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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1348)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013
INTERIM DIVIDEND
AND
CLOSURE OF REGISTER OF MEMBERS

INTERIM RESULTS

The board (the "Board") of directors (the "Directors") of Quali-Smart Holdings Limited (the "Company") is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 September 2013 together with the comparative figures for the preceding period.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK cents 5 per Share (2012: Nil), amounting to a total of HK$12.0 million (2012: Nil), for the year ending 31 March 2014 to the shareholders of the Company ("Shareholders") whose names appear on the register of members of the Company ("Register of Members") on Thursday, 12 December 2013.

* *For identification purpose only*

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Six months ended 30 September 2013 HK$'000 (Unaudited)	2012 HK$'000 (Unaudited)
REVENUE	*4*	**533,489**	532,809
Cost of sales		**(473,859)**	(465,305)
Gross profit		**59,630**	67,504
Other income and gains	*4*	**7,354**	2,096
Selling expenses		**(13,340)**	(13,801)
Administrative expenses		**(24,929)**	(27,133)
Finance costs	*6*	**(1,098)**	(1,180)
PROFIT BEFORE INCOME TAX EXPENSE	*5*	**27,617**	27,486
Income tax expense	*7*	**(5,039)**	(6,983)
PROFIT FOR THE PERIOD		**22,578**	20,503
PROFIT FOR THE PERIOD		**22,578**	20,503
Other comprehensive income:			
Exchange differences arising on translating foreign operations		**505**	(199)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**23,083**	20,304
Earnings per share for profit attributable to the owners of the Company	*9*		
— Basic (HK cents)		**9.41**	11.39
— Diluted (HK cents)		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 September 2013 HK$'000 (Unaudited)	At 31 March 2013 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**40,252**	34,659
Prepaid land lease payments		**7,871**	7,782
Total non-current assets		**48,123**	42,441
CURRENT ASSETS			
Inventories	*10*	**165,093**	153,579
Trade receivables	*11*	**203,705**	58,473
Prepayments, deposits and other receivables		**1,313**	2,834
Derivative financial instruments	*12*	**1,574**	1,014
Cash and cash equivalents		**76,737**	80,391
Total current assets		**448,422**	296,291
CURRENT LIABILITIES			
Trade payables	*13*	**122,306**	50,969
Receipts in advance, accruals and other payables		**31,437**	32,691
Interest-bearing bank borrowings	*14*	**113,044**	50,937
Income tax payable		**4,936**	2,396
Total current liabilities		**271,723**	136,993
NET CURRENT ASSETS		**176,699**	159,298
TOTAL ASSETS LESS CURRENT LIABILITIES		**224,822**	201,739
Net assets		**224,822**	201,739
EQUITY			
Share capital	*15*	**187**	187
Reserves	*16*	**224,635**	201,552
Total equity		**224,822**	201,739

NOTES TO FINANCIAL INFORMATION

1. BASIS OF PREPARATION

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 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.

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2013 ("Interim Condensed Financial Statements") have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. Interim Condensed Financial Statements have not been audited by the Company's auditor but have been reviewed by the audit committee of the Company.

The Interim Condensed Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited financial statements of the Group for the year ended 31 March 2013 (the "2013 Annual Financial Statements").

The accounting policies applied in the Interim Condensed Financial Statements are consistent with those applied in the 2013 Annual Financial Statements except those set out in Note 2 below.

2. ADOPTION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

(a) Adoption of new/revised HKFRSs — effective 1 April 2013

In the current period, the Group has adopted for the first time the following new standards, amendments and interpretations ("the New HKFRSs") issued by the HKICPA which are relevant to and effective for the Group's financial statements for the annual accounting period beginning on 1 April 2013:

Amendments to HKFRSs	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 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurements
HKAS 27 (2011)	Separate financial statements
HKAS 28 (2011)	Investments in associates and joint ventures

The adoption of the New HKFRSs has no significant impact on the Interim Condensed Financial Statements.

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

For the new/revised HKFRSs that have been issued but are not yet effective and have not been early adopted by the Group, 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. The Directors are currently assessing the impact of the new and revised HKFRSs upon initial application but are not yet in a position to state whether they would have material financial impact on the Group's results and financial position.

3. 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*

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
North America *(note 1)*	**279,221**	287,574
Western Europe		
— United Kingdom	**76,464**	53,973
— France	**25,317**	27,348
— Netherland	**15,051**	13,222
— Others *(note 2)*	**68,673**	71,560
South America	**11,366**	16,391
People's Republic of China ("PRC") and Taiwan	**11,130**	14,505
Australia, New Zealand and Pacific Islands	**16,306**	15,771
Central America, Caribbean and Mexico	**13,726**	15,592
Others *(note 3)*	**16,235**	16,873
Total	**533,489**	532,809

Notes:

1 *North America includes United States of America and Canada.*

2 *Others include Germany, Belgium, Italy, Ireland and Spain.*

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

(ii) *Specified non-current assets*

	At 30 September 2013	At 31 March 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Mainland China, the PRC	**47,192**	41,505
Hong Kong	**931**	936
Total	**48,123**	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:

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A	**180,564**	236,872
Customer B	**135,908**	86,327

4. 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:

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	**533,489**	532,809
Other income and gains		
Moulding income	**4,813**	2,855
Net gain/(loss) on derivative financial instruments	**1,731**	(1,756)
Interest income from bank deposits	**8**	11
Exchange gains, net	**164**	182
Others	**638**	804
	7,354	2,096

5. PROFIT BEFORE INCOME TAX EXPENSE

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

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**473,859**	465,305
Depreciation	**4,600**	4,240
Amortisation of prepaid land lease payments	**104**	86
Employee benefits expenses:		
Wages and salaries	**22,348**	22,586
Pension scheme contributions	**2,100**	1,420
Other benefits	**2,427**	1,840
	26,875	25,846
Auditor's remuneration	**482**	428
Operating lease charges in respect of land and buildings	**1,186**	1,112

6. FINANCE COSTS

	Six months ended 30 September 2013 HK$'000 (Unaudited)	2012 HK$'000 (Unaudited)
Interest on bank advance and other borrowings wholly repayable within five years	**1,098**	1,180

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 repayment dates set out in the loan agreements.

7. 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 six months ended 30 September 2013 (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 six months ended 30 September 2013 was 25% on its taxable profit (2012: 25%).

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

	Six months ended 30 September 2013 HK$'000 (Unaudited)	2012 HK$'000 (Unaudited)
Current — Hong Kong		
Charge for the period	**4,846**	6,786
Current — PRC		
Charge for the period	**193**	197
Total tax charge for the period	**5,039**	6,983

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

	Six months ended 30 September	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit before income tax expense	**27,617**	27,486
Tax at the applicable tax rate of 16.5% (2012: 16.5%)	**4,557**	4,535
Effect of different tax rate of a subsidiary operating in other jurisdiction	**42**	46
Tax effect of revenue not taxable for tax purposes	**(314)**	(32)
Tax effect of expenses not deductible for tax purposes	**683**	2,376
Tax effect of temporary difference not recognised	**71**	58
Income tax expense	**5,039**	6,983

As at 30 September 2013, no deferred tax asset has been recognised in respect of the deductible temporary differences of HK$71,000 (2012: HK$58,000) as the amounts are immaterial to the Group. In addition, no deferred tax liabilities of HK$5,402,000 as at 30 September 2013 (At 31 March 2013: HK$4,875,000) 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 30 September 2013 in the foreseeable future. Accordingly no deferred tax liabilities have been recognised as at 30 September 2013.

8. DIVIDENDS

The Directors have declared an interim dividend of HK cents 5 per Share, totalling HK$12,000,000 for the six months ended 30 September 2013 (2012: Nil).

9. 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 six months ended 30 September 2013 of approximately HK$22,578,000 (2012: HK$20,503,000), and of the weighted average number of 240,000,000 (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 six months ended 30 September 2013 (2012: Nil).

10. INVENTORIES

	At 30 September 2013 HK$'000 (Unaudited)	At 31 March 2013 HK$'000 (Audited)
Raw materials	**76,033**	110,279
Work in progress	**19,767**	11,570
Finished goods	**69,293**	31,730
	165,093	153,579

11. TRADE RECEIVABLES

The credit period on sales of goods ranges 30–75 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 30 September 2013 HK$'000 (Unaudited)	At 31 March 2013 HK$'000 (Audited)
Current to 30 days	**113,680**	35,837
31 to 60 days	**65,553**	9,014
61 to 90 days	**17,466**	7,043
Over 90 days	**7,006**	6,579
	203,705	58,473

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

	At 30 September 2013 HK$'000 (Unaudited)	At 31 March 2013 HK$'000 (Audited)
Neither past due nor impaired	**154,959**	47,438
Less than 1 month past due	**42,067**	5,826
1 to 3 months past due	**6,402**	3,484
Over 3 months past due	**277**	1,725
	203,705	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.

12. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments represent certain RMB/US$ foreign exchange forward contracts held by the Group, of which the contract periods were within 25 months (At 31 March 2013: 25 months). The Group would sell US Dollars to the bank in exchange for Renminbi ("RMB") at agreed forward rates.

As at 30 September 2013, the notional amount of the outstanding forward contracts were US$5.0 million (At 31 March 2013: US$10 million).

The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates, with the assumptions that there will be no material change in the political, legal, fiscal, technological, market and economic conditions that will materially affect the price of the underlying currencies of the foreign exchange forward contracts and the interest rates and exchange rates will not differ materially from those of present or expected.

The below table reconciled the movements of the derivative financial instruments during the period/year:

	At 30 September 2013 *HK$'000* **(Unaudited)**	At 31 March 2013 *HK$'000* (Audited)
Balance as at 1 April	**1,014**	6,191
Net gain/(loss) on derivative financial instruments during the period/year	**1,731**	(107)
Settlements during the period/year	**(1,171)**	(5,070)
Balance as at 30 September/31 March	**1,574**	1,014

13. TRADE PAYABLES

The Group normally obtains credit terms of 15–90 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 30 September 2013 *HK$'000* **(Unaudited)**	At 31 March 2013 *HK$'000* (Audited)
Current to 30 days	**80,778**	28,375
31 to 60 days	**16,220**	13,801
61 to 90 days	**21,542**	7,351
Over 90 days	**3,766**	1,442
	122,306	50,969

14. INTEREST-BEARING BANK BORROWINGS

	At 30 September 2013 *HK$'000* **(Unaudited)**	At 31 March 2013 *HK$'000* (Audited)
Current		
Secured		
— bank overdraft	**541**	—
— bank loans due for repayment within one year	**112,503**	50,437
— bank loans due for repayment after one year which contain a repayment on demand clause	**—**	500
	113,044	50,937

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

(i) Company's corporate guarantees and cross guarantees from the Company's subsidiaries, namely Qualiman Industrial Co. Limited, Qualiman Technology & Products Co. Limited and Sunmart Company Limited;

(ii) 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;

(iii) the pledge of the Group's leasehold land and building located in Hong Kong.

At 30 September 2013, total current and non-current bank borrowings and overdraft were scheduled to be repaid as follows:

	At 30 September 2013 *HK$'000* (Unaudited)	At 31 March 2013 *HK$'000* (Audited)
On demand or within one year	**113,044**	50,437
More than one year, but not exceeding two years	**—**	500
	113,044	50,937

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 30 September 2013, none of the covenants relating to drawn down facilities had been breached (At 31 March 2013: Nil).

15. SHARE CAPITAL

	Number of Shares	**HK$'000**
Authorised		
Ordinary Shares of US$0.0001 each		
At 1 April 2013 and 30 September 2013	500,000,000	389
Issued and fully paid		
Ordinary Shares of US$0.0001 each		
At 1 April 2013 and 30 September 2013	240,000,000	187

16. RESERVES

	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Translation reserve HK$'000	Other reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Unaudited for the six months ended 30 September 2013							
At 1 April 2013 (audited)	104,048	9,271	584	4,464	2,100	81,085	201,552
Profit for the period	—	—	—	—	—	22,578	22,578
Other comprehensive income							
Exchange differences arising on translating foreign operations	—	—	—	505	—	—	505
Total comprehensive income for the period	—	—	—	505	—	22,578	23,083
Transfer to statutory reserve	—	—	58	—	—	(58)	—
At 30 September 2013 (unaudited)	104,048	9,271	642	4,969	2,100	103,605	224,635
Unaudited for the six months ended 30 September 2012							
At 1 April 2012 (audited)	24,977	9,271	479	4,406	—	58,499	97,632
Share issue expenses	(2,827)	—	—	—	—	—	(2,827)
Reduction in capital upon Reorganisation	—	—	—	—	2,100	—	2,100
Profit for the period	—	—	—	—	—	20,503	20,503
Other comprehensive income							
Exchange differences arising on translating foreign operations	—	—	—	(199)	—	—	(199)
Total comprehensive income for the period	—	—	—	(199)	—	20,503	20,304
Transfer to statutory reserve	—	—	58	—	—	(58)	—
At 30 September 2012 (unaudited)	22,150	9,271	537	4,207	2,100	78,944	117,209

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, 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.

During the six months ended 30 September 2013 (the "Current Period"), the Group's revenue remained stable in obtaining sales from its customers during the peak period of the production cycle. The Group did not see substantial changes in customer demands for the toy products from the western markets which continued to hold. 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 its existing customers.

FINANCIAL REVIEW

The Group's revenue for the Current Period amounted to approximately HK$533.5 million, which is similar to that for the six months ended 30 September 2012 (the "Previous Period") of approximately HK$532.8 million. The revenue remained stable despite a decrease in sales to the Group's top customer, which is offset by an increase in sales to its second largest customer.

Revenue from North America decreased slightly from approximately HK$287.6 million for the Previous Period to approximately HK$279.2 million for the Current Period due to the more conservative approach adopted by customers from that region in placing orders, while the revenue from Western Europe increased from approximately HK$166.1 million for the Previous Period to approximately HK$185.5 million for the Current Period.

Gross profit of the Group for the Current Period decreased by 11.7% to approximately HK$59.6 million from that of the Previous Period of approximately HK$67.5 million due to an increase in costs arising from the appreciation of RMB and an increase in the costs of raw materials such as resins.

The Group's net profit for the period increased by 10.1% from approximately HK$20.5 million in the Previous Period to approximately HK$22.6 million in the Current Period which is mainly due to the increase in other income and gains as more new moulds were made for existing customers and there was a decrease in administrative expenses due to the absence of the one-off financial impact from the listing expenses and underwriting fees ("Listing Expenses") which occurred in the Previous Period.

Selling expenses mainly consisted of transportation fees and declaration fees. Selling expenses decreased slightly by 3.3% from approximately HK$13.8 million for the Previous Period to approximately HK$13.3 million for the Current Period.

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 decreased by 8.1% from approximately HK$27.1 million for the Previous Period to approximately HK$24.9 million in the Current Period, which is primarily due to the absence of the one-off financial impacts from the Listing Expenses which occurred for the Previous Period.

Other income and gains mainly consisted of moulding income, net gain/loss on derivative financial instruments, interest income and others. Other income and gains increased by 2.5 times from approximately HK$2.1 million for the Previous Period to approximately HK$7.4 million for the Current Period, which is primarily due to an increase of 68.6% in moulding income as more new moulds were made for the existing customers. Such income increased from approximately HK$2.9 million for the Previous Period to HK$4.8 million for the Current Period. A net gain on derivative financial instruments of approximately HK$1.7 million for dealing with the RMB exchange risk arising from normal operations of the Group was also recorded in the Current Period, compared with a net loss of approximately HK$1.8 million for the Previous Period.

Finance costs mainly consisted of interest on the Group's interest-bearing bank borrowings and factoring arrangement from banks. Finance costs remained stable at approximately HK$1.1 million for the Current Period when compared with approximately HK$1.2 million for the Previous Period.

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 decreased by 27.8% to approximately HK$5.0 million for the Current Period, as compared with approximately HK$7.0 million for the Previous Period. Despite the increase in net profit, the income tax expense decreased due to the absence of non-tax deductible items, such as Listing Expenses, which were booked in the Previous Period.

The inventory of the Group increased by 7.5% to approximately HK$165.1 million as at 30 September 2013 from approximately HK$153.6 million as at 31 March 2013, which was primarily due to manufacture of more finished goods in the peak season in preparation for being shipped out to the customers. The inventory days, as calculated by dividing the average closing inventories by the cost of sales for the period/year and multiplied by 182.5 days/365 days, decreased from 82.7 days for the year ended 31 March 2013 to 61.5 days for the Current Period, which was due to the seasonality nature of our business during the peak sales season.

Trade receivables as at 30 September 2013 increased from approximately HK$58.5 million to approximately HK$203.7 million, which was primarily due to the seasonality of the Group's business as the Group was in the peak sales season. During the peak sales season, there was a substantial increase in trade receivables due to the large quantity of sales orders from the customers. Historically, the Group's trade receivables dropped back to comparable levels after the peak sales months. 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 minimize 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 period/year and multiplied by 182.5 days/365 days, for the Current Period was 44.8 days as compared with 32.7 days for the year ended 31 March 2013, which is in general within the credit period granted to the Group's customers.

Trade payables as at 30 September 2013 increased from approximately HK$51.0 million to approximately HK$122.3 million, which was primarily due to the purchase of more raw materials to support the increase in production during the peak sales season. The trade payables turnover days, as calculated by dividing the average closing trade payables by the cost of sales for the period/year and multiplied by 182.5 days/365 days, for the Current Period was 33.4 days as compared with 34.8 days for the year ended 31 March 2013. The trade payables turnover days for the current period was shortened as compared to that Previous Period due to the Group utilized a new banking facility of an import trade loan 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 Period.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a prudent financial management approach toward its treasury policies and hence a healthy liquidity position during the Current Period. 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 period under review, the Group mainly financed its working capital by internal resources and bank borrowings. As at 30 September 2013, cash and cash equivalents amounted to approximately HK$76.7 million (31 March 2013: HK$80.4 million). The group has its primary source of fund from cash generated from the operating activities and short-term bank loans. The modest decrease in cash and cash equivalents is primarily due to the seasonality nature of the business and the increase in yet-to-mature account receivables.

For the Current Period, the Group had a net cash used in operating activities of approximately HK$54.9 million as compared to a net cash from operating activities of approximately HK$31.9 million for the Previous Period. The Group had a net cash used in operating activities for the Current Period which is primarily attributable to (i) the approximately HK$145.2 million increase in trade receivables due to the peak sales seasonality factor of the Group's business; (ii) the approximately HK$11.5 million increase in inventories due to primarily increase in finished goods as our Groups manufactured more finished goods in preparation for shipping the products out to our customers during the peak sales months; and which was partially offset by the approximately HK$71.3 million increase in trade payables. During the Current Period, the Group settled the trade payables to our suppliers faster on average when compared with the Previous Period as the Group utilised a new banking facility of an import trade loan to settle payables via the lending bank as opposed to settlement by the Group's internal working capital according to the respective credit periods agreed with the suppliers in the Previous Period. The import trade loan was drawn down by receipt of supplier invoices and evidence of material delivery and the lending bank settled the payment to the suppliers directly according to the invoices in a timely fashion. This has led to a quicker settlement of trade payables than in the Previous Period and thus a decrease net cash flow from operating activities which was effectively offset in part by an increase in net cash flow from financing activities arising from the drawdown of the new import trade loan to settle the payables as referred to above and in the paragraphs below.

During the Current Period, the Group had a net cash used in investing activities of approximately HK$9.5 million as compared to a net cash from investing activities of approximately HK$1.8 million for the Previous Period. The Group had net cash used in investing activities for the Current Period is mainly due to the acquisition of property, plant and equipment of approximately HK$9.6 million which was part of the capital expenditure plan as described in the "Management Discussion and Analysis" section in the 2013 Annual Report.

During the Current Period, the Group had a net cash from financing activities of approximately HK$60.5 million as compared to a net cash used in financing activities of approximately HK$44.5 million for the Previous Period. The Group had a net cash from financing activities for the Current Period is mainly due to the HK$62.1 million increase of interest-bearing bank borrowings as a result of the drawdown a new import trade loan granted by a bank.

Accordingly, interest-bearing bank borrowings increased to approximately HK$113.0 million as at 30 September 2013 (31 March 2013: HK$50.9 million). Approximately HK$113.0 million (31 March 2013: HK$50.4 million) of the total bank borrowings would be due for repayment within one year while no borrowings (31 March 2013: 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 1.7 (31 March 2013: 2.2). As at 30 September 2013, all bank borrowings were subject to floating interest rates.

As a result of an increase in bank borrowings, the debt to equity ratio of the Group, calculated as the ratio of the closing debt balance over the closing total equity, was approximately 50.3% as at 30 September 2013 (31 March 2013: 25.2%).

Charge on Assets

The Group's leasehold land and building located in Hong Kong with a net book value of HK$628,000 (31 March 2013: HK$637,000) was pledged with a bank for the facilities granted to the Group. Details of the securities for the banking facilities are stated in note 14 to financial information in this announcement.

Contingent Liabilities

As at 30 September 2013, the Group had no contingent liabilities (31 March 2013: Nil).

Operating Lease Arrangements

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

As at 30 September 2013, the Group had total future minimum lease payments under non-cancellable operating leases of approximately HK$3.0 million (31 March 2013: HK$4.1 million), of which approximately HK$2.1 million (31 March 2013: HK$2.2 million) would fall due within one year and approximately HK$0.9 million (31 March 2013: HK$1.9 million) would fall due in the second to fifth year, inclusive.

Capital Commitments

As at 30 September 2013, the commitment of the Group for the acquisition of property, plant and equipment was nil (31 March 2013: HK$634,000).

Significant Investment Held

Except for investments in subsidiaries, the Group did not hold any significant investment in equity interest in any other company as at 30 September 2013.

Material Acquisitions and Disposals of Subsidiaries and Affiliated Companies

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

Future Plans for Material Investments and Capital Assets

As at 30 September 2013, the Group did not have plans to acquire any material investments or capital assets other than those set out in the "Use of Proceeds" paragraph under "Management Discussion and Analysis" section in the 2013 Annual Report.

Foreign Currency Exposures

There has been no material change to the Group's foreign currency forward contract policy as set out in the 2013 Annual Report. The Group is exposed to RMB exchange rate risk as disclosed in the 2013 Annual Report as the expenses or expenditures incurred in the operation of the Group's subsidiary in the PRC were denominated in RMB. The Group had an outstanding non-deliverable forward contract with a notional amount of US$5.0 million as at 30 September 2013 (31 March 2013: US$10.0 million) to manage the foreign currency risk arising from fluctuation in exchange rate of the RMB against the US$.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2013, the Group had a total of 798 employees. Total staff costs were approximately HK$26.3 million for the Current Period (Previous Period: HK$25.2 million).

Remuneration policies in respect of the Directors and senior management of the Group are reviewed regularly by the Remuneration Committee and the Directors, respectively. Remuneration packages of the Group were determined with reference to its remuneration policy based on position, duties and performance of the employees. Employees' remuneration varies according to their positions, which may include salary, overtime allowance, bonus and various subsidies. The performance appraisal cycle varies according to the positions of the employees. Performance appraisal of staff is conducted annually. The performance appraisal is supervised by 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. The Company also adopted a share option scheme for the purpose of rewarding eligible participants for their contribution to the Group.

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 for the year ending 31 March 2014. 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.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed and no transfer of shares will be registered from Monday, 9 December 2013 to Thursday, 12 December 2013, both dates inclusive, for the purpose of determining the entitlements of the Shareholders to the interim dividend. To qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch registrar and transfer office, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than 4:30 pm on Friday, 6 December 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2013.

CORPORATE GOVERNANCE

The Company adopted the Corporate Governance Code (the "Code") set out in Appendix 14 of the Listing Rules as its own code of corporate governance practice. Throughout the interim period under review, the Company has complied with all applicable code provisions under the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the Directors. Having made specific enquiries of all Directors, all the Directors have complied with the required standard set out in the Model Code during the Current Period and up to the date of this announcement.

REVIEW OF INTERIM RESULTS

The unaudited condensed consolidated financial statements and the interim report for the six months ended 30 September 2013 have not been reviewed by the auditor of the Company but have been reviewed by the Audit Committee. The Audit Committee also discussed the financial related matters, including the accounting principles and practices adopted by the Group, with the management during the period under review. The Audit Committee was satisfied that the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2013 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2013/14 INTERIM REPORT

This announcement is published on the website of the Stock Exchange and the Company at www.hkexnews.hk and www.quali-smart.com.hk respectively. The 2013/14 interim report of the Company containing all information required by the Listing Rules will be published on the above websites and dispatched to the Shareholders on or about 9 December 2013.

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

Hong Kong, 22 November 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. 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.