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Quali-Smart Holdings Limited

滙達富控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1348)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2014 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 2014 together with the comparative figures for the preceding period in this announcement.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK cents 3 per Share (2013/14: HK cents 5), amounting to a total of approximately HK\$8.6 million (2013/14: HK\$12.0 million), for the year ending 31 March 2015 to the shareholders of the Company (“**Shareholders**”) whose names appear on the register of members of the Company (“**Register of Members**”) on Monday, 15 December 2014. The interim dividend will be paid on or about Monday, 22 December 2014 to the qualified Shareholders.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
		2014	2013
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
REVENUE	4	522,565	533,489
Cost of sales		(464,740)	(473,859)
Gross profit		57,825	59,630
Other income and gains	4	5,361	7,354
Selling expenses		(13,170)	(13,340)
Administrative expenses		(26,807)	(24,929)
Finance costs	6	(2,025)	(1,098)
PROFIT BEFORE INCOME TAX EXPENSE	5	21,184	27,617
Income tax expense	7	(4,423)	(5,039)
PROFIT FOR THE PERIOD		16,761	22,578
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		17	505
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		16,778	23,083
Earnings per share	9		
— Basic (HK cents)		6.81	9.41
— Diluted (HK cents)		6.77	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		126,095	122,025
Prepaid land lease payments		7,620	7,718
Total non-current assets		133,715	129,743
CURRENT ASSETS			
Inventories	10	165,990	157,747
Trade receivables	11	193,801	28,203
Prepayments, deposits and other receivables		1,331	3,920
Derivative financial instruments	12	1,630	—
Tax recoverable		—	1,807
Cash and cash equivalents		104,705	75,240
Total current assets		467,457	266,917
CURRENT LIABILITIES			
Trade payables	13	118,969	45,539
Receipts in advance, accruals and other payables		34,686	32,210
Interest-bearing bank borrowings	14	127,477	68,119
Income tax payable		161	—
Total current liabilities		281,293	145,868
NET CURRENT ASSETS		186,164	121,049
TOTAL ASSETS LESS CURRENT LIABILITIES		319,879	250,792
NON-CURRENT LIABILITY			
Interest-bearing bank borrowings	14	37,000	40,400
Total non-current liability		37,000	40,400
Net assets		282,879	210,392

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**(continued)**

		At	At
		30 September	31 March
		2014	2014
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
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EQUITY			
Share capital	<i>15</i>	224	187
Reserves		282,655	210,205
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Total equity		282,879	210,392
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2014

	Attributable to the owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Translation reserve HK\$'000	Other reserve HK\$'000	Share option reserve HK\$'000	Retained earnings HK\$'000	Proposed dividends HK\$'000	Total HK\$'000
Unaudited for the six months ended 30 September 2014										
At 1 April 2014 (audited)	187	104,048	9,271	696	4,835	2,100	93	84,362	4,800	210,392
Final dividend paid (note 8)	—	—	—	—	—	—	—	—	(4,800)	(4,800)
Equity settled share-based transactions (note 16)	—	—	—	—	—	—	1,114	—	—	1,114
Proceeds from placing of new shares (note 15)	37	59,963	—	—	—	—	—	—	—	60,000
Issuing expenses of placing new shares	—	(605)	—	—	—	—	—	—	—	(605)
Profit for the period	—	—	—	—	—	—	—	16,761	—	16,761
Other comprehensive income										
Exchange differences on translating foreign operations	—	—	—	—	17	—	—	—	—	17
Total comprehensive income for the period	—	—	—	—	17	—	—	16,761	—	16,778
Transfer to statutory reserve	—	—	—	63	—	—	—	(63)	—	—
Interim dividend declared (note 8)	—	—	—	—	—	—	—	(8,640)	8,640	—
At 30 September 2014 (unaudited)	224	163,406	9,271	759	4,852	2,100	1,207	92,420	8,640	282,879
Unaudited for the six months ended 30 September 2013										
At 1 April 2013 (audited)	187	104,048	9,271	584	4,464	2,100	—	81,085	—	201,739
Profit for the period	—	—	—	—	—	—	—	22,578	—	22,578
Other comprehensive income										
Exchange differences 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)	187	104,048	9,271	642	4,969	2,100	—	103,605	—	224,822

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

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

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2014 ("**Interim Condensed Financial Statements**") have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange. Interim Condensed Financial Statements have not been audited by the Company's auditor but have been reviewed by the audit committee ("**Audit Committee**") of the Board.

The Interim Condensed Financial Statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the audited consolidated financial statements of the Group for the year ended 31 March 2014 (the "**2014 Annual Financial Statements**").

2. Basis of Preparation

The accounting policies applied in preparing the Interim Condensed Financial Statements are consistent with those applied in preparing the 2014 Annual Financial Statements, except for the amendments and interpretations of Hong Kong Financial Reporting Standards ("**New/amended HKFRSs**") issued by HKICPA which have been become effective in this period as detailed in note 2 of the 2014 Annual Financial Statements. The adoption of such New/amended HKFRSs has no material impact on the accounting policies in the Group's Interim Condensed Financial Statements for the period.

3. 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	
	2014	2013
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
North America (<i>note 1</i>)	278,277	279,221
Western Europe		
— United Kingdom	70,392	76,464
— France	19,833	25,317
— Netherland	8,629	15,051
— Others (<i>note 2</i>)	72,161	68,673
South America	16,571	11,366
People's Republic of China ("PRC") and Taiwan	17,478	11,130
Australia, New Zealand and Pacific Islands	13,770	16,306
Central America, Caribbean and Mexico	14,454	13,726
Others (<i>note 3</i>)	11,000	16,235
Total	522,565	533,489

(i) Revenue from external customers (continued)

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 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
Hong Kong	74,755	70,330
Mainland China, the PRC	58,960	59,413
Total	133,715	129,743

(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 2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Customer A	143,124	180,564
Customer B	114,823	135,908
Customer C*	74,104	—
Customer D*	59,253	—

* Customers contributed less than 10% of the Group's revenue during the period ended 30 September 2013.

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	
	2014	2013
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Revenue		
Sale of goods	522,565	533,489
Other income and gains		
Moulding income	2,704	4,813
Net gain on derivative financial instruments	1,630	1,731
Interest income from bank deposits	4	8
Exchange gains, net	97	164
Others	926	638
	5,361	7,354

5. Profit Before Income Tax Expense

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

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	464,740	473,859
Depreciation	8,621	4,600
Amortisation of prepaid land lease payments	103	104
Employee benefits expenses (including Directors' remuneration):		
Wages and salaries	20,810	22,348
Equity settled share-based payment expenses to employees	985	—
Pension scheme contributions	1,982	2,100
Other benefits	2,638	2,427
	26,415	26,875
Equity settled share-based payment expenses to eligible persons other than employees and Directors	129	—
Auditor's remuneration	500	482
Operating lease charges in respect of land and buildings	1,172	1,186

6. Finance Costs

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank advance and other borrowings:		
— wholly repayable within five years	1,768	1,098
— not wholly repayable within five years	257	—
	2,025	1,098

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 the six months ended 30 September 2014 (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 six months ended 30 September 2014 was 25% on its taxable profit (2013: 25%).

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

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current — Hong Kong		
Charge for the period	4,212	4,846
Current — PRC		
Charge for the period	211	193
Total tax charge for the period	4,423	5,039

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	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit before income tax expense	21,184	27,617
Tax at the applicable tax rate of 16.5% (2013: 16.5%)	3,495	4,557
Effect of different tax rate of a subsidiary operating in other jurisdiction	47	42
Tax effect of revenue not taxable for tax purposes	(309)	(314)
Tax effect of expenses not deductible for tax purposes	1,119	683
Tax effect of temporary difference not recognised	71	71
Income tax expense	4,423	5,039

7. Income Tax Expense (continued)

As at 30 September 2014, no deferred tax asset has been recognised in respect of the deductible temporary differences of HK\$430,000 (2013: HK\$430,000) as the amounts are immaterial to the Group. In addition, as at 30 September 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\$6,454,000 (At 31 March 2014: HK\$5,885,000). 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 30 September 2014 in the foreseeable future. Accordingly no deferred tax liabilities have been recognised as at 30 September 2014.

8. Dividends

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
<hr/>		
Interim dividend of HK cents 3 per share		
(2013/14 : HK cents 5 per share)	8,640	12,000

At the Board meeting held on 24 November 2014, the Directors declared an interim dividend of HK cents 3 per share, amounting to HK\$8,640,000 for the year ending 31 March 2015.

The final dividend of HK cents 2 per Share, amounting to HK\$4,800,000 for the year ended 31 March 2014 (2013: Nil) was declared in August 2014 and paid in September 2014.

9. Earnings Per Share

The calculation of basic earnings per share is based on the profit for the six months ended 30 September 2014 of approximately HK\$16,761,000 (2013: HK\$22,578,000), and of the weighted average number of 246,032,787 Shares (2013: 240,000,000 Shares) issued.

9. Earnings Per Share (continued)

For the six months ended 30 September 2014, the weighted average number of Shares for the purpose of diluted earnings per share has been adjusted for the share options that took place on 17 March 2014. The diluted earnings per share was on the adjusted weighted average of 247,488,313 Shares during the period, being the weighted average number of Shares of 246,032,787 used in the basic earnings per share calculation and adjusted for a dilutive effect of the share options during the period of 1,455,526.

No diluted earnings per share are presented for the six months ended 30 September 2013 as the Company has no potential Share for last period.

10. Inventories

	At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
Raw materials	83,782	82,911
Work in progress	28,834	31,360
Finished goods	53,374	43,476
	165,990	157,747

11. 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 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
Current to 30 days	125,695	19,276
31 to 60 days	52,511	3,314
61 to 90 days	13,069	4,451
Over 90 days	2,526	1,162
	193,801	28,203

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

	At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
Neither past due nor impaired	162,611	22,606
Less than 1 month past due	27,551	4,111
1 to 3 months past due	2,674	1,397
Over 3 months past due	965	89
	193,801	28,203

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

11. Trade Receivables (continued)

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 13 months (At 31 March 2014: Nil). The Group would sell US Dollars to the bank in exchange for Renminbi (“RMB”) at the agreed forward rate.

As at 30 September 2014, the notional amount of the outstanding forward contracts were US\$20 million (At 31 March 2014: Nil).

The fair values of foreign currency forward contracts are measured using net cash flows, discounted by the respective forward exchange rates and interest rates matching the maturities of the net cash flows, 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 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
At 1 April	—	1,014
Net gain on derivative financial instruments during the period/year	1,630	1,776
Settlements during the period/year	—	(2,790)
At 30 September / 31 March	1,630	—

13. Trade Payables

The Group normally obtains credit terms ranging from 15 to 60 days from its suppliers. Trade payables are interest-free.

An aged analysis of the trade payables at the end of the reporting period, based on the invoice date, is as follows:

	At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
Current to 30 days	76,548	25,068
31 to 60 days	17,211	10,743
61 to 90 days	22,575	5,360
91 to 365 days	1,327	3,765
Over 365 days	1,308	603
	118,969	45,539

14. Interest-Bearing Bank Borrowings

	At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
Current		
Secured		
— bank loans due for repayment within one year	127,477	68,119
	127,477	68,119
Non-current		
Secured		
— bank loans due for repayment after one year	37,000	40,400
Total interest-bearing bank borrowings	164,477	108,519

14. Interest-Bearing Bank Borrowings (continued)

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

- (i) Certain leasehold land and buildings of the Group with an aggregate net book value of HK\$69,093,000 (At 31 March 2014: HK\$70,170,000); and
- (ii) 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.

At 30 September 2014, total current and non-current bank borrowings were scheduled to be repaid as follows:

	At 30 September 2014 HK\$'000 (Unaudited)	At 31 March 2014 HK\$'000 (Audited)
On demand or within one year	127,477	68,119
More than one year, but not exceeding two years	6,800	6,800
More than two year, but not exceeding five years	20,066	20,066
More than five years	10,134	13,534
	164,477	108,519

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 ignored.

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.

14. Interest-Bearing Bank Borrowings (continued)

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 2014, none of the covenants relating to drawn down facilities had been breached (At 31 March 2014: Nil).

15. Share Capital

	Number of Shares	HK\$'000
Authorised:		
Ordinary Shares of US\$0.0001 each		
At 1 April 2014 and 30 September 2014	500,000,000	389
Issued and fully paid:		
Ordinary Shares of US\$0.0001 each		
At 1 April 2014	240,000,000	187
Placing of new shares (<i>Note (a)</i>)	48,000,000	37
At 30 September 2014 (unaudited)	288,000,000	224

Note:

(a) On 20 August 2014, the Company entered into a placing agreement with a placing agent, an independent third party. On 8 September 2014, the placing was completed. The Company issued 48,000,000 new Shares with par value of US\$0.0001 each at a price of HK\$1.25 each. The issued share capital of the Company was thus increased from HK\$187,000 to HK\$224,000. The excess of the placement proceeds over the nominal value of share capital issued net of the expenses incurred thereon was credited as share premium. The Company intended to apply the net proceeds for the general working capital of the Group, future development of the Group's business and/or other appropriate investment as may be identified by the Directors.

16. Equity Settled Share-Based Payments

There has been no changes in the Company's share option scheme ("Share Option Scheme"), details of which are disclosed in the 2014 Annual Financial Statements.

16. Equity Settled Share-Based Payments (continued)

Set out below are details of movements of the outstanding share options granted under the Share Option Scheme during the period ended 30 September 2014:

	Exercise price	Number of share options at 1 April and 30 September 2014	Date of offer of share options	Periods of share options
Executive Directors				
— Lau Ho Ming, Peter	HK\$1.00	2,400,000	17 March 2014	17 March 2014 to 16 March 2024
— Ng Kam Seng	HK\$1.00	800,000	17 March 2014	17 March 2014 to 16 March 2024
— Poon Pak Ki, Eric	HK\$1.00	500,000	17 March 2014	17 March 2014 to 16 March 2024
Non-executive Directors				
— Li Man Yee, Stella	HK\$1.00	2,400,000	17 March 2014	17 March 2014 to 16 March 2024
— Chu Sheng Yu, Lawrence	HK\$1.00	240,000	17 March 2014	17 March 2014 to 16 March 2024
Independent Non-executive Directors				
— Leung Po Wing, Bowen Joseph	HK\$1.00	240,000	17 March 2014	17 March 2014 to 16 March 2024
— Chan Siu Wing, Raymond	HK\$1.00	240,000	17 March 2014	17 March 2014 to 16 March 2024
— Chu, Raymond	HK\$1.00	240,000	17 March 2014	17 March 2014 to 16 March 2024
Employee	HK\$1.00	120,000	17 March 2014	17 March 2014 to 16 March 2024
Employees	HK\$1.00	2,420,000	17 March 2014	17 March 2014 to 16 March 2019
Consultants	HK\$1.00	1,200,000	17 March 2014	17 March 2014 to 16 March 2024
Total		10,800,000		

16. Equity Settled Share-Based Payments (continued)

The Company recognised equity settled share-based payment expenses of approximately HK\$1,114,000 for the period ended 30 September 2014 (2013: Nil) in relation to share options granted in the year ended 31 March 2014. Equity settled share-based payment expenses comprise:

	Six months ended 30 September	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Equity settled schemes to employees (including Directors)	985	—
Equity settled schemes to eligible persons other than employees and Directors	129	—
	1,114	—

The exercise price of the share options outstanding as at 30 September 2014 was HK\$1.00 and the weighted average remaining contractual life was 4.46 and 9.46 years. As at 30 September 2014, no outstanding share option has been vested.

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.

During the six months ended 30 September 2014 (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\$522.6 million, which is similar to that for the six months ended 30 September 2013 (the “**Previous Period**”) of approximately HK\$533.5 million. The revenue remained stable despite a decrease in sales to the Group's top 2 customers, which is offset by an increase in sales to its other top 5 customers.

Revenue from North America remained steady from approximately HK\$279.2 million for the Previous Period to approximately HK\$278.3 million for the Current Period while the revenue from Western Europe decreased slightly from approximately HK\$185.5 million for the Previous Period to approximately HK\$171.0 million for the Current Period. The sales to customers in new developing regions, namely South America and mainland China and Taiwan resumed substantially by approximately HK\$5.2 million and HK\$6.3 million respectively, representing an increase of 45.8% and 57.0% respectively.

Gross profit of the Group for the Current Period decreased by 3.0% to approximately HK\$57.8 million from that of the Previous Period of approximately HK\$59.6 million. It is mainly due to decrease in sales for the Current Period and an increase in warehouse rental expenses.

The Group's net profit for the period decreased by 25.8% from approximately HK\$22.6 million in the Previous Period to approximately HK\$16.8 million in the Current Period which is mainly due to a decrease in moulding income, additional finance costs, depreciation charge on the property newly acquired last year.

Selling expenses mainly consisted of transportation fees and declaration fees. Selling expenses decreased slightly in line with the revenue by 1.3% from approximately HK\$13.3 million for the Previous Period to approximately HK\$13.2 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 increased by 7.5% from approximately HK\$24.9 million for the Previous Period to approximately HK\$26.8 million for the Current Period, which is primarily due to the additional depreciation charged on the property acquired last financial year. The management strived to maintain the employee benefits expenses at steady by cutting the headcounts though the basic salaries increased and the equity settled share-based payment expenses incurred in relation to the grant of share options.

Other income and gains mainly consisted of moulding income, net gain on derivative financial instruments, interest income and others. Other income and gains decreased by 27.1% from approximately HK\$7.4 million for the Previous Period to approximately HK\$5.4 million for the Current Period, which is primarily due to a decrease of 43.8% in moulding income as less new moulds were made for the existing customers. Such income decreased from approximately HK\$4.8 million for the Previous Period to HK\$2.7 million for the Current Period. Net gain on derivative financial instruments of approximately HK\$1.6 million for dealing with the RMB exchange risk arising from normal operations of the Group was steady as compared with that of the Previous Period of approximately HK\$1.7 million.

Finance costs mainly consisted of interest on the Group's interest-bearing bank borrowings and factoring arrangement from banks. Finance costs increased by 84.4% at approximately HK\$2.0 million for the Current Period when compared with approximately HK\$1.1 million for the Previous Period, which is primarily due to the additional finance costs for the property newly acquired last year.

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 12.2% to approximately HK\$4.4 million for the Current Period, as compared with approximately HK\$5.0 million for the Previous Period.

The inventories of the Group increased by 5.2% to approximately HK\$166.0 million as at 30 September 2014 from approximately HK\$157.7 million as at 31 March 2014, which was primarily due to manufacture of more finished goods in the peak season in preparation for being shipped out to the customers. The inventories turnover days, as calculated by dividing the average closing inventories by the cost of sales for the period and multiplied by 182.5 days, remained steady from 61.5 days for the Previous Period to 63.6 days for the Current Period.

Trade receivables as at 30 September 2014 increased from approximately HK\$28.2 million to approximately HK\$193.8 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 and multiplied by 182.5 days, for the Current Period was 38.8 days (2013: 44.8 days) which is in general within the credit period granted to the Group's customers.

Trade payables as at 30 September 2014 increased from approximately HK\$45.5 million to approximately HK\$119.0 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 and multiplied by 182.5 days, for the Current Period was 32.3 days (2013: 33.4 days).

Liquidity and financial resources

Despite the operating performance, the Group maintained a prudent financial management approach toward its treasury policies and a healthy liquidity position during the interim period ended 30 September 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 Current Period, the Group mainly financed its working capital by internal resources and bank borrowings. As at 30 September 2014, cash and cash equivalents amounted to approximately HK\$104.7 million (31 March 2014: HK\$75.2 million). The increase was mainly due to the additional capital of HK\$59.3 million raised from the Placing (as defined hereunder). Interest-bearing bank borrowings increased to approximately HK\$164.5 million (31 March 2014: HK\$108.5 million) as a result of the additional financing facilities obtained for the property newly acquired last year and the purchases for the peak season. Hence, the debt to equity ratio of the Group, calculated as the ratio of the closing debt balance divided by the closing total equity of the period, was approximately 58.1% (31 March 2014: 51.6%). As at 30 September 2014, all bank borrowings were subject to floating interest rates. The current ratio of the Group, as calculated by total current assets over total current liabilities, was approximately 1.7 (31 March 2014: 1.8).

Placing

On 20 August 2014, the Company entered into an agreement with China Everbright Securities (HK) Limited (“**China Everbright**”) (“**Placing Agreement**”). China Everbright acted as a placing agent to the Company who placed 48,000,000 new shares in the Company to more than six Placees who are independent third parties at a price of HK\$1.25 per share pursuant to the terms and conditions of the Placing Agreement (“**Placing**”). The Placing was completed on 8 September 2014.

Net proceeds of approximately HK\$59.3 million raised from the Placing is intended to be used for general working capital of the Group, future development of the Group’s businesses and/or other appropriate investments as may be identified by the Directors.

Charge on Assets

As at 30 September 2014, certain of the Group’s banking facilities and its interest-bearing bank borrowings were secured by properties of the Group located in Hong Kong with an aggregate net book value of HK\$69.1 million (31 March 2014: HK\$70.2 million). Details of the securities for the banking facilities are stated in note 14 to the condensed consolidated financial statements.

Contingent Liabilities

As at 30 September 2014, the Group had no contingent liabilities (31 March 2014: Nil).

Operating Lease Arrangements

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

As at 30 September 2014, the total future minimum lease payments under non-cancellable operating leases due within one year amounted to approximately HK\$1.2 million (31 March 2014: HK\$1.9 million).

Capital Commitments

As at 30 September 2014, there is no capital commitments of the Group (31 March 2014: HK\$1.3 million for the acquisition of property, plant and equipment).

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 2014.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the period ended 30 September 2014, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Other than the potential acquisition of equity interests in a company under a very preliminary negotiation stage as referred to in an announcement of the Company dated 29 October 2014 and those set out in the paragraph “Use of Proceeds” under the “Management Discussion and Analysis” section in the 2014 Annual Report, as at 30 September 2014, the Group did not have plans to acquire any material investments or capital assets.

FOREIGN CURRENCY EXPOSURES

Substantially all the transactions of the Company’s subsidiaries in Hong Kong are carried out in United States dollar (“US\$”) and Hong Kong dollar (“HK\$”). As HK\$ is linked to US\$, the Group does not have material exchange rate risk on such currency. The expenses or expenditures incurred in the operations of the Company’s subsidiary in the PRC were denominated in RMB, which expose the Group to foreign currency risk. The Group entered into deliverable foreign exchange forward contracts (“DFs”) to manage the foreign currency risk arising from fluctuation in exchange rate of the RMB against the US\$.

As at 30 September 2014, the Group had outstanding DFs with a notional amount of US\$20 million (31 March 2014: Nil). Major terms of the DFs outstanding as at 30 September 2014 are summarized as follows:-

Notional amount	Forward contract rates	Commencement date	Maturity date
1 contract to buy RMB in total of US\$4,000,000	US\$1 to RMB6.269	15 September 2014	17 June 2015
1 contract to buy RMB in total of US\$3,000,000	US\$1 to RMB6.249	15 September 2014	17 June 2015
1 contract to buy RMB in total of US\$3,000,000	US\$1 to RMB6.259	15 September 2014	17 June 2015
1 contract to buy RMB in total of US\$3,000,000	US\$1 to RMB6.297	9 July 2014	13 July 2015
1 contract to buy RMB in total of US\$2,000,000	US\$1 to RMB6.300	10 July 2014	14 July 2015
1 contract to buy RMB in total of US\$2,500,000	US\$1 to RMB6.310	11 July 2014	15 July 2015
1 contract to buy RMB in total of US\$2,500,000	US\$1 to RMB6.320	15 July 2014	17 July 2015

Note : No gain or loss has been realized for the outstanding DFs as at 30 September 2014.

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2014, the Group had a total of 725 employees (31 March 2014: 797). Total staff costs were approximately HK\$26.4 million for the period ended 30 September 2014 (2013: HK\$26.9 million).

Remuneration policies in respect of the Directors and senior management of the Group are reviewed regularly by the Remuneration Committee and the Directors, respectively. Remuneration packages of the Group were determined with reference to its remuneration policy based on position, duties and performance of the employees. Employees' remuneration varies according to their positions, which may include salary, overtime allowance, bonus and various subsidies. The performance appraisal cycle varies according to the positions of the employees. Performance appraisal of staff is conducted annually. The performance appraisal is supervised by the executive Directors. 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 brand which mainly distribute their products in North America and Western Europe. Based on the current market situations, the Group's current production level and on-going business relationships 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 pressure in both sales volume and margins. As mentioned in the 2014 Annual Report, the labour costs and the material costs have remained high in the PRC, leading to increased processing fees incurred in manufacturing. Not all such increase in production costs may necessarily be able to be passed onto its customers. The Directors expect that the Group will continue to face a trend of increasing labour costs and processing fees in the future and labour shortages in the PRC will continue to pose challenges to all manufacturing industries in the PRC. To mitigate the stringent business environment, the Directors are considering to adopt a diversification strategy and are investigating other business opportunities for the Group.

CLOSURE OF REGISTER OF MEMBERS

The Board has declared an interim dividend of HK cents 3 per share (2013/14: HK cents 5 per share) for the year ending 31 March 2015. The Register of Members will be closed with relevant dates for the payment of interim dividend as follows:

Ex-dividend date	10 December 2014
Closure of Register of Members	12 to 15 December 2014 (both dates inclusive)
Record date	15 December 2014
Payment of dividend	on or about 22 December 2014

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 share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 pm on Thursday, 11 December 2014.

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 2014.

CORPORATE GOVERNANCE

The Company adopted the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) (the “**Code**”) as its own code of corporate governance practice. Throughout the Current Period, 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 under the Code, 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 Executive Chairman of the Company with effect from 25 November 2013. He has ceased to act as the CEO since then. The role of CEO has been taken up by all executive Directors. The Directors believe such arrangement would achieve a better balance of power and responsibilities.

DIRECTORS’ SECURITIES TRANSACTIONS

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

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the Interim Condensed Financial Statements and the interim report for the six months ended 30 September 2014 and discussed the financial related matters, including the accounting principles and practices adopted by the Group, with the management. The Audit Committee was satisfied that the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2014 have been prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND 2014/15 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 2014/15 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 12 December 2014.

By Order of the Board
Quali-Smart Holdings Limited

Lau Ho Ming, Peter
Executive Chairman

Hong Kong, 24 November 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, Mr. Chu Sheng Yu, Lawrence and Mr. Wang Zhao 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.