1 month past due | **4,111** | 5,826 |
| 1 to 3 months past due | **1,397** | 3,484 |
| Over 3 months past due | **89** | 1,725 |
| | **28,203** | 58,473 |

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.

The below table reconciled the impairment loss of trade receivables for the year:

| | At 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| At 1 April | **-** | - |
| Impairment loss recognised | **2,270** | - |
| Bad debts written off | **(2,270)** | - |
| At 31 March | **-** | - |

The Group recognises impairment loss in accordance with its credit policy.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments represent certain RMB/US$ foreign exchange forward contracts held by the Group. The Group would sell US Dollars to the bank in exchange for RMB at the agreed forward rate. As at 31 March 2014, all remaining contracts have been matured.

As at 31 March 2013, the notional amount of the outstanding forward contracts with contract periods within 25 months was US$10,000,000.

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

| | At 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| At 1 April | **1,014** | 6,191 |
| Net gain/(loss) on derivative financial instruments during the year | **1,776** | (107) |
| Settlements during the year | **(2,790)** | (5,070) |
| At 31 March | **-** | 1,014 |

## 15. TRADE PAYABLES

The Group normally obtains credit terms ranging from 15 to 60 days (2013: 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 | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Current to 30 days | **25,068** | 28,375 |
| 31 to 60 days | **10,743** | 13,801 |
| 61 to 90 days | **5,360** | 7,351 |
| 91 to 365 days | **3,765** | 1,442 |
| More than 365 days | **603** | - |
| | **45,539** | 50,969 |

## 16. INTEREST-BEARING BANK BORROWINGS

| | At 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| **Current** | | |
| Secured | | |
| - bank loans due for repayment within one year | **68,119** | 50,437 |
| - bank loans due for repayment after one year which contain a repayment on demand clause | **-** | 500 |
| | **68,119** | 50,937 |
| **Non-current** | | |
| Secured | | |
| - bank loans due for repayment after one year | **40,400** | - |
| **Total interest-bearing bank borrowings** | **108,519** | 50,937 |

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

(i) Certain leasehold land and buildings of the Group with aggregate net book value of HK$70,170,000 (2013: Nil);

(ii) The Company's corporate guarantees and cross guarantees from the Company's subsidiaries, which are Qualiman Industrial Co. Limited, Qualiman Technology & Products Co. Limited, Sunmart Company Limited and Gold Prospect Capital Resources Limited; and

(iii) The 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.

At 31 March 2014, total current and non-current bank borrowings were scheduled to be repaid as follows:

| | At 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| On demand or within one year | **68,119** | 50,437 |
| More than one year, but not exceeding two years | **6,800** | 500 |
| More than two years, but not exceeding five years | **20,066** | - |
| More than five years | **13,534** | - |
| | **108,519** | 50,937 |

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

Certain 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; (ii) specific gearing ratio; and (iii) specific loan to valuation 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 2014, none of the covenants relating to drawn down facilities have been breached (2013: Nil).

## 17. SHARE CAPITAL

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

| Authorised: | Notes | 2014 Number of Shares | 2014 HK$'000 | 2013 Number of Shares | 2013 HK$'000 |
|---|---|---|---|---|---|
| Ordinary Shares of US$0.0001 each | | | | | |
| At 1 April | (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 | | **240,000,000** | **187** | 100,000,000 | 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** | 240,000,000 | 187 |

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) The Group underwent a reorganisation scheme in 2012 to rationalise the Group's structure for the listing of the Shares on the Stock Exchange ("Reorganisation") as set out in the section "History, Reorganisation and Group Structure" in the prospectus of the Company dated 11 January 2013. 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.

(d) Pursuant to a resolution in writing of all 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 | Share options reserve | Retained earnings | Proposed final dividend | Total |
|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 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 and 1 April 2013** | **104,048** | **9,271** | **584** | **4,464** | **2,100** | **-** | **81,085** | **-** | **201,552** |
| Dividend paid (note 10) | **-** | **-** | **-** | **-** | **-** | **-** | **(12,000)** | **-** | **(12,000)** |
| Equity settled share-based transactions (note 19) | **-** | **-** | **-** | **-** | **-** | **93** | **-** | **-** | **93** |
| Profit for the year | **-** | **-** | **-** | **-** | **-** | **-** | **20,189** | **-** | **20,189** |
| Other comprehensive income: | | | | | | | | | |
| Exchange differences arising on translation of foreign operations | **-** | **-** | **-** | **371** | **-** | **-** | **-** | **-** | **371** |
| **Total comprehensive income for the year** | **-** | **-** | **-** | **371** | **-** | **-** | **20,189** | **-** | **20,560** |
| Transfer to statutory reserve | **-** | **-** | **112** | **-** | **-** | **-** | **(112)** | **-** | **-** |
| Final dividend proposed (note 10) | **-** | **-** | **-** | **-** | **-** | **-** | **(4,800)** | **4,800** | **-** |
| **At 31 March 2014** | **104,048** | **9,271** | **696** | **4,835** | **2,100** | **93** | **84,362** | **4,800** | **210,205** |

### 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.

### Share option reserve

Cumulative expenses recognised on the granting of share options to the eligible participants over the vesting period.

## 19. EQUITY SETTLED SHARE-BASED PAYMENTS

The Company adopted a share option scheme pursuant to a resolution in writing passed by the Shareholders on 3 January 2013 (the "Share Option Scheme") for the purpose to grant share options to selected participants as incentives or rewards for their contribution to the Group. Eligible participants of the Share Option Scheme include directors of the Company or any of its subsidiaries, including non-executive directors and independent non-executive directors, other employees of the Group and consultants.

The initial total number of Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the Share Option Scheme must not exceed 10% of the Shares in issue from time to time. A nominal consideration of HK$1.00 is payable by the grantees upon acceptance of a grant of share options.

On 17 March 2014 (the "Offer Date"), the Company granted 10,800,000 share options to certain eligible participants of the Group under the Share Option Scheme. Set out below were details of the outstanding share options granted under the Share Option Scheme as at 31 March 2014:

(1) All share options granted were at a subscription price of HK$1.00 per Share;

(2) All holders of share options might only exercise their options in the following manner:

    the share options will be vested in 3 tranches, i.e. the first 30% from the date immediately after the first anniversary of the Offer Date until the last day of the option period, the second 30% from the date immediately after the second anniversary of the Offer Date until the last day of the option period, the balance 40% from the date immediately after the third anniversary of the Offer Date until the last day of the option period;

(3) All outstanding or unexercised share options granted to the grantees shall lapse on 16 March 2019 or 16 March 2024.

The estimated fair values of share options granted on 17 March 2014 were HK$3,911,000. These fair values were calculated using the Binomial model. The inputs into the model are as follows:

| | 17 March 2014 |
|---|---|
| Closing price of the Shares | HK$0.95 |
| Exercise price | HK$1.00 |
| Expected volatility | 50.554% |
| Expected life | 5 years/10 years |
| Risk-free interest rate | 1.2010%/2.1656% |
| Dividend yield | 4.274% |
| Suboptimal factor | 2.2 |

The risk-free rate was based on market yield rate from Hong Kong Monetary Authority Exchange Fund Bills Yield Curve as at the valuation date on 17 March 2014. Expected volatility was estimated by the average of historical daily volatilities of the comparable companies with similar business operation as at valuation date. Dividend yield was estimated by the trailing 12-month dividend payout of the Company divided by the closing price of the Shares as at the dividend declaration date.

Set out below are details of movements of the outstanding share options granted under the Share Option Scheme during the year ended 31 March 2014:

| | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|
| | **Exercise price** | **Granted during the year** | **Exercised during the year** | **Lapsed during the year** | **Balance as at 31 March 2014** | **Date of offer of share options** | **Periods of share options** |
| **Executive Directors** | | | | | | | |
| - Lau Ho Ming, Peter | HK$1.00 | 2,400,000 | - | - | 2,400,000 | 17 March 2014 | 17 March 2014 to 16 March 2024 |
| - Ng Kam Seng | HK$1.00 | 800,000 | - | - | 800,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| - Poon Pak Ki, Eric | HK$1.00 | 500,000 | - | - | 500,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| **Non-executive Directors** | | | | | | | |
| - Li Man Yee, Stella | HK$1.00 | 2,400,000 | - | - | 2,400,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| - Chu Sheng Yu, Lawrence | HK$1.00 | 240,000 | - | - | 240,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| **Independent Non-executive Directors** | | | | | | | |
| - Leung Po Wing, Bowen Joseph | HK$1.00 | 240,000 | - | - | 240,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| - Chan Siu Wing, Raymond | HK$1.00 | 240,000 | - | - | 240,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| - Chu, Raymond | HK$1.00 | 240,000 | - | - | 240,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| Employee | HK$1.00 | 120,000 | - | - | 120,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| Employees | HK$1.00 | 2,420,000 | - | - | 2,420,000 | 17March 2014 | 17 March 2014 to 16 March 2019 |
| Consultants | HK$1.00 | 1,200,000 | - | - | 1,200,000 | 17March 2014 | 17 March 2014 to 16 March 2024 |
| | | 10,800,000 | - | - | 10,800,000 | | |

The Company recognised equity settled share-based payment expenses of approximately HK$93,000 for the year ended 31 March 2014 in relation to share options granted during the year. Equity settled share-based payment expenses comprise:

| | Year ended 31 March | |
|---|---|---|
| | **2014** | **2013** |
| | *HK$'000* | *HK$'000* |
| Equity settled schemes to employees (including Directors) | **84** | - |
| Equity settled schemes to eligible persons other than employees and Directors | **9** | - |
| | **93** | - |

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

The exercise price of the share options outstanding as at 31 March 2014 was HK$1.00 and the weighted average remaining contractual life was 4.96 and 9.96 years. Of the total number of share options outstanding as at 31 March 2014, all the share options were not exercisable as at 31 March 2014.

## 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 offers 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.

The Group's revenue and net profit for the year ended 31 March 2014 were HK$773.2 million and HK$20.2 million, respectively, representing a modest decrease of 2.6% and 11.0% over the previous year. While the Group managed to expanded its customer base by bringing in 2 new major customers, business environments remained challenging for the Group as labour costs and material costs continued to increase, leading to a decrease in gross margin from 12.3% for the year ended 31 March 2013 to 11.3% for the year ended 31 March 2014. The Group will continue to look for opportunities to expand its customer base, focus on clients that generate better margins and control its production costs.

## FINANCIAL REVIEW

The Group's revenue for the year ended 31 March 2014 amounted to approximately HK$773.2 million, representing a minor decrease of 2.6% from that of last year of approximately HK$794.1 million. The decrease in revenue was mainly due to the decrease in sales orders from one of the top 10 customers last year and several other smaller customers which discontinued placing orders with their suppliers, including the Group. Nevertheless, the Group's revenue remained stable and the revenue from other top 10 customers recorded a slight increase.

Revenue from North America increased from approximately HK$415.7 million to approximately HK$430.4 million for the year ended 31 March 2014 due to a recovery from the rather conservative approach adopted by customers from that region in placing orders in 2013, while the revenue from Western Europe remained stable at approximately HK$243.2 million for the year ended 31 March 2014 as compared to that of last year of HK$245.2 million.

Gross profit of the Group for the year ended 31 March 2014 decreased by 10.6% to approximately HK$87.3 million from that of last year of approximately HK$97.6 million, which was mainly due to the difference of product mix and strong RMB appreciation, spiraling material costs and increasing labor costs.

The Group's net profit for the year ended 31 March 2014 decreased by 11.0% from approximately HK$22.7 million to approximately HK$20.2 million, which was mainly due to the decrease of gross profit and the write-off of an amount due from an insolvent customer of approximately HK$2.3 million.

Selling expenses mainly consisted of transportation fees and declaration fees. Selling expenses for the year ended 31 March 2014 slightly increased by 1.4% from approximately HK$20.2 million to approximately HK$20.4 million, which was mainly due to an increase in transportation cost and the frequency of transportation.

Administrative expenses mainly consisted of salaries to employees, rents and rates for office spaces, depreciation on property, plant and equipment and other administrative expenses. Administrative expenses for the year under audit decreased by 6.3% from approximately HK$52.4 million to approximately HK$49.1 million, which was primarily due to the absence of the one-off financial impacts from the listing expenses which incurred for the Global Offering in the previous year.

Other income and gains mainly consisted of moulding income, net gain/loss on derivative financial instruments, interest income and others. Other income and gains remained stable at approximately HK$10.3 million for the year ended 31 March 2014, as compared to approximately HK$10.4 million for the year ended 31 March 2013.

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 2014 increased by 24.1% from approximately HK$2.0 million to approximately HK$2.5 million, which was primarily due to an increase in banking facilities in the form of factoring arrangement and the new banking facilities arising from financing the purchase of the Group's new headquarters.

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 for the year under audit decreased by 49.8% from approximately HK$10.8 million for the year ended 31 March 2013 to approximately HK$5.4 million, which was primarily due to lower taxable profit for the year ended 31 March 2014 and the absence of non-tax deductible expenses incurred for the Global Offering last year.

The inventories of the Group increased by 2.7% to approximately HK$157.7 million as at 31 March 2014 from that of last year of approximately HK$153.6 million, which was primarily due to the maintenance of inventories to cope with the anticipated sales in the upcoming peak season from June to July. The inventories turnover days, as calculated by dividing the average closing inventories by the cost of sales for the year and multiplied by 365 days, remained stable at 82.8 days for the year ended 31 March 2014, as compared with 82.7 days for the year ended 31 March 2013.

Trade receivables as at 31 March 2014 decreased from last year of approximately HK$58.5 million to approximately HK$28.2 million, which was primarily due to a non-recourse factoring arrangement with some of the customers which transferred the credit risks of the corresponding trade receivables to the banks providing the factoring facilities. 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. During the year ended 31 March 2014, a customer became insolvent and filed a bankruptcy case in the United States of America. Hence, the Group wrote off the full amount of approximately HK$2.3 million due from this customer. The trade receivables turnover days, calculated as dividing the average closing trade receivables by the revenue for the year and multiplied by 365 days, for the year ended 31 March 2014 was 20.5 days as compared with 32.7 days for the year ended 31 March 2013. The decrease is in line with the Group's credit policy and the factoring arrangement.

Trade payables as at 31 March 2014 decreased from approximately HK$51.0 million to approximately HK$45.5 million, which was primarily due to the utilisation of new banking facilities of import trade loans to settle payables according to the invoices in a timely fashion via lending banks during the year. The trade payables turnover days, calculated as 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 2014 were 25.7 days as compared with 35.1 days for the year ended 31 March 2013. The trade payables turnover days for the year was shortened as compared to that of last year due to the utilisation of new banking facilities of import trade loans to settle payables to our suppliers directly according to the invoices in a timely fashion via lending banks as a result faster on average then to settle payables via internal working capital according to the respective credit period agreed with the suppliers in the previous year.

## 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 2014. 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 2014, the Group mainly financed its working capital by internal resources and bank borrowings. As at 31 March 2014, cash and cash equivalents amounted to approximately HK$75.2 million (2013: approximately HK$80.4 million). The decrease was mainly due to the acquisition of the Group's new headquarters.

Interest-bearing bank borrowings increased to approximately HK$108.5 million as at 31 March 2014 (2013: approximately HK$50.9 million) mainly as a result of new banking facilities obtained to finance the acquisition of the Group's new headquarters. As a result of an increase in bank borrowings during the year, the debt to equity ratio of the Group, calculated as the ratio of the closing debt balance divided by the closing total equity of the year, was approximately 51.6% as at 31 March 2014 (2013: approximately 25.2%). As at 31 March 2014, all bank borrowings were subject to floating interest rates.

The current ratio of the Group, calculated as dividing total current assets by total current liabilities, was approximately 1.8 as at 31 March 2014 (2013: approximately 2.2). Such decrease is mainly due to less trade receivables and higher bank borrowings due within 1 year, which is a mainly a result of new factoring facilities described above and the corresponding accounting treatments.

## CHARGE ON ASSETS

As at 31 March 2014, certain of the Group's banking facilities and its interest-bearing bank borrowings are secured by properties of the Group located in Hong Kong with an aggregate net book value of HK$70,170,000 (2013: Nil). Details of the securities for the banking facilities are stated in note 16 to the financial information.

## FOREIGN CURRENCY EXPOSURES

Substantially all the transactions of the Group's subsidiaries in Hong Kong are carried out in United States dollar ("US$") and Hong Kong dollar ("HK$"). As HK$ is linked to US$, the Group does not have material exchange rate risk on such currency. 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. As at 31 March 2014, the Group had no outstanding non-deliverable forward contracts (2013: US$10.0 million).

## CONTINGENT LIABILITIES

As at 31 March 2014, the Group had no contingent liabilities (2013: Nil).

## 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 2014, the Group had total future minimum lease payments under non-cancellable operating leases of approximately HK$1.9 million (2013: approximately HK$4.1 million), of which approximately HK$1.9 million (2013: approximately HK$2.2 million) would fall due within one year.

## **CAPITAL COMMITMENTS**

As at 31 March 2014, the commitments of the Group for the leasehold improvements amounted to approximately HK$1.3 million (2013: approximately HK$0.6 million for property, plant and equipment) which has been contracted, but not provided for in the consolidated financial statements.

## **EMPLOYEES AND REMUNERTION POLICY**

As at 31 March 2014, the Group had a total of 797 employees. Total staff costs, including Directors' remuneration, were approximately HK$54.5 million for the year ended 31 March 2014 as compared to approximately HK$50.2 million for last year. Remuneration policies in respect of the Directors and senior management of the Group are reviewed regularly by the remuneration committee of the Board 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 are also provided with pension funds, medical insurance, unemployment insurance and other relevant insurance in accordance with the prevailing regulatory requirements of the PRC. All Directors and employees are entitled to participate in the Share Option Scheme.

On 17 March 2014, share options were granted to certain individuals to subscribe for a total of 10,800,000 Shares at a subscription price of HK$1.00 per Share, subject to adjustment. The fair value of the share options of approximately HK$0.1 million has been recognised in the profit and loss for the year ended 31 March 2014 under the employee benefits expenses.

## **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 2014.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year, the Group acquired the entire issued share capital of Gold Prospect Capital Resources Limited ("Gold Prospect") from Mr. Lau Ho Ming, Peter and Madam Li Man Yee, Stella, both Directors of the Company, and caused Gold Prospect to settle all its debts and liabilities at an aggregate consideration of HK$69,888,000 (the "Transaction"). The consideration of the Transaction was funded by internal resources of the Group and bank facilities granted to the Group secured by the Property (as defined below) and guaranteed by the Group. Upon completion of the Transaction on 22 January 2014, Gold Prospect became an indirect wholly-owned subsidiary of the Company. Gold Prospect is an investment holding company incorporated in Hong Kong with limited liability and its principal asset is a workshop unit with an aggregate gross floor area of about 12,883 sq.ft. and three car parking spaces located at TML Tower, 3 Hoi Shing Road, Tsuen Wan, Hong Kong (the "Property"), which will be used by the Group as its new headquarter in Hong Kong.

Save for otherwise disclosed in this announcement, there were no any material acquisitions or disposals of subsidiaries and affiliated companies during the year.

## USE OF NET PROCEEDS FROM GLOBAL OFFERING

As at 31 March 2014, the Group has utilised HK$52.3 million of the net proceeds from the Global Offerings of approximately HK$63.1 million in January 2013 according to the intended purposes as set out in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated 11 January 2013 ("Prospectus"), as follows:

| Intended use of proceeds | Net Proceeds | Utilised amount | Unutilised amount |
|---|---|---|---|
| | HK$ million | HK$ million | HK$ million |
| Acquisition of major equipment and machinery | 33.1 | 29.9 | 3.2 |
| Construction of the new factory building operated by Foshan Haoda | 18.9 | 14.2 | 4.7 |
| Recruiting additional employees to reorganise our existing design team and enhance our research and development capabilities | 4.8 | 1.9 | 2.9 |
| Working capital and other general corporate purposes | 6.3 | 6.3 | - |
| | 63.1 | 52.3 | 10.8 |

The unutilised net proceeds of approximately HK$10.8 million were deposited in licensed banks in Hong Kong.

## 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 that customers in the western developed markets will continue to be cautious in placing orders and the Group will continue to face pressures in both sales volume and margins. The increasing prevalence of e-commerce has also fundamentally changed the supply chain landscape, resulting in a need to be able to respond to changes in the markets quickly and an extension of the traditional "low" season for manufacturing. To maintain the performance of the Group, we will seek to focus on clients which generate better margins for the Group instead of focusing on volume. While labour costs and material costs for the Group are expected to remain high especially during peak seasons, there is a modest mitigating factor that the inflationary pressure on the RMB seems decreasing in the coming year, which is expected to have a positive impact on the production costs in the PRC for the Group. The Group will continue to focus on improving the production efficiency, increasing automation in production to reduce reliance on labour and overhead costs, upgrading the customer mix while continuing to tighten the cost control.

## 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 during the year ended 31 March 2014.

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company adopted the Corporate Governance Code set out in Appendix 14 (the "Code") of the Listing Rules as its own code of corporate governance practice. Throughout the financial year ended 31 March 2014, the Company has complied with all applicable code provisions under the Code with the exception discussed herein below.

**Code A.2.1**

Pursuant to the code provision, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The post of chief executive officer of the Group ("CEO") has been vacant since the redesignation of Mr. Lau Ho Ming, Peter as the Chairman of the Company with effect from 25 November 2013. Mr. Lau ceased to act as the CEO since then. The role of chief executive has been borne by all executive Directors to ensure a balance of power and responsibilities has been maintained.

## 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, each Director has complied with the required standard set out in the Model Code during the year and up to the date of this announcement.

## SCOPE OF WORK OF AUDITORS

The financial figures in this announcement have been agreed by the Company's auditor, BDO Limited ("Auditors"), to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2014. 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 2014 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 2014.

## PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of the Hong Kong Exchanges and Clearing Limited and the Company at www.hkexnews.hk and www.quali-smart.com.hk respectively. The 2014 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 24 July 2014.

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

Hong Kong, 24 June 2014

*As at the date of this announcement, the Board comprises Mr. Lau Ho Ming, Peter (Executive Chairman), Mr. Poon Pak Ki, Eric and Mr. Ng Kam Seng as executive Directors; Madam Li Man Yee, Stella and Mr. Chu Sheng Yu, Lawrence 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.*