

QUALI-SMART HOLDINGS LIMITED

滙達富控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1348



GLOBAL OFFERING

Sole Sponsor



CIMB Securities Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



Sun Hung Kai International Limited (A member of Sun Hung Kai Financial)

* For identification purpose only

IMPORTANT

IMPORTANT: If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

QUALI-SMART HOLDINGS LIMITED

(滙達富控股有限公司)*

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Total number of Offer Shares under the Global Offering	: 60,000,000 Shares
Number of Hong Kong Public Offer Shares	: 6,000,000 Shares (subject to adjustment)
Number of International Offer Shares	: 54,000,000 Shares (subject to adjustment)
Offer Price	: A maximum of HK\$1.50 per Share, plus brokerage of 1%, SFC transaction levy of 0.003% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application and subject to refund on final pricing)
Nominal value	: US\$0.0001 per Share
Stock code	: 1348

Sole Sponsor



CIMB Securities Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



Sun Hung Kai International Limited

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus. A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator and our Company on or before Wednesday, 16 January 2013 or such later time as may be agreed between the parties, but in any event, no later than Thursday, 17 January 2013. If, for any reason, the Sole Global Coordinator and our Company are unable to reach an agreement on the Offer Price by Thursday, 17 January 2013, the Global Offering will not become unconditional and will lapse immediately. The Offer Price will be not more than HK\$1.50 per Share and is expected to be not less than HK\$1.00 per Share although the Sole Global Coordinator and our Company may agree to a lower price. The Sole Global Coordinator may, with the consent of our Company, following prior consultation with the Sole Sponsor reduce the indicative Offer Price range below that stated in this prospectus (being HK\$1.00 per Share to HK\$1.50 per Share) at any time on or prior to the morning of the last date for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Hong Kong Public Offer Shares and/or the indicative Offer Price range will be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.quali-smart.com.hk as soon as practicable but in any event not later than the morning of the day which is the latest day for lodging applications under the Hong Kong Public Offering. For further information, see the sections headed "Structure and Conditions of the Global Offering" and "How to Apply for the Hong Kong Public Offer Shares" in this prospectus.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, and in particular, the risk factors set out in the section headed "Risk Factors".

Pursuant to the termination provisions contained in the Hong Kong Underwriting Agreement in respect of the Hong Kong Public Offer Shares, the Sole Global Coordinator and the Sole Sponsor have the right in certain circumstances, in its absolute discretion, to terminate the obligation of the Hong Kong Underwriter pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for Termination". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the US Securities Act or any state securities laws in the United States, and may not be offered or sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable US state securities laws. The Offer Shares are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S.

* For identification purpose only

11 January 2013

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under the HK eIPO White Form service through the designated website at www.hkeipo.hk (<i>note 3</i>)	11:30 a.m. on Wednesday, 16 January 2013
Application lists for the Hong Kong Public Offering open (<i>note 2</i>)	11:45 a.m. on Wednesday, 16 January 2013
Latest time for lodging WHITE and YELLOW Application Forms and giving electronic application instructions to HKSCC (<i>note 7</i>)	12:00 noon on Wednesday, 16 January 2013
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Wednesday, 16 January 2013
Application lists close (<i>note 2</i>)	12:00 noon on Wednesday, 16 January 2013
Expected Price Determination Date (<i>note 4</i>)	Wednesday, 16 January 2013
Announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing and the basis of allocation of the Hong Kong Public Offer Shares to be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.quali-smart.com.hk on or before (<i>note 5</i>)	Tuesday, 22 January 2013
Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels. (See the section headed "How to Apply for the Hong Kong Public Offer Shares — Results of allocations") from	Tuesday, 22 January 2013
Results of allocations for the Hong Kong Public Offering will be available at www.tricor.com.hk/ipo/result with a "search by ID" function	Tuesday, 22 January 2013
Share certificates (if applicable) in respect of wholly or partially successful applications to be despatched on or before	Tuesday, 22 January 2013
White Form e-Auto Refund payment instructions/Refund cheques in respect of wholly successful (if applicable) or wholly or partially unsuccessful applications to be despatched on or before (<i>note 6</i>).	Tuesday, 22 January 2013
Dealings in Shares on the Stock Exchange to commence on	Wednesday, 23 January 2013

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering”.
- (2) If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 16 January 2013, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for the Hong Kong Public Offer Shares — Effect of bad weather on the opening of the application lists”.
- (3) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (4) The Offer Price is expected to be determined by Wednesday, 16 January 2013, but in any event, the expected time for determination of the Offer Price will not be later than Thursday, 17 January 2013. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator and our Company by Thursday, 17 January 2013, the Global Offering will not proceed.
- (5) If the Offer Price is determined on or before Thursday, 17 January 2013, the announcement of the Offer Price, the level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Placing and the basis of allocation of the Hong Kong Public Offer Shares and the successful applicants’ identification document numbers will be published on or before Tuesday, 22 January 2013.
- (6) Applicants who apply for 1,000,000 Hong Kong Public Offer Shares or more under the Hong Kong Public Offering and have indicated on their Application Forms that they wish to collect any refund cheque(s) (if applicable) and/or Share certificate(s) (if applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, may do so in person from 9:00 a.m. to 1:00 p.m. on Tuesday, 22 January 2013. Applicants being individuals who apply for 1,000,000 Hong Kong Public Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who apply for 1,000,000 Hong Kong Public Offer Shares or more and opt for personal collection must attend by their authorized representatives bearing letters of authorisation from their corporations stamped with the corporations’ chop. Identification and (where applicable) authorisation documents acceptable to our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, must be produced at the time of collection. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified on the relevant Application Forms. Further details are set out in the paragraph headed “Dispatch/Collection of Share Certificates and Refund Monies” in the section headed “How to Apply for the Hong Kong Public Offer Shares”.
- (7) Applicants who apply for Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to Apply for the Hong Kong Public Offer Shares — How to apply by giving electronic application instructions to HKSCC” for details.

Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Tuesday, 22 January 2013, but will only become valid certificates of title at 8:00 a.m. on the Listing Date, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed “Underwriting — Hong Kong Underwriting Arrangements — Hong Kong Public Offering — Grounds for termination” has not been exercised. Investors who trade Shares on the basis of publicly available allocation details before the receipt of Share certificates and before they become valid do so entirely at their own risk.

For details of the structure of the Global Offering, including the conditions thereof, please refer to the section headed “Structure and Conditions of the Global Offering”.

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This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorized anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus or the Application Forms must not be relied on by you as having been authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriter, any of our or their respective directors, officers, representatives, or affiliates, or any other person or party involved in the Global Offering. Information contained in our website, located at www.quali-smart.com.hk, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks of investing in the Offer Shares are set forth in the section headed "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

Our business model

We are a toy manufacturer offering services primarily on an OEM basis. We manufacture finished products for our customers according to their specifications, and the products are sold by our customers under their own brand names. Our customers include several internationally reputable toy brands including our largest customer, Customer A, which is an internationally renowned toy company based in United States, LeapFrog and Tollytots.

Aiming to provide our customers with one-stop development services, we offer our 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, we are capable of manufacturing diversified product classes in our production operations with focus on toy products for infants aged 3 or below which require very stringent safety standards. Our key manufacturing capabilities 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.

As part of our ancillary value-added services, we also offer ODM services in the product development for some of our customers. Such customers rely on our design engineering capabilities, prototyping skills as well as our advice for their product development. We apply our design engineering knowledge in the course of manufacturing products and provide such customers with advice whenever appropriate so as to facilitate the manufacturing process and enhance the quality of their products.

Our customers

Our largest customer, being Customer A, is an internationally renowned toy company based in the United States. Our other key customers are also internationally well known toy brands, including LeapFrog and Tollytots. All of these customers are our top ten customers in terms of revenue during the Track Record Period. In line with customary industry practice, our major customers do not enter into long term contracts. However, as of the Latest Practicable Date, we have been maintaining business relationships with our largest customer, Customer A, for over 10 years.

Our sales to our top five customers for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to approximately HK\$740,674,000, HK\$643,558,000, HK\$763,263,000, HK\$230,483,000 and HK\$242,736,000, which accounted for approximately 92%, 88%, 87%, 86% and 87%, respectively, of our total turnover for each of the years ended 31 March 2010,

SUMMARY

2011 and 2012 and the four months ended 31 July 2011 and 2012, respectively. Our sales to our largest customer, Customer A, for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to approximately HK\$519,277,000, HK\$385,522,000, HK\$448,982,000, HK\$144,640,000 and HK\$144,296,000, which accounted for approximately 65%, 53%, 51%, 54% and 52%, respectively, of our total turnover for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, respectively.

During the Track Record Period and as of the Latest Practicable Date, we have not experienced any material adverse impact on our operating performance and financial position due to the financial turmoil in North America and Europe, and we have not experienced any significant or material decrease in purchase order or extended credit terms to our customers except to Customer A, which our Group renegotiated a new credit policy from 30 days to 45 days during the year ended 31 March 2012.

Raw materials and suppliers

We source our raw materials from suppliers located in PRC, Taiwan and Hong Kong. We select our suppliers according to criteria such as pricing, quality, reliability and lead time.

We purchase the raw materials used in manufacturing the products for Customer A through either one of the following methods: (i) directly from Customer A in an arrangement (the “Arrangement”) implemented by Customer A in which Customer A is involved in the sale and purchase of raw materials; (ii) from designated suppliers of Customer A participated in the Arrangement; (iii) from recommended certified suppliers of Customer A participated in the Arrangement; and (iv) from other suppliers selected by our Group. The main objectives for Customer A to implement the Arrangement are to leverage purchasing volume so as to increase cost competitiveness and to secure stable supply of raw materials.

Except for a few types of raw materials purchased from some designated suppliers of Customer A (i.e. type 2 of the above purchase method) involving specific requirements from Customer A such as fabric with specific designs required by Customer A, which need to be sourced from some of the designated suppliers of Customer A, we have the discretion in choosing any one of the above type 1, type 3 and type 4 purchase methods when we select our suppliers for all the raw materials used in manufacturing the products of Customer A. In selecting the suppliers, we will obtain quotations from various suppliers (including Customer A and its recommended certified suppliers in some cases) and make the final decision based on various factors including pricing, quality, reliability and lead time.

Pursuant to the Arrangement which our Group directly places procurement orders with Customer A or with certain suppliers designated or certified by Customer A, our Group bears all the material costs. Under the Arrangement, the purchase costs are settled by way of Customer A first making settlement for the procurement orders directly and the amounts settled by Customer A will then be set off against the payment for the products we manufactured and sold to Customer A. The transactions between our Group and Customer A are accounted for as trading income (i.e. record the gross sales amount and the related cost of sales and recognise the inventory in the balance sheet), rather than as subcontracting arrangement (i.e. record the net sales amount (subcontracting income) and not to recognise the inventory in the balance sheet). According to Hong Kong Accounting Standard 18 — Revenue, our Group has exposure to the significant risks and rewards associated with the sales of goods and the purchase of raw materials. Therefore, the transactions with Customer A were accounted for as trading income of which the sales to Customer A were booked as revenue in gross basis and the related cost of sales were recognised in the consolidated income statement of our Group. The raw materials purchased pursuant to the Arrangement were recognised as inventory in the consolidated statement of financial position during the Track Record Period.

SUMMARY

Please refer to the paragraphs headed “Accounting treatment of our transactions with Customer A” in the “Business” section of this prospectus for further details.

Our products

We classify our products into two categories, namely products for aged 3 or below and products for aged above 3. Based on the industry expertise and knowledge of our Directors, we understand such classification is in line with common industry practice for toy manufacturers. The products for different category include the following:

- For products for aged 3 or below, they include water teeters, rockers and bouncers, cradle swings, baby activity gyms and baby mobiles, and mechanical plush toys
- For products for aged above 3, they include electronic games, action figures, dolls, playsets and mechanical plush toys

We emphasise on the quality of our products that fulfils strictly the stringent international safety standards as well as our customers’ specifications and requirements. To ensure manufacturing processes are performed to the highest quality standards, we have obtained ISO9001:2008 certification since May 2007 and the certificate is valid from February 2010. Other certifications obtained by us include Export Toys Quality Permit (Registration) (出口玩具質量許可(註冊登記)證書).

For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, our sales volume was approximately 22 million pieces, 23 million pieces, 22 million pieces, 7 million pieces and 7 million pieces respectively and the selling price of our Group’s products ranged from approximately HK\$5 to HK\$250 per piece, HK\$5 to HK\$260 per piece, HK\$5 to HK\$360 per piece, HK\$5 to HK\$360 per piece, and HK\$5 to HK\$192 per piece respectively.

Our business operations and production facilities

Headquartered in Hong Kong, we have a production base located in Foshan, Guangdong Province, the PRC.

For our headquarters, our three Hong Kong operating subsidiaries, namely Sunmart (which directly holds Foshan Haoda), Qualiman Technology and Qualiman Industrial are principally engaged in the trading of toy products, accepting purchase orders, purchasing raw materials, arranging for shipment of products and customer affairs liaison.

Our production base is operated by Foshan Haoda, our wholly-owned subsidiary in the PRC and is situated at No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan City, Guangdong Province, the PRC. The land use rights and building ownership rights of such production base is owned by us. The seven buildings comprised in the Haoda Factory (namely, three industrial buildings, two dormitory buildings, a staff canteen and a storage house) occupy a total gross floor area of approximately 35,814 sq.m.. During the Track Record Period, Foshan Haoda housed a workforce ranging from about 455 to about 880 employees, depending on seasonality. As at the Latest Practicable Date, Foshan Haoda housed a workforce of about 748 employees.

SUMMARY

In addition to our own production base, our products are also manufactured by the Processing Factory under processing arrangements among the Processing Factory, Qualiman Industrial and Qualiman Technology. The Processing Factory is located at Heng Road, Tanbei Village Yongan Industrial Zone, Guanyao, Nanhai District, Foshan City, Guangdong Province, PRC (中國廣東省佛山市南海區官窯永安管理區譚北村“橫路”). The Processing Factory comprises three industrial buildings, three dormitory buildings and other ancillary facilities and in aggregate occupy a total gross floor area of approximately 30,564 sq.m.. During the Track Record Period, the Processing Factory housed a workforce ranging from about 836 to about 2,089 employees, depending on seasonality. As at the Latest Practicable Date, the Processing Factory housed a workforce of about 1,458 employees.

SUMMARY OF OUR FINANCIAL PERFORMANCE

The summary of the consolidated financial information of our Group for each of the three years ended 31 March 2010, 2011, 2012 and the four months ended 31 July 2011 and 2012 set forth below is derived from the Accountant's Report set forth in Appendix I to this prospectus and should be read in conjunction with the Accountant's Report and notes thereto.

Highlight of consolidated income statements

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Revenue	<u>803,432</u>	<u>729,776</u>	<u>876,667</u>	<u>267,116</u>	<u>279,657</u>
Gross profit	<u>90,192</u>	<u>79,094</u>	<u>99,372</u>	<u>29,751</u>	<u>34,510</u>
Profit for the year/period	<u>26,762</u>	<u>9,496</u>	<u>47,676</u>	<u>11,782</u>	<u>5,198</u>

Highlight of consolidated statements of financial position

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>
Total non-current assets	<u>34,731</u>	<u>35,697</u>	<u>33,811</u>	<u>37,354</u>
Total current assets	<u>208,275</u>	<u>241,233</u>	<u>303,279</u>	<u>398,333</u>
Total current liabilities	<u>173,197</u>	<u>196,676</u>	<u>237,280</u>	<u>330,845</u>
Net current assets	<u>35,078</u>	<u>44,557</u>	<u>65,999</u>	<u>67,488</u>
Net assets	<u>69,809</u>	<u>80,254</u>	<u>99,810</u>	<u>104,842</u>

SUMMARY

The following table sets forth our selected financial information and operating data for the Track Record Period:

Selected operating data

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
Gross profit margin ^(Note 1)	11.2%	10.8%	11.3%	11.1%	12.3%
Net profit margin ^(Note 2)	3.3%	1.3%	5.4%	4.4%	1.9%
Debt to equity ratio (as at the respective year/period end) ^(Note 3)	49.9%	93.0%	91.4%	119.4%	120.4%
Return on equity ^(Note 4)	38.3%	11.8%	47.8%	12.7%	5.0%
Debtors' turnover days ^(Note 5)	34.0	29.0	29.2	47.9	52.4
Inventories' turnover days ^(Note 6)	37.9	63.2	69.5	88.7	90.1

Notes:

- (1) Gross profit margin equals to gross profit divided by revenue and multiplied by 100%.
- (2) Net profit margin equals to net profit divided by revenue and multiplied by 100%.
- (3) Debt to equity ratio equals to the closing debt of the period divided by the closing total equity of the period and multiplied by 100%. Debts are defined to include payables incurred not in the ordinary course of business, which includes interest-bearing bank borrowings, amount due to related parties, amount due to a director and loan from a director.
- (4) Return on equity equals to net profit attributable to shareholders divided by shareholders' equity and multiplied by 100%.
- (5) Debtors' turnover days equals to the average trade receivables for the last two periods divided by the revenue for the period, multiplied by 365 days in respect of year periods or multiplied by 122 days in respect of four-month periods.
- (6) Inventories' turnover days equals to the average inventories for the last two periods divided by the cost of sales for the period, multiplied by 365 days in respect of year periods or multiplied by 122 days in respect of four-month periods.

Analysis of our financial results

Revenue

Our Group's revenue increased from approximately HK\$729.8 million for the year ended 31 March 2011 to approximately HK\$876.7 million for the year ended 31 March 2012. Such increase was mainly attributable to the increase in revenue from North America as a result of the recovery of the retail market in North America. Our Group's revenue decreased from approximately HK\$803.4 million for the year ended 31 March 2010 to approximately HK\$729.8 million for the year ended 31 March 2011. Such decrease was mainly attributable to the decrease in revenue from both the North America and Western Europe regions as a result of the lingering effects of the credit crisis.

SUMMARY

Our Group's revenue increased from approximately HK\$267.1 million for the four months ended 31 July 2011 to approximately HK\$279.7 million for the four months ended 31 July 2012, representing an increase of approximately 4.7%. Such increase was mainly attributable to the increase in revenue from Western Europe, Central America, Caribbean, Mexico and the "others" category, which was partially offset by the decrease in revenue from North America. The increase in revenue from Western Europe was primarily due to mainly increased product demand from Western Europe and Customer A selling more to Western Europe and the decrease in revenue from North America was primarily due to Customer A selling less to North America.

Net profit margin

Our Group's net profit margin after tax increased from approximately 1.3% for the year ended 31 March 2011 to approximately 5.4% for the year ended 31 March 2012. Such increase was mainly attributable to the decrease in selling expenses as a percentage of revenue and the loss on liquidation of an associate during the year ended 31 March 2011. Our Group's net profit margin after tax decreased from approximately 3.3% for the year ended 31 March 2010 to approximately 1.3% for the year ended 31 March 2011. Such decrease was mainly attributable to the loss on liquidation of an associate during the year ended 31 March 2011 and the higher effective tax rate during the year ended 31 March 2011 due to the tax non-deductible nature of the loss on liquidation of an associate. Our Group's net profit margin decreased from approximately 4.4% for the four months ended 31 July 2011 to approximately 1.9% for the four months ended 31 July 2012. Such decrease was mainly attributable to the Listing expenses incurred by the Group due to the Global Offering during the four months ended 31 July 2012.

Financial ratios

Our Group's debt to equity ratios as at 31 March 2010, 2011 and 2012 and as at 31 July 2011 and 2012 were approximately 49.9%, 93.0%, 91.4%, 119.4% and 120.4% respectively. The increase in our Group's gearing ratio as at 31 March 2011 compared to that as at 31 March 2010 and as at 31 July 2012 compared to that as at 31 March 2012 was primarily due to the increase in interest-bearing bank borrowings. The interest-bearing bank borrowings were primarily used for the purpose of purchasing raw materials for production in the coming peak sales months.

Our Group's return on equity for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 were approximately 38.3%, 11.8%, 47.8%, 12.7% and 5.0% respectively. The fluctuations in return on equity ratio during the Track Record Period were primarily due to changes in the profit after tax.

Our Group's average debtors' turnover days for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 were approximately 34.0 days, 29.0 days, 29.2 days, 47.9 days and 52.4 days respectively. The increase in debtors' turnover days for the four months ended 31 July 2012 compared to the year ended 31 March 2012 was primarily due to the seasonality of our Group's business as our Group was just entering the peak sales season. As the trade receivable numerator in calculating the debtors' turnover days is an average of the 31 March 2012 and 31 July 2012 balances and the revenue denominator represents mainly non-peak season revenue from April 2012 to end of July 2012, the debtors' turnover days for the four months ended 31 July 2012 substantially increased from that for the year ended 31 March 2012. The substantial increase in debtors' turnover days during the peak sales season every year is normal for our Group.

SUMMARY

due to the seasonality nature of our business, which is evident from the relatively high debtors' turnover days of approximately 47.9 days for the four months ended 31 July 2011. Historically, our Group's debtors' turnover days dropped back to comparable levels after peak sales season. The debtors' turnover days for the year ended 31 March 2012 and for the year ended 31 March 2011 remained relatively stable at approximately 29.2 days and 29.0 days, respectively. The decrease in the debtors' turnover days for the year ended 31 March 2011 from the previous year was primarily due to the earlier settlement by our Group's customers.

Our Group's average inventories' turnover days for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 were approximately 37.9 days, 63.2 days, 69.5 days, 88.7 days and 90.1 days respectively. The increase in inventories' turnover days for the four months ended 31 July 2012 compared to the year ended 31 March 2012 was primarily due to the seasonality of our Group's business as our Group was just entering the peak sales season. During the peak sales season, our Group produced a large amount of finished goods and had them stored in our warehouses to prepare for shipping out to our customers. As a result, our Group's inventories' turnover increased substantially for the four months ended 31 July 2012. The substantial increase in inventories' turnover days during the peak sales season every year is normal for our Group due to the seasonality nature of our business, which is evident from the relatively high inventories' turnover days of approximately 88.7 days as at 31 July 2011. Historically, our Group's inventories' turnover days dropped back to comparable levels after peak sales season. The increase in inventories' turnover days during the three years ended 31 March 2012 was primarily due to the increase in our Group's raw materials and finished goods to cope with the anticipated increase in revenue in the coming year and not due to the fact that our Group's customers were unwilling or delayed in taking up the finished goods at the expense of our Group.

Please refer to the "Financial Information" section of this prospectus for more details on the analysis on our Group's financial information during the Track Record Period.

Segmental breakdown

Geographic breakdown

We mainly export our products to North America and Western Europe. Revenue from North America accounted for approximately 54.5%, 49.3% and 56.8% of our total revenue for each of the three years ended 31 March 2012, respectively, and approximately 57.1% and 47.6% of our total revenue for the four months ended 31 July 2011 and 2012, respectively. Revenue from Western Europe accounted for approximately 34.0%, 33.7% and 27.8% of our total revenue for each of the three years ended 31 March 2012, respectively, and approximately 25.3% and 32.7% of our total revenue for the four months ended 31 July 2011 and 2012, respectively.

SUMMARY

The table below sets out the geographical breakdown of our revenue during the Track Record Period by reference to the shipping destination of our products^(Note 1).

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
North America ^(Note 2)	437,799	54.5	360,004	49.3	498,166	56.8	152,415	57.1	133,081	47.6
Western Europe										
— UK	100,038	12.5	94,407	13.0	86,197	9.8	24,090	9.0	29,211	10.4
— France	45,614	5.6	46,033	6.3	51,154	5.8	17,238	6.5	15,955	5.7
— Netherland	31,998	4.0	26,625	3.6	27,037	3.1	8,995	3.4	8,930	3.2
— Others ^(Note 3)	95,954	11.9	78,964	10.8	79,532	9.1	17,177	6.4	37,473	13.4
Total for Western Europe	273,604	34.0	246,029	33.7	243,920	27.8	67,500	25.3	91,569	32.7
PRC & Taiwan	10,960	1.4	27,660	3.8	41,545	4.8	14,651	5.5	9,784	3.5
Australia, New Zealand & Pacific Islands	20,177	2.5	21,866	3.0	18,053	2.1	8,614	3.2	10,345	3.7
South America	19,524	2.4	23,067	3.2	21,070	2.4	10,229	3.8	12,891	4.6
Central America, Caribbean, Mexico	15,865	2.0	20,266	2.8	24,750	2.8	7,294	2.7	10,840	3.9
Others ^(Note 4)	25,503	3.2	30,884	4.2	29,163	3.3	6,413	2.4	11,147	4.0
Total turnover	803,432	100.0	729,776	100.0	876,667	100.0	267,116	100.0	279,657	100.0

Notes:

- The geographical breakdown was prepared based on shipping destination without taking into account of the re-export of our products by the customers.
- North America refers to the U.S. and Canada.
- Others include Germany, Belgium, Italy, Ireland and Spain.
- Others include Africa, India, Japan, Korea, Mediterranean, Russia and Southeast Asia.

Segmental breakdown by target age groups

The table sets out below illustrates the segmental breakdown of our Group's revenue by reference to the target age groups during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Products for aged 3 or below	655,682	81.6	538,524	73.8	598,293	68.2	188,237	70.5	208,780	74.7
Products for aged above 3	147,750	18.4	191,252	26.2	278,374	31.8	78,879	29.5	70,877	25.3
Total	803,432	100.0	729,776	100.0	876,667	100.0	267,116	100.0	279,657	100.0

SUMMARY

PERFORMANCE OF OUR GROUP SUBSEQUENT TO 31 JULY 2012

Based on the unaudited management accounts of our Group for the three months ended 31 October 2012, our Group's revenue decreased by approximately HK\$74.1 million, representing a decrease of approximately 18.9%, from approximately HK\$392.4 million for the three months ended 31 October 2011 to approximately HK\$318.3 million for the three months ended 31 October 2012. The decrease in revenue for the three months ended 31 October 2012 was mainly attributable to the decrease in sales orders from several existing customers, in particular from Customer A as Customer A's financial performance in the first half of year 2012 was relatively weaker and therefore was more prudent in placing orders from its suppliers, including our Group. Revenue generated from Customer A for the three months ended 31 October 2012 was HK\$117.1 million, representing a decrease of approximately 34.1% from approximately HK\$177.7 million for the three months ended 31 October 2011. The drop in revenue from Customer A was partially offset by the increase in revenue from LeapFrog and another new customer. Our Group's cost of sales decreased by approximately HK\$68.4 million, representing a decrease of approximately 19.6% from approximately HK\$348.6 million for the three months ended 31 October 2011 to approximately HK\$280.2 million for the three months ended 31 October 2012. The decrease in cost of sales was in line with the decrease in revenue. As the percentage decrease in revenue was relatively smaller than the percentage decrease in cost of sales, which was primarily due to our Group's ability in negotiating a better mark-up margin for the mix of products being sold during the three months ended 31 October 2012 due to the products' increased complexity, our Group's gross profit margin increased from approximately 11.2% for the three months ended 31 October 2011 to approximately 12.0% for the three months ended 31 October 2012.

Our Group's general administrative expenses increased from approximately HK\$10.2 million for the three months ended 31 October 2011 to approximately HK\$11.7 million for the three months ended 31 October 2012, representing an increase of approximately 14.7%. The increase was mainly attributable to the expenses in relation to the Listing as a result of fees paid to various professional parties involved in the Listing and the increase in salary expenses due to overtime payment incurred for preparation of the Listing. Expenses in relation to the Listing amounted to approximately HK\$0.9 million for the three months ended 31 October 2012. Our Group expects to recognise approximately HK\$6.6 million additional expenses in the consolidated income statement in relation to the Listing subsequent to 31 October 2012. The net profit of our Group for the three months ended 31 October 2012 was approximately HK\$16.9 million, representing a decrease of HK\$3.8 million from approximately HK\$20.7 million for the three months ended 31 October 2011. Our Group's net profit margin remained stable at approximately 5.3% for the three months ended 31 October 2011 and for the three months ended 31 October 2012. Excluding the effects of expenses in relation to the Listing, our Group's net profit margin increased from approximately 5.3% for the three months ended 31 October 2011 to approximately 5.6% for the three months ended 31 October 2012. Our Directors currently estimate that our Group will recognise expenses in relation to the Listing in the consolidated income statements for the financial year ending 31 March 2013 in the amount of approximately HK\$15.3 million (on the basis that 100% of the underwriting commission is offset against equity, and approximately 75% of the other listing expenses are expensed in the income statements and the remaining 25% are offset against equity), which is expected to result in a significant decrease in our net profit for the year ending 31 March 2013.

SUMMARY

Based on the current market situation, our current production level and the on-going business relationships with our existing customers, our Directors expect a slight drop in the revenue of our Group for the year ending 31 March 2013 as compared to the same period of 2012. Our Group did not experience any material decrease in both customers' orders or average selling price of our products during the three months ended 31 October 2012 as compared to the same period of 2011.

Our Directors are responsible for the preparation and fair presentation of our Group's unaudited financial statements for the three months ended 31 October 2012 in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our Group's unaudited financial statements for the three months ended 31 October 2012 are unaudited but have been reviewed by our Group's reporting accountants, BDO Limited, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review on Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of our Group since 31 July 2012, being the date to which the latest audited financial statements of our Group were made up which have been set out in the Accountant's Report attached as Appendix I to this prospectus. Our Directors further confirm that our Group has not extended credit to our existing customers nor experienced any material decrease in customers' orders and average selling prices from existing customers subsequent to 31 July 2012 and up to the Latest Practicable Date.

Furthermore, our Directors confirm that there is no material change in both our pricing strategies (which are based on a cost-plus model, which principally takes into account material cost, labour cost, manufacturing overhead and a mark-up) and the mark-up under our Group's cost-plus model subsequent to the Track Record Period and up to the Latest Practicable Date.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths allow us to achieve sustainable growth: (a) we have established relationships with our major customers; (b) we possess a broad range of production capabilities with vertically and horizontally integrated operation; (c) we possess an experienced management team; (d) we place great emphasis on the quality and safety of our products; and (e) we have introduced lean production practices to optimize our productivity. Please refer to the section headed "Business — Our competitive strengths" in this prospectus for more details.

OUR BUSINESS STRATEGIES

With the aim of further developing our business and continuing our growth, we plan to pursue the following principal business strategies: (a) further expand our production capacity and improve our production efficiency; (b) strengthen and expand customer bases; and (c) enhance our design and product development capabilities. Please refer to the section headed "Business — Our business strategies" in this prospectus for more details.

SUMMARY

OFFER STATISTICS

	<u>Based on an Offer Price of HK\$1.00 per Share</u>	<u>Based on an Offer Price of HK\$1.50 per Share</u>
Market capitalisation of our Shares ^(Note 1)	HK\$240 million	HK\$360 million
Historical price/earnings multiple ^(Note 2)	5.0 times	7.5 times
Unaudited pro forma adjusted net tangible asset value per Share ^(Note 3)	HK\$0.59	HK\$0.70

Notes:

- (1) The calculation of the market capitalisation of our Shares is based on 240,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue but does not take into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (2) The calculation of the historical price/earnings multiple is based on the historical earnings per share of approximately 20 HK cents for the year ended 31 March 2012, the respective Offer Price range of HK\$1.00 and HK\$1.50 per Share and on the assumption that 240,000,000 Shares comprising Shares in issue as at the date of this prospectus and Shares to be issued pursuant to the Global Offering and the Capitalisation Issue had been in issue throughout the year but does not take into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.
- (3) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed "Financial Information" in this prospectus, the respective Offer Price range of HK\$1.00 and HK\$1.50 per Share and on the basis of 240,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue but does not take into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.

USE OF PROCEEDS

Assuming an Offer Price of HK\$1.25 per Share, being the mid-point of the proposed Offer Price range of HK\$1.00 to HK\$1.50 per Offer Share, the net proceeds from the Global Offering are estimated to be approximately HK\$49.9 million, after deducting underwriting fees and estimated expenses payable of our Company in connection thereto. Such net proceeds are intended to be used as follows:

	<u>Approximate amount of net proceeds to be used</u> <i>(HK\$ million)</i>	<u>Approximate proportion to the net proceeds from the Global Offering</u>
Acquisition of major equipment and machinery	26.2	52.5%
Construction of the new factory building operated by Foshan Haoda	15.0	30.0%
Recruiting of additional employees to reorganise our existing design team and enhance our research and development capabilities	3.8	7.6%
Working capital and other general corporate purposes	4.9	9.9%

SUMMARY

For more details on our use of proceeds, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

DIVIDEND POLICY

For the year ended 31 March 2010, dividends of HK\$16.5 million attributable to the year ended 31 March 2010 were declared and for the year ended 31 March 2012, dividends of approximately HK\$54.0 million attributable to the year ended 31 March 2012 were declared. Mr. Hau, Mr. Kwong, Mr. Lau, Madam Li and Gold Grand received dividends during the Track Record Period. All the dividends declared during the Track Record Period has been fully settled as at the Latest Practicable Date. The declared dividend was settled by our Group’s working capital and our Directors do not foresee any significant impact on the working capital sufficiency for our Group’s present requirements during the 12 months following the date of this prospectus. We have not declared any dividends since 31 March 2012 up to the Latest Practicable Date. The payment and the amount of any future dividends will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of any future dividends will be subject to our discretion. We currently have no intention to declare any dividend in respect of the year ending 31 March 2013 and the six months ending 30 September 2013.

Dividends may be paid out of our Group’s distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our Group’s operations. There can be no assurance that our Group will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our Group’s dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Group in the future.

RISK FACTORS

There are risks associated with your investment in the Offer Shares, among which, the relatively material risks are: (a) we derive a significant portion of our revenues from a small number of customers; (b) we do not have a long-term purchase commitments from our customers, which expose us to potential volatility in our turnover; (c) reliance on the Processing Agreement and the Processing Factory; (d) reliance on the consumer spending level around the world, especially in USA and Europe; and (e) we may experience a material adverse change in our financial results for the year ending 31 March 2013 which is mainly attributable to the listing expenses incurred in relation to the Global Offering.

You should read the entire section headed “Risk Factors” in this prospectus carefully before you decide to invest in the Offer Shares.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus. Certain other terms are explained in the section headed “Glossary of Technical Terms”

“Abundant Riches”	Abundant Riches Investments Limited, a company incorporated in the BVI with limited liability on 20 February 2012 and beneficially owned as to 52.4% by Mr. Hau and 47.6% by Mr. Kwong, each being an employee of our Group. Abundant Riches Investments Limited was interested in approximately 5.6% of the issued share capital of our Company as at the Latest Practicable Date
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), individually or collectively, as the context may require
“Articles of Association” or “Articles”	our articles of association, as adopted on 3 January 2013, and as amended from time to time, a summary of which is contained in Appendix IV to this prospectus
“associate”	has the meaning ascribed to it under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Board of Directors” or “Board”	our board of Directors
“Business Agent”	廣東省南海輕工業品進出口有限公司, a company established in the PRC on 15 November 1985 and an Independent Third Party
“Business Day”	a day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issuance of Shares to be made upon the capitalisation of the share premium account of the Company as referred to in “Appendix V — Statutory and General Information — Further information about our Company and the subsidiaries of our Group”
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

DEFINITIONS

“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairperson”	chairperson of our Board
“China” or “PRC”	the People’s Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Macau and Taiwan
“CIDE”	Catalana de Investigacion y Desarrollo de Electronica S.L., a company incorporated under Spanish law. CIDE is the holding company of a group of companies engaged in the development and distribution of electronics learning and licensed products in the toy industry and one of our key customers. As of the Latest Practicable Date, CIDE is owned as to 15.55% by QM (Hong Kong) Limited, a company incorporated in Hong Kong and owned as to 18% by Mr. Lau, 6% by Madam Li and 76% by Mr. Warren Lau, the son of Mr. Lau and Madam Li, and the holders of the remaining 84.45% interest in CIDE are all Independent Third Parties
“Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”, or “our Company”	Quali-Smart Holdings Limited, an exempted company incorporated in the Cayman Islands on 14 March 2012 with limited liability
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, for the purpose of our Company, refers to Mr. Lau, Madam Li and Smart Investor individually and as a group of persons where the context requires

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“Customer A”	an internationally renowned toy company based in the United States, which is our largest customer in terms of revenue for the Track Record Period (The identity of Customer A is not disclosed in this prospectus as Customer A did not provide consent to our Company for such disclosure. It is not uncommon for major customers of OEM manufacturers to withhold such consent)
“Deed of Indemnity”	the deed of indemnity dated 10 January 2013 and entered into among our Controlling Shareholders and our Company with particulars set forth in the section headed “15. Estate duty, tax and other indemnity” in Appendix V to this prospectus
“Director(s)”	the director(s) of the Company or any one of them
“Eagletron”	Eagletron Telecommunications Limited, a company incorporated in Hong Kong with limited liability, of which our Group acquired 20% of its equity interest on 18 January 2010, which as at the Latest Practicable Date was put into compulsory winding up by the court
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) promulgated by the National People’s Congress on 16 March 2007 and which became effective on 1 January 2008
“EMC Toys”	EMC Toys Company Limited, a company incorporated in Hong Kong with limited liability on 22 September 1992 and dissolved by deregistration pursuant to Section 291AA of the Companies Ordinance on 22 June 2007. At the time of its dissolution, EMC Toys was beneficially owned as to 80% by Gold Grand and 20% by Mr. Lau. Gold Grand is beneficially owned by Toplux Capital Development Ltd. which in turn is beneficially owned by Mr. Lau and Madam Li in equal shares. Accordingly, EMC Toys was ultimately beneficially owned as to 60% by Mr. Lau and 40% by Madam Li. EMC Toys had been a shareholder of Qualiman Industrial since the latter’s incorporation and until 13 May 2004
“Euro” or “€”	the lawful currency of the member states of the European Union
“Foshan Haoda”	佛山市南海浩達精密玩具有限公司 (Foshan Nanhai Haoda Precision Toys Co., Ltd*) previously known as 南海浩達精密玩具有限公司 (Nanhai Haoda Precision Toys Co., Ltd*), a wholly foreign owned enterprise established in the PRC on 15 March 2001 with limited liability and an indirect wholly-owned subsidiary of the Company
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing

DEFINITIONS

“Gold Grand”	Gold Grand International Limited, a company incorporated in Hong Kong with limited liability on 19 August 1993 and beneficially owned by Toplux Capital Development Ltd. which in turn is beneficially owned by Mr. Lau and Madam Li in equal shares. Gold Grand had been a shareholder of Qualiman Industrial until 16 April 2012
“Grandrich”	Grandrich International Limited, a company incorporated in Samoa as an international company on 29 December 2005 and beneficially owned by Mr. Lau and Madam Li in equal shares. Grandrich had been a shareholder of Sunmart until 16 April 2012
“Group”, “our Group”, “we”, “our” or “us”	the Company and its subsidiaries or, where the context so requires, with respect to the period before which the Company became the holding company of its current subsidiaries, the Company’s current subsidiaries or the businesses operated by such subsidiaries or their predecessors (as the case may be)
“Haoda Factory”	the production plant operated by Foshan Haoda which is located at No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan City, Guangdong Province, PRC (中國廣東省佛山市南海區獅山鎮官窯官和路南38號)
“HK\$” or “Hong Kong dollars”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HK eIPO White Form”	applying for Hong Kong Public Offer Shares to be issued in your own name by submitting applications online through the designated website at www.hkeipo.hk
“HK eIPO White Form Service Provider”	the HK eIPO White Form Service Provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

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“Hong Kong Public Offering”	the offer by our Company of the Hong Kong Public Offer Shares for subscription by the public in Hong Kong as described in the section headed “Structure and Conditions of the Global Offering” at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price) and on and subject to the terms and conditions stated herein and in the Application Forms relating thereto
“Hong Kong Public Offer Shares”	the 6,000,000 new Shares initially being offered for subscription by our Company at the Offer Price under the Hong Kong Public Offering (subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering”)
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, being the branch share registrar of our Company in Hong Kong
“Hong Kong Underwriter”	the underwriter of the Hong Kong Public Offering named in “Underwriting — Hong Kong Underwriter” of this prospectus
“Hong Kong Underwriting Agreement”	the conditional Hong Kong underwriting agreement dated 10 January 2013 relating to the Hong Kong Public Offering entered into by our Company, the Controlling Shareholders, the executive Directors, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriter
“Independent Third Party”	an individual(s) or a company(ies) which is/are independent of and not connected with (within the meaning of the Listing Rules), the directors, the chief executives and the substantial shareholders of our Company and our subsidiaries and their respective associates
“International Offer Shares”	the 54,000,000 new Shares being offered for subscription by our Company at the Offer Price under the International Placing (subject to adjustment as described in the section headed “Structure and Conditions of the Global Offering”)
“International Placing”	the conditional placing by the International Underwriter of the International Offer Shares for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in the section headed “Structure and Conditions of the Global Offering” on and subject to the terms and conditions stated herein and in the International Placing Agreement

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“International Placing Agreement”	the conditional placing agreement relating to the International Placing and to be entered into by, among others, our Company, the Sole Sponsor and the Sole Global Coordinator on or about the Price Determination Date
“International Underwriter”	the underwriter who is expected to enter into the International Placing Agreement
“Ipsos”	IPSOS Hong Kong Limited, a market research and consulting company, an Independent Third Party
“Ipsos Report”	the report entitled “Market Landscape and Competitive Analysis for Toys Industry” dated 4 January 2013 issued by Ipsos
“Issuing Mandate”	the general unconditional mandate given to Directors by the Shareholders relating to the issue of new Shares, particulars of which are set forth in the paragraph headed “Resolutions in writing of all Shareholders passed on 3 January 2013” in Appendix V to this prospectus
“Latest Practicable Date”	5 January 2013, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date expected to be on or about 23 January 2013 on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Madam Li”	Madam Li Man Yee, Stella, our Chairperson, one of our non-executive Directors, one of the co-founders of our Group, one of the Controlling Shareholders and the wife of Mr. Lau
“Ministry of Commerce” or “MOFCOM”	the Ministry of Commerce of the People’s Republic of China (中華人民共和國商務部)
“Mr. Hau”	Mr. Hau Yiu Por, an employee of our Group and the holder of 52.4% of the issued share capital of Abundant Riches as at the Latest Practicable Date
“Mr. Kwong”	Mr. Kwong Ka Wing, an employee of our Group and the holder of 47.6% of the issued share capital of Abundant Riches as at the Latest Practicable Date

DEFINITIONS

“Mr. Lau”	Mr. Lau Ho Ming, Peter (劉浩銘), one of our executive Directors, our chief executive officer, one of our Controlling Shareholders, one of the co-founders of our Group and the husband of Madam Li
“Mr. Ng”	Mr. Ng Kam Seng, one of our executive Directors
“Mr. Poon”	Mr. Poon Pak Ki, Eric, one of our executive Directors
“New Splendid”	New Splendid Developments Limited, a company incorporated in the BVI with limited liability on 20 January 2012 and an indirect wholly-owned subsidiary of our Company
“Next Horizon”	Next Horizon Holdings Limited, a company incorporated in the BVI with limited liability on 6 March 2012 and an indirect wholly-owned subsidiary of our Company
“Offer Price”	the final Hong Kong dollar price per Offer Share (before brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) at which Shares are to be subscribed or purchased pursuant to the Global Offering, which will be not more than HK\$1.50 and is expected to be not less than HK\$1.00, to be determined as described in the section headed “Structure and Conditions of the Global Offering — Determination of the Offer Price”
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), as amended at the Eighteenth Session of the Standing Committee of the Tenth National People’s Congress on 27 October 2005, effective from 1 January 2006 (2005 Amendment), as amended, supplemented or otherwise modified from time to time
“PRC Legal Advisers”	GFE Law Office, our legal advisers as to PRC laws
“Pre-IPO Investment”	the transactions as contemplated under the Subscription Agreement

DEFINITIONS

“Pre-IPO Investor”	Silver Pointer Limited, a company incorporated in the BVI with limited liability, and is wholly-owned by Shikumen Special Situations Fund. Shikumen Special Situations Fund is an investment fund incorporated in the Cayman Islands managed by Shikumen Capital Management (HK) Limited which is the sole voting member of Shikumen Special Situations Fund and controls 100% of the voting rights of Shikumen Special Situations Fund. By virtue of the provisions in Part XV of the SFO, Shikumen Capital Management (HK) Limited is deemed to be interested in all the Shares in which Shikumen Special Situations Fund is interested or deemed to be interested. Shikumen Capital Management (HK) Limited is wholly-owned by Crosby Capital Limited and Crosby Capital Limited is deemed to be interested in all the Shares in which Shikumen Capital Management (HK) Limited is interested or deemed to be interested
“Price Determination Date”	the date, expected to be on or about 16 January 2013 (Hong Kong time), when the Offer Price is determined and, in any event, no later than 17 January 2013
“Processing Agreement”	the processing agreement dated 18 December 2011 entered into between the Processing Factory and Qualiman Industrial, as amended and supplemented by a supplemental agreement dated 8 June 2012 made between the Processing Factory and Qualiman Industrial
“Processing Factory”	佛山市南海區新和新美玩具廠 (Foshan City Nanhai District Xinhe Xinmei Toys Factory*), a collective ownership enterprise (集體所有制企業) established in the PRC on 25 May 1993 with 100% of its registered capital being owned by 佛山市南海區獅山鎮新和經濟聯合社 (Foshan City Nanhai District Shishan Town Xinhe Economic Union*), an Independent Third Party
“Province” or “province”	each being a province or, where the context requires, a provincial level autonomous region or a provincial-level city under the direct supervision of the central government of the PRC
“Qualiman Industrial”	Qualiman Industrial Co. Limited (滙達實業有限公司), a company incorporated in Hong Kong with limited liability on 14 November 1996, and an indirect wholly-owned subsidiary of our Company
“Qualiman Technology”	Qualiman Technology & Products Co. Limited (滙達高科制品有限公司), a company incorporated in Hong Kong with limited liability on 26 January 2000 and an indirect wholly-owned subsidiary of our Company
“Regulation S”	Regulation S under the US Securities Act

DEFINITIONS

“related parties”	has the meaning as set out in the paragraph headed “Related party transactions” under note 29 to the accountant’s report set out in Appendix I to this prospectus
“Reorganisation”	the reorganisation arrangements undertaken by our Group in preparation for the Listing, which are described in more detail in the section headed “History, Reorganisation and Group Structure” and Appendix V to this prospectus
“Reorganisation Agreement”	the share purchase agreement dated 28 March 2012 entered into between our Company, Mr. Lau, Madam Li, Gold Grand, Grandrich, Mr. Hau and Mr. Kwong pursuant to which our Company (through its wholly-owned subsidiaries) acquired from Mr. Lau, Madam Li, Gold Grand, Grandrich, Mr. Hau and Mr. Kwong the entire issued share capital of each of Qualiman Industrial, Qualiman Technology and Sunmart as more particularly described in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Group Structure” in this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, particulars of which are set forth in the paragraph headed “Resolutions in writing of all Shareholders passed on 3 January 2013” in Appendix V to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration for Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) of US\$0.0001 each in the issued share capital of our Company
“Shareholder(s)”	holder(s) of Shares
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 3 January 2013, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix V to this prospectus

DEFINITIONS

“Smart Investor”	Smart Investor Holdings Limited, a company incorporated in the BVI with limited liability on 22 February 2012 and is beneficially owned as to 67.4% by Mr. Lau and 32.6% by Madam Li. Smart Investor Holdings Limited is one of our Controlling Shareholders
“Sole Sponsor” or “CIMB”	CIMB Securities Limited, a licensed corporation registered under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities as defined in the SFO
“Sole Global Coordinator”, “Sole Bookrunner” or “Sole Lead Manager”	Sun Hung Kai International Limited, a licensed corporation registered under the SFO to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities as defined in the SFO
“sq.ft.”	square feet
“sq.m.”	square metre
“State”, “state”, “PRC government” or “government”	the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of the Subscription Shares by the Pre-IPO Investor at the Subscription Price pursuant to the Subscription Agreement which was completed on 27 March 2012
“Subscription Agreement”	the agreement dated 23 March 2012 entered into between the Pre-IPO Investor, our Company, Mr. Lau and Smart Investor in respect of the subscription of the Subscription Shares by the Pre-IPO Investor at the Subscription Price
“Subscription Price”	HK\$25,000,000, being the consideration paid by the Pre-IPO Investor to our Company on 27 March 2012 for subscribing the Subscription Shares
“Subscription Shares”	30,000,000 new Shares allotted and issued to the Pre-IPO Investor on 27 March 2012 pursuant to the Subscription Agreement
“subsidiary”	has the meaning ascribed to it in the Listing Rules
“Substantial Shareholder”	has the meaning ascribed to it in the Listing Rules

DEFINITIONS

“Sunmart”	Sunmart Company Limited (浩達富有限公司), a company incorporated in Hong Kong with limited liability on 15 August 2003 and an indirect wholly-owned subsidiary of our Company
“Track Record Period”	the period consisting of the three financial years ended 31 March 2012 and the four months ended 31 July 2012
“Turbo Gain”	Turbo Gain Investments Limited, a company incorporated in the BVI with limited liability on 2 March 2012 and an indirect wholly-owned subsidiary of our Company
“Underwriter”	the Hong Kong Underwriter and the International Underwriter
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Placing Agreement
“United States” or “US”	the United States, as defined in Regulation S
“US Person”	has the meaning given to it in Regulation S
“US Securities Act”	the United States Securities Act of 1933, as amended
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States
“WTO”	World Trade Organisation
“%”	per cent.

All times refer to Hong Kong time.

If there is any inconsistency between the Chinese name of the PRC laws and regulations or PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail.

Unless otherwise specified, amounts denominated in RMB and US\$ have been converted into Hong Kong dollars in this prospectus for the purpose of illustration only and are based on historical conversion rates as set forth below:

HK\$1.233 = RMB1.00

HK\$7.755 = US\$1.00

No representation is made that any amounts in RMB, US\$ or HK\$ can be or could have been converted on the relevant dates at the above rates or at any other rate or at all.

Unless otherwise specified, references to years in this prospectus are to calendar years.

DEFINITIONS

Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only, and in the event of any inconsistency between the Chinese names of the PRC entities mentioned in this prospectus and their English translations, the Chinese names shall prevail. The provision of English translation of company names in Chinese marked with “” is for identification purposes only.*

The Chinese name of our Company is for identification purpose only.

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

Unless otherwise specified, discussions on and disclosure of financial data under the consolidated statements of comprehensive income are in relation to continuing operations.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and as they are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

“CAGR”	compound annual growth rate
“injection moulding”	a plastic manufacturing process involving heating and pressurising, granules of thermoplastics materials such as polystyrene into a mould, to form into different shape and size of products
“ODM”	acronym for original design manufacturing, where a manufacturer designs and manufactures a product which is specified by the customer and eventually sold under the brand name of the customer
“OEM”	acronym for original equipment manufacturing, whereby products are manufactured in accordance with the customer’s design and specifications and are marketed and sold under the customer’s brand name

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties, including the risk factors described in this prospectus. Forward-looking statements can be identified by words such as “may”, “will”, “should”, “would”, “could”, “believe”, “expect”, “anticipate”, “intend”, “plan”, “continue”, “seek”, “estimate” or the negative of these terms or other comparable terminology. Examples of forward-looking statements include, but are not limited to, statements we make regarding our projections, business strategy and development activities as well as other capital spending, financing sources, the effects of regulation, expectations concerning future operations, margins, profitability and competition. The foregoing is not an exclusive list of all forward-looking statements we make.

Forward-looking statements are based on our current expectation and assumptions regarding our business, the economy and other future conditions. We can give no assurance that these expectations and assumptions will prove to have been correct. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our results may differ materially from those contemplated by the forward-looking statements. They are neither statements of historical fact nor guarantees or assurances of future performance. We caution you therefore against relying on any of these forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- adverse changes or developments in the toy industry;
- our ability to stay abreast of market trends and maintain commercially reasonable relationships with our customers and suppliers;
- our ability to retain core team members and recruit qualified and experienced new team members;
- our ability to maintain an effective control system;
- our operation and business prospect;
- our ability to maintain and strengthen our market position;
- expected growth of the toy industry in the global market;
- the effects of domestic and overseas competition in the toy industry we operate and its potential impact on our business;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to the PRC;
- general political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC Government to manage economic growth;
- fluctuations in inflation, interest rates and exchange rates;
- changes in the availability of, or new requirements for financing;

FORWARD-LOOKING STATEMENTS

- our ability to successfully implement any of our business strategies, plans, objectives and goals;
- our ability to expand and manage our business;
- changes in restrictions on foreign currency convertibility and remittance abroad;
- changes to our expansion plans and estimated capital expenditure;
- our dividend policy;
- our success in accurately identifying future risks to our business and managing the risks of the aforementioned factors;
- other factors discussed in sections headed “Summary”, “Risk Factors”, “Industry Overview”, “Business” and “Financial Information”; and
- other statements in this prospectus that are not historical facts.

Any forward-looking statement made by us in this prospectus speaks only as of the date on which it is made. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. Subject to the requirements of applicable laws, rules and regulations, we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

You should carefully consider all of the information in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we conduct our manufacturing operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

We derive a significant portion of our revenues from a small number of customers

Our sales to our top five customers for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to about HK\$740,674,000, HK\$643,558,000, HK\$763,263,000, HK\$230,483,000 and HK\$242,736,000, which accounted for about 92%, 88%, 87%, 86% and 87%, respectively, of our total turnover for each of the years ended 31 March 2010, 2011 and 2012, and the four months ended 31 July 2011 and 2012 respectively. Our sales to our largest customer, Customer A, for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to about HK\$519,277,000, HK\$385,522,000, HK\$448,982,000, HK\$144,640,000 and HK\$144,296,000, which accounted for about 65%, 53%, 51%, 54% and 52% respectively, of our total turnover for each of the years ended 31 March 2010, 2011 and 2012, and the four months ended 31 July 2011 and 2012 respectively. We expect revenues from our largest five customers to continue to account for a significant portion of our revenues.

Our business with our customers has been, and we expect it will continue to be, conducted on the basis of actual purchase orders received from time to time. We cannot assure you that our major customers will continue to do business with us at the same or increased levels or at all. If one or more major customers were to cease to conduct business with us and we were unable to expand our business with existing customers or attract new customers, we may experience slowed growth or no growth at all and our business, financial condition and results of operations would be materially and adversely affected.

We cannot assure you that we will be able to retain our existing customers or add new customers at desired levels or at all. A decision made by a major customer, whether motivated by competitive considerations, economic conditions or otherwise, to reduce its purchases from us or any other adverse change in our business relationship with the customer could have a material adverse effect on our business, financial condition and results of operations.

We do not have long-term purchase commitments from our customers, which expose us to potential volatility in our turnover

We do not have long-term purchase commitments from our customers and our sales are made on the basis of individual production orders. While we have entered into manufacturing agreements with some of our major customers, the terms of such agreements merely set out the basic terms and conditions for the transactions without any purchase commitments. Our customers may cancel or defer production orders. Our customers' production orders may vary from period to period, and it is difficult

RISK FACTORS

to forecast future order quantities. There is no assurance that any of our customers will continue to place production orders with us in the future at the same volume, or at the same margin, as compared to prior periods, or at all. We may not be able to locate alternative customers to replace purchase orders or sales. There is also no assurance that the volume or margin of our customers' production orders will be consistent with our expectations when we plan our expenditures. As a result, our results of operations may vary from period to period and may fluctuate significantly in the future.

We rely on one of our major customers to purchase raw materials for manufacturing its products

We have participated in an arrangement implemented by our largest customer, Customer A, for the purchase of some of the raw materials used in manufacturing products for Customer A. Under this arrangement, Customer A is involved in the sale and purchase of raw materials and will make settlement with its designated or recommended certified suppliers. The amounts settled by Customer A will be set off against the amount for the products we manufactured and sold to Customer A. For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, Customer A also constituted one of our five largest suppliers and our purchase of raw materials from Customer A amounted to approximately HK\$22,418,000, HK\$28,102,000, HK\$37,981,000, and HK\$14,901,000 and HK\$6,269,000, representing about 5%, 7%, 8%, 7% and 4% respectively of our total purchases. In addition, our suppliers will normally provide us with a credit period of 30 days, while the credit period given by us to Customer A is generally 45 days. As such, our Group may bear a liquidity risk due to mismatch between the credit period provided to us by our suppliers (which is generally 30 days) and the credit period provided by us to Customer A (which is 45 days). The credit term of 45 days provided by us to Customer A is due to an extension of the credit policy in September 2011 from an average of 30 days to 45 days, which led to us having to factor more of our trade receivables from Customer A with our banks. The extension of the credit policy represented a new program launched by Customer A in which they required most of their suppliers to extend their credit policies. Please refer to the paragraph headed "Procurement of raw materials and supplies — Suppliers" in the section headed "Business" of this prospectus for further details.

Despite the fact that Customer A is both our largest customer in terms of our turnover as well as one of our five largest suppliers during the Track Record Period, our Group's pricing strategy to Customer A is based on a cost-plus model and our Group has the ability to set our target mark-up and offer the pricing to Customer A for negotiation. Our Group had been able to maintain a mark-up with Customer A which was similar to the mark-up charged to our other major customers. Our Directors consider that our Group's limits on bargaining power with Customer A are not materially more than those commonly faced by other OEM manufacturers in their dealings with major customers.

We may experience a material adverse change in our financial results for the year ending 31 March 2013 which is mainly attributable to the listing expenses incurred in relation to the Global Offering

Our Directors currently estimate that our Group will recognise listing expenses in relation to the Global Offering in the consolidated income statements for the seven months ended 31 October 2012 in the amount of approximately HK\$8.7 million and the year ending 31 March 2013 in the amount of approximately HK\$15.3 million (on the basis that 100% of the underwriting commission is offset against equity and approximately 75% of the other listing expenses are expensed in the income statements and the remaining 25% are offset against equity). Our Directors would like to emphasise that such amount of

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listing expenses is a current estimate for reference only, and the final amount is subject to adjustment based on audit and changes in variables and assumptions. As such, our Directors expect that we may experience a material adverse change in our financial results for the year ending 31 March 2013 which is mainly attributable to this significant non-recurring item of listing expenses incurred in relation to the Global Offering.

Developments adverse to our major customers could have an adverse effect on us

We expect that future sales will continue to depend on the success of our customers. In turn, the success of our customers depend on several factors, including but not limited to the consumer preference and market acceptance of their products, the level of discretionary consumer spending in countries in which our customers do business, as well as the distribution channels of our customers. Developments adverse to our major customers or their products could have an adverse effect on us. For instance, the concentration of our major customers' business with a relatively small number of retailers may expose our major customers to a material adverse effect if their large retailers were to significantly reduce purchases for any reason, favour competitors or new entrants, or a significant recall of a customer's toys even if these are not produced by us may impact its sales in general. Some of our major customers have experienced product recalls of their own products in the past. Even though such product recalls did not involve the products manufactured by us, such incidents may harm their reputation, reduce demand by end-consumers for their overall products, which may in turn reduce our customer orders from such major customers.

If demand for our customers' products deteriorates or if there are any other developments adverse to our major customers such as any significant changes in the operations or financial condition of our major customers, including consolidation or change of ownership, restructuring or liquidation, we may experience a material adverse effect on our business, operating results and financial condition. Any significant changes in the operations or financial condition of our major customers, including liquidity problems or restructuring, could cause us to limit or discontinue business with such customers, or require us to assume more credit risk relating to receivables from such customers, which could have a material adverse effect on our business, financial condition and results of operations.

Reliance on the consumer spending level around the world, especially in USA and Western Europe

During the Track Record Period, sales attributable to markets in North America represented about 54.5% of our total turnover for the year ended 31 March 2010, about 49.3% of our total turnover for the year ended 31 March 2011, about 56.8% of our total turnover for the year ended 31 March 2012, and approximately 57.1% and 47.6% of our total revenue for the four months ended 31 July 2011 and 2012, respectively while sales attributable to markets in Western Europe represented about 34.0% of our total turnover for the year ended 31 March 2010, about 33.7% of our total turnover for the year ended 31 March 2011, and about 27.8% of our total turnover for the year ended 31 March 2012, and approximately 25.3% and 32.7% of our total revenue for the four months ended 31 July 2011 and 2012, respectively. We anticipate that our export sales to North America and Europe will continue to be significant. Therefore, our results of operations are largely affected by the level of demand for our products from our customers in North America and Europe which is in turn influenced by a number of factors some of which are beyond our control, including, amongst others, the recent global economic downturn and general consumer confidence.

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In particular, the downgrade of the long term sovereign credit rating of U.S. from AAA to AA+ by Standard & Poor's Ratings Services ("S&P") in August 2011 may impose higher costs of borrowing on the corporations and individuals in the USA and cause depreciation of the U.S. dollars relative to other currencies and hence the imported products may become more expensive to the U.S. customers. Besides, the ongoing deterioration of the euro zone sovereign debt crisis in Europe since 2011 may also have negative impact on the consumer spending level in the Europe. While we only recorded a slight decrease in revenue from Western Europe of approximately 0.86% from approximately HK\$246.0 million to approximately HK\$243.9 million for the year ended 31 March 2012 following the outbreak of European sovereign debt crisis during the second half of 2011, any further worsening of the general economic conditions caused by the U.S. credit rating downgrade and the European debt crisis may cause slowing down of orders from the U.S. and European customers, potential delay and/or default in payment by the customers, and cutting or reducing the banking facilities of our Group provided by the financial institutions. All these potential events may have a negative impact on our Group's future performance and profitability.

Our sales may be affected by seasonality

We believe that there is a seasonal pattern in the spending behavior of customers, particularly in North America and European markets. Specifically, peak season for our business is normally from June to October. For each of the years ended 31 March 2010, 2011 and 2012, our sales from June to October accounted for approximately 60%, 56% and 65% respectively of our sales during the relevant year.

Any reduction in the sales of toys during the peak season may have an adverse material impact on our sales and performance. Furthermore, comparisons of sales and operating results between different periods within a single financial year may not be meaningful and should not be relied upon as indicators of our performance. Due to these seasonal consumption patterns (most of which are outside our control), our operating results and financial condition may fluctuate from period to period.

Any failure to adhere to quality and safety standards in our production may adversely affect our reputation, financial condition and results of operations

The toy manufacturing industry is subject to stringent quality and safety standards in jurisdictions where our customers do business. In addition, such standards are generally higher than those stipulated in many other industries, in large part due to the need to protect infants and children from harm arising from defective products. We compete on our ability to manufacture products that adhere to safety and quality standards. If we fail to adhere to quality and safety standards that meet the expectations of end-consumers when manufacturing our products or if our products are unfit for their intended use or contain manufacturing defects, our reputation may be harmed, we may lose critical customer orders, or we may face product liability claims or product recalls.

Currently, PRC law does not require us to purchase product liability insurance in China. If we face any product liability claims or product recalls, we may also have to spend significant resources and time to defend ourselves if legal proceedings for product liability are instituted against us. We cannot assure you that our insurance policies are sufficient to cover all the risks associated with product liability claims. If any such claims are made, our business and losses incurred for liabilities not sufficiently covered by our insurance policies, our financial condition, results of operations and prospects could be materially adversely affected.

RISK FACTORS

Fluctuations in prices of raw materials or unstable supply of raw materials could negatively impact our operations and may adversely affect our profitability

The cost of raw materials from our operations constituted approximately 60.9%, 58.3%, 58.3%, 65.9% and 63.4% of our cost of sales for the years ended 31 March 2010, 2011 and 2012, respectively and the four months ended 31 July 2011 and 2012, respectively. Our primary raw materials include electronic components, resin and fabric. Like other toy manufacturers, we were subject to the price fluctuation in raw materials used in our manufacturing process. For instance, average price of most commonly used resin, in particular acrylonitrile butadiene styrene (ABS) purchased by us has increased by approximately 79% from April 2009 to February 2011 and decreased by approximately 11% from February 2011 to March 2012. As resin is a by-product of petroleum, the price of resin is subject to the fluctuation in petroleum prices.

If the supply of raw materials is substantially interrupted or reduced or if there are significant increases in the prices we pay for our raw materials or if there are unfavorable fluctuations in the quality of these raw materials, we may incur additional costs to acquire significant quantities of these raw materials to maintain our production schedules and commitment to our customers. In addition, if we cannot identify alternative sources of raw materials when needed, or obtain sufficient raw materials when required, the resulting loss of production volume could adversely impact our ability to deliver products to our customers in a timely manner, which could harm our reputation, business, financial condition, results of operations and prospects.

We may be subject to liability in connection with industrial accidents at our manufacturing facilities

Due to the nature of our operations, we are subject to the risks of our employees being exposed to industrial-related accidents. We cannot assure that industrial accidents, whether due to malfunctions of machinery or other reasons, will not occur in the future at our production facilities. Under such circumstances, our business and financial performance will be adversely affected.

In such an event, we may be liable for loss of life and property, medical expenses, medical leave payments and fines and penalties for violation of applicable PRC laws and regulations. In addition, we may experience interruptions in our operations and may be required to change the manner in which we operate as a result of governmental investigations or the implementation of safety measures due to accidents. Any of the foregoing could adversely affect our business, financial condition and results of operations.

A material disruption of our operations could adversely affect our business

Our production facilities are subject to operation risks, such as the breakdown or failure of our major equipment, power supply or maintenance, natural disasters (including but not limited to earthquake, fire, flood and storm), industrial accidents and the need to comply with the directives of relevant government authorities, which could therefore lead to temporary, permanent, partial or complete shut-downs in operations.

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The occurrence of any of these risks in the future may result in a material adverse effect on our results of operations and if continued, our business prospects. We may be required to carry out planned shutdowns of our plants for maintenance, statutory inspections and testing. Our business, financial condition and results of operations may be adversely affected by any disruption of operations at our facilities, whether caused by any of the factors mentioned above or otherwise.

Reliance on the Processing Agreement and the Processing Factory

During the Track Record Period and up to the Latest Practicable Date, the Processing Factory constituted an important part of our production capacity. For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, the processing fees paid by us to the Processing Factory amounted to approximately HK\$47,553,000, HK\$53,577,000, HK\$59,117,000, HK\$13,881,000 and HK\$15,874,000 respectively, representing approximately 6.7%, 8.2%, 7.6%, 5.8% and 6.5% of our total cost of sales for the respective periods. Details about our production carried out in the Processing Factory are set out in the paragraph headed “Processing Agreements” in the section headed “Business” in this prospectus. Please also refer to the paragraph headed “Description of selected consolidated statements of comprehensive income line items — cost of sales” in the section headed “Financial Information” in this prospectus for the breakdown of our cost of sales during the Track Record Period.

Given that the Processing Factory forms an important part of our production capacity, the operations and profitability of our Group could be adversely and materially affected if the use or operations of the premises of the Processing Factory by our Group is prohibited or restricted for any reason, or there occurs any change in the relevant PRC laws and regulations which may adversely affect the operations of the premises of the Processing Factory.

As advised by our PRC Legal Advisers, six buildings including the factory premises and dormitory of the Processing Factory were constructed by the Processing Factory on a piece of land leased from a third party without having obtained the relevant building ownership certificates, due to the failure of the Processing Factory to obtain the relevant construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) prior to the construction of these buildings and without undertaking the completion inspection of construction work (竣工驗收). The six buildings of the Processing Factory occupy a total gross floor area of approximately 29,534 sq.m.. Our PRC Legal Advisers further advised us that the relevant authorities in the PRC may: (i) impose a fine on the Processing Factory not exceeding 10% of the construction cost for failure to obtain the construction works planning permit; (ii) impose a fine on the Processing Factory not exceeding 2% of the construction cost for failure to obtain the construction works commencement permit; (iii) impose a fine on the Processing Factory ranging from above 2% to below 4% of the construction cost for failure to undertake the completion inspection of construction work; and/or (iv) order the Processing Factory to demolish the relevant buildings within a prescribed period and be responsible for indemnifying any losses incurred as a result of our failure to undertake the completion inspection of construction work. Based on the certificate dated 15 May 2012 issued by the relevant contractor confirming that the total contract sum for the construction of the relevant buildings is RMB12,654,750, our PRC Legal Advisers advised that the Processing Factory may be imposed a fine not exceeding RMB2,024,760 by the relevant PRC authorities. The Processing Factory applied to Bureau of Land and Resources Management of Shishan, Nanhai District, Foshan City (佛山市南海區獅山國土資源管理所) (the “Shishan Bureau”) on 23 May 2012 and had obtained the consent from the Shishan Bureau and Bureau of Land, Construction

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and Water Affairs of Nanhai District, Foshan City (佛山市南海區國土城建和水務局) (the “Nanhai Bureau”), which are the competent authorities for issuing the aforesaid consent, that the buildings constructed on the leased land will not be subject to demolition within the next three to five years due to reconstruction planning and will not impose any penalty on the Processing Factory. As advised by our PRC Legal Advisers, according to the PRC laws and regulations, the Nanhai Bureau is the appropriate authority to give the above consent and there is no need to further seek any consent from higher authority; based on the above situation it is not likely that the six buildings will be subject to any order for demolition by the Shishan Bureau or the Nanhai Bureau within the next three to five years. Based on the above, the Sole Sponsor concurred with the view of our PRC Legal Advisers that the Nanhai Bureau is the appropriate authority to give the above consent and there is no need to further seek any consent from higher authority. In forming the above view that the Nanhai Bureau is an appropriate and competent government authority to give the consent letters to the Processing Factory, the Sole Sponsor reviewed the legal opinions from both the PRC Legal Adviser of the Company and the PRC Legal Adviser of the Sole Sponsor and discussed with them to understand that according to the laws of the PRC, the city or village planning is administrated by the planning department of people’s government at county level or above and the Nanhai Bureau is an administrative department of planning and construction at county level that has legal authorities to regulate all the illegal constructions located in the Nanhai District. Based on the Nanhai district government official website, the Nanhai Bureau delegated the responsibility for regulating relevant illegal constructions to the Shishan Bureau. The Sole Sponsor also understood from the PRC Legal Adviser of the Company that additional due diligence of telephone enquiry was performed between the PRC Legal Adviser of the Company and the Shishan Bureau and the results of the telephone enquiry was satisfactory in confirming the above facts.

Our PRC Legal Advisers further advised us that under the PRC law, as the Processing Factory is a legal person according to the relevant PRC laws and regulations, it would be held solely liable for any civil liabilities, and any administrative penalties incurred by the Processing Factory. However, if the relevant PRC authority orders the Processing Factory to demolish the relevant buildings in issue, the business operations of the Processing Factory would be restricted or disrupted. As a result, the use of the Processing Factory to manufacture our products could be materially affected and our business operation or profitability could be adversely and materially affected.

Under the Processing Agreement, the Processing Factory is responsible for the production of the products in return for the processing fees. Details of the obligations of the Processing Factory are set out in the paragraphs headed “Processing Agreements” in the section headed “Business” in this prospectus. Any breach by the Processing Factory of its obligations under the Processing Agreement could have a material adverse effect on our business. Moreover, in the event that the Processing Factory takes any action that is contrary to our instructions, requests, policies or objectives, or becomes unable or unwilling to fulfill its obligations under the Processing Agreement, or encounters financial or any other difficulties, our operations and financial performance would be adversely affected.

In the event that the Processing Factory is required by the relevant authorities to demolish the relevant buildings or our Group is unable to rely on the Processing Factory for production for whatever reason, we will consider taking up the production process currently performed by the Processing Factory by our own production base in Haoda Factory, and subcontracting part of the production process to independent subcontractors. Our Directors believe that disruption to operations is expected to be minimal, given that the production facilities at Haoda Factory are not working at full capacity and that we plan to further increase our production capacity after the Listing by expanding our production lines

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for packaging and assembly of products in a newly constructed factory building at Haoda Factory. Please refer to the paragraph headed “Our business strategies — Further expand our production capacity and improve our production efficiency” in the section headed “Business” in this prospectus for further details of our expansion plan.

In the event the use or operations of the premises of the Processing Factory is prohibited or restricted, our Group is unable to enter into new processing arrangement for use and operation of other processing factory with comparable production capacity, our total production capacity, operation and profitability would be adversely affected.

Reliance on subcontractors

Certain manufacturing steps of our Group were outsourced to numerous independent subcontractors by the Processing Factory during the peak seasons from June to October each year. For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, through the engagement of the subcontractors by the Processing Factory, subcontracting fees represented approximately 23%, 25%, 26%, 22% and 23% of our Group’s cost of sales respectively and there were approximately 14, 14, 14 and 14 subcontractors respectively responsible for the production of our Group’s products. Details of the subcontracting arrangements are set out in the paragraph head “Production facilities and processing agreement — Subcontracting arrangement” in the section headed “Business” in this prospectus.

In the event that the Processing Factory is unable to secure suitable subcontractors when required, or if the subcontractors overcharge their subcontracting fees, the production process and/or financial position of our Group may be adversely affected. Furthermore, the subcontractors may be late in completing the production and/or producing products with unsatisfactory quality. Problems with any of the subcontractors’ production facilities or production could result in deteriorating quality of our products. In such event, our operations and profitability would be adversely affected. During the Track Record Period, the Group has not experienced any material adverse consequence from any unsatisfactory products produced by the subcontractors.

Product defects attributable to the fault of the Processing Factory and the subcontractors

Since the Processing Factory forms part of our production capacity and certain manufacturing steps of our Group are outsourced to independent subcontractors by the Processing Factory, our operations may be adversely interrupted and affected if the products produced by the Processing Factory and the subcontractors are defective. While the Processing Factory is the party held liable if the Processing Factory produces or delivers to us defective products which do not meet our product specifications, we may bear the ultimate responsibility and suffer losses for any product defects attributable to the fault of the Processing Factory and the subcontractors in case the Processing Factory is unable to compensate our losses. Furthermore, we may also have to spend significant resources and time to defend ourselves if legal proceedings for product liability are instituted against us. If any such claims are made, our reputation may be harmed and we may lose critical customer orders or we may face product liability claims or product recalls.

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Defect in title ownership for certain of our properties may adversely affect our ability to use such properties

As at the Latest Practicable Date, we had two buildings located at No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan, Guangdong Province, the PRC used by Foshan Haoda as canteen and warehouse respectively without having obtained the relevant building ownership certificates. The two buildings occupy a total gross floor area of approximately 768 sq.m. and 1,080 sq.m. respectively.

In accordance with the relevant PRC laws and regulations, a building ownership certificate can only be issued upon submission of certain documents in respect of the subject building (including but not limited to the land use right certificate, construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) and passing the completion inspection of construction work (竣工驗收). Due to our failure to obtain the relevant construction works planning permit and construction works commencement permit prior to the construction of these buildings and undertake the completion inspection of construction work, we are not able to obtain the building ownership certificate in respect of the two buildings.

As advised by our PRC Legal Advisers, the relevant authorities in the PRC may: (i) impose a fine not exceeding 10% of the construction cost for failure to obtain the construction works planning permit; (ii) impose a fine not exceeding 2% of the construction cost for failure to obtain the construction works commencement permit; (iii) impose a fine on Foshan Haoda ranging from above 2% to below 4% of the construction cost for failure to undertake the completion inspection of construction work; and/or (iv) order us to demolish the buildings within a prescribed period and be responsible for indemnifying any losses incurred as a result of our failure to undertake the completion inspection of construction work. Based on the certificate dated 15 May 2012 issued by the relevant contractor confirming that the total construction cost for the construction of the two buildings is RMB554,400, our PRC Legal Advisers advised that we may be imposed a fine not exceeding RMB88,704 by the relevant PRC authorities.

The total estimated demolition and relocation costs for these two buildings are approximately RMB55,440 and it would take approximately 15 days to demolish these two buildings and two days to relocate the facilities.

Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us due to the title defect in these two buildings. Although we may seek indemnity from our Controlling Shareholders, our business reputation may be adversely affected as a result.

We did not comply with PRC employee housing fund contribution regulations

We are required to make housing fund contributions for our employees of Foshan Haoda according to the relevant PRC laws and regulations. We did not comply with the housing fund requirements for our employees and had not made any such contributions prior to 31 March 2012. We estimate that the maximum outstanding housing fund contributions from 1 January 2004, the date of commencement of employment of staff of Foshan Haoda to 30 June 2012 amounted to approximately RMB3.1 million. We may also be liable to pay the fine in the manner as advised by our PRC Legal Advisers below. We have

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made full provision for such housing fund contributions and the maximum amount of the potential fine. Housing provident fund contributions for all relevant employees of Foshan Haoda have been made since July 2012 and up to the Latest Practicable Date.

As advised by our PRC Legal Advisers, under the relevant PRC laws and regulations, we may be ordered by the relevant housing fund authority to pay the outstanding housing fund contributions within the prescribed period and be liable for a fine of RMB10,000 to RMB50,000.

Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us due to our non-compliance of the housing fund contribution regulations (except where such penalty, fines, charges or payments have been provided for in the audited accounts of our Company or any of its subsidiaries up to 31 March 2012). Please refer to the paragraph headed “15. Estate duty, tax and other indemnity” in Appendix V to this prospectus for further details of the Deed of Indemnity. Although we may seek indemnity from our Controlling Shareholders, our business reputation may be adversely affected as a result.

We did not comply with PRC employee social insurance scheme contribution regulations

According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) (the “Social Insurance Law”) promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (the “Standing Committee”) on 28 October 2010 which became effective on 1 July 2011, there are five basic types of social security insurance, which include basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. Both employees and employers make contributions for the first three kinds of insurances and only employers make contributions for the latter two kinds. Prior to 1 July 2011, the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 by the State Council was applied. However, we did not fully comply with the relevant requirements for making contributions to the social insurance scheme for our employees of Foshan Haoda.

As advised by our PRC Legal Advisers, if we fail to pay the full amount of social insurance as scheduled, the relevant authorities may order us to make the social insurance payment or make up the difference within a stipulated period and (i) in respect of any overdue social insurance incurred before 1 July 2011, if payment is not made within the stipulated period, levy a surcharge equal to 0.2% of the overdue social insurance for each day from the date on which the social insurance became overdue; and (ii) in respect of any overdue social insurance incurred on or after 1 July 2011, levy a surcharge equal to 0.05% of the overdue social insurance for each day from the date on which the social insurance became overdue, and if payment is not made within the stipulated period, the relevant administration department may impose a fine of one to three times the amount of overdue social insurance on us.

We estimate that the maximum outstanding social insurance contributions from 1 January 2004, the date of commencement of employment of staff of Foshan Haoda to 31 July 2012 amounted to approximately RMB6.7 million. We may also be liable to pay the surcharge and fine in the above manner as advised by our PRC Legal Advisers. Based on the above advice from our PRC Legal Advisers, we estimated the potential surcharge and fine that could be imposed to us up to 31 July 2012 amounted to approximately RMB175,000. We have made full provision for such social insurance contributions and the potential surcharge and fine. Social insurance contributions for all relevant employees of Foshan Haoda have been made since October 2012 and up to the Latest Practicable Date.

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Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us due to our non-compliance of the social insurance contributions regulations (except where such payments to which our Group may be liable have been provided for in the audited accounts of our Company or any of its subsidiaries up to 31 March 2012). Please refer to the paragraph headed “15. Estate duty, tax and other indemnity” in Appendix V to this prospectus for further details of the Deed of Indemnity. Although we may seek indemnity from our Controlling Shareholders, our business reputation may be adversely affected as a result.

We failed to undertake the environmental impact evaluation procedures for our production capacity

We were required to undertake the environmental impact evaluation procedures for the construction projects (建設項目環境影響評價手續) and the corresponding checks and acceptance procedures for the environmental protection facilities required for the construction project (環保設施竣工驗收手續). However, our Haoda Factory failed to undertake the corresponding checks and acceptance procedures for the environmental protection facilities in a timely manner.

As advised by our PRC Legal Advisers, where the main body of the project formally goes into production or use without completing the checks and acceptance procedures for the corresponding environmental protection facilities, the competent authority shall order the enterprise to stop the production or use and impose a fine of less than RMB100,000 on the enterprise.

With regard to our Haoda Factory, as advised by our PRC Legal Advisers and confirmed by our Directors, it had undertaken the corresponding checks and acceptance proceeding and obtained the approval letter on 11 May 2012. Our Directors also confirmed that no administrative penalty has been imposed on us by any relevant regulatory authority in connection with our delay in undertaking such procedures. Our PRC Legal Advisers further advised that, based on the above and the confirmation issued by the relevant environmental authority, it is unlikely that the above administrative penalty will be imposed on us for our failure to duly undertake such corresponding checks and acceptance proceeding.

Pursuant to the Deed of Indemnity, our Controlling Shareholders agreed to provide an indemnity for any loss incurred by our Group as a result of our failure to duly obtain the relevant certificates or approvals for the construction and operation of our Haoda Factory.

Our non-compliances with the PRC regulations have constituted technical breach of two supply contracts which may have adverse impact on our business relationship with the customers concerned

The non-compliance incidents of our Group as disclosed in the paragraph headed “Legal proceedings and non-compliance” in the section headed “Business” have constituted technical breaches of the general requirements under two supply contracts: (1) one entered into between our Group and Customer A which requires our Group to operate our facilities in compliance with applicable laws and regulations; and (2) another entered into between our Group and one of our other customers which requires our Group to comply with all applicable laws and regulations in the jurisdiction where our products are manufactured. Notwithstanding that, during the Track Record Period, we have passed the audit inspections of these two customers and these two customers still maintained business relationship with our Group as at the Latest Practicable Date. Our sales to Customer A and the other customer

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concerned in aggregate amounted to about HK\$519.8 million, HK\$393.4 million, HK\$480.3 million, HK\$152.3 million and HK\$149.4 million, which accounted for about 64.7%, 53.9%, 54.8%, 57.0% and 53.4% respectively, of our total turnover for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, respectively.

We are subject to the risk of increase in inventories and inventory turnover days

For each of the three years ended 31 March 2012 and the four months ended 31 July 2012, our Group's inventories was approximately HK\$91.6 million, HK\$133.7 million, HK\$162.2 million and HK\$199.7 million respectively. Raw materials was the largest component of our Group's inventories, representing approximately 66.9%, 65.1%, 66.9% and 50.8% of our total inventories for each of the three years ended 31 March 2012 and the four months ended 31 July 2012 respectively.

Inventories as at 31 March 2012 were approximately HK\$162.2 million, representing an increase of approximately 21.3% as compared with that as at 31 March 2011. The increase in inventories was primarily due to the growth of our revenue during the year, which led to an increase in our raw materials and finished goods to cope with the anticipated increase in revenue in the coming year. Our Group's raw materials balance also increased in order to cope with the confirmed purchase orders for the upcoming peak season from June to July. Our Group's inventories' turnover days remained stable for the two years ended 31 March 2012.

Inventories as at 31 March 2011 were approximately HK\$133.7 million, representing an increase of approximately 46.0% as compared with that as at 31 March 2010. The increase in inventories was primarily due to an increase in our Group's raw materials and finished goods to cope with the anticipated increase in revenue in the coming year. As a result, our inventories' turnover days increased for the year ended 31 March 2011 as compared to the year ended 31 March 2010.

Our Group's average inventories' turnover days for each of the three years ended 31 March 2012 and the four months ended 31 July 2012 were approximately 37.9 days, 63.2 days, 69.5 days and 90.1 days respectively. The inventories' turnover days for the year ended 31 March 2012 was stable compared to the inventories' turnover days for the year ended 31 March 2011. The increase in inventories' turnover days from the year ended 31 March 2010 to the year ended 31 March 2011 was primarily due to the increase in our Group's raw materials and finished goods to cope with the anticipated increase in revenue in the coming year and not due to the fact that our Group's customers were unwilling or delay in taking up the finished goods at the expense of our Group.

Please refer to the paragraph headed "Liquidity, financial resources and capital structure" in the section headed "Financial Information" of this prospectus for further details of our inventories and inventory turnover days.

In the event that we fail to properly assess our need and maintain an appropriate inventory level, we may build up excessive inventories. As a result, this may have an adverse impact on our business operations.

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We are exposed to credit risks

All of our sales of the Group are made on an open account basis with credit terms ranging from 30–75 days, depending on customers' creditworthiness and their business relationship with us. During the Track Record Period, the Group has not experienced any failures to recover trade debts. Should the creditworthiness of our customers deteriorate, we may not receive or receive in time the trade debts due from our customers and our operation and financial position may be adversely affected.

We are subject to foreign exchange rate fluctuations

As our sales are primarily made in US dollar and HK dollar whereas our purchases of materials and payment of wages and salaries to the PRC workers are in RMB and HK dollar, we are exposed to exchange rate risk. During the Track Record Period, the Group has experienced no material exchange losses. In addition, we are exposed to the risks associated with the currency conversion and exchange rate system in the PRC.

Our profit margins will be negatively affected to the extent that we are unable to increase the U.S. dollar selling prices of the products we sell to our overseas customers to account for any appreciation of the RMB against the U.S. dollar. Further, any future significant fluctuations in exchange rates will result in increases or decreases in our reported costs and earnings, and also adversely affect the carrying value of our non-Hong Kong dollar-denominated assets and the amount of our equity, and, accordingly, our business, financial condition, results of operations and prospects.

To manage the risk of exchange loss arising from fluctuation in exchange rates of these currencies, we have entered into non-deliverable forward contracts during the Track Record Period. For the years ended 31 March 2010, 2011 and 2012 and four months ended 31 July 2011, as a result of our activities to minimise foreign currency exchange exposure arising from our operations, we recorded gain on derivative financial instruments of approximately HK\$0, HK\$4,094,000, HK\$8,221,000, and HK\$387,000, respectively and for the four months ended 31 July 2012, we recorded loss on derivative financial instruments of approximately HK\$2,717,000 in our income statement. The principal value (notional value) of the outstanding forward contracts as at 31 March 2010, 2011 and 2012 and as at 31 July 2012 were nil, US\$23.2 million, US\$28.6 million and US\$28.6 million respectively. As at Latest Practicable Date, the principal value (notional value) of the outstanding forward contracts was US\$10 million. We cannot assure you that we will be able to successfully manage the risks involved in hedging activities in the future or that our business, financial condition, results of operations and prospects will not be adversely affected by our hedging activities. Please refer to the paragraph headed "Derivative financial instruments" in the section headed "Financial Information" in this prospectus for further details, including the major terms of the forward contracts.

If there is any material fluctuation in the exchange rates of one currency that we use to settle our payables against the other currency we received from our customers, and if we are unable to pass on the exchange risk to our customers, our results of operations and financial condition may be adversely affected.

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Future expansion plans are subject to uncertainties and risks

We have set out our future plans in the section headed “Future Plans and Use of Proceeds” in this prospectus. Whether our future plans can be implemented successfully may be beyond our control and some future events may affect the smooth running of the expansion plan such as change in costs related to the changes in compliance with the environmental laws, rules and regulations, delays in obtaining the necessary licences and approvals from the government.

There is no assurance that we will be successful in our expansion plans. If we fail to project accurately the time, labour and costs required for implementing our expansion plans, or if we fail to secure sufficient amount of sales order or at all after the expansion, our business and results of operation may be adversely affected.

Our success and continued growth are dependent on our key management team

We believe that our success is, to a certain extent, attributable to the extensive industry knowledge and experience of our management team. The details of our management team, including their relevant areas of expertise, are set out in the section headed “Directors, Senior Management and Employees” in this prospectus. The dedication of our senior management team has contributed to the stability of our senior management. Our continued success is dependent, to a large extent, on the ability to attract and retain the services of the key management team, including our executive Directors (in particular Mr. Lau), Mr. Hau, who is the general manager of our China operation, and Mr. Kwong, who is the general manager of engineering and quality.

We believe that an experienced management team as well as dedicated members of staff will contribute significantly to our future growth. Accordingly, the loss of services of any of our key management without suitable and timely replacements may lead to disruption in our operations, loss or deterioration of important business relations and have a material adverse effect on our business operations and prospects.

Potential impact of power supply shortage, labour shortage and any causes which affect our production capacity may adversely affect our operations

Most of our production processes are semi-automated or involve the use of machinery, and therefore rely on an adequate and stable supply of electricity. A power outage could disrupt or even result in the halt of our production process and thereby adversely affect our manufacturing yield.

The operations of our Haoda Factory and the Processing Factory were affected by the control of electricity supply by local utilities provider during the Track Record Period. There is no assurance that contingency measures will be sufficient to deal with any disruptions that may happen in the future, and any prolonged shortage of electricity will cause disruption to our Group’s production.

Furthermore, our manufacturing is labour intensive and at times we have experienced labour shortages, especially during peak seasons from June to October each year when the demand for our products is high and we need to employ production workers on a temporary basis to meet our production schedule. We cannot assure you that we will not experience any shortage of labour or that the cost of

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labour in China will not increase in the future. If we experience a shortage of labour, we may not be able to maintain our production volumes. This will in turn adversely affect our business operations and could harm our business performance.

In addition, if labour costs increase in China, our production costs will increase and we may not be able to pass these increases on to our customers due to competitive pricing pressures, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

For some of our products, multi-skilled manufacturing processes such as sewing operation and plastic processing are involved and different production lines are required in the processing procedures for producing such products. In case the manufacturing of a specific type of product involves more than one production skill, such as plastic processing and sewing operation at the same time, we may not be able to produce such type of product when any one of the production lines for plastic toys and sewing products reaches its maximum utilisation rate during peak production seasons. If this were to occur, our business operations and financial condition could also be adversely affected.

We may be held liable for any breach of customer confidentiality or intellectual property rights

In general, pursuant to the terms of the sale agreements with our customers, our customers retain the exclusive ownership of all right, title and interest in intellectual property rights relating to the moulds and tools used for manufacturing their products and the products produced by us for them. We will be held liable for any breach relating to any misuse of the moulds and tools or any infringement of the customers' intellectual rights, and we shall indemnify the customers from and against any liabilities, claims, costs, fines, penalties and expenses in connection therewith in the event of such breach. Please refer to the paragraph headed "Intellectual Property" in the section headed "Business" in this prospectus for further details.

We have incurred an investment loss in relation to the acquisition of 20% equity interests of Eagletron during the Track Record Period

On 18 January 2010, the Company acquired 20% equity interests of Eagletron. The Group recorded a share of profits from an associate of approximately HK\$6.1 million for the year ended 31 March 2010, which arose as a result of the excess of the Group's share of the net asset value of Eagletron over its cost of investment of HK\$2 million. Subsequently, a petition was filed by a creditor of Eagletron on 21 April 2011 at the High Court, a court order was granted on 29 June 2011 that Eagletron be wound up by the High Court and the Official Receiver be constituted provisional liquidator of the affairs of the Eagletron. We noted that joint and several provisional liquidators were appointed on 29 June 2011 and joint and several liquidators were appointed on 21 October 2011 for the compulsory winding up of the company and as at the Latest Practicable Date Eagletron is still in compulsory winding up and it has still not been dissolved yet. Our Company's legal advisers as to Hong Kong laws have advised that, as a creditor and shareholder of Eagletron, Qualiman Technology and its directors will not have any legal liability owing to Eagletron due to its liquidation. Our Directors considered the interest in Eagletron, which included our Group's share of net assets of approximately HK\$8.1 million and outstanding loans to Eagletron of approximately HK\$9 million, were irrecoverable and therefore impairment was made in 2011. As a result, our Group recorded a loss on liquidation of an associate of approximately HK\$17.1 million for the year ended 31 March 2011. Please refer to the paragraphs headed "Loss on liquidation of an associate" in the section headed "Financial Information" in this prospectus for further details.

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RISKS RELATING TO OUR INDUSTRY

We operate in a highly competitive industry

We consider that the industry in which we operate is highly fragmented and competitive.

We believe that our customers place considerable emphasis on price, quality, reliability of timely delivery and the ability of the manufacturers to meet their specific requirements. There is no assurance that we can maintain our competitive edges over our competitors. Failure to maintain our competitive position may materially adversely affect our business, financial condition, results of operations and prospects.

Changes in environmental protection and safety laws, rules and regulations may adversely affect our operation

Our business is subject to certain PRC laws and regulations relating to environmental and safety matters. The discharge of waste and pollutants from our manufacturing operations into the environment may give rise to liabilities that may require us to incur costs to remedy such discharge. In addition, we cannot assure you that any environmental laws adopted in the future will not materially increase our operating costs and other expenses.

We cannot assure you that we will be able to comply with new legislations should the PRC government impose stricter environmental protection standards and regulations in the future. Any increase in production costs resulting from the implementation of additional environmental protection measures and/or failure to comply with new environmental laws or regulations may have a material adverse effect on our business, financial condition, results of operations or prospects.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in China's economic, political and social conditions could adversely affect our business, financial condition and results of operations

Substantially all of our manufacturing activities are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social developments in China. The Chinese economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over China's economic growth through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

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While the economy of China has experienced significant growth over the past decade, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall economy of China, but may also have a negative effect on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC government has also recently implemented certain measures, including recent interest rate adjustment, in an attempt to control the rate of economic growth. These measures may decrease economic activities in China, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

The legal system in China is not fully developed and has inherent uncertainties that could limit the legal protections available to our shareholders

Our manufacturing activities are primarily conducted in China and are governed by PRC law, rules and regulations. Our PRC subsidiary is generally subject to laws, rules, and regulations applicable to foreign investments in China. The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws and regulations. Prior court decisions may be cited for reference but have limited weight as precedents. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investments in China. However, China has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in China. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in China may be protracted and may result in substantial costs and the diversion of resources and management attention.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiary

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiary, including from the proceeds of the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiary cannot exceed the difference between the total amount of investment of which our PRC subsidiary is approved to make under relevant PRC laws and the registered capital of our PRC subsidiary, and such loans must be registered with the local branch of the SAFE. In addition, our capital contributions to our PRC subsidiary must be approved by the Ministry of Commerce or its local counterpart. We cannot give any assurance that we will be able to obtain these approvals on a timely basis, or at all. Moreover, we may fail to pay up all registered capital of our PRC subsidiary in a timely manner or at all. If we fail to obtain such approvals or make such payments, our ability to make equity contributions or provide loans to our PRC subsidiary or to fund their operations may be negatively affected, which may materially and adversely affect our PRC subsidiary' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

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We may be deemed a PRC “resident enterprise” under the new PRC Enterprise Income Tax Law and be subject to PRC taxation on our worldwide income

On 16 March 2007, the National People’s Congress of the PRC promulgated EIT Law, which was effective as of 1 January 2008. Under the EIT Law, an enterprise outside the PRC whose “de facto management bodies” are located in the PRC is considered a “resident enterprise” and will be subject to a uniform 25% enterprise income tax rate on its global income. On 6 December 2007, the State Council of the PRC issued the Regulation on the Implementation of PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例), effective as of 1 January 2008, which defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”. In April 2009, the State Administration of Taxation of the PRC further specified certain criteria for the determination of what constitutes “de facto management bodies” for foreign enterprises which are controlled by PRC enterprises. If all of these criteria are met, the relevant foreign enterprise controlled by a PRC enterprise will be deemed to have its “de facto management bodies” located in China and therefore be considered a PRC resident enterprise. These criteria include: (i) the enterprise’s day-to-day operational management is primarily exercised in China, (ii) decisions relating to the enterprise’s financial and human resource matters are made or subject to approval by organisations or personnel in China, (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholders’ meeting minutes are located or maintained in China and (iv) 50% or more of voting board members or senior executives of the enterprise habitually reside in China.

Although there have been no official implementation rules regarding the determination of the “de facto management bodies” for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves), it is uncertain the tax authority will make its decision by reference to the rules for foreign enterprises controlled by PRC companies. We are currently not treated as a PRC resident enterprise by the relevant tax authorities. However, we cannot give any assurance that we will not be considered a “resident enterprise” under the new EIT Law and not be subject to the enterprise income tax rate of 25% on our global income.

Our ability to pay dividends and utilise cash resources in our subsidiary is dependent upon our subsidiary’s earnings and distributions

Our Company is a holding company. Our turnover is generated from our business operations conducted through our subsidiary. Our Company’s ability to make dividend payments and other distributions in cash, pay expenses, service any debts incurred, and finance the needs of other subsidiary, depends upon the receipt of dividends, distributions or advances from our subsidiary. The ability of our subsidiary to pay dividends or other distributions may be subject to their earnings, financial positions, cash requirements and availability, applicable laws, rules and regulations, and restrictions on making payments to our Company contained in financing or other agreements. If our subsidiary incurs debt in its own name, the instruments governing the debt may restrict dividends or other distributions on its equity interest to us. These restrictions could reduce the amount of dividends or other distributions that our Company receives from our subsidiary, which could in turn restrict our ability to fund our business operations and to pay dividends to our Shareholders. Our Company’s future declaration of dividends may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board.

RISK FACTORS

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiary only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiary are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year to their respective reserve funds in accordance with the requirements of relevant laws and provisions in their respective articles of associations. As a result, our PRC subsidiary is restricted in their ability to transfer a portion of their net income to us in the form of dividends. Any restriction on the ability of our PRC subsidiary to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

Distributions by our PRC subsidiary to our Company in forms other than dividends may be subject to government approval and taxes. Any transfer of funds from our Company to our PRC subsidiary, either as a shareholder loan or as an increase in registered capital, is subject to registration with, or approval of, the relevant PRC government authorities. These limitations on the flow of funds between and amongst us and our PRC subsidiary could restrict our ability to respond to changing market conditions or appropriately allocate funds to our PRC subsidiary in a timely manner, or at all.

Government control over currency conversion may affect the value of our Shares and limit our ability to utilise our cash effectively

Substantially all our costs are denominated in Renminbi and Hong Kong dollars, while our sales are mainly denominated in U.S. dollars and Hong Kong dollars. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiary to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for our Shares, and an active trading market may not develop

Prior to the Global Offering, no public market existed for our Shares. The Offer Price may differ significantly from the market price for our Shares following the Global Offering. There can be no assurance that an active trading market for our Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our Shares will not decline below the initial offer price.

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The price and trading volume of our Shares may be volatile, which could result in substantial losses for investors purchasing our Shares in the Global Offering

Factors such as fluctuations in our revenue, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, or actions taken by competitors could cause the market price of our Shares or trading volume of our Shares to change substantially and unexpectedly. In addition, stock prices have been subject to significant volatility in recent years. Such volatility has not always been directly related to the performance of the specific companies whose shares are traded. Such volatility, as well as general economic conditions, may materially and adversely affect the prices of shares, and as a result investors in our shares may incur substantial losses.

Purchasers of our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares is higher than our net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value per Share. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience dilution in the net tangible assets value per Share if we issue additional Shares in the future at a price which is lower than our net tangible assets value per Share.

Future sale or major divestment of shares by any of our substantial shareholders could adversely affect the prevailing market price of our Shares

The Shares held by certain substantial shareholders are subject to certain lock-up periods, the details of which are set out in the section headed “Underwriting” in this prospectus. However, we cannot give any assurance that after the restrictions of the lock-up periods expire these shareholders will not dispose of any Shares. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of our Shares.

Prior dividends distributions are not an indication of our future dividend policy and we may not be able to pay any dividends on our Shares

During the Track Record Period, the following amounts of dividends were declared by us. For the year ended 31 March 2010, pursuant to the resolution passed on 1 February 2010, dividends of HK\$16,500,000 attributable to the year ended 31 March 2010 were approved. For the year ended 31 March 2012, pursuant to the resolution passed on 23 December 2011, dividends of HK\$53,955,000 attributable to the year ended 31 March 2012 were approved. However, historical dividend distributions are not indicative of our future distribution policy and we can give no assurance that dividends of similar amounts or at similar rates will be paid in the future.

Any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Companies Law, including (where required) the approval of shareholders. In

RISK FACTORS

addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries in the PRC, which are subject to restrictions described in “Our ability to pay dividends and utilise cash resources in our subsidiary is dependent upon our subsidiary’s earnings and distributions” above. For further details of our dividend policy, please see the section headed “Financial Information — Dividend policy” in this prospectus.

Therefore, we cannot guarantee when, if and in what form dividends will be paid on our Shares following the Global Offering. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable.

The market price of the Shares when trading begins could be lower than the Offer Price

The initial price to the public of the Shares sold in the Global Offering will be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until 23 January 2013. Investors may not be able to sell or otherwise deal in the Shares until 23 January 2013. As a result, holders of the Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur during that period.

Shareholders’ interests in our Company may be diluted in the future

Our Company may issue additional Shares pursuant to the Share Option Scheme. In addition, we may need to raise additional funds in the future to finance business expansion, whether related to existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company, other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution and reduction in their earnings per share, and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders.

Investors should not place undue reliance on facts, forecasts and other statistics in this prospectus relating to the economy and our industry obtained from official resources

Facts, forecasts and other statistics in this prospectus relating to the economy and the industry in which we operate our business on have been collected from materials from official government sources. We cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisers, nor the Underwriter or any of its affiliates or advisers, have independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. In particular, due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics may be inaccurate or may not be comparable to information and statistics produced with respect to other countries. Statistics, industry data and other information relating to the economy and the industry derived from the official government sources used in this Prospectus may not be consistent with other information available from other sources and therefore, investors should not unduly rely upon such facts, forecasts and statistics while making investment decisions.

RISK FACTORS

Investors should not place undue reliance on information in this prospectus which is not factual but hypothetical in nature such as analyses based on assumptions

Information in this prospectus which is not factual but hypothetical in nature including but not limited to any sensitivity analysis on our historical financial data is based on assumptions and is for reference only and should not be viewed as actual effect. Such information by no means reflects our Group's historical experience and financial results. Prospective investors should not place undue reliance on such information.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding the Global Offering

There may have been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. You should rely solely upon the information contained in this Prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding the Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in the Global Offering.

Prospective investors in the Global Offering are reminded that, in making their decisions as to whether to purchase our Shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

CONTINUING CONNECTED TRANSACTIONS

Our Group has entered into certain transactions which are expected to continue and will constitute continuing connected transactions of our Company that are subject to the reporting and announcement requirements under the Listing Rules following the Listing. Our Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver in relation to the continuing connected transactions of our Company and our connected persons under Chapter 14A of the Listing Rules. For further details, please see the section headed “Connected Transactions and Relationship with the Controlling Shareholders” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Hong Kong Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between the Sole Global Coordinator and our Company on or before the Price Determination Date. The Global Offering is managed by the Sole Global Coordinator. Further details of the Underwriter and the underwriting arrangements are set out in the section headed "Underwriting — Hong Kong Underwriting Arrangements" in this prospectus.

SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his acquisition of Offer Shares be deemed to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the United States.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Global Coordinator, the Sole Sponsor, the Underwriter, any of our or their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering,” and the procedures for applying for the Hong Kong Public Offer Shares are set out in the section headed “How to Apply for the Hong Kong Public Offer Shares” and on the relevant Application Forms.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to (i) the Global Offering; (ii) the Capitalisation Issue; and (iii) the exercise of any options that were granted or may be granted under our Share Option Scheme.

No part of the equity or debt securities of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, our Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and our Company’s compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors if they are in any doubt as to the tax implications of subscription for, purchasing, holding, disposing of and dealing in our Shares. It is emphasised that none of our Group, the Sole Global Coordinator, the Sole Sponsor, the Underwriter, any of our or their respective directors, agents or advisors or any other parties involved in the Global Offering accepts responsibility for the tax effects or liabilities resulting from your subscription for, purchase, holding, disposal of, or, dealing in our Shares.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Global Offering will be registered on our Company’s share register of members to be maintained in Hong Kong. Our principal register of members will be maintained by our Company’s principal share registrar in the Cayman Islands.

Dealings in our Shares registered in the share register of our Company in Hong Kong will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the shareholders listed on the Hong Kong share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder.

PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The application procedures for the Hong Kong Public Offer Shares are set out in the section headed "How to Apply for the Hong Kong Public Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Executive Directors		
Mr. Lau Ho Ming, Peter (劉浩銘)	Flat 2, 3/F, Block C, Park Place 7 Tai Tam Reservoir Road Repulse Bay Hong Kong	Canadian
Mr. Poon Pak Ki, Eric (潘栢基)	Room 3109, Block 2 No. 3099 Binhe Road Futian Shenzhen, PRC	Chinese
Mr. Ng Kam Seng (黃錦城)	Room 3202, Tong Fu House Tong Ming Court Tseung Kwan O Hong Kong	Chinese
Non-executive Directors		
Madam Li Man Yee, Stella (李敏儀)	Flat 2, 3/F, Block C, Park Place 7 Tai Tam Reservoir Road Repulse Bay Hong Kong	Canadian
Mr. Tang Yu Ming, Nelson (湯毓銘)	House 7, 6–10 Black's Link Repulse Bay Hong Kong	Chinese
Independent non-executive Directors		
Mr. Leung Po Wing, Bowen Joseph (梁寶榮) <i>GBS, JP</i>	Flat A, 4/F, Block 22 Baguio Villa 555 Victoria Road Pokfulam Hong Kong	Chinese
Mr. Chan Siu Wing, Raymond (陳兆榮)	Flat 1511, 15/F, Tai Hang Terrace 5 Chun Fai Road Jardine's Lookout Hong Kong	Australian
Mr. Chu, Raymond (朱允明)	9 Watford Road The Peak Hong Kong	United States of America

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

Sole Sponsor

CIMB Securities Limited
Units 7706–08, Level 77
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager

Sun Hung Kai International Limited
42/F
The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

Legal advisers to the Company

As to Hong Kong law:
Leung & Lau
3rd Floor
Agricultural Bank of China Tower
50 Connaught Road Central
Central
Hong Kong

As to PRC law:
GFE Law Office
18th Floor, Guangdong Holdings Tower
No. 555 Dongfeng East Road
Guangzhou, Guangdong
PRC

As to Cayman Islands law:
Conyers Dill & Pearman (Cayman) Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

As to BVI law:
Conyers Dill & Pearman
Commerce House
Wickhams Cay 1
P.O. Box 3140
Road Town, Tortola
VG 1110
British Virgin Islands

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to the United States law:

Nixon Peabody LLP
One Embarcadero Center
18th Floor
San Francisco, California
94111-3600
United States of America

As to the European law:

Nixon Peabody International LLP
32, rue de Monceau
75008 Paris
France

**Legal advisers to the Sole Sponsor,
the Sole Global Coordinator and
the Underwriter**

As to Hong Kong law:

Deacons
5th Floor, Alexandra House
18 Chater Road
Hong Kong

As to PRC law:

Guangdong Dena Law Firm
Room 4205
Golden Central Tower
No. 3037 Jintian Road
Futian District
Shenzhen
PRC

Auditors and reporting accountants

BDO Limited
25th Floor, Wing On Centre
111 Connaught Road Central
Central
Hong Kong

Property valuer

Jones Lang LaSalle Corporate Appraisal and
Advisory Limited
6/F, Three Pacific Place
1 Queen's Road East
Hong Kong

Receiving banker

Hang Seng Bank Limited

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters of our Group and principal place of business in Hong Kong	Workshop 3 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong
Principal place of business in the PRC	No. 38 South Guanhe Road, Guanyao Shishan Town, Nanhai District Foshan City Guangdong Province, PRC
Company's website	www.quali-smart.com.hk <i>(information on the website does not form part of this prospectus)</i>
Company secretary	Ms. Cheung Chung Yee, Fendi (張仲怡) FCCA, CPA, ACS, ACIS
Authorized representatives (for the purpose of the Listing Rules)	Mr. Ng Kam Seng Ms. Cheung Chung Yee, Fendi
Authorized representative (for the purpose of the Companies Ordinance)	Mr. Lau Ho Ming, Peter
Compliance adviser	Sun Hung Kai International Limited 42/F The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
Audit committee	Mr. Chan Siu Wing, Raymond (<i>Chairman</i>) Mr. Chu, Raymond Mr. Leung Po Wing, Bowen Joseph <i>GBS, JP</i>
Remuneration committee	Mr. Chu, Raymond (<i>Chairman</i>) Mr. Chan Siu Wing, Raymond Mr. Lau Ho Ming, Peter

CORPORATE INFORMATION

Nomination committee	Mr. Leung Po Wing, Bowen Joseph <i>GBS, JP</i> (<i>Chairman</i>) Mr. Chu, Raymond Mr. Lau Ho Ming, Peter
Corporate governance committee	Mr. Chan Siu Wing, Raymond (<i>Chairman</i>) Mr. Tang Yu Ming, Nelson Mr. Ng Kam Seng
Principal share registrar and transfer office in the Cayman Islands	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26th Floor, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Principal bankers	DBS Bank (Hong Kong) Limited Hang Seng Bank Limited The Hongkong and Shanghai Banking Corporation Limited Industrial and Commercial Bank of China (Asia) Limited

REGULATIONS

Our operations of toy products manufacturing are mainly carried out in our production base located in Foshan, the PRC, while our procurement, sales and marketing operations are mainly carried out by our three operating subsidiaries in Hong Kong, i.e., Qualiman Industrial, Qualiman Technology and Sunmart, which are located in our headquarters in Hong Kong. This section summarizes certain aspects of the Hong Kong and the PRC laws and regulations which are relevant to our operations in Hong Kong and the PRC respectively.

REGULATIONS IN HONG KONG

As at the Latest Practicable Date, companies operating the businesses of our Group in Hong Kong, i.e., sales and marketing and trading of toy products, are required to comply with the laws of Hong Kong generally and there are no particular laws or regulations of Hong Kong which are specific to the businesses of our Group and the industry in which our Group operates in Hong Kong.

REGULATIONS IN THE PRC

A. Establishment, Operation and Management of a Wholly Foreign-owned Enterprise

The establishment, operation and management of corporate entities in China is governed by the PRC Company Law, which was promulgated by the Standing Committee on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004 and 27 October 2005. The PRC Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtors is limited to the value of assets owned by the company. Liability of shareholders of a limited liability company and a joint stock limited company is limited to the amount of registered capital they have contributed. The PRC Company Law shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, verification and approval procedures, registered capital requirement, foreign exchange restriction, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are governed by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the “Wholly Foreign-owned Enterprise Law”), which was promulgated on 12 April 1986 and amended on 31 October 2000, and implementation regulations under the Wholly Foreign-owned Enterprise Law, which was promulgated on 12 December 1990 and amended on 12 April 2001. According to the Wholly Foreign-owned Enterprise Law and its implementation regulations, foreign investors of a wholly foreign-owned enterprise shall pay up the registered capital within the prescribed period in accordance with the relevant PRC laws and regulations. Where the registered capital of the wholly foreign-owned enterprise is not paid up within the prescribed period, the approval certificate of the wholly foreign-owned enterprise will be invalid automatically, and the wholly foreign-owned enterprise shall go through the procedures for cancellation of registration and hand in the business license for cancellation with the relevant administration for industry and commerce authority; if the wholly foreign-owned enterprise fails to go through the procedures for cancellation of registration and hand in the business license for cancellation, the relevant administration for industry and commerce authority shall revoke the business license and make a public announcement thereof.

REGULATIONS

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (the “Catalogue”), which was amended and promulgated by the Ministry of Commerce and the National Development and Reform Commission (國家發展和改革委員會) on 24 December 2011. The Catalogue, as amended, became effective on 30 January 2012 and contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry. As advised by our PRC Legal Advisers, the business of our Group is permitted under the Catalogue.

B. Processing Trade

According to Administration of the Examination and Approval of Processing Trade Tentative Procedures (加工貿易審批管理暫行辦法) promulgated by Ministry of Foreign Trade and Economic Cooperation (later renamed as “Ministry of Commerce”) on 27 May 1999 and effective as from 1 June 1999), the import and export enterprises, foreign investment enterprises, and export processing and assembling service companies (collectively “operating enterprises”) which have been approved of can engage in processing business (including processing with supplied materials (來料加工) and processing with purchased materials (進料加工)) upon approval of relevant competent authority of foreign trade and economy. The state classifies processing trade import merchandise into prohibited category, restricted category and permitted category and prohibits processing trade business involving imported materials and parts belonging to the prohibited merchandise category. An operating enterprise must process and export in accordance with Processing Trade Business Approval Certificate (加工貿易業務批准證). If it is necessary to change some of the particulars of the project due to objective factors, the operating enterprise must report to the original examination and approval authority for its approval before the deadline specified in Processing Trade Business Approval Certificate, and go through change-related formalities with the Customs.

The Regulations of the Export-oriented Processing and Assembly Trade of Guangdong Province (廣東省對外加工裝配業務條例) (the “Regulations”) was issued by the Standing Committee of the Guangdong Provincial People’s Congress (廣東省人民代表大會常務委員會) on 14 May 1993, and amended on 29 July 2004, 28 November 2008 and 26 July 2012. The Regulations apply to the behavior that the enterprises established in Guangdong Province according to laws (not including foreign investment enterprises) carry out the export-oriented processing and assembly trade (對外加工裝配業務). The main provisions of the Regulations are following:

1. When carrying out the export-oriented processing and assembly trade, the PRC enterprises can use the origin factory equipments or can be provided paid or unpaid equipments and workshop construction funds by foreign parties. For the paid equipments and funds, the Chinese party shall repay them by processing fees.
2. When carrying on the export-oriented processing and assembly trade, the PRC enterprises shall enter into contracts with foreign parties. The relevant foreign economic and trade authorities shall approve the contracts according to their relevant approving rights and limits.

REGULATIONS

3. The PRC enterprises undertaking export-oriented processing and assembly trade can take the following mode:
 - (i) Manufacturing enterprises with the operational right of import and export (進出口經營權) sign the contracts with foreign parties directly;
 - (ii) Enterprises without the operational right of import and export jointly with foreign trade companies or industrial and trading companies and the export-oriented processing and assembly trade service companies sign the contracts with foreign parties;
 - (iii) Foreign trade companies, industrial and trading companies and the export-oriented processing and assembly trade service companies sign the contracts with foreign parties and organize the factories to produce.

As advised by our PRC Legal Advisers, the mode of export-oriented processing and assembly trade as set out in item (ii) above has been adopted to the processing arrangement between the Processing Factory and our Group.
4. After the approval of the foreign economic and trade authorities, the enterprises shall go through the registration formalities of tax and customs with the approved contracts.

C. Toys Export

Pursuant to the Law of the PRC on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) which was promulgated on 21 February 1989, effective on 1 August 1989 and amended on 28 April 2002 by the Standing Committee and its implementation regulations, General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局) (“AQSIQ”) shall be in charge of the inspection of import and export commodities throughout the country. The local inspection and quarantine authorities set up by AQSIQ shall be responsible for the inspection of import and export commodities within areas under their jurisdiction. For export commodities which are subject to mandatory inspection by the inspection and quarantine authorities, the consignor shall apply to the inspection and quarantine authorities for inspection in the places and within the time limit specified by AQSIQ. No permission shall be granted for the export of export commodities subject to mandatory inspection by the inspection and quarantine authorities until they have been found to be up to standard through inspection.

Pursuant to Measures for the Inspection, Supervision and Administration of Import and Export Toys (進出口玩具檢驗監督管理辦法) (the “Measures”), which was promulgated by AQSIQ on 2 March 2009 and implemented on 15 September 2009, inspection and quarantine authorities enforce registrations of export toys subject to mandatory inspection by the inspection and quarantine authorities. Export toys producing enterprises shall obtain export toys registration to carry on the production and export of export toys. Export toys producing enterprises shall apply for export toys registration to local inspection and quarantine authorities. The inspection and quarantine authorities will issue Export Toys Registration Certificate (出口玩具註冊登記證書) to the enterprises conformance to the requirements of export toys registration. The valid period of Export Toys Registration Certificate is 3 years. If the enterprise export toys without registration, the inspection and quarantine authorities will order the enterprise to stop exporting, confiscate its illegal earning and impose the enterprise a fine of more than 10% and less than 50% of the goods value. Besides, the inspection and quarantine authorities carry out the inspection to

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export toys according to the Measures. If the enterprise exports the uninspected export toys, the inspection and quarantine authorities will confiscate its illegal earning and impose the enterprise a fine of more than 5% and less than 20% of the goods value.

According to the Implementing Rules of Export Toys Quality Permits (Registration) (出口玩具質量許可(註冊登記)實施細則(試行)) promulgated by Certification and Accreditation Administration of the PRC (國家認證認可監督管理委員會) in August 2007 and other relevant regulation, the export toys quality permits (registration) system shall be carried out to the toy products subject to mandatory inspection by the inspection and quarantine authorities, and the applicable product categories of toy product subject to mandatory inspection by the inspection and quarantine authorities include cloth toys (soft fill-in toys), bamboo toys, plastic toys, riding toys (toys carrying children), baby carriers and electric toys, etc. Enterprises that engage in distribution or production of export toys shall apply for export quality permits (registration) to local inspection and quarantine authorities. The inspection and quarantine authorities will issue Export Toys Quality Permit (出口玩具質量許可證書) to the enterprises conformance to the relevant requirements. The valid period of the permits is 3 years, subject to supervision and inspection carried out at least once a year. The enterprise shall not export the products processed by other enterprises using its own permits numbers and illegally transfer and use the certificates. Otherwise, the inspection and quarantine authorities can revoke its toys quality permit (registration). The enterprise whose toys quality permit is revoked shall not apply export toys quality permits (registration) in one year from the revoked day.

In August 2007, Certification and Accreditation Administration also promulgated the Examining Requirements of Quality License (Registration) of Production Enterprise of Export Toys (Trial) (出口玩具生產企業質量許可(註冊登記)審核要求(試行)) which applies to the inspection and quarantined authorities to implement the examination of the application for toys quality permits (registration) according to the Implementation Rules of Export Toys Quality Permits (Registration) (Trial).

D. Foreign Exchange Regulation

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations of the PRC (中華人民共和國外匯管理條例) which was promulgated by the State Council (國務院) on 29 January 1996, became effective on 1 April 1996 and was subsequently amended on 14 January 1997 and 1 August 2008; and the Regulations on the Administration of Foreign Exchange Settlement, Sale and Payment (結匯、售匯及付匯管理規定) promulgated by PBOC on 20 June 1996 and became effective on 1 July 1996. Under these rules and other PRC rules and regulations on currency conversion, Renminbi is freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as direct investment, loan or investment in securities outside China unless prior approval of SAFE or its local counterpart is obtained.

Foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain supporting documents (such as board resolutions), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain their recurrent exchange earnings according to their needs of operation and the sums retained may be deposited into foreign exchange bank accounts maintained with the designated banks in the PRC. In addition, foreign exchange

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transactions involving overseas direct investment or investment and exchange in securities, derivative products abroad are subject to registration with SAFE and approval from or filing with the relevant PRC government authorities (if necessary).

In addition, the Notice of the General Affairs Department of SAFE on the Relevant Operating Issues Concerning the Improvement of the Administration of Payment and Settlement of Foreign Currency Capital of Foreign-invested Enterprises (關於完善外商投資企業外匯資本金支付結匯管理有關業務操作問題的通知) (the “Circular No. 142”) was promulgated by the General Affairs Department of SAFE and became effective on 29 August 2008. The Circular No. 142 regulates the conversion by a foreign-invested company of foreign currency into Renminbi by restricting how the converted Renminbi may be used. It requires that Renminbi converted from the foreign currency-denominated capital of a foreign-invested company may only be used for purposes within the business scope approved by the relevant governmental authorities and may not be used for equity investments within the PRC unless otherwise specifically provided for. Further, it cannot be used to repay Renminbi loans if the proceeds of such loans have not yet been used. Violations of the Circular No. 142 may result in severe penalties, including substantial fines as set forth in the Foreign Exchange Administration Regulations of the PRC.

E. Taxation

Income tax

Prior to 1 January 2008, income tax payable by foreign-invested enterprises in the PRC was governed by the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) (“FIE Tax Law”) which was promulgated on 9 April 1991 and effective on 1 July 1991 and the related implementation rules. Pursuant to the FIE Tax Law, a foreign-invested enterprise was subject to a national income tax at the rate of 30% and a local income tax at the rate of 3% unless a lower rate was provided by law or administrative regulations. The income tax on foreign-invested enterprises established in Special Economic Zones, foreign enterprises which have establishments or places in Special Economic Zones engaged in production or business operations, and on foreign-invested enterprises of a production nature in Economic and Technological Development Zones, was levied at the reduced rate of 15%. The income tax on foreign-invested enterprises of a production nature established in coastal economic open zones or in the old urban districts of cities where the Special Economic Zones or the Economic and Technological Development Zones are located, was levied at the reduced rate of 24%. Any foreign-invested enterprise of a production nature scheduled to operate for a period of not less than ten years was exempt from income tax for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years) and allowed a 50% reduction in the following three consecutive years.

According to EIT Law, which was promulgated on 16 March 2007, the income tax for both domestic and foreign-invested enterprises will be at the same rate of 25% effective from 1 January 2008. However, there will be a transition period for enterprises that previously receive preferential tax treatments under the FIE Tax Law. Foreign-invested enterprises that are subject to an enterprise income rate lower than 25% may continue to enjoy the lower rate and gradually transit to the new tax rate after the effective date of the EIT Law. For instance, foreign-invested enterprises that enjoy a tax rate of 24% will have their tax rate increased to 25% in 2008. Foreign-invested enterprises which enjoy a fixed period of exemptions or reductions under the existing applicable

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rules and regulations may continue to enjoy such treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced due to lack of profit, such preferential tax treatment will commence from the effective date of the EIT Law.

On 26 December 2007, the State Council issued the Notice on Implementation of Enterprise Income Tax Transition Preferential Policy on the Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知) (the “Transition Circular”), which became effective simultaneously with the EIT Law. Under the EIT Law and the Transition Circular, enterprises that were established before 16 March 2007 and already enjoyed preferential tax treatments will continue to enjoy them (i) in the case of preferential tax rates: the tax rate will gradually increase from 15% to 25% for a period of five years from 1 January 2008 (ii) in the case of preferential tax exemption or reduction for a specified term, until the expiration of such term. The EIT Law and its implementation rule permit certain high and new technology enterprises strongly supported by the State which hold independent ownership of core intellectual property and simultaneously meet a list of other criteria, financial or non-financial, as stipulated in the implementation rule, to enjoy a reduced 15% enterprise income tax rate.

Withholding tax on dividend distribution

Before the promulgation of the EIT Law, the principal regulations governing distribution of dividends paid by foreign-invested enterprises include FIE Tax Law together with its Implementation Rules.

Under these regulations, foreign-invested enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this provision has been revoked by the EIT Law. The EIT Law prescribes a standard withholding tax rate of 20% on dividends and other China-sourced income of non-resident enterprises. However, the implementation rules of the EIT Law reduced the rate from 20% to 10%, effective from 1 January 2008.

According to the Arrangement between the Mainland and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) effective on 1 January 2007, the withholding tax rate for dividends paid by a PRC resident enterprise to a Hong Kong resident enterprise is no more than 5%, if the Hong Kong enterprise owns at least 25% of the PRC enterprise. According to the Notice of the State Administration of Taxation on the Issues relating to the Administration of the Dividend Provision in Tax Treaties (國家稅務總局關於執行稅收協定股息條款有關問題的通知) promulgated on 20 February 2009, the corporate recipients of dividends distributed by Chinese enterprises must satisfy the direct ownership thresholds at all times during the 12 consecutive months preceding the receipt of the dividends.

Value added tax

Pursuant to the Provisional Regulations of the PRC Concerning Value Added Tax (“中華人民共和國增值稅暫行條例”) promulgated by the State Council which was subsequently amended and took effect on 1 January 2009 and its implementation rules, all entities or individuals in the

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PRC engaged in the sale of goods, the supply of processing services, repairs and replacement services, and the importation of goods are required to pay value-added tax (“VAT”). VAT payable is calculated as “output VAT” minus “input VAT”. The rate of VAT is 17% or in certain limited circumstances, 13%, depending on the product type.

The Ministry of Finance and the State Administration of Taxation promulgated the Pilot Proposals for levying the VAT in Lieu of Business Tax (營業稅改徵增值稅試點方案) (“Pilot Proposals”) on 16 November 2011. Pursuant to the Pilot Proposals, since 1 January 2012, areas with manifest economic radiating effect and demonstrative of reform are selected as pilot areas to carry out the change from business tax to VAT for productive services industries such as transportation and part of the modern service industries. In addition to the current VAT standard tax rate of 17% and the low tax rate of 13%, two classes of low tax rates of 11% and 6% are added to the VAT regime. The tax rate of 11% is applicable to the transportation and construction industries. The tax rate of 6% is applicable to part of the modern service industry, whereas the tax rate of 17% is applicable to the leasing tangible moveable asset.

According to the Notice of the Ministry of Finance and the State Administration of Taxation on the Pilot Work of Levying VAT in Lieu of Business Tax in the Transportation Industry and Some Modern Service Industries in Beijing and Other Seven Provinces and Cities (財政部、國家稅務總局關於在北京等8省市開展交通運輸業和部分現代服務業營業稅改徵增值稅試點的通知) promulgated by the Ministry of Finance and the State Administration of Taxation on 31 July 2012, the range of selected pilot areas for transportation and part of the modern service industries will be extended from Shanghai to Beijing City, Tianjin City, Jiangsu Province, Anhui Province, Zhejiang Province (including Ningbo), Fujian Province (including Xiamen), Hubei Province and Guangdong Province (including Shenzhen) by stages. The areas mentioned above are required to carry out the Pilot Proposals since 1 August 2012, while Guangdong Province should complete the change of the taxation system on or before 1 November 2012. Our Directors expect the Pilot Proposals will not have a material impact on our Group’s business.

F. Environmental Protection

All entities and individuals shall abide by state and local laws and regulations of PRC concerning environmental protection, mainly including: Environmental Protection Law of the PRC (中華人民共和國環境保護法) (“Environmental Protection Law”), Appraising of Environment Impacts Law of the PRC (中華人民共和國環境影響評價法) (“Appraising of Environmental Impacts Law”), Regulations on Administration of Construction Project Environmental Protection (建設項目環境保護管理條例), Prevention and Control of Atmospheric Pollution Law of the PRC (中華人民共和國大氣污染防治法) (“Atmospheric Pollution and Prevention Law”), Prevention and Control of the Water Pollution Law of the PRC (中華人民共和國水污染防治法) (“Water Pollution and Prevention Law”), Prevention and Control of the Noise Pollution Law of the PRC (中華人民共和國環境噪聲污染防治法) (“Noise Pollution and Prevention Law”), and Prevention and Control of the Solid Waste Pollution Law of the PRC (中華人民共和國固體廢物污染環境防治法) (“Solid Pollution and Prevention Law”).

In accordance with Environmental Protection Law adopted by the Standing Committee on 26 December 1989, the Administration Supervisory Department of Environmental Protection of the State Council sets the national guidelines for the discharge of pollutants. The people’s governments of provinces, autonomous regions and municipalities directly under the central government may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

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A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection, adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their production and operations ceased. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as compensate for any losses or damages suffered as a result of such environmental pollution.

In accordance with Appraising of Environment Impacts Law promulgated by the Standing Committee on 28 October 2002 and effective as from 1 September 2003 and Regulations on Administration of Construction Project Environmental Protection promulgated by the State Council and effective as from 29 November 1998, the development of each construction project is subject to the environmental impact assessment, and the construction entity should submit to the relevant environmental protection authorities the environmental impact evaluation documents which assess the pollution the construction project is likely to produce and its impact on the environment and stipulate the preventive and curative measures. Only after the assessment has been completed and approval from the relevant environmental protection authorities has been obtained, the construction entity can commence the construction. After completion of the project, the construction entity shall also apply to the relevant environmental protection authorities for checks and acceptance of the corresponding environmental protection facilities. The said construction project may be put into operation or use only after the completion of the said checks and acceptance procedures. Where the main body of the project formally goes into production or use without completing the said checks and acceptance procedures, the relevant environmental protection authorities shall order the construction entity to stop the production and use and may impose a fine of less than RMB100,000 on the construction entity.

The PRC Government has promulgated a series of laws on discharge of atmospheric pollutants, waste water, solid wastes and noise to the environment, including Atmospheric Pollution and Prevention Law (promulgated by the Standing Committee on 5 September 1987, amended on 29 August 1995 and 29 April 2000, and effective as from 1 September 2000), Water Pollution and Prevention Law (promulgated by the Standing Committee on 11 May 1984, amended on 15 May 1996 and 28 February 2008, and effective as from 1 June 2008), Noise Pollution and Prevention Law (promulgated by the Standing Committee on 29 October 1996 and effective as from 1 March 1997) and Solid Pollution and Prevention Law (promulgated by the Standing Committee on 30 October 1995, amended on 29

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December 2004 and effective as from 1 April 2005), which have respectively specified the prevention and control and supervision and administration of atmospheric pollution, water pollution and pollution from noise and solid wastes. Pursuant to the aforesaid laws, in case of new construction, expansion and reconstruction of projects that discharge pollutants to the atmosphere or water body, and/or produce noise or solid wastes, the relevant enterprise shall observe the state regulations concerning administration of construction project environmental protection and make pollutant discharge declaration according to law and discharge pollutants in accordance with regulations.

With regard to enterprises violating the aforesaid laws, the relevant competent authorities of environmental protection may impose administrative penalties on them in accordance with laws and regulations. Any enterprises that have caused an environmental pollution hazard shall be responsible for eliminating it and compensating the entities or individuals directly damaged.

G. Building Construction

Pursuant to Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法) which was promulgated on 28 October 2007 and implemented on 1 January 2008, to build any structure, fixture, road, pipeline or other engineering project within a city or town planning area, the construction entity shall apply to the relevant planning authorities for a construction works planning permit (建設工程規劃許可證).

If a construction project proceeds without obtaining the construction works planning permit or by violating the provisions of the construction works planning permit, the relevant planning authorities shall order the construction entity to stop construction. If it is still possible for the construction entity to take measures to eliminate the impact on the implementation of the planning, the relevant planning authorities shall order the construction entity to correct within a certain time limit and impose a fine ranging from above 5% to below 10% of the construction cost; if it is impossible to take measures to eliminate the impact, the relevant planning authorities shall order the construction entity to complete the demolitions of the building or structure within a certain time limit and confiscate the real objects or the illegal gain when the demolitions are not available, and may also impose a fine not more than 10% of the construction cost.

Pursuant to Construction Law of the PRC (中華人民共和國建築法) which was promulgated on 1 November 1997, implemented on 1 March 1998 and amended on 22 April 2011 and Measures for Administration of Granting Permission for Commencement of Construction Works (建築工程施工許可管理辦法) which was promulgated on 15 October 1999, implemented on 1 December 1999 and amended on 4 July 2001, a construction entity shall apply to the relevant construction authorities for the construction works commencement permit (建築工程施工許可證) before commence the construction of the project, except the small projects below the limit amount determined by the construction administrative department of the State Council.

Pursuant to Regulation on the Quality Management of Construction Projects (建設工程質量管理條例) which was promulgated and implemented on 30 January 2000, where a construction entity fails to obtain a construction works commencement permit and starts the construction without authorization, the construction entity shall be ordered to stop construction, make corrections within a prescribed time limit and impose a fine ranging from above 1% to below 2% of the construction cost. Where a construction entity does not organize the project completion, inspection and acceptance and delivers and uses the

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project without authorization, the construction entity shall be ordered to make corrections and be imposed a fine ranging from above 2% to below 4% of the construction cost. If it causes losses, the construction entity shall bear the liability for compensation.

H. Labour

The Labor Law of PRC (中華人民共和國勞動法) (the “Labor Law”) promulgated by the Standing Committee came into effect on 1 January 1995 and other relevant laws provides for the working time, holiday. According to the Labor Law, the policy of the wages shall be paid according to the performance, equal pay for equal work, lowest wage protection and special labor protection for female worker and juvenile workers shall be implemented. The Labor Law also requires the employer to establish and perfect a safety and healthy system, and enter into employment agreement with its employees.

According to the Labor Contract Law of PRC (中華人民共和國勞動合同法) (the “Labor Contract Law”) promulgated by the Standing Committee on 28 June 2007 and came into effect on 1 January 2008 and its regulations for the implementation, enterprises established in PRC shall enter into employment agreements with its employees to provide for the term, job duties, work time, holidays, payments by laws. Both employer and employee shall duly perform their duties. Meanwhile, the Labor Contract Law also provides for the scenario of rescission and termination, except the situation explicitly stipulated in the Labor Contract Law which will not subject to economic compensation, the economic compensation shall be paid to the employee by the employer for the illegally rescission or termination of the employment agreement.

Further, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which became effective on 1 January 2008, employees who have served more than one year with an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who waive such vacation time at the request of employers shall be compensated at three times their normal salaries for each waived vacation day.

According to the Interim Regulations Concerning the Levy of Social Insurance Fees (社會保險費徵繳暫行條例) which was promulgated and implemented on 22 January 1999 by the State Council and other relevant regulations, employing entities shall participate in social insurance schemes and shall make contribution to social insurance for its employees. In case an enterprise fails to make full contributions to social insurance for its employees, the relevant PRC authorities may order the enterprise to rectify the non-compliance within a prescribed time limit. If the company still fails to make the payment within the time limit, in addition to the unpaid social insurance premiums, a surcharge for overdue payment equal to 0.2% per day of the overdue payment counting from the date when the amount becomes overdue will be imposed. If the enterprise refuses to pay the social insurance premiums and the surcharge within the time limit, the relevant PRC authorities may apply to people’s courts for mandatory enforcement of the collection.

Pursuant to the Social Insurance Law of the PRC (中華人民共和國社會保險法) promulgated by the Standing Committee on 28 October 2010 which became effective on 1 July 2011, the State establishes social insurance systems such as basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance so as to protect the right of citizens in receiving material assistance from the State and the society in accordance with the law when getting old, sick, injured at work, unemployed and giving birth. Employing entities are required to

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contribute, on behalf of their employees, to a number of social security funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance. If an employing entity does not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If payment is not made within the stipulated period, the relevant administration department shall impose a fine from one to three times the amount of overdue payment.

According to the Provisions on Implementing the Social Insurance Law of the PRC (實施《中華人民共和國社會保險法》若干規定) (the “Provisions”) promulgated by the Ministry of Human Resources and Social Security of the PRC (中華人民共和國人力資源和社會保障部) on 29 June 2011 which became effective on 1 July 2011, insurance premium which should be paid by the employees are withheld and remitted by the employing entities. If the employers do not withhold and remit as provided by the Provisions the social insurance premium collection institution shall order it to remit within the stipulated period and impose a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. Employing entities shall not require employees to pay for the said surcharge.

Pursuant to the Regulations on the Administration of Housing Provident Funds (住房公積金管理條例) promulgated by the State Council on 3 April 1999 which became effective on 3 April 1999 and as amended on 24 March 2002, employers shall go through housing provident funds registration with the local housing fund administration center and open housing fund accounts for its employees in the bank. Failure to handle abovementioned registration and accounts opening, an employer may be subject to being ordered to handling within a time limit. If the employer fails to handle within the prescribed time limit, it shall be imposed the penalty ranging from RMB10,000 to RMB50,000. Where an employer fails to pay up housing provident funds within the prescribed time limit, the housing fund administration center shall order it to make payment within a certain period of time, if the employer still fails to do so, the housing fund administration center may apply to the court for enforcement of the unpaid amount.

I. Product liabilities

Manufacturers and sellers of defective products in the PRC may incur liability for loss and injury caused by such products. Under the General Principles of the Civil Laws of the PRC (中華人民共和國民法通則), which became effective on 1 January 1987 and amended on 27 August 2009, a defective product which causes property damage or physical injury to any person could subject the manufacturer or sellers of such product to civil liability for such damage or injury.

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法) (as promulgated on 22 February 1993, implemented on 1 September 1993 and amended in 2000), the Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法) (as promulgated on 31 October 1993 and implemented on 1 January 1994) and the Tort Law of the PRC (中華人民共和國侵權責任法) (as promulgated on 26 December 2009 and implemented on 1 July 2010), a manufacturer shall be responsible for the quality of the products it produced. Where any harm is caused by a defective product, the victim may require compensation to be made by the manufacturer of the product or the seller of the product. If the defect of the product is caused by the manufacturer and the

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seller has made the compensation for the defect, the seller shall be entitled to be reimbursed by the manufacturer. If the defect of the product is caused by the fault of the seller and the manufacturer has made the compensation for the defect, the manufacturer shall be entitled to be reimbursed by the seller.

AQSIQ promulgated and implemented Administrative Provisions on the Recall of Children's Toys (兒童玩具召回管理規定) on 27 August 2007, which stipulates the recall and supervision administration of children's toys produced and sold in the PRC. According to the aforesaid regulations, the producers shall take responsibility of the quality and safety of children's toys produced by them and carry out the defect inspection, risk assessment and recall of children's toys as required by the aforesaid regulations.

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During the Track Record Period, the majority of our products are shipped to North America and Western Europe according to customers' requirements where we anticipate that the products are being sold to the local consumers. According to our legal advisers as to the laws of the United States and the European Union, a summary of the laws and regulations of the United States and the European Union ("EU") which are relevant to our Group's products being sold to the end consumers in these two jurisdictions is set forth below:

A. US laws and regulations

I. *Product Safety*

1. *Product Liability Law:*

In the United States there are two separate and distinct aspects that govern liability with respect to products. The first primary body of law that governs the manufacture, distribution and sale of products is Products Liability Law. Products Liability Law governs private litigation of product accidents. It operates *ex post*, meaning it is a body of rules that govern after a product accident has already occurred. Products Liability Law sets out the full range of legal responsibilities of manufacturers, distributors and sellers of products. Exposure to United States Products Liability Law is broad and allows consumers to sue the party who designed, manufactured, sold, or supplied an offending product. Generally speaking, any and all entities in the supply chain of a product can potentially be held liable. This includes manufacturers of component parts (at the top of the chain), assembling manufacturers, the wholesalers, and the retail store owners (at the bottom of the chain).

There are four basic theories of recovery when dealing with a product alleged to be defective: strict products liability, negligence, breach of warranty, and tortious misrepresentation. A litigant is not limited to one theory in bringing a lawsuit, but rather can assert any and all theories simultaneously. Further, all four theories have broad application to a vast array of products — including children's toys and care products.

Strict products liability is generally the most common cause of action asserted in lawsuits involving allegedly defective products. This is because, unlike negligence, strict products liability wrongs do not depend on the degree of carefulness by the

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defendant. The analysis depends solely on the product and whether it was defective at the time it left the hands of the manufacturer. A product can be defective in its manufacture, that is the product does not conform to design specifications or performance standards, or it deviated in some material way from otherwise identical units of the same product line. A product can also be defective in its design. A product has a design defect when its design or configuration is what makes it unreasonably dangerous. Finally, a product can be defective because it lacks proper warning or instructions. These are generally called failure to warn claims.

With strict products liability, it is irrelevant whether the manufacturer or supplier exercised all due care in the design, manufacture, or marketing of the product; if there is a defect in the product that causes harm, he or she will be liable for it. Thus, strict product liability is liability without fault for an injury proximately caused by a product that is defective and not reasonably safe.

Negligence actions, on the other hand, require a plaintiff to show that (1) the defendant owed the plaintiff a duty of due care, (2) the defendant breached that duty by furnishing a defective product, and (3) the defendant's breach caused the plaintiff's injury. The analysis focuses on the acts or omissions of the manufacturer of the product. The duty to exercise reasonable care involves every phase of getting the product to the public. For example, not only must the product be manufactured with reasonable care, the product must also be designed in a way that is safe when used as intended. The product must be inspected and tested at appropriate stages in the manufacturing, distribution and selling process. The product must be made from appropriate (i.e., safe and non-defective) materials, and assembled with appropriate care to avoid against its negligent manufacture. The product's container or packaging must be adequate (and not itself dangerous or defective), and contain appropriate warnings and directions for use. An otherwise non-defective product can be made unsafe by the failure to provide adequate instructions for its safe use.

The breach of warranty cause of action is governed by contract law. In the simplest of terms, a warranty is a promise, claim, or representation made about the quality, type, number or performance of a product. In general, the law assumes that a seller always provides some kind of warranty concerning the product he sells and that he should be required to meet the obligation created by the warranty.

For the most part, the law that governs the sale of goods, in general, and warranties, in particular, is uniform from state to state. The law that governs the sale of goods is Article 2 of the Uniform Commercial Code — or, as it is typically referred to, the UCC. The UCC has been adopted in every state. Under the UCC, there are two kinds of warranties: express and implied. An express warranty can be created by a representation by the seller, or by showing a sample of a product to the buyer where the buyer reasonably assumed that a second shipment of the same quality as the first would be provided. An implied warranty, on the other hand, is presumed to exist unless the buyer clearly and unambiguously disclaims it in writing as part of the sales agreement.

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Finally, tortious misrepresentation is similar to warranty in that it seeks to hold a party liable for misrepresenting a material fact about the product which causes either damage or injury. The rules governing tortious misrepresentation are judge-made and vary from jurisdiction to jurisdiction.

2. *Product Safety Regulations:*

The second body of law is product safety law. The law of product safety is regulatory law and is governed primarily by the Consumer Product Safety Commission (“CPSC”), an administrative agency of the United States federal government that regulates certain classes of products sold to the public. Children’s toys and infant care products fall under its jurisdiction. Product safety law operates *ex ante*, meaning that it seeks to prevent product-caused accidents and diseases before they occur.

The Consumer Product Safety Improvement Act of 2008 (“CPSIA”) was passed by Congress in 2008. The CPSIA constituted a significant overhaul of consumer product safety laws in the United States and was designed to enhance federal and state efforts to improve the safety of all products imported into and distributed in the United States. Products imported into the US which fail to comply with CPSIA’s requirements are subject to confiscation and the importer and/or distributor in the US is subject to civil penalties and fines, as well as possible criminal prosecution. However, while the CPSC works closely with US custom agents, its jurisdiction does not extend beyond the territorial limits of the United States.

Under the CPSIA, a “general conformity certification” is required for any consumer product imported into the US that is subject to a consumer product safety rule issued under the Consumer Product Safety Act (“CPSA”), or a similar rule, standard, regulation, or ban issued by the CPSA or under any statute issued by the commission. The requirement applies to all manufacturers and importers of goods. Those parties must certify that their products comply with all applicable consumer product safety rules and similar rules, bans, standards, and regulations under any law administered by the commission. Such laws include the CPSA, Flammable Fabrics Act, Federal Hazardous Substance Act, and Poison Prevention Act.

The CPSIA specifies that certification must be based on a “test of each product or a reasonable testing program.” The certificate must accompany the product or shipment of products, and a copy must be furnished to each distributor or retailer. The certification must also be furnished to United States Customs. And, if requested by the commission, a copy must be furnished to the CPSC. Where there is more than one manufacturer or importer for a product, the party providing the certification should be the importer for imported products.

Children’s Products and Child-Care Items

The CPSIA made many changes in regulating children’s products, including imposing lower lead-concentration limits on all parts of children’s products, limiting the levels of phthalates in children’s toys and in certain other child-care articles, and requiring that children’s products be tested before sale. Moreover, the

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CPSIA created a new federal toy safety standard by incorporating, by reference, an existing industry standard, known as ASTM F963. ASTM F963 is a voluntary industry standard published by the American Society of Testing and Materials (ASTM). ASTM F963 creates performance standards and test methods for a range of potential risks in toys and children's products, including sharp edges, small parts, lead paint and other toxicity concerns, and electrical hazards. All the new requirements are applicable to children's products.

Under the CPSIA, a "children's product" is defined as "a consumer product designed or intended primarily for children 12 years or younger." "Children's toys" are defined as products "designed or intended by the manufacturer for a child 12 years of age or younger for use by the child when the child plays." A "child-care article" is defined as "a consumer product designed or intended by the manufacturer to facilitate sleep or the feeding of children age 3 and younger, or to help such children with sucking or teething." Thus, by way of example, a bib would facilitate feeding, and a pacifier would facilitate sucking or teething. The term "children's product" applies to a number of toy safety provisions, while the terms "children's toys" and "child-care article" appear to be specific to the phthalate provision in the CPSIA.

As of 12 January 2012, the CPSC began enforcement of the third party testing and certification requirements for an outright ban on certain phthalates, commonly a component of soft plastic items, in toys and child care articles manufactured after 31 December 2011 and, for the most part, a total lead limit of 100 parts per million ("ppm") in such products. Further, the CPSIA regulates the concentration of lead (no more than 0.009 per cent.) in paint or surface coatings of children's products manufactured after that date. Civil penalties can be as high as US\$8,000 per single violation and US\$15 million for a related series of violations. Proper third party testing and certification for the presence of lead, phthalates or other regulated chemicals requires that manufacturers use a reputable laboratory, experienced with validated testing protocols accepted in the United States.

In addition to general conformity certification and third-party testing for certain issues, the CPSIA mandated tracking labels beginning in August 2009 for those products considered "children's products." Specifically, the CPSIA requires that "the manufacturer of a children's product shall place a permanent, distinguishing mark on the product and its packaging, to the extent practicable, that will enable the manufacturer to ascertain the location and date of production of the product, cohort information (including the batch, run number, or other identifying characteristic), and any other information determined by the manufacturer to facilitate ascertaining the specific source of the product by reference to those marks."

The CPSC has developed very specific guidelines for compliance for "baby bouncers." In addition, specific-build guidelines also exist for electronically operated toys. Beyond these specific guidelines, the CPSIA contains several

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guidelines applicable to building and testing requirements for children's toys, such as rules that limit the inclusion of sharp edges and sharp points as well as the use of small parts capable of ingestion. Accordingly, an importer seeking to bring such items into the US for sale needs to refer to and comply with the relevant CPSC standards.

California Specific Regulations

In addition to the regulatory scheme imposed on the Federal level and managed by the CPSC, it is important to note that state regulations may also control the distribution of imported products into the US. The most significant of those, and which are worthy of particular mention, are California regulations.

California's Safe Drinking Water and Toxic Enforcement Act of 1986 (Cal. Health & Safety Code section 25,249.5 et seq, commonly known as "Proposition 65" and in effect since the 1980s) requires that a warning be given before any manufacturer knowingly exposes anyone in California to any of some 775 chemicals identified by the state as a carcinogen and/or a reproductive toxicant. Both lead and various phthalates (BBP, DEHP, DBP, DnHP, and DIDP) are among the chemicals so regulated. Under Proposition 65, enforcement brought about either by government authorities in the state or by private enforcers may result in fines of up to US\$2,500 per day per item sold. In a recent settlement of such an action involving a wide variety of phthalate-containing products (not limited to those used by children), dozens of product manufactures agreed, in addition to payment of substantial penalties, to promulgate the so-called "new 3P standards" ("a maximum concentration, by weight, of DEHP, BBP and DBP, each, of 1,000 ppm million or less in any poly vinyl chloride, soft plastic, other vinyl or synthetic leather component"). It is safe to infer that any Proposition 65 enforcement action as to phthalates present in children's products would impose a level considerably lower than 1,000 ppm.

Proposition 65 also regulates lead, potentially present in plastics, vinyl, and painted surfaces, and cadmium, sometimes found in paint used on products. A recent Proposition 65 settlement involving lead in products, not necessarily intended for use by children and/or for placing in the mouth, included a standard of not more than 100 ppm of lead. California has prohibited the use of both lead and cadmium in children's jewelry.

II. *Difference between products for aged 3 or below and products for aged above 3*

The US does not differentiate product safety or quality standards in its products liability law (which is largely judge-made law), and its codified product safety regulations, for products intended for aged 3 and below and products for aged above 3, except for some regulations under the CPSIA as outlined above in the paragraph headed "Children's Products and Child-Care Items" above which govern specifically for products marketed and intended for use by children and infants.

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Under the CPSIA, a “children’s product” is defined as a consumer product designed or intended primarily for children 12 years or younger. “Children’s toys” are defined as products designed or intended by the manufacturer for a child 12 years of age or younger for use by the child when the child plays. A “child-care article” is defined as “a consumer product designed or intended by the manufacturer to facilitate sleep or the feeding of children age 3 and younger, or to help such children with sucking or teething”. Thus, by way of example, a bib would facilitate feeding, and a pacifier would facilitate sucking or teething. The term “children’s product” applies to a number of toy safety provisions, while the terms “children’s toys” and child-care article” are specific to the phthalate provision in the CPSIA.

To determine whether a product fits the definition of “children’s product,” several factors are considered, including: (1) a statement by the manufacturer about the intended use of such product, if such statement is reasonable; (2) age labeling on the product, if reasonable; (3) whether the product is represented in its packaging, advertising, or promotion as appropriate for use by children 12 years of age or younger; (4) whether consumers commonly recognize the product as being intended for a child 12 years or younger; and (5) the Age Determination Guidelines issued by the Consumer Product Safety Commission staff in September 2002, and in any successor to such guidelines.

As set out in the paragraph headed “Children’s Products and Child-Care Items” above, the CPSIA imposes lower lead-concentration limits on all parts of children’s products, limiting the levels of phthalates in children’s toys and in certain other child-care articles, and requires that children’s products be tested before sale. The other major area of regulation with respect to children’s toys is performance standards and test methods for a range of potential risks in toys and children’s products, including sharp edges, small parts, lead paint and other toxicity concerns, and electrical hazards. Furthermore, under the CPSC’ small parts regulations, toys or other articles intended for use by children under age 3 that present a choking hazard due to small parts are considered banned hazardous substances.

III. *Miscellaneous US regulations*

1. *Import Tariffs:*

Manufactured goods imported from China are generally subject to United States import duties. China is subject to the general rates applicable to most countries with which the US does not have a free-trade agreement in place. The rates of duty are set forth in the Harmonized Tariff Schedule of the United States (“HTS”) which identifies applicable duties for the universe of imported goods, organized by class and specific article. Our Group’s products would appear to fall within Chapter 95, heading 9503.00.00 (this encompasses the definition of “children’s products” as set forth at 15 U.S.C. 2052). According to the current HTS (2012 Revision 2), the general rate for articles under heading 9503.00.00 is “free.” Note that embargoes, anti-dumping duties, countervailing duties, and other very specific matters administered by the US Executive Branch are not contained in the HTS.

There are a number of provisions of US trade law which may allow or result in modification of these duties. They include provisions of general application and China-specific provisions.

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Sections 201 through 204 of the Trade Act of 1974 provide the authority and procedures for the US to take various actions to facilitate a domestic industry's adjustment to import competition. For example, if the International Trade Commission determines that an article is being imported in such increased quantities as to threaten domestic producers of similar products, the US may, among other things, increase or impose a duty, or a tariff-rate quota.

Two provisions of US trade law are specific to China. Section 421 of the Trade Act of 1974 would allow the US to increase duties or other import restrictions on a temporary basis to remedy an import surge that causes or threatens market disruption of a domestic producer of a similar product. For example, in 2009, the US determined that imports of new pneumatic car tires from China caused or threatened to cause market disruption to domestic car tire products and it added an additional duty on certain Chinese tires under that provision.

The second provision, Section 421 of the Trade Act of 1974 addresses potential trade diversion. It provides that if any WTO Member other than the US requests consultations with China under the product-specific safeguard provision, the US Customs Service shall monitor imports of those same products into the US.

Both China-specific provisions are set to expire in December 2013.

2. *Anti-dumping laws:*

There are a range of trade laws in the United States which address the issue of imports which may injure or threaten US industries. Under anti-dumping laws (Title VII of the Tariff Act of 1930), the US International Trade Commission ("USITC"), conducts investigations into whether dumping or subsidization is occurring in products brought into the US market. A significant proportion of such investigations in recent years have been in relation to imports from China.

Whether an item is being dumped or not is assessed on the basis of whether it is being sold at less than fair value in the United States. This means that it is being sold below the producer's sales price in its home market, or at a price which is lower than the cost of production. Subsidization occurs when a government provides countervailable financial assistance to benefit, production, manufacture and/or export of a good. There is first an assessment made by the Commerce Department that dumping or subsidization is occurring, together with a calculation of the estimated margin of dumping or amount of subsidy, and then the USITC is called upon to determine whether or not there is a material injury or threat to US industry. If such a threat is found, Commerce will issue an antidumping duty and/or countervailing duty order. When such an order is imposed, US Customs and Border Protection is instructed to assess special duties on products subject to the order at the time of their import.

After an order has been issued, there is an automatic "sunset" review, no later than five years after the order is issued, which is conducted to assess whether a revocation of the order would lead to the continuation or recurrence of dumping or subsidies and of material injury within a reasonably foreseeable time.

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In addition to anti-dumping and subsidization investigations, there is a special China safeguards investigation which may also be conducted by USITC. Under this law, the USITC determines whether articles from China are being imported into the United States in such increased quantities or under such conditions as to cause or threaten to cause market disruption to the domestic producers of like or directly competitive products. If the USITC makes an affirmative determination, it proposes a remedy. The USITC sends its report to the President and the US Trade Representative. The President makes the final remedy decision.

3. *United States International Anti-Bribery Laws; the Foreign Corrupt Practices Act*

The Foreign Corrupt Practices Act (“FCPA”) is a US statute that prohibits US companies and individuals (anywhere in the world) from offering, authorizing, promising, directing, or providing anything of value, to any non-US government official, political party, party official, or candidate for foreign political office, for the purpose of influencing the non-US official or party to assist the company in obtaining or retaining business or securing an improper business advantage. Individuals and companies may also be penalized if they order, authorize, or assist someone else to violate the anti-bribery provisions or if they conspire to violate those provisions. The US government also asserts jurisdiction over foreign entities and individuals who take any act in furtherance of an FCPA violation while in the territory of the United States.

The FCPA also contains provisions that regulate the accounting of public companies (those with securities registered in the United States or that file reports with the Securities and Exchange Commission of the United States).

(i) FCPA Penalties

Under the anti-bribery provisions of the FCPA, any individual who willfully violates the FCPA may be liable for up to US\$10,000 in civil fines and up to US\$100,000 in criminal fines and may be imprisoned for up to five years. The FCPA prohibits indemnification of such individuals by companies. Companies may be liable for civil fines up to US\$10,000 and criminal fines up to US\$2 million. In addition, an FCPA violation could result in other adverse consequences such as investigations by the US Department of Justice, suspension or debarment from US government contracts, revocation or suspension of export license privileges, shareholder lawsuits, disgorgement, and long-term damage to the company’s and individual’s reputation.

(ii) FCPA Provisions and What They Mean

- **The FCPA prohibits payments or the offer of payments.** A payment need not be completed for liability to attach under the FCPA. The mere offer or promise of a payment with corrupt intent can lead to a violation of the statute.

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- **The FCPA prohibits payment of money or anything of value.** The FCPA extends to payments of anything of value-not just cash. There is no minimum threshold or materiality requirement for corrupt payments.
- **The FCPA prohibits both direct and indirect payments.** In addition to direct payments to foreign government officials, indirect payments through an agent, partner, consultant, contractor, or any other third party may also give rise to liability. The FCPA prohibits payments to any person while “knowing” that any part of the proceeds will be provided to or otherwise used to influence the acts of a non-US official. Further, willfully ignoring FCPA warning signs in an attempt to avoid gaining actual knowledge of a violation is not a valid defense. Similarly, any argument that bribes or improper payments are part of the business culture in a particular country or industry is not a valid defense.
- **The FCPA broadly defines “foreign officials.”** Foreign officials are those officials who act as an elected official of a foreign government, act as an officer or employee of any government department, act as an employee, officer, or director of a state-owned or quasi-governmental enterprise, or act in an official capacity for or on behalf of a foreign government — even if that person is not employed by the government (e.g., a government consultant). Employees of state-owned enterprises or government-controlled entities, as well as officials from public international organizations, also qualify as foreign officials.
- **Corrupt intent under the FCPA does not require quid pro quo agreement.** The arrangement need not be of a “quid pro quo” nature to be corrupt. Any attempt to favorably influence foreign officials, even if that simply includes purchasing their good will, may be considered securing an improper advantage.
- **Exceptions to the FCPA for “facilitating payments.”** The FCPA permits payments to foreign officials where the purpose of the payment is to expedite a “routine government action.” Routine government action refers to only those actions that are “ordinarily and commonly performed” by government officials. These payments cannot be made to influence any discretionary decision by an official and they must be allowed under local laws.
- **Exceptions for “Reasonable and Bona Fide Expenses.”** The FCPA permits payments to foreign officials for reasonable and bona fide expenses directly related to a promotion, demonstration, or explanation of a company’s products and services.

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4. *Employment of Minors and Child Labor Laws in the US*

The laws around the employment of minors are a patchwork of federal and state laws and regulations. The use of child labor, defined as an individual under the age of 18, is restricted under federal law by the Fair Labor Standards Act (“FLSA”). In addition, most states have their own laws restricting child labor. Some of these restrictions regulate the conditions under which minors can be employed and the hours they can work. In other instances, the state or federal laws ban the employment of some minors entirely. This summary provides a brief synopsis of the most significant aspects of the laws regarding child labor.

The FLSA prohibits the employment of “oppressive child labor” in the production of goods for interstate or foreign commerce. It does not directly prohibit the employment of child labor; instead, it bans the shipment or delivery in interstate or foreign commerce of goods produced in establishments that have employed oppressive child labor. The term “oppressive child labor” includes virtually any work by minors under the age of 16. The law permits minors age 14 and 15 to work, but only in very limited circumstances. The law also prohibits minors age 16 or 17 from working in an occupation considered to be hazardous or detrimental to the health or wellbeing of the minor. Hazardous occupations include motor vehicle drivers and helpers, operators of power-driven woodworking, hoisting apparatus or metal forming, punching or shearing machines, operation of circular saws, bandsaws or guillotine shears, and the like.

State laws applying to the employment of minors are much more complex and typically involve both the local Labor Code and Education Code. Several states require that an employer who employs a minor who is in school and under 18 years of age obtain a work permit from the minor’s school. Many states also restrict the number of hours a minor may work. A typical limitation for a minor age 16 or 17 is 4 hours per day on any day in which they are required to attend school, and 8 hours on a non-school day or 48 hours in a week. Many states also limit the time of day minors may work. For example, many states have limitations that prohibit a minor from working later than 10:00 or 11:00 p.m. and before 5:00 or 6:00 a.m. on the day before a school day.

B. EU laws and regulations

I. *Product Safety*

1. *The European safety directive*

The European legislative framework is the directive 2009/48/EC of the European Parliament and of the Council, of 18 June 2009 on the safety of toys, published in Official Journal L 170, 30 June 2009 (“Directive”). Member States were required to bring into force laws, regulations and administrative provisions necessary to comply with the Directive by 20 January 2011.

European Toy Safety Directive has already been implemented in France, UK, and Netherland.

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The Directive is intended to provide a common standard for the safety of toys throughout the whole of the European Economic Area (“EEA”). All toys which are sold within the EEA are required to meet the requirements of the Directive, and may be sold without subject to further local legal controls so long as they are legitimately CE marked.

Toys are defined in the Directive as:

“Products designed or intended, whether or not exclusively, for use in play by children under 14 years of age”

Toy manufacturers, importers and distributors all have obligations under the EU regulations and must ensure that they are taking all the necessary steps to protect children from the risk of injury caused by unsafe toys.

Based on the provisions of 2009/48/EC, manufacturers shall ensure that the toy is accompanied by instructions and safety information in a language or languages easily understood by consumers, as determined by the Member State concerned.

2. *Product Liability Law*

There is a requirement for an EC declaration of conformity by the manufacturer, which brings the toy Directive in line with other CE-marking Directives. By providing such a document, the manufacturer certifies and assumes responsibility for compliance of the toy with the essential safety requirements of the 2009 Directive. A copy of this declaration must be kept in the technical documentation for ten years after the toy has been placed on the market by the European manufacturer or European importer. The declaration should be translated into the language of the member state in which the product is being sold or made available.

Under EU regulation, a manufacturer is defined as “any natural or legal person who manufactures product or has a product designed or manufactured, and markets that product under his name or trademark”.

A person or company must also assume the responsibilities of a manufacturer if they use ready-made products that will be traded on the EEA market under his or her own name or brand.

If a distributor puts a toy on the market under its own name or brand name, or modifies a toy, he becomes a manufacturer, in the meaning of the Directive, and additionally has to fulfill the obligations that apply to manufacturers.

There are four roles with differing responsibilities for the safety of a product.

1. **Manufacturer:** The person who manufactures the toy or has a toy designed or manufactured and markets it under their name or trademark.

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2. Importer: Person in the EU who places a toy from a “third country” on the market.
3. Distributor: A person, (other than the manufacturer or importer), who makes a toy available on the market. (e.g. a retailer).
4. Authorized Representative: Person in the EU acting on written mandate from the manufacturer. The manufacturer must go through a series of checks to assess and ensure that its products conform to the relevant EU directives.

Only the manufacturer inside the EU can be prosecuted directly in his country. In case the manufacturer is outside the EU, the importer may be prosecuted for non-conformity, whilst all the parties in the distribution chain have the obligation not to sell or supply the product if they know or suspect non-conformity.

- CE Marking

The CE marking shall be affixed only by the manufacturer or his authorized representative.

The CE marking shall be affixed only to products to which its affixing is provided for by specific Community harmonization legislation, and shall not be affixed to any other product.

By affixing or having affixed the CE marking, the manufacturer indicates that he takes responsibility for the conformity of the product with all applicable requirements set out in the relevant Community harmonization legislation providing for its affixing.

Steps of CE marking:

- Identify the directive(s) and harmonized standards applicable to the product EU safety toy directive.
- Verify the product-specific requirements: Full of the toy to the harmonized standards gives a product the “presumption of conformity” with the relevant essential requirements.
- Test the product and check its conformity: this is the responsibility of the manufacturer in the meaning of the Directive.
- Draw up and keep available the required technical documentation: the manufacturer has to establish the technical documentation required by the directive(s) for the assessment of the product’s conformity to the relevant requirements, and for the risk assessment.
- Affixation of the CE marking to the product and EC Declaration of Conformity: it must be affixed by the manufacturer, or by its authorized representative within the EEA or Turkey. It must be affixed

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according to its legal format visibly, legibly and indelibly to the product or its data plate. It is the manufacturer's responsibility to draw up and sign an "EC declaration of conformity" proving that the product meets the requirements.

- European importer's obligations

The importer is obliged to place only compliant toys on the market. Before placing a toy on the market the importer should ensure that the correct conformity assessment procedure has been carried out and that correct technical documentation is available upon request. If the importer has reason to believe that a toy is not in compliance with the Directive, then the product should not be placed on the market until it is made compliant. The importer is also obliged to keep a copy of the EC declaration of conformity for a period of ten years after the product has been placed on the market.

- Distributors' obligations

The distributor has similar obligations to that of the importer. The distributor should ensure before placing a toy on the market that it will bear the correct marking, be accompanied by the required documentation, and that any instructions or safety information provided with the product is in a language easily understood by the consumer.

3. *Matters including regulatory requirements in EU*

European Standard EN71 has specified CE mark as mandatory to ensure compliance for safety for the toys to be imported into the European market. Any toy containing electrical parts and chemicals should also comply with regulation of REACH and WEEE and RoHS.

- REACH

Some chemical products are restricted under the REACH Regulations (EC 1907/2006), and CMR's (carcinogenic, mutagenic and reprotoxic) substances are restricted by EU Toy Safety Directive 2009/48/EC. The new Directive updates the essential safety requirements with regard to toys, in order to ensure a high level of protection for children against risks caused by certain chemical substances. This applies particularly to chemicals classed as CMRs, (carcinogenic, mutagenic, or toxic for reproduction). These chemicals are restricted in the 2009 Directive to a concentration below 0.1 per cent.

- RoHS

Toys required to meet RoHS and carry wheeled bin mark must be harmonized for all Europe (single market).

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The Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment 2002/95/EC (commonly referred to as the Restriction of Hazardous Substances Directive or RoHS).

- WEEE

The Waste Electrical and Electronic Equipment Directive (WEEE Directive) is the European Community directive 2012/19/EU of 24th of July 2012 on waste electrical and electronic equipment (WEEE) applies to the toys.

II. *Difference between products for aged 3 or below and products for aged above 3*

The European Union differentiates product safety or quality standards in its regulation for products intended for aged 3 and below and products for aged above 3. Though, the Directive 2009/48/EC of the European Parliament and of the Council of 18 June 2009 on the safety of toys sets forth specific regulations for products designed or intended, whether or not exclusively, for use in play by children under 14 years of age, it does provide specific provisions related to toys which are intended for use by children under 3 years. Alongside the obligation to affix a warning such as “Not suitable for children under three years” for toys which might be dangerous for children under 36 months of age, the Directive also provides particular safety requirements for such toys. It is notably related to (i) Physical and Mechanical properties toys must be of such dimensions as to prevent them being swallowed or inhaled; (ii) Chemical properties: hazardous substances (nitrosamines and nitrosable) shall be prohibited for use in toys intended for use by children aged 3 and below; (iii) Hygiene: a toy intended for use by children aged 3 and below must be washable.

III. *Miscellaneous EU regulations*

1. Anti-bribery law

There is no specific directive stating an EU anti-bribery. Each member state provides his own legislation.

UK Bribery Act now represents the most expansive and stringent anti-corruption law in the EU, and can be compared to the US Foreign Corrupt Practices Act (FCPA).

- Penalties

French bribery law: French Statute of 13 November 2007 (articles 435-1 and Seq. of the French Criminal Code)

France bribing is considered as an unlawfully offering, promising or giving to a public official (including an elected foreign public official), directly or indirectly, any advantage for the performance or non-performance of any act within the official’s functions, duties or mandate.

Individuals

— Imprisonment for up to 10 years

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- Fines of up to €150,000

Companies

- Fines of 5 times €150,000 (i.e. up to €750,000)
- Temporary or permanent winding-up of the Company
- Debarment from public contracts for a maximum of 5 years
- Confiscation

In Netherlands: Article 177 and 362 of the Dutch Civil Code

Bribing a public official means “To offer or give a benefit to a public official” with the purpose of obtaining an act or omission by him/her that is (i) in breach of his/her official duties or (ii) not in breach of his/her official duties:

- Imprisonment for up to 4 years
- A fine of up to €76,000 for natural persons and up to €760,000 for companies
- Disqualification from practicing the profession in which the person committed the crime
- Deprivation of certain rights

In the UK: The Bribery Act 2010

General Offence of bribing means Offering or giving a financial or other advantage to a person (1) intending to induce them, or another, improperly to perform a public function or business activity, or as a reward for the same; or (2) knowing or believing the acceptance would in itself constitute improper performance.

Being bribed means (1) Requesting or accepting an advantage intending personally or through another, improperly to perform a public function or business activity, or as a reward for the same, (2) Requesting or accepting such advantage when the request or acceptance would itself constitute an improper performance of a public function or business activity; or (3) Improperly performing such a function or activity in anticipation of receiving such an advantage.

Individuals

- Imprisonment for up to 10 years

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— Unlimited fine

Companies

— Unlimited fine

— Debarment from public contracts

— A confiscation order under the Proceeds of Crime Act 2002 (POCA)

2. *Export/import tariff and quota*

● Anti-dumping

The Council regulation (EC) No. 1225/2009 of 30 November 2009 on protection against dumped imports from countries not members of the European Community, the EU's basic anti-dumping Regulation complies with the EU's international obligations.

Scheme of generalized tariff preferences:

Manufactured goods imported from China are generally subject to European Union import duties.

● Import duties

Import duties into the EU countries are subject to the respective import tariff (normally applied on the import c.i.f. value) plus the value-added tax (VAT) varies according to different importing countries. Examples of the standard rates are France (19.6%), Netherlands (17.5%), and UK (17.5%).

The EU's scheme on generalized system of preferences ("GSP") entered into effect on 1 January 2009, and has been extended to remain in force until 31 December 2013. While the Chinese mainland remains a beneficiary, it is among the group of to-be-excluded countries, which also includes India, Brazil, South Africa, Indonesia, Malaysia and Russia, while Chinese mainland exports of, among other product categories, toys, have already been excluded from the preferential treatment. Regarding Hong Kong, the territory has been fully excluded from the EU's GSP scheme since 1 May 1998.

3. *Child labor In the EU*

The EU legislative framework is the Council Directive 94/33/EC of 22 June 1994 on the protection of young people at work.

The Directive only applies to all young people under the age of 18 who have an employment contract or an employment relationship defined by the law in force in a Member State and/or subject to the law in force in a Member State.

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C. Jurisdiction Analysis

Our products are mainly exported by our customers to North America and Western Europe. Regarding the possible application of the laws and regulations in the U.S. and EU to products manufactured by our Group, as advised by our legal advisers as to the U.S. and EU laws, since our Group does not sell products directly to overseas retail consumers but instead manufacture products according to our customers' requirements and specifications and deliver our products to our customers primarily on free-on-board terms or ex-factory terms, our Group is not exposed to liabilities with respect to the U.S. and EU law and regulations set out above for reasons set out in more detail below.

I. U.S. analysis

With respect to litigation of product accidents in the U.S., the U.S. court system does allow private litigants to bring suit against entities involved in the chain of production and distribution of products, including foreign-based manufacturers. Importantly, however, and as described more fully below, our Group has no contacts in the U.S. such that a U.S. court could properly acquire jurisdiction.

As advised by our legal advisers as to U.S. and EU laws, our Group does not have sufficient contacts to be subject to jurisdiction in the United States. The Due Process Clause of the Fourteenth Amendment allows a state to exercise personal jurisdiction over a nonresident defendant only if that defendant has certain minimum contacts with the forum state. The two broad jurisdictional concepts that must be considered when analyzing whether personal jurisdiction exists are "general" and "specific" jurisdiction. As explained below, our Group does not satisfy either concept. General jurisdiction requires a defendant to defend a lawsuit unrelated to its contacts with a forum if the defendant has had continuous and systematic general business contacts with the state. Alternatively, a court may have "specific jurisdiction" over a nonresident defendant when that defendant has purposefully directed its activities at residents of that state, and the litigation results from alleged injuries that arise out of or relate to those activities.

More specifically, with respect to general jurisdiction, our Group has not had the kinds of continuous and systematic general business contacts with a U.S. forum needed to support the exercise of general jurisdiction. The continuous and systematic contacts test is a difficult one to meet, requiring extensive contacts between a defendant and a forum such that to confer general jurisdiction, a defendant must have business presence in the forum state. Our Group is not registered or licensed to do business in any state in the U.S.; does not have any offices or places of business in the U.S.; does not own or lease real property in the U.S.; does not maintain any bank accounts in the U.S.; and does not have any employees in the U.S. Further, our Group does not directly solicit business and/or promote, advertise or market its products in the U.S.

The exercise of specific jurisdiction under the Fourteenth Amendment is proper only where the defendant's contacts proximately result from actions by the defendant himself that create a 'substantial connection' with the forum state. The principal inquiry in cases of this sort is whether the defendant's activities manifest an intention to submit to the power of a

REGULATIONS

sovereign. In other words, the defendant must ‘purposefully avail itself’ of the privilege of conducting activities within the forum state, thus invoking the benefits and protections of its laws.

In many products liability cases, the manufacturer or seller does not come in direct contact with the forum state but does so through intermediaries such as distributors or retailers; in response to this phenomenon, courts have developed the “stream of commerce” theory by which specific jurisdiction is asserted over a nonresident defendant which placed its goods, albeit indirectly, into the forum state. In short, plaintiff seeking to exercise personal jurisdiction over a defendant must establish that the defendant took affirmative action, purposefully targeted at the forum state with the intent to serve that market, rather than the U.S. market as a whole. The court requires “something more” than merely placing products into the stream of commerce for personal jurisdiction.

Thus, while our Group’s products are indeed sold to consumers in North America and therefore placed into the U.S. stream of commerce, it is not due to any intentional act on the part of our Group. Our Group does not have an exclusive relationship or contract with a U.S. distributor nor do we have any role in creating or controlling the distribution network in the U.S. for our products. Further, our Group is not registered to do business in any U.S. state; has no officers, directors, employees or agents in the U.S.; has no real property in the U.S.; has not visited the U.S. to attend trade shows or conventions; and has not directed marketing, advertising, or sales efforts to the U.S. Taken together with the fact that we complete all of our transactions in China and does not exercise control over the destinations of our products, our Group has not purposefully availed itself of a U.S. forum.

In light of the above, it has been concluded by our legal advisers as to the U.S. and EU laws that our Group would not be exposed to liabilities with respect to the U.S. laws and regulations set out in this sub-section headed “Overseas Regulations”.

II. *For product liability under EU laws and regulations*

As advised by our legal advisers as to the U.S. and EU laws, since (i) our Group sells our products on free-on-board terms or “ex-factory” terms, we deliver our products to the PRC or Hong Kong ports in accordance with customers’ specifications or, as the case may be, the products are collected by customers at the factories; and (ii) our Group does not have an establishment in any member state of the EU and does not sell our products directly to the overseas retail customers, our legal advisers as to the U.S. and EU laws concluded that our Group would not have any liability towards the end-users of such products in the EU countries and cannot be subject to EU jurisdiction.

INDUSTRY OVERVIEW

Investors should note that Ipsos has been engaged by our Company to prepare the Ipsos Report to provide an overview of the development of the global toy industry and an analysis on demand in toy market, which will be used in whole or in part in this prospectus.

Ipsos is a market research and consulting company, and the views contained in the Ipsos Report are solely those of Ipsos. Ipsos prepared the Ipsos Report based on its desk research, client consultation, primary research such as interviews with key stakeholders and industry experts including associations and experts, key competitors, retailers and distributors of toys.

The information and statistics set out in this section have been extracted from the Ipsos Report compiled by Ipsos and other publicly available sources. Our Directors believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading.

No independent verification has been carried out on such information and statistics by us, the Sole Sponsor, the Sole Global Coordinator, the Underwriter, their respective affiliates, directors and advisers or any other parties involved in the Global Offering, and none of them makes any representation as to the accuracy or completeness of such information.

SOURCE OF INFORMATION

Ipsos Report

We commissioned Ipsos, an Independent Third Party, to conduct an industry analysis of and produce the Ipsos Report. This prospectus contained information extracted from the Ipsos Report, and they are in the sections headed “Industry Overview” and “Business” in this prospectus. The sources cited in this section headed “Industry Overview” are in the form provided in the Ipsos Report, unless otherwise noted.

Our Directors confirm that Ipsos, including all of its subsidiaries, divisions and units, is independent of and not connected with us in any way. Ipsos has given its consent for us to quote from the Ipsos Report and to use information contained in the Ipsos Report in this prospectus.

Ipsos is the subsidiary of Ipsos S.A., a global market research company headquartered in Paris, France and was listed on the Paris Stock Exchange. In October 2011, Ipsos S.A. has acquired Synovate Limited, a global market research firm, from Aegis Group plc. According to the business consulting unit of Ipsos, Ipsos currently has presence in 84 countries and mainly offers market research and consulting services to corporate clients.

The information contained in the Ipsos Report is derived by means of data and intelligence gathering methodology which includes (i) desk research conducted by Ipsos including specialised industry literature, government/regulatory sources, online data sources, third-party reports and surveys, industry reports and analyst reports, industry associations and the database maintained by Ipsos; and (ii) primary research by having interviews with key stakeholders and industry experts, including key competitors, retailers and distributors of toys.

INDUSTRY OVERVIEW

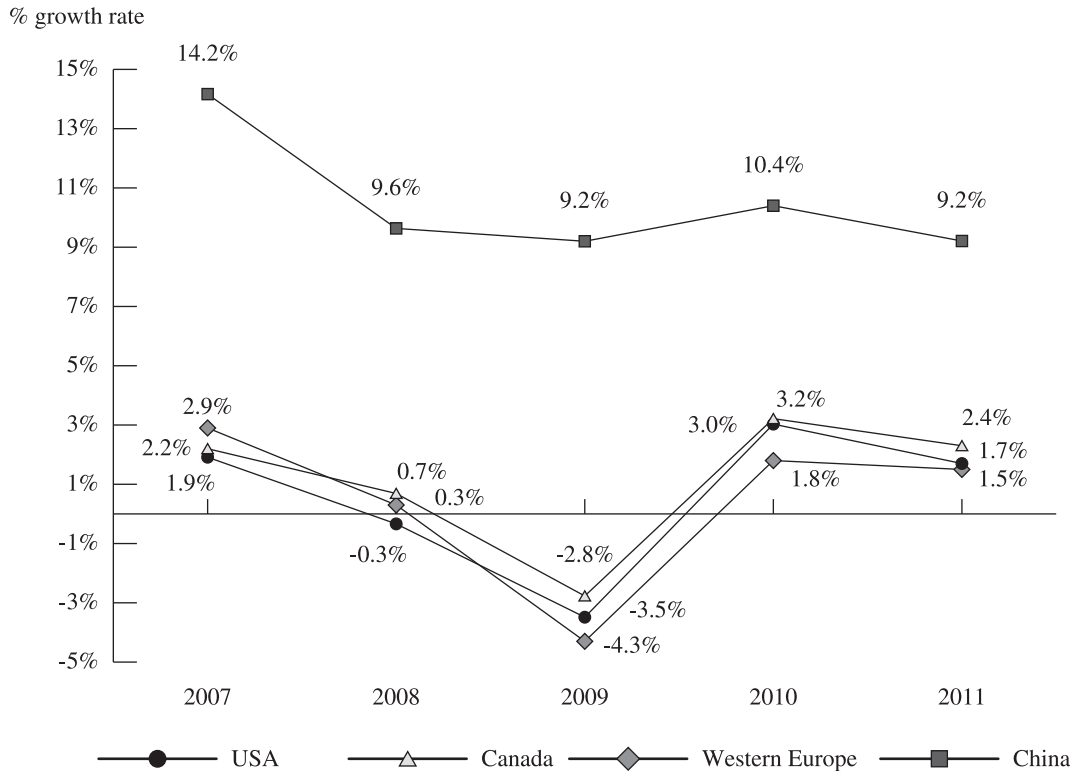
We have paid Ipsos a total of approximately HK\$258,000 in fees for the preparation of the Ipsos Report. We believe that the fees are reasonable for the preparation of an industry report by an independent third-party consultant.

MACROECONOMIC INDICATORS AND OVERVIEW OF GLOBAL TOY INDUSTRY

GDP Growth Rate

Ipsos has specifically covered the US, Canada, Western Europe and China as the selected regions in the Ipsos Report. According to the Ipsos Report, the toy industries in the US, Canada, Western Europe and China correlate to the general economic conditions and consumer sentiments to spend. The economy in China grew the fastest in the past few years in terms of GDP growth, compared to the US, Canada and Western Europe. China's GDP growth has sustained at above 9.0% from 2007 to 2011, which was the fastest among all selected regions in the chart set out below.

GDP Growth Rates for US, Canada, Western Europe and China from 2007 to 2011



Notes:

- (1) Definition of GDP: Gross domestic product at real term
- (2) Western Europe consists of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom ("UK").

Source: Ipsos Report

INDUSTRY OVERVIEW

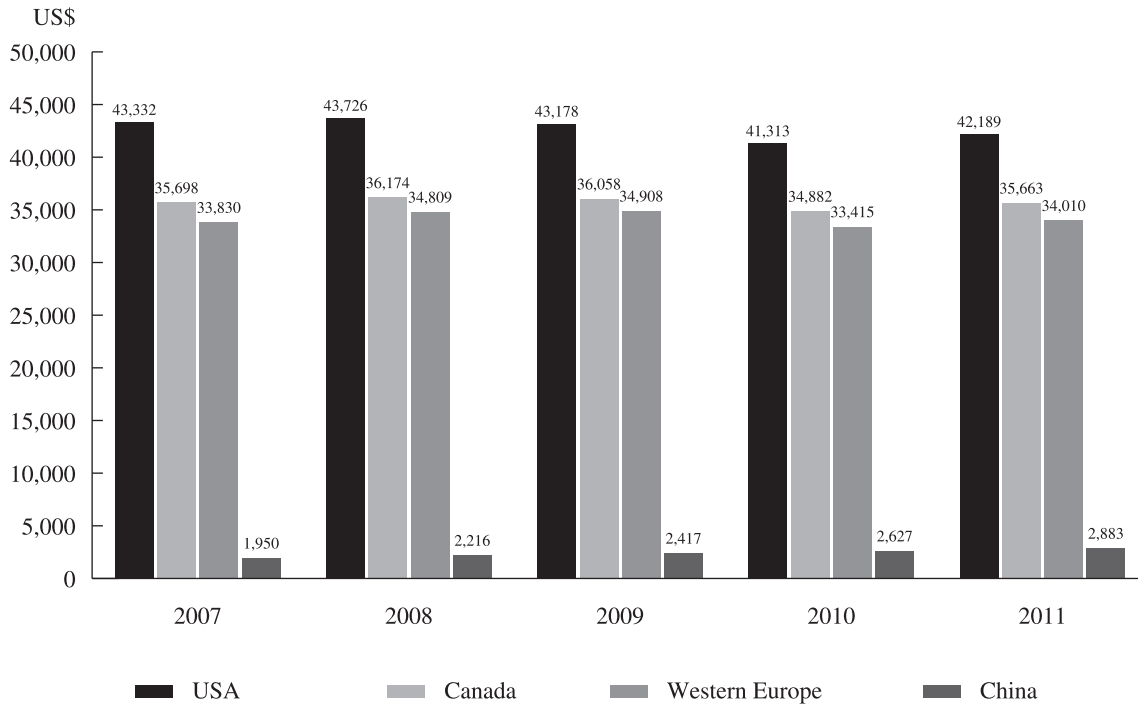
GDP per Capita

Amongst the selected regions, the US has the highest GDP (gross domestic product) per capita value from 2007 to 2011 which demonstrates significant potential for the global toy industry. The chart below sets forth the GDP per capita for the US, Canada, Western Europe and China from 2007 to 2011.

GDP per Capita for the US, Canada, Western Europe and China from 2007 to 2011

CAGR of annual GDP per capita from 2007 to 2011:

- US = -0.7%
- Canada = -0.2%
- Western Europe = 0.1%
- China = 10.3%



Note: Western Europe consists of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the UK.

Source: Ipsos Report

INDUSTRY OVERVIEW

GDP per capita in the US was the highest at about US\$42,189 in 2011, followed by Canada and Western Europe at about US\$35,663 and US\$34,010 respectively. Negative or minimal growth was observed from 2007 to 2011 as a result of the global financial crisis.

Strong GDP per capita represents the wealth status of the society and its population. Hence, North America (the US and Canada) and Western Europe which present the strongest wealth position is expected to remain key markets for the global toy industries.

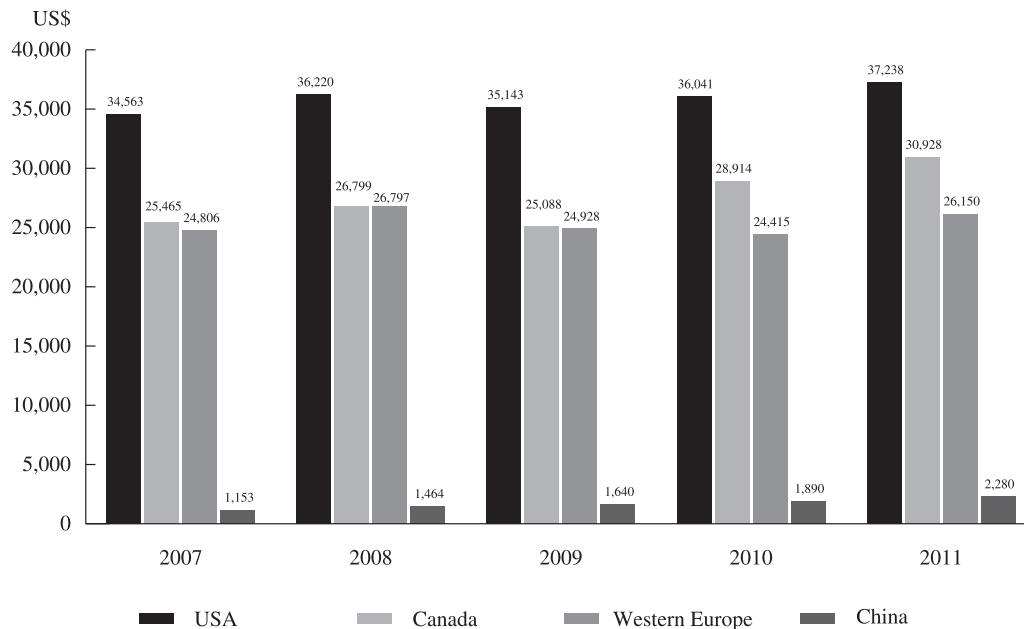
Average Per Capita Disposable Income

The US has the highest per capita disposable income amongst all selected regions while China has the strongest growth from 2007 to 2011. The chart below sets forth the annual average per capita disposable income for the US, Canada, Western Europe and China from 2007 to 2011.

Annual Average Per Capita Disposable Income for the US, Canada, Western Europe and China from 2007 to 2011

CAGR of annual average per capita disposable income from 2007 to 2011:

- US = 1.9%
- Canada = 5.0%
- Western Europe = 1.3%
- China = 18.6%



Note: Western Europe consists of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the UK.

Source: Ipsos Report

INDUSTRY OVERVIEW

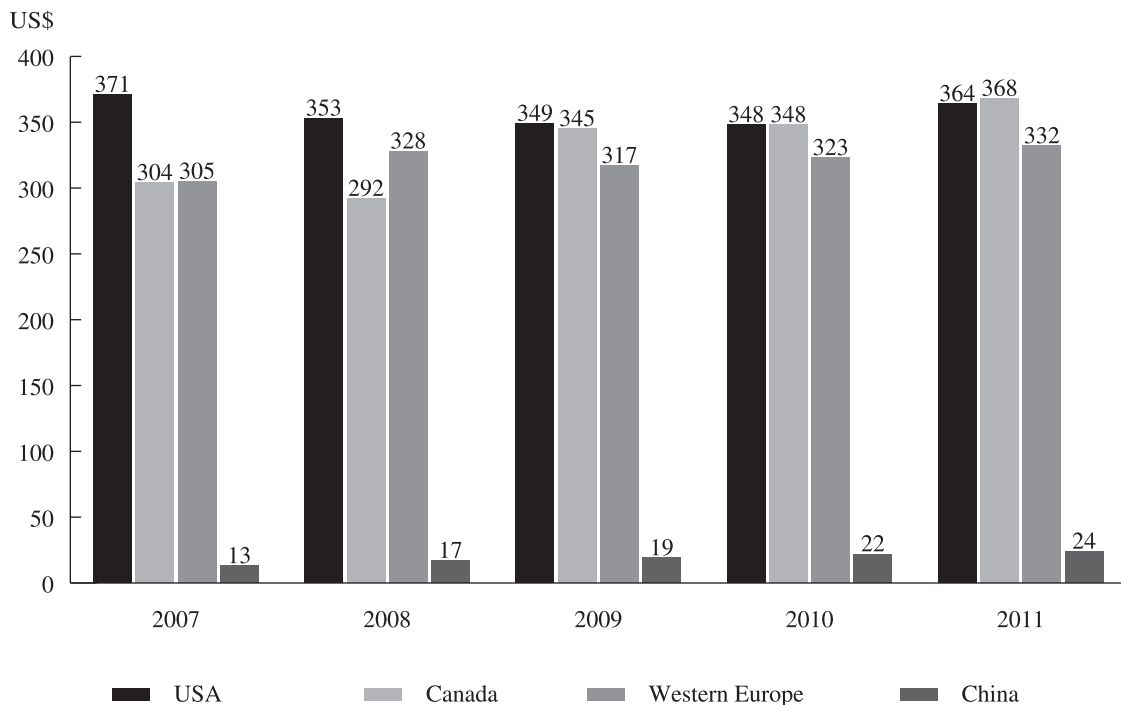
Expenditure on Toys

Expenditure on toys in Canada outgrew the US in 2011 to become the country with the highest expenditure on toys amongst all selected countries. The chart sets forth below the annual expenditure on toys per child for the US, Canada, Western Europe and China from 2007 to 2011.

Annual Expenditure on Toys per Child for US, Canada, Western Europe and China from 2007 to 2011

CAGR of annual expenditure on toys per child (aged 0–14) from 2007 to 2011:

- US = -0.5%
- Canada = 4.9%
- Western Europe = 2.1%
- China = 16.1%



Note: Western Europe consists of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the UK.

Source: Ipsos Report

As indicated in the chart above, Canada has the highest annual expenditure on toys in 2011, at about US\$368 per child which outgrew that in the US at about US\$364 per child in the same year.

Other Economic Factors Affecting Toy Industry

According to the Ipsos Report, it believes that economic conditions, market substitutions and declining birth rate as described below are key factors which impact on the global toy industry.

General economic conditions

The global financial crisis in 2008 has hampered consumers' purchasing power for toys. Brand owners and manufacturers have changed focus from innovative to price, value and economical as consumers cut spending on expensive and premium toys.

The strong economic recovery in 2010 everywhere stimulated growth of disposable income and led to an upturn in consumer expenditure and increased spending for toys. Total market value for toys in North America, Western Europe, China and Taiwan altogether grew at 6.7% from 2009. The better economic outlook gives opportunities to more new product development and launches in the global toy industry as brand owners and manufacturers continues to invest in new research and development to sustain the market growth.

Substitutions of video and computer games

With the rise in new technology, video and computer games have become substitutes to the global market for traditional toys and games. In an increasingly digital world, children are now playing video games at a younger age. Hence, consoles, computers and mobile phones are playing a growing role in children's lives by offering games, education and entertainment. On the other hand the trend in new technology and innovation is also leading toy manufacturers to integrate technology into traditional toys. As a result, electronic toys and toys with interactive technology have become key products to compete with video games in the past few years. Such trend will continue to threaten the growth and development of traditional toys and games with focus on technology innovation.

Declining birth rate

Birth rate in all countries has been on the decline for the past years.

Although the declining birth rate in various countries post challenges for market players, particularly for product catered to babies, infant and pre-schoolers, spending on infants and pre-schoolers remains strong. More money is spent on each child with few children per household. For example in China, the one-child policy has led parents to focus on the development of the single child and providing the best to foster their growth. Brand owners and manufacturers are moving into the premium sectors as willingness to spend increase.

As a result of the changing demographic patterns in many countries, brand owners and manufacturers will also continue to explore opportunities to target teen, adult and senior consumers for the enlarged market opportunities.

INDUSTRY OVERVIEW

Overview of the global toy industry

North America was the largest consumer for toys while China is the biggest toy exporter in the world

The market sales value of the global toy industry was estimated to reach about US\$85.5 billion in 2011. North America was the largest market for the global toy industry which contributed about 29% of the market. Asia Pacific surpassed Europe to become the second largest market for toys, accounted for about 29% of the market in 2011, compared to 25% in 2010. China is the largest supplier of toys, contributing to about 75% of the global production of toys in 2011.

Key brands in the global toy industry

- **Fisher-Price**, one of the major brands for Mattel, is a leading brand for toys for age below 3 in key markets including the US and UK. With emphasis on product safety, the brand has participated in numerous toy tests sponsored by parenting magazines, toy industry experts, and the top 75 Television markets in the US every year. It has won numerous awards including the Best Toys by AllAboardToys.com, AMBY awards for the best baby products by American Baby Magazine, Buzzillions Reviewers' Choice Award Winner by Buzzillions.com, winner of the Great American Toy Test, NAPPA Awards, "TTT" ratings (Toy Tips Trusted[®]) Mark of Excellence etc. Fisher-Price toys were reviewed by parents, children, educators and expert judges on various factors including educational and play value, safety, age appropriateness, and other factors. This demonstrates Fisher-Price as one of the most reliable brand in the toy market.
- **Hasbro** is a worldwide leader in toy and games market. In addition to product offerings under its own brands, the company also controls brands through licensing arrangement with third parties under well-known series such as Transformers, Playskool, Nerf, Littlest Pet Shop, My Little Pony, G.I. Joe, Tonka, Milton, Bradley, Parker Brothers, Cranium and Wizards of the Coast.
- **LeapFrog** is a leading brand in the interactive toys and educational toys markets. In 2011, the brand had the best selling kids learning tablet, learning game system, learn to read system and the electronic learning toys in the US. Its newly launched learning tablet, LeapPad has won many prominent awards around the globe, including the "Educational Toy of the Year," "Preschool Toy of the Year," and the highly prestigious "Toy of the Year" by the U.S. Toy Industry Association, as well as the "Toy of the Year" and "Lifestyle Toy of the Year" from the British Toy & Hobby Association. This supports the brand's strong stand in the interactive and educational toys market.
- **Tollytots** is the leader in the dolls toy sector. Through strategic licensing partnerships with the most trusted and recognized brands in the world — including Disney[®] and Graco[®], the brand has developed an extensive collection of toys that storm the global toy market for dolls. The Classic Disney Princesses such as Cinderella and Belle and miniature strollers and cradles are among its collection which helped the brand achieved its firm position in the market.

INDUSTRY OVERVIEW

The US remained the largest toy market in the global toy industry in terms of market sales in 2011

- Soft and plush toys, infant and preschool toys, construction and activity were the leading categories of toys in North America, accounted for about 30%, 16% and 15% of the total market sales of toys respectively in 2011.
- While majority of the toys are designed in the US, production of toys has shifted abroad. China is the largest production base for imported toys sold in the US. In 2011, imported toys reached about US\$18,115 million in 2011, and US was the largest market in terms of total world import. China alone accounted for about 88.9% of the total import value of toys in 2011.
- The US market for toys is mature with many key brands in place. With the increasing cost of production in material, transportation and labour, brand owners and manufacturers in the US are looking overseas to increase their sales and moving their production base to lower cost countries such as China and Hong Kong.
- As the largest exporter of toys in US, wage increase in China will push Chinese manufacturers to shift cost to toy companies in the US. Retail price of toys is therefore expected to increase in the short-term as neither party is willing to absorb the cost.

Europe is the third largest toy market in the global toy industry in terms of market sales in 2011

- Infant and pre-school toys, dolls and action figures, and games and puzzles were the leading categories in the toys market in Europe, accounted for over 48% of the market share of toys in 2011.
- Amongst the regions in Europe, Western Europe (comprised France, Germany, Italy, Spain, UK, Belgium and Ireland) accounted for about 85% of the total market sales value of toy industry in Europe in 2011. The UK is the largest market for toys, followed by France and Germany.
- While China is the top 1 exporter of toys into Western Europe, local production of toys in the region were concentrated in France, Germany, Italy and Spain. Import value of toys into Western Europe reached about US\$16,051 million in 2011, and was the second largest market in terms of total world import. China accounted for about 48.4% of the total import value of toys and about 86.0% of the imports from non-European countries in 2011. Besides re-export to other European countries, Western Europe also export toys to other countries with the US being the largest export destination.

ANALYSIS ON DEMAND IN TOY MARKET

Total Import Value of Toys

North America and Western Europe were the largest importers of toys in the global toy industry with China being the biggest exporter for both markets.

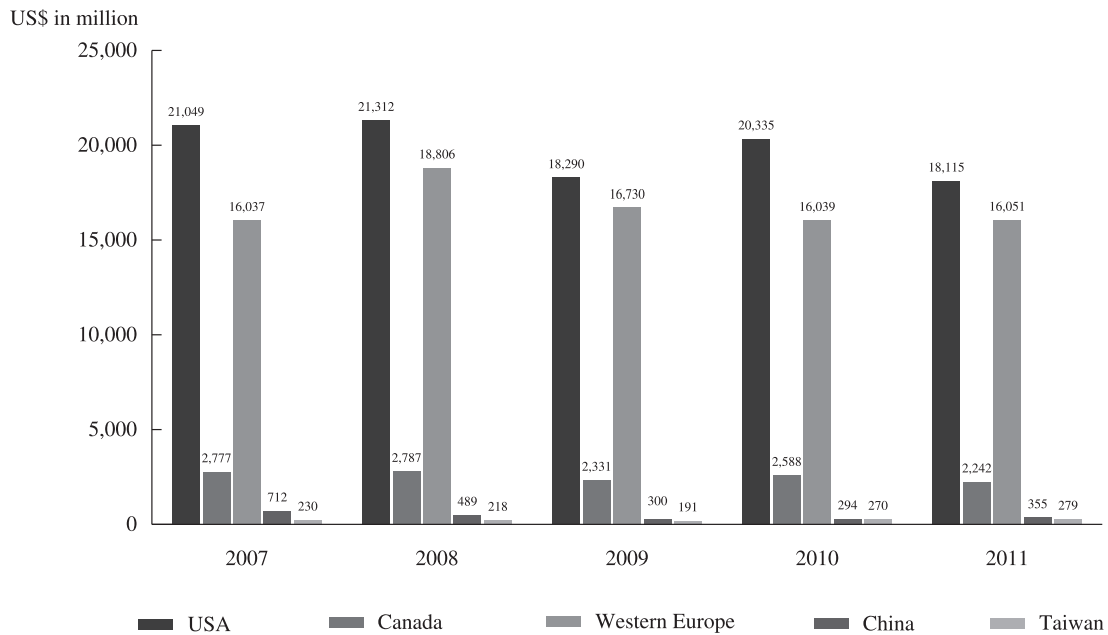
The chart below sets forth the total import value of toys for North America, Western Europe, China and Taiwan from 2007 to 2011.

INDUSTRY OVERVIEW

Total Import Value of Toys for North America, Western Europe, China and Taiwan from 2007 to 2011

CAGR of annual import value for toys from 2007 to 2011:

- Total = -2.4%
- US = -3.7%
- Canada = -5.2%
- Western Europe = 0.0%
- China = -16.0%
- Taiwan = 5.0%



Notes:

- (1) Western Europe includes Germany, France, UK, Belgium, Italy, Ireland and Spain.
- (2) Import value for toys includes festive, carnival or other entertainment articles, including magic tricks and practical joke articles; video games of a kind used with a television receiver; toys nesoi, scale models, puzzles; parts and accessories thereof.

Source: Ipsos Report

INDUSTRY OVERVIEW

The total import value of toys for North America, Western Europe, China and Taiwan declined at a CAGR of about 2.4% from 2007 to 2011. Despite the decrease in import over the past few years, US and Western Europe were still the top 2 largest import destinations of toys within the selected regions, accounted for about 48.9% and 43.3% of the total import value respectively in 2011.

The global financial crisis in 2008 and Europe debt crisis in 2011 has resulted in a decrease in export orders from the US, Canada and Europe since 2009. Due to the same reason, import value of toys slumped significantly in China as toy manufacturers shifted to focus on the domestic market.

Import value of toys in the US and Canada picked up in 2010 as a result of the economy recovery while the ongoing debit crisis continued to hamper consumers' confidence in Europe. Import value of toys in the US fell again in 2011 due to the tough job market.

China remained the largest exporters for all selected regions. Import from China accounted for about 88.9%, 80.7%, 48.4% and 84.4% in US, Canada, Western Europe and Taiwan respectively in 2011. Amongst all toys, import of scale models, puzzles and games were most significant.

It is expected that China will remain as the key exporting country of toys in the future years as brand owners move their production base to the country to lower production cost.

Total Market Sales Value of Toys

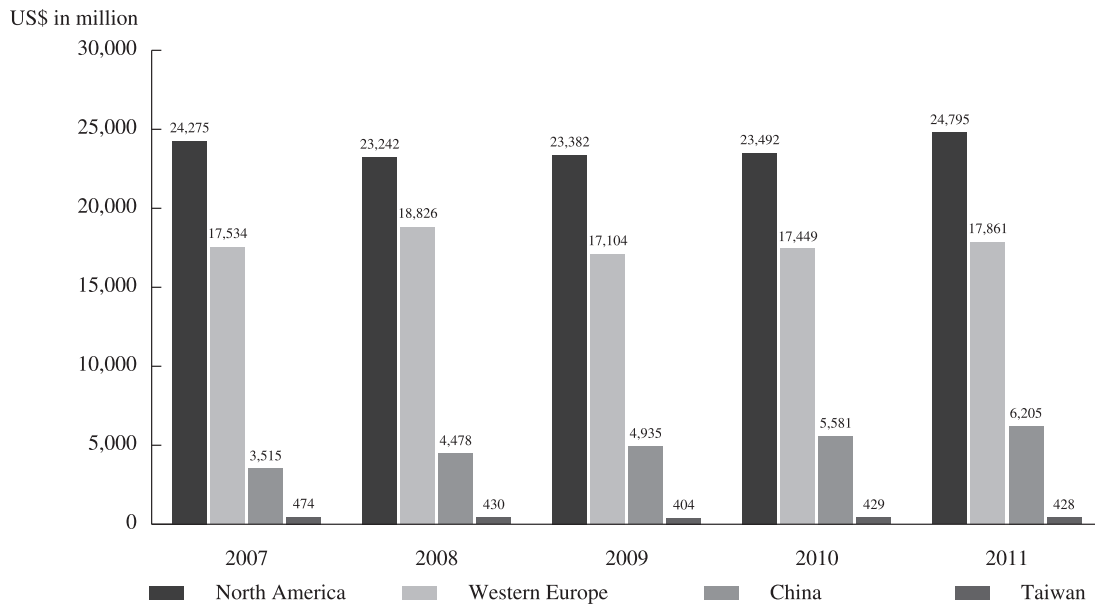
Market sales value of toys in China grew the most significant from 2007 to 2011, outpacing the growth in the largest toys market of North American and Western Europe. The chart below sets forth the total market sales value of toys for North America, Western Europe, China and Taiwan from 2007 to 2011.

INDUSTRY OVERVIEW

Total Market Sales Value of Toys for North America, Western Europe, China and Taiwan from 2007 to 2011

CAGR of total market sales value for toys from 2007 to 2011:

- Total = 1.9%
- North America = 0.5%
- Western Europe = 0.5%
- China = 15.3%
- Taiwan = -2.6%



Notes:

- (1) Total is the sum of North America, Western Europe, China and Taiwan.
- (2) North America includes the US and Canada.
- (3) Western Europe includes Germany, France, UK, Belgium, Italy, Ireland and Spain.

Source: Ipsos Report

INDUSTRY OVERVIEW

The total market sales value of toys for North America, Western Europe, China and Taiwan grew from about US\$45,798 million to US\$49,288 million in 2011, at a CAGR of about 1.9% from 2007 to 2011.

North American and Western Europe remained the largest markets in terms of market sales value of toys, accounted for about 50.3% and 36.2% of the total market sales value of toys respectively in the selected countries.

With high per capita spending per child and strong GDP, it is expected that North America and Western Europe to remain the largest markets for the global sales of toys while China poses increasing importance both as a manufacturer and consumer for toys in the future years.

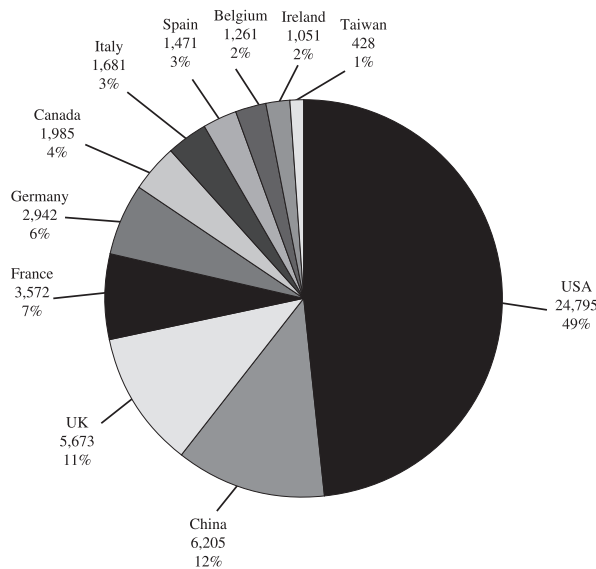
Market Segmentation of Sales Value

The US is the largest market for the sales of toys across all selected regions, while infant and preschool toys, soft and plush toys, and construction and activity are the top three leading categories of toys.

The chart below sets forth the market segmentation of market sales value by region in 2011.

Market Segmentation of Market Sales Value by Region in 2011

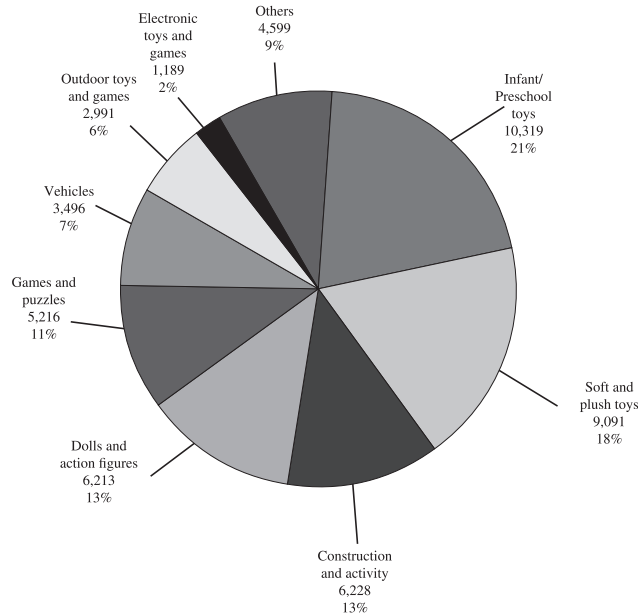
Total market sales value of North America, Western Europe, China and Taiwan in 2011 = US\$49,288 million.



INDUSTRY OVERVIEW

Market Segmentation of Market Sales Value by Product Types in 2011

Total market sales value of North America, Western Europe, China and Taiwan in 2011 = US\$49,288 million.



Note:

(1) Total is the sum of North America, Western Europe, China and Taiwan.

Source: Ipsos Report

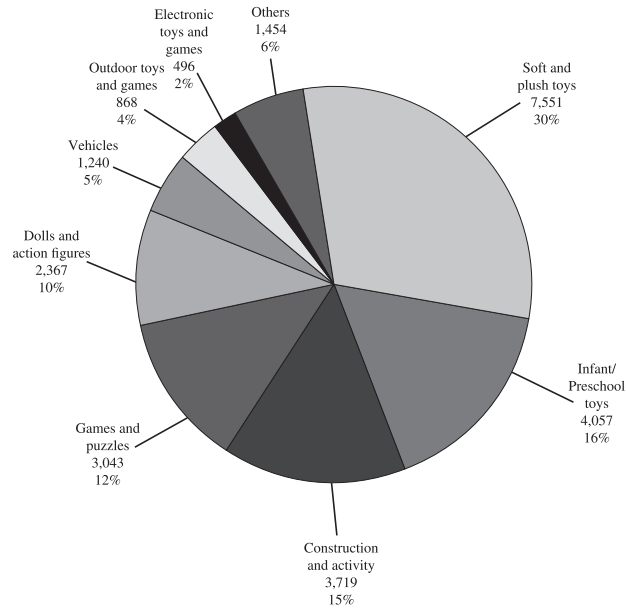
Soft and plush toys are the largest categories for the sales of toys in North America while infant and preschool toys, and dolls and action figures are the key categories in Western Europe.

INDUSTRY OVERVIEW

The chart below sets forth the market segmentation of market sales value by product types in North America in 2011.

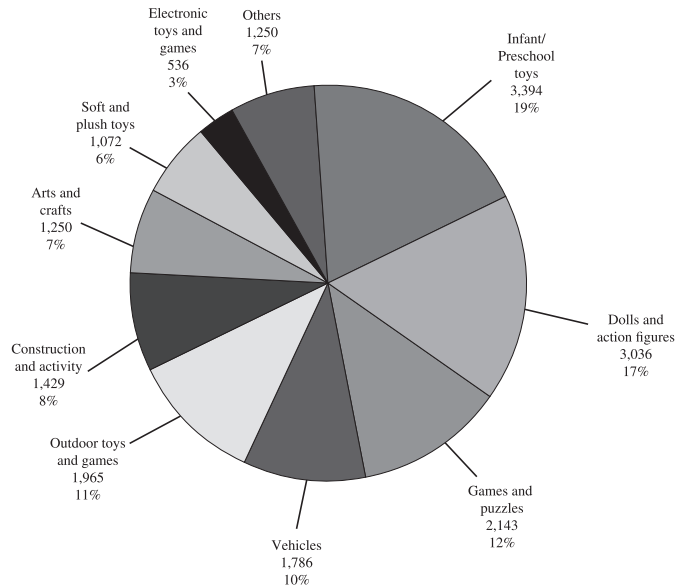
Market Segmentation of Market Sales Value by Product Types in North America in 2011

Total market sales value of North America in 2011 = US\$24,795 million.



Market Segmentation of Market Sales Value by Product Types in Western Europe in 2011

Total market sales value of Western Europe in 2011 = US\$17,861 million.



Source: Ipsos Report

INDUSTRY OVERVIEW

Our products fall into all product types for sale in North America and Western Europe, except for outdoor toys and games, and others.

Trends and Development of Demand for Toys

Green, electronic and private label toys are expected to increase in demand in the future.

Demand in Green Products

With the growing concerns regarding global warming and the significance of energy saving, parents who are socially-conscious prefer toys that have less negative influence on the environment. Some manufacturers have already launched products with an eco-friendly emphasis to meet parents' concerns and guarantee the healthy development of the market.

As a result, eco-friendly “green toys” is the expected trend in the future, these “green toys” will be served as a new product line while the demand by parents is increasing.

Demand in Electronic Toys with Educational Purposes

With parents now paying more attention to early childhood education, intellectually-oriented toys with entertainment features are particularly popular among parents. For example, toys such as computer learning machines that help children to read and speak will be popular choices among electronic toys.

Increase Share for Private Label Products

The unfavourable economic conditions in the past few years have given opportunities to the sales of private label toys by hypermarkets with lower cost. Strengthened by the global recession, private labeled toys have gained share in the market over the past few years to reach about 9.0% of the total market value of traditional toys and games in 2011.

Adult Products Lead the Trend

Supported by children's curiosity and role of imitation, adult products such as toy mobile phones and laptop computers will continue to drive new product development for toys and lead the trend of toys in the global toy industry in the future years.

Internet Channel Gains Importance

With the great variety of products, short product cycle and changing market, the internet provides a great alternative for product sale and promote, thus is expected to play a greater role to propel the development of the global toy industry.

ANALYSIS ON TOY SUPPLY INDUSTRY IN CHINA

Overview of Toy Supply and Production

China accounted for about 75% of the Global Production of Toys in 2011

China is the largest manufacturer for the global toy industry. It is estimated that about 75% of the toys in the global market was produced in China in 2011.

The key regions of toy manufacturing and export include Guangdong, Jiangsu, Shanghai, Shandong, Zhejiang and Fujian. In particular, Guangdong is the largest province for toy production, accounted for over 70% of toy production in China in 2011. Shenzhen, Dongguan, Guangzhou, Shantou, Nanhai and Jiexi are the key production sites within the province.

The production of toys in China is mainly divided into 5 key categories: Toys without motors, mechanical toys, electronic toys, smart toys and large-scale toys. Toys without motors are toys which have no capacity of motion or action such as plush toys, dolls and figures. Mechanical toys are the action toys which operated through an internal mechanism like electronic cars and electronic planes while electronic toys such as electronic games and toy mobile phone are embedded with electronic circuit control system. On the other hand, computer technology is the core of smart toys with aim to improve communication skills of children. Educational toys and computer learning machines are the key products of smart toys. Lastly, large-scaled toys are suitable for individual or group game, such as inflatable toys, castles, etc.

China was the world's largest exporter of toys from 2007 to 2011. The value and volume of export grew at a year-on-year rate of about 7.5% and 28.1% to reach about US\$10,826 million and 20 billion units respectively in 2011. Export value and volume refer to toys nesoi, scale model, puzzles, parts and accessories thereof. Despite the large volume of export, most of the toy manufacturers in China mainly engaged in Original Equipment Manufacturing (OEM) or Original Design Manufacturing (ODM) for foreign brands which accounted for about 80% of the market. Independent research and designed products, and local brands accounted for only a small portion of local production at less than 20% in 2011.

INDUSTRY OVERVIEW

Guangdong Province is a Toy Manufacturing Hub in China

As the largest exporting destinations for the China's toy export market, China accounted for about 88.9% and 48.4% of the total export value of toys to the US and Western Europe respectively in 2011. Guangdong province accounted for about 70% of the total production value of toys in China in 2011. This demonstrates the dominating position of OEM/ODM toy manufacturing in Guangdong as a key production hub for toys.

Hong Kong exporters are also known for producing high-quality toys. A large share of the toy industry sales are derived from contract manufacturing for overseas manufacturers and license holders. To reduce operation costs and stay competitive, the majority of Hong Kong toy brand owners and manufacturers have set up production facilities offshore, mainly in China. The role of their Hong Kong office has shifted towards quality control, management, marketing, product design and production planning. It is estimated that Hong Kong companies accounted for about 38% and 46% of the total production value of toys in China and Guangdong province respectively in 2011.

With better quality assurance and low cost production, the combination of Hong Kong office and manufacturing plant in China is the optimal operation model for toy brand owners and retailers, particularly for age below 3 products where quality and safety are top priorities of international buyers.

Total Export Value of Toys from China to the Rest of the World

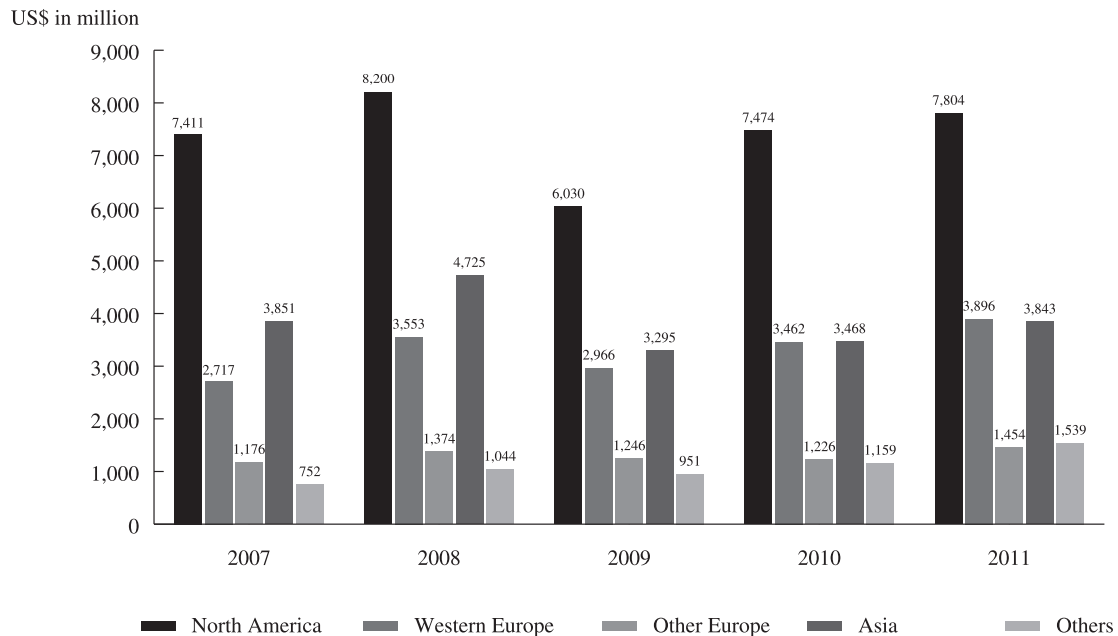
North America and Western Europe are the largest exporting countries of toys from China from 2007 to 2011. The chart below sets forth the total export value of toys from China to the rest of the world from 2007 to 2011.

INDUSTRY OVERVIEW

Total Export Value of Toys from China to the Rest of the World from 2007 to 2011

CAGR of annual export value for toys from 2007 to 2011:

- Total = 3.9%
- North America = 1.3%
- Western Europe = 9.4%
- Other European Countries = 5.5%
- Asia = -0.1%
- Others = 19.6%



Notes:

- (1) North America includes the US and Canada.
- (2) Western Europe includes Germany, France, UK, Belgium, Italy, Ireland and Spain.
- (3) Export value for toys include festive, carnival or other entertainment articles, including magic tricks and practical joke articles; video games of a kind used with a television receiver; toys nesoi, scale models, puzzles; parts and accessories thereof.

Source: Ipsos Report

INDUSTRY OVERVIEW

The total export value of toys from China to the rest of the world grew at a CAGR of about 3.9% from 2007 to 2011. Export value declined by about 23.3% from 2008 to 2009 as a result of the global financial crisis that impacted the consumption power of many exporting countries with decreased sales order. With gradual economy recovery, total export value of toys picked up in 2010 and reached about US\$18.5 billion in 2011, almost back to the level of 2008.

North America is the largest export markets for toys from China, which accounted for about 42.0% of the total export value of toys in 2011. This has declined from the share of about 46.5% in 2007 as large volume of toys produced in China were recalled in the US which negatively affected export sales in the year. With increased in export value at a CAGR of about 9.4% from 2007 to 2011, Western Europe has surpassed Asia as being the second largest export markets of toys from China in 2011, accounting for about 21.0% of the total value of export.

As a whole, the appreciation of RMB over the past years has increased the cost of imported toys and weakened China's position as the world's biggest toy exporters. Nonetheless, it is expected that China will remain as the key exporter of toys in the future years.

Toys recall in 2007

In 2007, Mattel, a notable toy enterprise in the USA, recalled about 1.5 million units in total of its toys, and about 967 thousand units of toys made in China, when they were found to contain lead in excess of applicable regulatory standards. According to the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局), the large product recall was a result of the adoption of an unauthorized paint by a toy manufacturer in China, as supplied by one of its subcontractors. As a whole, the recall has demonstrated minimal impact to the toy manufacturing industry and resulted in higher safety standards of large toy manufacturers as they seek to maintain their reputation and adopt more prudent measures for toy inspection.

Total Production Value of Toys in China

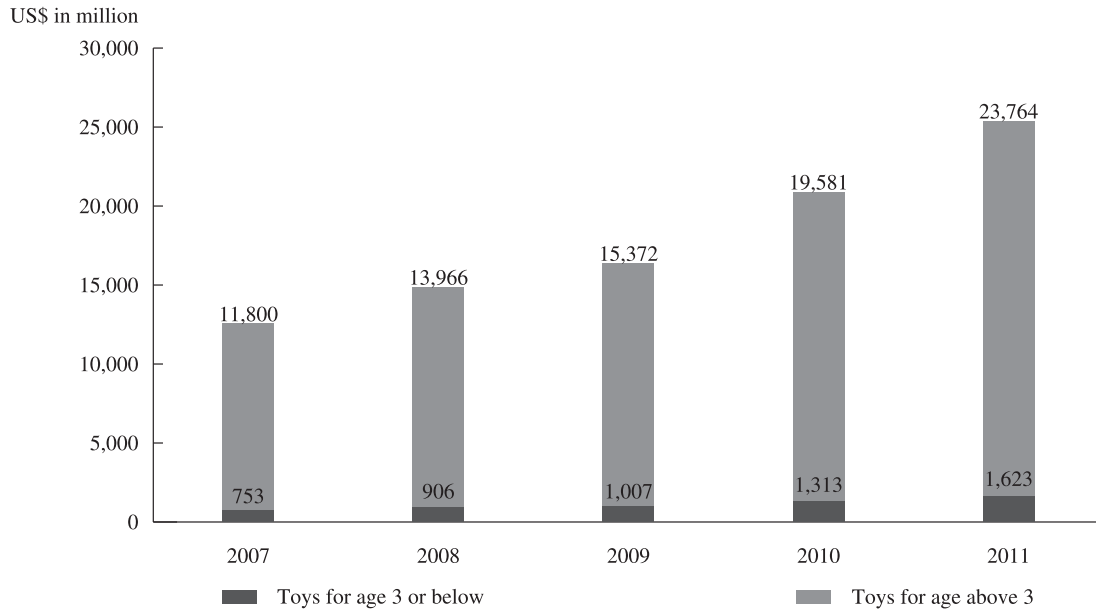
Production of toys for age 3 or below demonstrates huge market potential, despite the declining birth rate and global financial crisis. The chart below sets forth the total production value of toys in China from 2007 to 2011.

INDUSTRY OVERVIEW

Total Production Value of Toys in China from 2007 to 2011

CAGR of annual production value for toys from 2007 to 2011:

- Total = 19.3%
- For age 3 or below = 21.2%
- For age above 3 = 19.1%



Notes: Production value accounts for manufacturers with sales equal or above RMB5 million.

Source: Ipsos Report

The total annual production value of toys in China grew from about US\$12,553 million in 2007 to US\$25,387 million in 2011, at a CAGR of about 19.3%. Production value of toys for age 3 or below grew faster at a CAGR of about 21.2% during the same period, compared to 19.1% for age above 3.

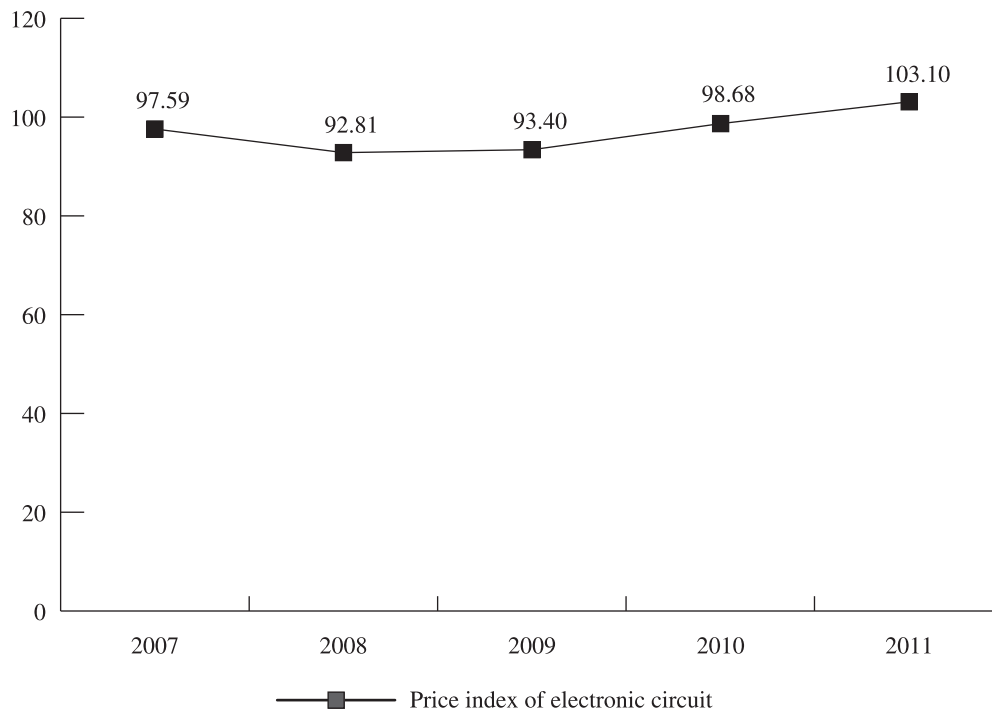
OVERVIEW OF MAJOR PRODUCTION MATERIALS

Electronic components, paper and resin are the three major raw materials used in our production in terms of our total purchase of raw materials during the Track Record Period.

INDUSTRY OVERVIEW

Electronic components

According to the Ipsos Report, the price of electronic components had fluctuated in the past few years. Price of electronic components, as represented by the price index of integrated circuit, dropped to its nadir in 2008 to about 92.81. As a whole, price began to plunge in the first half of 2008 due to excessive inventory from 2006 and intensive price competition, particularly in chips. As a result of the global financial crisis, electronic components' production further reduced in the second half of the year with more production factories going out of business. Price of production even dropped to lower than its cost at one point. Price index picked up slightly in 2009 to 93.40 with reduced level of inventory along with the introduction of new and high-end products into the market. In 2010, price of electronic components surged significantly as a result of the global economy recovery which raised demand from downstream of the industry. As a whole, price index reached about 98.68 in 2010. Growth was sustained in the beginning of 2011 to about 103.10 as global supply tightened which is attributable to the impact of earthquake in Japan. As the European debt crisis spread which led to fluctuation in the global financial market, demand for electronic components dampened and faced downward pressure to grow, hence, causing price of electronic components to decline in 2012.

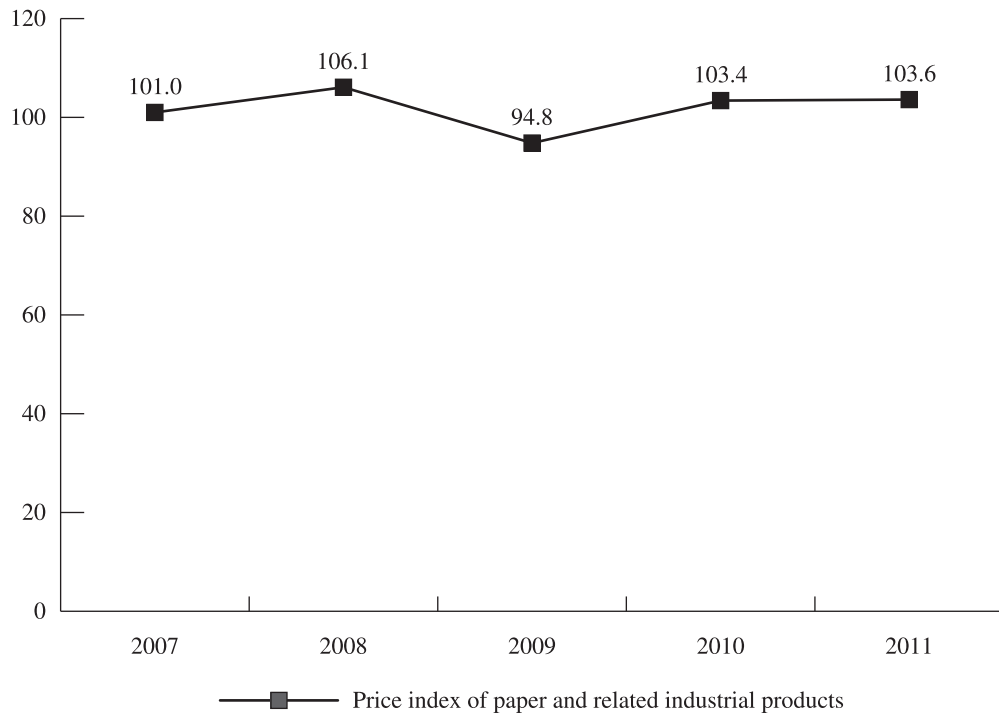


Source: Ipsos Report

INDUSTRY OVERVIEW

Paper

According to the Ipsos Report, the price of paper has been affected by the balance of supply and demand in the market and had fluctuated in the past few years. Price of paper, as represented by the price index of paper and related industrial products surged in the first half of 2008 due to the Beijing Olympic which boosted the demand for paper. Price index climbed from 101.0 to 106.1 from 2007 to 2008. However, the global financial crisis caused slump in paper demand which led price of paper to fall at the end of 2008. As manufacturers strive to reduce inventory, price continued to fall and price index of paper reached its nadir at about 94.8 in 2009. After the drop, the market began to pick up as the China economy recovers which boosted demand for paper. Continued increase in raw material prices, rising cost of ocean freight and chemical products, coupled with expansion in production capacity of paper manufacturers also forced price of paper up. Balancing supply and demand of paper in China and increased production capacity caused price index to climb to about 103.4 in 2010. Growth was sustained in 2011 at about 103.6.

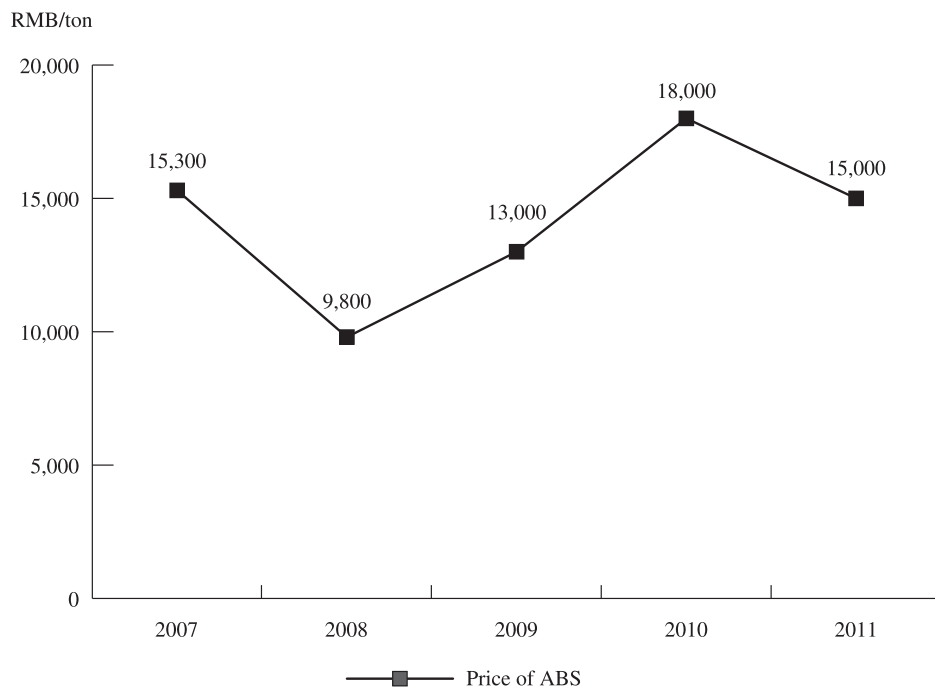


Source: Ipsos Report

INDUSTRY OVERVIEW

Resin

According to the Ipsos Report, the price of resin had fluctuated in the past few years and was affected by the demand from its applications and the price of crude oil and naphtha. In particular, acrylonitrile butadiene styrene (ABS), one of the most commonly used resin, is a core material of plastics and is key to the production of toys in China. Despite the soaring price of oil, low demand from downstream of the industry has kept the price of resin low at about RMB15,300 per ton by the end of 2007. Price of ABS plunged to about RMB9,800 per ton by the end of 2008 as a combined result of the global financial crisis which reduced the export of toys; dropped in the price of crude oil; and tightened liquidity from downstream of the industry. Price of ABS began to pick up in 2009 and reached about RMB13,000 per ton by the end of the year, and peak at year end of 2010 at RMB18,000 per ton due to strengthened domestic demand, increased in inflation and adjustment in export tax rates. In the first half of 2011, price was sustained at high level at around RMB18,000 per ton with high demand from previous year. Price of ABS fluctuated in the second half of 2011 and dropped below RMB15,000 per ton at the year end of 2011. The market has been in recession in the first quarter of 2012 as a result of the European debt crisis which led to low demand from downstream of the industry. The price of resin in 2012 is expected to be lower than that in 2011.



Source: Ipsos Report

COMPETITIVE ANALYSIS

Competitive Landscape

According to the Ipsos Report, the toy market in China is highly fragmented with about 7,400 manufacturers and brand owners in 2011. The global market of toy manufacturing industry is fragmented with a large number of local and overseas players. As the competitive landscape of the industry is scattered across different geographical locations, industry players and in-house manufacturing capabilities, there is no meaningful and specific statistics on market shares of a particular industry player readily available.

Competition globally and in China

According to the Ipsos Report:

China is the world's largest production base for toys in 2011

- China dominated world's production of toys at about 75% in 2011.
- Price, lead time, production capacity, design ability, high quality and reliability, sophisticated manufacturing hardware and systems, and certification are the main selection criteria of international brands for toy manufacturers in the world.

International competition

- Globally, China are competing with developing countries such as Mexico, Indonesia, Vietnam, Czech Republic who possessed increasing share of export to the key toy markets including the US and Europe over the past few years.
- While some countries such as Mexico and Czech Republic have geography advantages with the US and Europe, China gained competitive advantages over its foreign counterparts with low labor cost, and high production efficiency, organizational efficiency and labor technique, which helped the country maintained its dominant position in the world.
- Chinese toy manufacturers sharpen their competitive edge by improving their design and research and development capabilities.

Competition in China

- Competition in the toy manufacturing industry in China is intensive with most of them competing on price to win customers.

INDUSTRY OVERVIEW

Competitive advantages

According to the Ipsos Report, the Company possesses strengths in the following areas:

- **Manufacturing capability:** The Company encompasses multi-manufacturing capability ranging from product design, prototyping, mould making, plastics processing, injection moulding, metal tube forming, electronic assembly, sewing operation, silk-screen printing and spray coating etc., while most toy manufacturers in China have limitation in mould making and metal forming.
- **Diversified product range:** Toy manufacturers in China usually focus on a few type of products, while the Company offers a comprehensive product range including plastic and electronic toys, games and accessories, action figures, stuffed toys, mechanical plush toys and juvenile products etc.
- **High safety standards:** Manufacturing of toys for infants aged 3 or below requires the highest safety standard in the toy manufacturing industry. While majority of the manufacturers in China produce toys for age above 3 years old, relatively few toy manufacturers in China produce toys for age below 3 with the Company being one of them.
- **Bargaining power:** With increasing operation costs and reduced export demand in China, toy manufacturers in China have been facing difficulties in sustaining their business in the past years. However, benefited from the economy of scale, the Company possesses strong bargaining power with suppliers which enables the Company to source raw materials at the competitive price. Stringent cost control along with the introduction of lean production enables the Company to reduce cost and wastage respectively and maintain its competitive edge.

Competition Situation and Nature

As a key manufacturing hub for the global toy industry, production in China has mainly been facilitated by an efficient network of supporting industries and services. Building on their base in plastic toys, manufacturers in China have added production skills from the clothing industry, electronic industry and the metal goods industry. This has greatly sharpened the competitive edge of Chinese manufactured toys.

Toy manufacturers in North America, Western Europe and China are competing on product quality, brand awareness and new product development and launch to outstand in the market.

Factors of Competition

Product quality

Consumers nowadays pay more attention to the quality of toys than price. Stable quality and supply are fundamental to toy manufacturers around the world. Hence, toy manufacturers are focus on improving quality from procurement, production to sales to ensure proper quality control. Some manufacturers have even built inspection center to enhance quality control.

INDUSTRY OVERVIEW

Brand awareness

High brand awareness can provide confidence to consumers. To boost sales and increase customer loyalty, toy manufacturers are building brand awareness and reputation by strengthening relationships with distributors and retailers. Private label is a key strategy to gain brand recognition.

New product development and launch

The trend of product appearances and functionalities has huge influence on consumers' choice on toys. Driven by technology advancement and increased consumer spending, the speed of product replacement has been accelerated over the past decade. To accommodate for the changing consumption choice, toy manufacturers are expected to be innovative in product design or have unceasing adjustment on structure in order to survive. This includes having independent capacity in design and development, as well as fast and flexible model of procurement and production to keep up speed up the process of new product development and launch.

In terms of product type, toy manufacturers are competing most fiercely in the high-tech and educational toys product segment.

Factors affecting the ranking in production

Research and development capacity, product quality and market coverage can mostly affect manufacturers and brand owners' performance in the market. As the market is shifting towards influential brands, manufacturers and brand owners who are able to adjust to the market quickly and develop new products in time can best capture the market demand and gain share in the market. While brand communicates product quality and reputation, manufacturers with high brand awareness are in best position to expand its market share.

Manufacturers who are best able to resist the economic downturn are also in better position to survive and step up in the market. This includes control on raw material price through proper price adjustment, product upgrade, product structure enhancement etc.

Last but not least, manufacturers who possess independent core technology for production, own research capability and innovation capacity can mostly likely shift from OEM to ODM and Own Brand Manufacturing (OBM) to raise its profitability and gain market share.

Entry Barriers for Toy Industry

High Brand Awareness of Reputable and Leading Brands

Brand is not only identification for enterprises; it also represents the consistent commitment of product quality, features and services to consumers. Thus a well-known brand communicates high quality and is important to ensure consumer's confidence. However, brand building and development is a gradual cumulative process that requires huge capital investment, while brand cognition of customers needs long-term accumulation. These constraints set high entry requirements for new entrants looking to enter the global toy industry.

INDUSTRY OVERVIEW

Requirement of a Complete and Stable Distribution Network

Comprehensive sales network and stable relationship with customers are key success factors for toy manufacturers and brand owners. However, establishment of relationship amongst distributors, retailers and customers takes time. Early entrants have first-mover advantages as the cost of maintaining client relationship is low once it has been established. At the same time, customers will try to minimize the risk brought by unstable product quality from new suppliers. This posts challenges for new market entrants without connections and network capabilities.

High Investment Cost

While investment in small toy products is not huge, manufacturing of large toy products such as vehicles require huge capital investment including factory plants, molding machineries and other large facilities. Moreover, research and development of toys also require huge upfront investment. Hence, small and medium sized new entrants face difficulties in sustaining capital inflow.

HISTORY, REORGANISATION AND GROUP STRUCTURE

HISTORY

Business History

The following table sets out the key milestones of our Group's business development:

1996	Our first operating subsidiary, Qualiman Industrial, was incorporated in 1996. Qualiman Industrial entered into the first processing agreement dated 8 December 1996 with the Processing Factory, pursuant to which our products were manufactured by the Processing Factory in return for processing fees paid by Qualiman Industrial.
1998	We started to engage in project development with a major toy manufacturer based in the USA when we started to manufacture our mechanical plush toy integrating the skills of soft toys, electronic and plastic knowhow.
2000	We started business relationship with Customer A, our largest customer during the Track Record Period. Qualiman Technology was incorporated. During the period from 2001 to 2005, Qualiman Industrial handled a wide range of projects on products of Customer A including the development of a simple plastic toy for infants and the infrared controlled mobiles.
2003	Sunmart was incorporated. CIDE became our customer of electronic learning toys.
2004	Our Haoda Factory commenced production. We started to handle Disney plush toys for the US market and built up the skills to manufacture soft toys.
2005	LeapFrog became our customer of plastic and soft learning toys. We started to comply with the Restriction of Hazardous Substances Directive (RoHS) requirements, as our electronic components manufacturing standards.
2007	We started to manufacture TV game toys.
2008	We started to manufacture hand-held games which became stable products.

HISTORY, REORGANISATION AND GROUP STRUCTURE

2009 to present

We manufactured dolls and playsets for Tollytots which became one of our key customers.

Seeing the sharp increase in labour costs and labour shortage in the PRC where the production facilities of Foshan Haoda and the Processing Factory are located, our management decided to improve the productivity by lean improvement.

In 2011, we commenced construction of a new factory building for establishing additional production lines for packaging and assembly of products to be operated by Foshan Haoda which is expected to be done by stages and completed before the end of 2013 in order to increase our production capacity, improve our production efficiency and utilisation rate as well as lower our production costs.

In 2012, we have completed the Reorganisation and introduced the Pre-IPO Investor, which invested HK\$25 million to subscribe for 30% of our then enlarged issued share capital in the Pre-IPO Investment, details of which are set out in the paragraphs headed “Reorganisation” and “Pre-IPO Investment” in this section.

Corporate History

Our Group’s business operations are located in Hong Kong and the PRC. Before our Group started to undergo the Reorganisation, we had three wholly-owned subsidiaries incorporated in Hong Kong and one subsidiary established in the PRC. As a result of the Reorganisation, our Company and three more subsidiaries incorporated in the BVI became members of our Group.

A summary of the corporate history of each member of our Group is set out below:

(A) *Qualiman Industrial*

Qualiman Industrial, the first operating subsidiary of our Group was incorporated in Hong Kong on 14 November 1996 with an authorised share capital of HK\$100,000 divided into 100,000 shares of HK\$1 each. At incorporation, three shares were issued and each of EMC Toys, Gold Grand and Mr. Poon Hei Sing, an Independent Third Party, subscribed one share for cash at par.

Since the incorporation of Qualiman Industrial, EMC Toys had been owned directly as to approximately 66.66% by Gold Grand (a company ultimately beneficially owned by Mr. Lau and Madam Li), 13.33% by Mr. Lau, 9.17% by Mr. Hau, 1.67% by Mr. Poon, 6.67% by the Estate of the late Mr. Lau Tack Sang, Mr. Lau’s father, and 2.5% by Mr. Yam Yin Nin, an employee of EMC Toys before the incorporation of Qualiman Industrial who became employed by Qualiman Industrial since its incorporation and an Independent Third Party. As such, approximately 86.66% of the then issued share capital of EMC Toys was ultimately beneficially owned by Mr. Lau and his family members. To consolidate the control of EMC Toys, through various subsequent allotment of new shares and transfer of issued shares in EMC Toys, on 4 August 2003, the issued share capital of EMC Toys became owned by Gold Grand as to 80% and by Mr. Lau as to the

HISTORY, REORGANISATION AND GROUP STRUCTURE

remaining 20%. The aforesaid allotment of new shares and transfer of issued shares in EMC Toys (including the transfer of shares from Mr. Yam Yin Nin when he ceased to be employed by Qualiman Industrial which was made pursuant to the verbal agreement between him and Mr. Lau reached at the time when he became employed by EMC Toys) were, in each case, at a cash consideration at par. Save as disclosed above, there were no other side arrangements in connection with the transfer of shares of EMC Toys to Mr. Lau at a cash consideration at par.

On 19 November 1996, an aggregate of 999,997 shares for cash at par were allotted and issued with 349,999 shares to EMC Toys, 499,999 shares to Gold Grand and 149,999 shares to Mr. Poon Hei Sing, based on the par value of such shares. Since that date, the issued share capital was owned as to 35% by EMC Toys, 50% by Gold Grand and 15% by Mr. Poon Hei Sing.

At incorporation, the directors of Qualiman Industrial were Mr. Lau, Madam Li and Mr. Poon Hei Sing.

On 30 April 1998, in connection with his departure from our Group and pursuant to the verbal agreement between Mr. Poon Hei Sing and Mr. Lau reached at the time when he became employed by Qualiman Industrial, Mr. Poon Hei Sing transferred all his shares in Qualiman Industrial to Mr. Lau at nil consideration and ceased to be a director of Qualiman Industrial on 2 November 1998. Accordingly, the issued share capital of Qualiman Industrial was owned as to 35% by EMC Toys, 50% by Gold Grand and 15% by Mr. Lau.

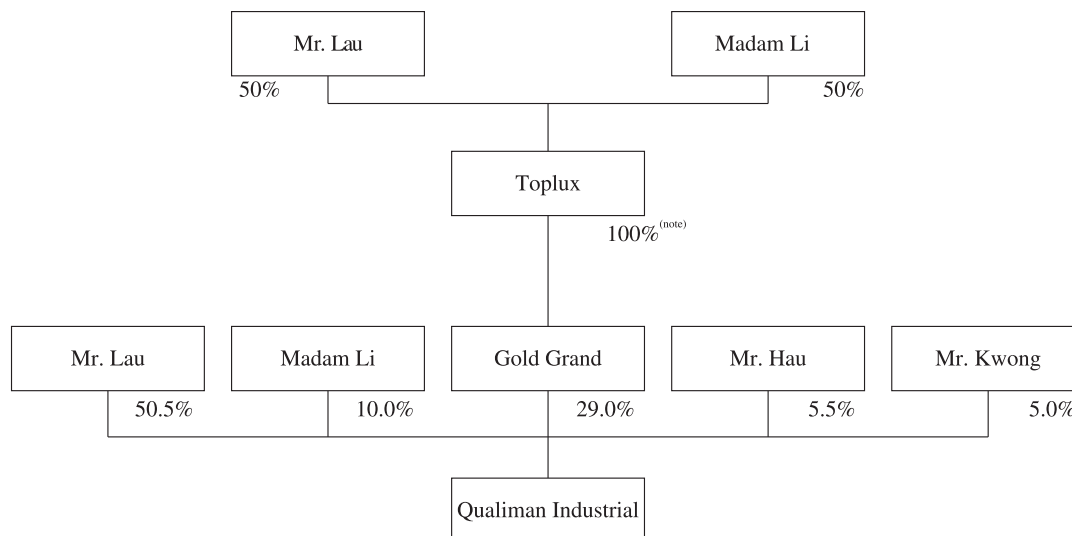
Save as disclosed above, there were no other side arrangements in connection with the transfer of shares of Qualiman Industrial from Mr. Poon Hei Sing to Mr. Lau at nil consideration.

Mr. Kwok Chi Hung, an Independent Third Party, had acted as a director of Qualiman Industrial since 9 November 1998 and resigned on 1 January 2000 and on the same date Mr. Hau was appointed as a director of Qualiman Industrial. Accordingly, since 1 January 2000, throughout the Track Record Period and up to the Latest Practicable Date, the board of directors of Qualiman Industrial have been Mr. Lau, Madam Li and Mr. Hau.

On 22 May 2003, to recognise the contribution of Mr. Hau and Mr. Kwong to the Group, Gold Grand transferred 55,000 shares to Mr. Hau at a consideration of HK\$55,000. On 13 May 2004, EMC Toys transferred 50,000 shares to Mr. Kwong at a consideration of HK\$50,000, and for the family arrangement of Mr. Lau, EMC Toys transferred 100,000 shares to Madam Li at a consideration of HK\$100,000 and 200,000 shares to Mr. Lau at a consideration of HK\$200,000 and thereby EMC Toys ceased to hold any shares in Qualiman Industrial. The consideration of each of such transfers was based on the par value of such shares.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 21 July 2009, Gold Grand transferred 155,000 shares to Mr. Lau at a consideration of HK\$155,000, based on the par value of such shares. As a result, since that date and up to completion of the Reorganisation, the shareholding structure of Qualiman Industrial was as follows:



Note: One out of 1,000,000 shares of Gold Grand was held by Mr. Li Hoi Ming, brother of Madam Li and brother-in-law of Mr. Lau, on trust for Mr. Lau.

Throughout the Track Record Period and up to the Latest Practicable Date, the principal business activities of Qualiman Industrial have been manufacturing and trading of toy products. Each of the transfers as mentioned above was properly and legally completed and settled.

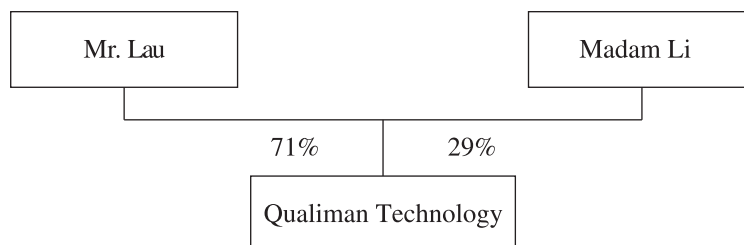
(B) *Qualiman Technology*

Qualiman Technology was incorporated in Hong Kong on 26 January 2000 with an authorised share capital of HK\$1,000,000 divided into 1,000,000 shares of HK\$1 each. At incorporation, each of Qualiman Industrial, Mr. Lau and Madam Li subscribed one share for cash at par. On 28 January 2000, an aggregate of 999,997 shares were allotted and issued for cash at par, with 499,999 shares to Qualiman Industrial, 489,999 shares to Mr. Lau and 9,999 shares to Madam Li so that the issued share capital of Qualiman Technology were owned as to 50% by Qualiman Industrial, 49% by Mr. Lau and 1% by Madam Li.

On 11 February 2002, Qualiman Industrial transferred 20,000 shares to Mr. Lau at a consideration of HK\$20,000, 280,000 shares to Madam Li at a consideration of HK\$280,000 and 200,000 shares to EMC Toys at a consideration of HK\$200,000, each based on the par value of such shares.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 13 May 2004, EMC Toys transferred all the 200,000 shares owned by it to Mr. Lau at a consideration of HK\$200,000 based on the par value of such shares. Since then and up to the completion of the Reorganisation, the shareholding structure of Qualiman Technology was as follows:



Throughout the Track Record Period and up to the Latest Practicable Date, Mr. Lau and Madam Li have been the directors of Qualiman Technology which has been engaged in the business of manufacturing and trading of toy products. Each of the transfers in Qualiman Technology as mentioned above was based on the par value of such relevant shares and was properly and legally completed and settled.

(C) *Sunmart*

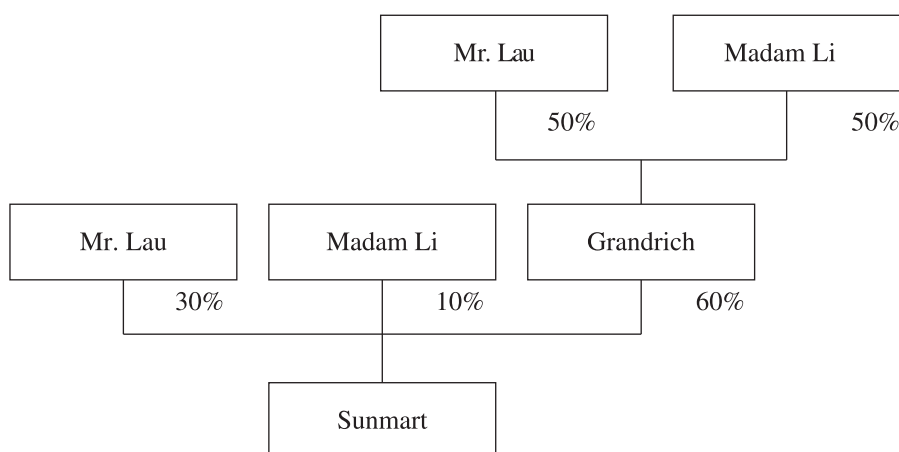
Sunmart was incorporated in Hong Kong on 15 August 2003 with an authorized and issued share capital of HK\$100,000 divided into 100,000 shares of HK\$1 each. On incorporation, 50,000 shares were issued for cash at par to Mr. Chen Ziquan, an Independent Third Party, 30,000 shares were issued for cash at par to Mr. Li Hoi Ming, brother of Madam Li and brother-in-law of Mr. Lau, and 5,000 shares were issued for cash at par to Mr. Ye Zhijian, an employee of our Group since 2003 and a director of Sunmart since its incorporation until 26 April 2006, and all these 85,000 shares in aggregate were held on trust for Toplux Capital Development Ltd., which was owned by Mr. Lau and Madam Li in equal shares. The trust arrangements between Toplux Capital Development Ltd. and each of Mr. Chen Ziquan, Mr. Li Hoi Ming and Mr. Ye Zhijian were recorded in various declarations of trust executed by the relevant trustee at the time when such trust was created. Since it was the intention of our founders, Mr. Lau and Madam Li, that at the incorporation of Sunmart, Sunmart would be used as a vehicle for targeting and serving new customers while the purchase orders of our then existing customers would continue to be handled by Qualiman Industrial and Qualiman Technology. At the initial stage of business development of Sunmart, Mr. Lau and Madam Li aimed at developing Sunmart into a stand-alone operation. Therefore, from a marketing perspective, the trust arrangement was entered into so that the registered shareholders of Sunmart were different from those of Qualiman Industrial and Qualiman Technology in order to avoid confusion of customers as to the operations of Qualiman Industrial and Qualiman Technology on one side and Sunmart on the other side. As for the remaining 15,000 issued shares, 10,000 shares were issued for cash at par to Mr. Hau and 5,000 shares were issued for cash at par to Mr. Poon, each based on the par value of such shares. Mr. Hau and Mr. Poon are employees of the Group. Mr. Hau is currently the general manager of our China operations and Mr. Poon is an executive Director and director of accounting & administration of Qualiman Industrial, Qualiman Technology and Sunmart and had been a director of Sunmart since its incorporation until 26 April 2006.

HISTORY, REORGANISATION AND GROUP STRUCTURE

On 26 April 2006, Mr. Poon and Mr. Ye Zhijian resigned from directorship and Mr. Lau and Madam Li were appointed as directors of Sunmart.

On 4 September 2006, Mr. Hau and Mr. Poon transferred the 15,000 shares held by them in aggregate to Madam Li at an aggregate consideration of HK\$15,000 based on the par value of such shares and after having registered the legal title to the 85,000 shares previously held on trust for it, Toplux Capital Development Ltd. transferred 60,000 shares to Grandrich at a consideration of HK\$60,000, a company owned by Mr. Lau and Madam Li in equal shares, 20,000 shares to Mr. Lau at a consideration of HK\$20,000 and 5,000 to Madam Li at a consideration of HK\$5,000, in each case, for cash at par. The consideration of each transfer was based on the par value of such shares.

On 16 March 2009, Madam Li transferred 10,000 shares of Sunmart to Mr. Lau at a consideration of HK\$10,000 based on the par value of such shares. As a result, since that date and up to completion of the Reorganisation, the shareholding structure of Sunmart was as follows:



Throughout the Track Record Period and up to the Latest Practicable Date, Mr. Lau and Madam Li have been the directors of Sunmart. Sunmart has been engaged in the business of manufacturing and trading of toy products throughout the Track Record Period and up to the Latest Practicable Date. Each of the transfers in Sunmart as mentioned above was properly and legally completed and settled.

(D) *Foshan Haoda*

Foshan Haoda, the principal operating member of our Group in the PRC, was established in Foshan City, Guangdong Province, the PRC as a wholly foreign owned enterprise on 15 March 2001 by Qualiman Industrial as its sole investor with an initial registered capital of HK\$7 million and investment amount of HK\$10 million. According to the initial articles of association of Foshan Haoda, its registered capital should be paid up within six months of the issue date of its business licence. Foshan Haoda obtained the Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macau and Overseas Chinese in the PRC issued by the People’s Government of Guangdong Province (“Approval Certificate”) on 8 March 2001.

HISTORY, REORGANISATION AND GROUP STRUCTURE

According to the approval of Nanhai City Foreign Trade and Economic Cooperation Bureau (later also known as Nanhai District Foreign Trade and Economic Cooperation Bureau (“Nanhai Foreign Trade and Economic Cooperation Bureau”)) dated 16 August 2002, the deadline for paying up the initial registered capital of HK\$7 million in full was extended to 31 December 2002.

As mentioned in the paragraph headed “(C) Sunmart” in this section headed “History, Reorganisation and Group Structure”, when Sunmart was incorporated in 2003, it was the intention of our founders, Mr. Lau and Madam Li, that Sunmart would be used as a vehicle for targeting and serving new customers while purchase orders of then existing customers would continue to be handled by Qualiman Industrial and Qualiman Technology under the processing arrangement with the Processing Factory, our founders decided to carry out an internal reorganisation to transfer 100% equity interest in Foshan Haoda from Qualiman Industrial to Sunmart with the intention that Sunmart and Foshan Haoda would be developed as a stand-alone operation for serving the then new customers.

On 11 August 2004, Nanhai Foreign Trade and Economic Cooperation Bureau approved the equity transfer of 100% equity interest in Foshan Haoda from Qualiman Industrial to Sunmart and the amended articles of association of Foshan Haoda pursuant to which the registered capital of Foshan Haoda was increased from HK\$7 million to HK\$7.8 million and the total investment amount was increased from HK\$10 million to HK\$10.8 million and the increased amount of registered capital should be paid up within six months of the issue date of its updated business licence. In connection with the above changes, Foshan Haoda obtained the new Approval Certificate on 13 August 2004 and completed the registration of changes with the local administration for industry and commerce of Nanhai District, Foshan City on 8 September 2004. The transfer of 100% equity interest in Foshan Haoda from Qualiman Industrial to Sunmart was properly and legally completed and settled.

According to the approval of Nanhai Foreign Trade and Economic Cooperation Bureau dated 19 October 2004, the registered capital and investment amount of Foshan Haoda were further increased to HK\$8.3 million and HK\$11.3 million respectively and the increased amount of registered capital should be paid up within six months of the date of its updated business licence. In connection with the changes in registered capital and investment amount, Foshan Haoda obtained the new Approval Certificate on 20 October 2004 and completed the registration of changes with the local administration for industry and commerce of Nanhai District, Foshan City on 21 October 2004.

According to the approval of Nanhai Foreign Trade and Economic Cooperation Bureau dated 21 March 2005, the registered capital and investment amount of Foshan Haoda were further increased by HK\$11.7 million to HK\$20 million and by HK\$16.7 million to HK\$28 million respectively and 15% of the increased amount of HK\$11.7 million in the registered capital should be paid up within three months from the date on which the updated business licence was granted and the remaining amount to be paid up within two years thereafter. In connection with the changes in registered capital and investment amount, Foshan Haoda obtained the new Approval Certificate on 22 March 2005 and completed the registration of changes with the local administration for industry and commerce of Nanhai District, Foshan City on 27 April 2005.

HISTORY, REORGANISATION AND GROUP STRUCTURE

According to the approval of Nanhai Foreign Trade and Economic Cooperation Bureau dated 19 May 2006, the number of directors of Foshan Haoda was increased to four and the original time limit for payment of the first 15% of the increased amount, i.e., HK\$1.755 million, in the registered capital was postponed to 10 August 2006. Mr. Ye Zhijian was appointed as a director of Foshan Haoda and to replace Mr. Lau to act as the chairman of the board of directors of Foshan Haoda on 10 May 2006. Since then, throughout the Track Record Period and up to the Latest Practicable Date, the board of directors of Foshan Haoda consisted of four directors, namely, Mr. Ye Zhijian, Mr. Lau, Mr. Hau and Madam Li with Mr. Ye Zhijian being the chairman.

The business development of Foshan Haoda was affected by the market conditions in Europe and United States as the European and US markets turned out to be weaker than expected. As a result, Sunmart, as the investor of Foshan Haoda, applied for reduction of the registered capital and investment amount from HK\$20 million to HK\$15 million and from HK\$28 million to HK\$21 million respectively and such reduction was approved by Nanhai Foreign Trade and Economic Cooperation Bureau on 31 January 2008. Accordingly, the paid up amount of HK\$15 million represented 100% of the reduced registered capital. In connection with the changes in registered capital and investment amount, Foshan Haoda obtained the new Approval Certificate on 1 February 2008 and completed the registration of changes with the administration for industry and commerce of Nanhai District, Foshan City on 21 March 2008.

There have been two incidents where the registered capital were not paid up on schedule: (i) after establishment, the initial registered capital of HK\$7 million which should be paid up by 31 December 2002 was not paid up on schedule; and (ii) after the registered capital was increased from HK\$8.3 million to HK\$20 million in 2005. The initial registered capital of HK\$7 million which should have been paid up by 31 December 2002 was fully paid up as of 12 July 2004 according to the relevant capital verification report, due to recovery of the market conditions in Europe and the United States as a result of the 9-11 incident being slower than expected. For the increase in the registered capital from HK\$8.3 million to HK\$20 million in 2005, which was required to be paid up by 27 April 2007, Sunmart had paid up the registered capital in the sum of HK\$15 million by 11 September 2007. The remaining sum of HK\$5 million was not paid due to the business development of Foshan Haoda being affected by the then market conditions in Europe and the United States and subsequently, as aforementioned, the relevant authority approved the reduction of the registered capital of Foshan Haoda from HK\$20 million to HK\$15 million on 31 January 2008.

As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations, where the registered capital of a wholly foreign-owned enterprise is not paid up within the prescribed period, the enterprise's approval certificate will be invalid, and the wholly foreign-owned enterprise shall go through the procedures for cancellation of registration and hand in the business license for cancellation with the relevant administration for industry and commerce authority; if the wholly foreign-owned enterprise fails to go through the above-mentioned procedures, the relevant administration for industry and commerce authority shall have the right to revoke the business license and make a public announcement thereof.

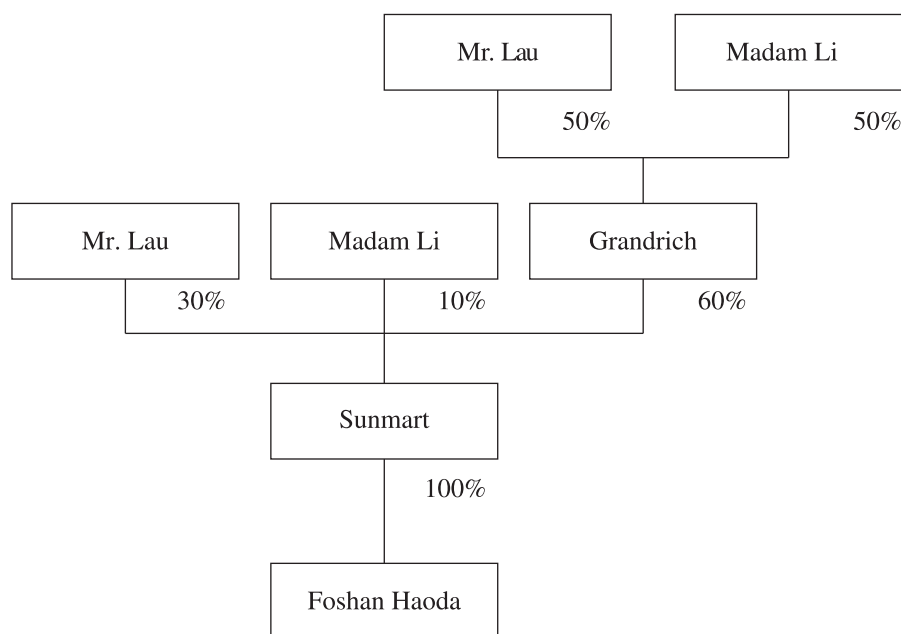
Our PRC Legal Advisers advised that, in view of the fact that (i) the present registered capital of HK\$15 million had already been paid up in full on 11 September 2007, (ii) Nanhai Foreign Trade and Economic Cooperation Bureau had approved the reduction of the registered

HISTORY, REORGANISATION AND GROUP STRUCTURE

capital of Foshan Haoda from HK\$20 million to HK\$15 million and issued the new Approval Certificate, (iii) Foshan Haoda had passed all the annual inspections since its establishment, and (iv) according to the Law on Administrative Penalty of the PRC (中華人民共和國行政處罰法), where the illegal act is not discovered by the relevant authority within two years of its commission, no administrative penalty will be imposed, and more than two years have lapsed since the abovementioned incidents of failing to pay up the registered capital on schedule took place, our PRC Legal Advisers is of the opinion that Foshan Haoda will not be imposed any administrative penalty by the relevant approving authority or registration authority and its legal person status will not be revoked as a result and hence its valid existence will not be affected.

Since its establishment and up to the Latest Practicable Date, the business scope of Foshan Haoda includes manufacturing of toys, rotating photo frames and hair crimper, alarm clock, emergency light, electric cup and other small household appliances, domestic and export sales.

Throughout the Track Record Period and immediately prior to the completion of the Reorganisation Agreement, the shareholding structure of Foshan Haoda is as follow:



(E) *Turbo Gain*

Turbo Gain was incorporated on 2 March 2012 in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. It became a wholly-owned subsidiary of our Company on 23 March 2012 when one share was allotted and issued to our Company for cash at par, the consideration of such allotment was based on the par value of such share, for the purpose of preparation of the Reorganisation.

HISTORY, REORGANISATION AND GROUP STRUCTURE

(F) *New Splendid*

New Splendid was incorporated on 20 January 2012 in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. It became a wholly-owned subsidiary of our Company on 23 March 2012 when one share was allotted and issued to our Company for cash at par, the consideration of such allotment was based on the par value of such share, for the purpose of preparation of the Reorganisation.

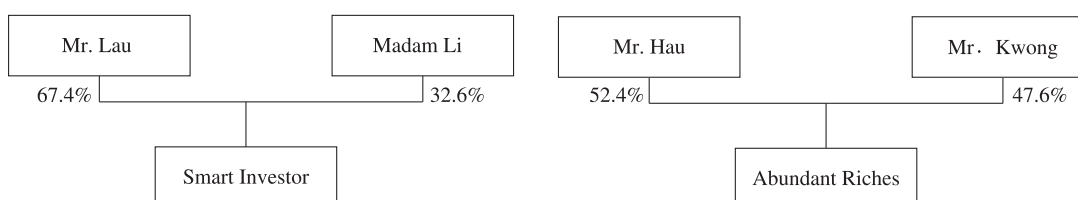
(G) *Next Horizon*

Next Horizon was incorporated on 6 March 2012 in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. It became a wholly-owned subsidiary of our Company on 23 March 2012 when one share was allotted and issued to our Company for cash at par, the consideration of such allotment was based on the par value of such share, for the purpose of preparation of the Reorganisation.

(H) *Our Company*

Our Company was incorporated on 14 March 2012 in the Cayman Islands with limited liability. On the same date, the one subscriber Share, allotted and issued as fully paid at par, was transferred to Mr. Lau. On 23 March 2012, the one fully paid Share was transferred, for cash at par, from Mr. Lau to Smart Investor, a company incorporated in the BVI and owned as to 67.4% by Mr. Lau and 32.6% by Madam Li. On the same date, our Company allotted and issued, nil-paid, 69,999,999 new Shares among which 67,386,666 new Shares was issued and allotted to Smart Investor and 2,613,333 new Shares was issued and allotted to Abundant Riches, a company incorporated in the BVI and owned as to 52.4% by Mr. Hau and 47.6% by Mr. Kwong.

Smart Investor and Abundant Riches are two special purpose vehicles of the shareholders of Qualiman Industrial, Qualiman Technology and Sunmart, namely, Mr. Lau, Madam Li, Gold Grand, Grandrich, Mr. Hau and Mr. Kwong (“Qualiman Shareholders”) for holding their interest in our Company after completion of the transactions contemplated under the Reorganisation Agreement. Shareholding structure of Smart Investor and Abundant Riches are illustrated below:



On completion of the Reorganisation on 16 April 2012, the 69,999,999 Shares issued as nil-paid to Smart Investor and Abundant Riches were all credited as fully paid and our Company became the holding company of the all the existing subsidiaries of our Company. Each of the transfer in our Company as mentioned above was properly and legally completed and settled. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” below.

HISTORY, REORGANISATION AND GROUP STRUCTURE

REORGANISATION

The companies comprising our Group underwent the Reorganisation to rationalise our Group structure in preparation for the Listing. As a result, our Company became the holding company of members of our Group.

The major steps of the Reorganisation are set out below:

Step 1: Incorporation of our Company which acts as the holding company of our Group

Our Company was incorporated on 14 March 2012 in the Cayman Islands with limited liability and the one subscriber Share, allotted and issued as fully paid at par, was transferred to Mr. Lau on the same date. On 23 March 2012, the one fully paid Share was transferred from Mr. Lau to Smart Investor for cash at par.

Step 2: Acquisition of the BVI holding companies

On 23 March 2012, each of Turbo Gain, New Splendid and Next Horizon issued and allotted one share, representing 100% of its equity interest, to our Company for cash at par and as a result, Turbo Gain, New Splendid and Next Horizon became wholly-owned intermediate investment holding companies of our Group.

Step 3: Pre-IPO Investment

Our Company entered into the Subscription Agreement dated 23 March 2012 with the Pre-IPO Investor, an independent investor, pursuant to which the Pre-IPO Investor subscribed for 30,000,000 Shares (“Subscription Shares”), representing 30% of the issued share capital of our Company as enlarged by the allotment and issue of such Subscription Shares, at a consideration of HK\$25 million (“Subscription Price”).

In order to ensure the shareholding percentage of the Subscription Shares to be representing 30% of the enlarged issued share capital of the company as provided in the Subscription Agreement, on 23 March 2012, our Company allotted and issued as nil-paid an aggregate of 69,999,999 new Shares among which 67,386,666 nil-paid Shares were issued and allotted to Smart Investor and 2,613,333 nil-paid Shares were issued and allotted to Abundant Riches. The Subscription Price was paid in full on 27 March 2012 and on the same date, 30,000,000 new Shares, representing 30% of the issued share capital of our Company (as enlarged by the allotment and issue of the Subscription Shares), were issued and allotted to the Pre-IPO Investor. Details of the Pre-IPO Investment and the Pre-IPO Investor are set out in the sub-section headed “Pre-IPO Investment” below.

Step 4: Acquisition of the Hong Kong operating subsidiaries

On 28 March 2012, our Company, as the purchaser, entered into a share purchase agreement (“Reorganisation Agreement”) with the Qualiman Shareholders, namely, Mr. Lau, Madam Li, Gold Grand, Grandrich, Mr. Hau and Mr. Kwong, as vendors (“Vendors” and each a “Vendor”), and Mr. Lau and Madam Li as warrantors to provide warranties to our Company pursuant to which the entire issued share capital of each of Qualiman Industrial, Qualiman Technology and Sunmart

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(collectively, the “Reorganisation Sale Shares”) were transferred to Turbo Gain, New Splendid and Next Horizon respectively as directed by our Company at the consideration which were satisfied by our Company crediting all the 69,999,999 nil-paid Shares as fully paid. The transactions contemplated under the Reorganisation Agreement were completed on 16 April 2012. Details of the sale and purchase contemplated under the Reorganisation Agreement are set out below:

<u>Name of Vendor</u>	<u>Number of Reorganisation Sale Shares sold by Vendor</u>	<u>Number of nil-paid Shares to be credited as fully paid</u>
Mr. Lau	(i) 505,000 shares of Qualiman Industrial	34,135,564 nil-paid Shares registered in the name of Smart Investor
	(ii) 710,000 shares of Qualiman Technology	
	(iii) 30,000 shares of Sunmart	
Madam Li	(i) 100,000 shares of Qualiman Industrial	10,722,768 nil-paid Shares registered in the name of Smart Investor
	(ii) 290,000 shares of Qualiman Technology	
	(iii) 10,000 shares of Sunmart	
Gold Grand	290,000 shares of Qualiman Industrial	7,217,778 nil-paid Shares registered in the name of Smart Investor
Grandrich	60,000 shares of Sunmart	15,310,556 nil-paid Shares registered in the name of Smart Investor
Mr. Hau	55,000 shares of Qualiman Industrial	1,368,889 nil-paid Shares registered in the name of Abundant Riches
Mr. Kwong	50,000 shares of Qualiman Industrial	1,244,444 nil-paid Shares registered in the name of Abundant Riches

The sale and purchase of the Reorganisation Sale Shares as contemplated under the Reorganisation Agreement was completed on 16 April 2012 and as a result, the 69,999,999 new Shares issued as nil-paid were all credited as fully paid and our Company became the holding company of all the operating members of our Group, namely, Qualiman Industrial, Qualiman Technology, Sunmart and Foshan Haoda.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Subsequent to the completion of the Reorganisation Agreement, on 25 May 2012, Smart Investor sold 2,986,667 fully paid Shares to Abundant Riches at an aggregate consideration of approximately HK\$2,488,889, i.e., at the price of HK\$0.8333 per Share, which is equal to the price per Share paid by the Pre-IPO Investor under the Pre-IPO Investment. The sale and purchase of such 2,986,667 Shares was completed on 25 May 2012. The transaction was a shareholder level transaction whereby Mr. Hau and Mr. Kwong, being the shareholders of Abundant Riches, increased their indirect shareholding in our Company through Abundant Riches. Despite the fact that each of Mr. Hau and Mr. Kwong is an employee of our Group, the sale and purchase of such Shares was not a case in reward for goods and services provided by them, and thus such sale and purchase of Shares is not within the scope of share based payments under the Hong Kong Financial Reporting Standards 2.

Our legal advisers as to Hong Kong law advised that our Company has obtained all requisite permits and approvals (where required) for each stage of the Reorganisation in Hong Kong. Our legal advisers as to the Cayman Islands and the BVI laws have advised that no order, consent, approval, licence, authorisation or validation of or exemption by any government or public body or authority of the Cayman Islands or the BVI or any sub-division thereof is required to authorise or is required in connection with the performance of the reorganisation steps by companies incorporated in the Cayman Islands and the BVI and the corporate approvals required from companies incorporated in the Cayman Islands and the BVI for the performance of the reorganisation steps are validly and legally passed. Our PRC Legal Advisers have advised that, our Company has obtained all requisite permits and approvals for each stage of the Reorganisation within the PRC, where such permits and approvals from relevant PRC authorities are required. Each of the transfers as mentioned above in the Reorganisation was properly and legally completed and settled.

The shareholding structures of our Group immediately after the Pre-IPO Investment and Reorganisation and thereafter are shown in the shareholding structure charts in the sub-section headed “Group structure” in this section.

PRE-IPO INVESTMENT

Pursuant to the Subscription Agreement dated 23 March 2012 entered into between our Company and the Pre-IPO Investor, the Pre-IPO Investor shall subscribe for 30,000,000 new Shares, representing 30% of the issued share capital of our Company as enlarged by the Subscription at the Subscription Price of HK\$25 million. The Subscription Price was fully settled on 27 March 2012 and on the same date, 30,000,000 new Shares were issued and allotted to the Pre-IPO Investor.

As a result of the completion of the Subscription and upon Listing (taking into account the Shares to be issued pursuant to the Capitalisation Issue and the Global Offering but without taking into account any Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), the Pre-IPO Investor will own 54,000,000 Shares, representing approximately 22.5% of the then issued share capital of our Company. On such basis, the cost per Share acquired by the Pre-IPO Investor is approximately HK\$0.463, representing a discount of approximately 63.0% to the mid-point of the Offer Price range. The consideration paid by the Pre-IPO Investor in the subscription of the Subscription Shares and hence the Shares upon Listing was determined based on arm’s length negotiation and were by reference to the net asset value, earnings and growth aspect of our Group at the time of the transaction (assuming the Reorganisation had been completed) and was properly and legally completed and settled.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Further information on the Pre-IPO Investor is set out below.

The Pre-IPO Investor is a company incorporated in the BVI with limited liability and its principal business activity is investment holding. The Pre-IPO Investor is a wholly-owned subsidiary of Shikumen Special Situations Fund, an investment fund incorporated in the Cayman Islands. The investors of Shikumen Special Situations Fund include institutional investors and high net-worth individual investors. Other than Silver Pointer Limited's investment in our Company and Mr. Tang Yu Ming, Nelson's directorship in our Company, each of Silver Pointer Limited, Shikumen Special Situations Fund and its ultimate beneficial holders is independent of and not connected with the Directors, senior management or substantial Shareholders of our Company or any of our subsidiaries or any of their respective associates. Pursuant to an investment management agreement entered into between Shikumen Special Situations Fund and Shikumen Capital Management (HK) Limited, Shikumen Capital Management (HK) Limited is the investment manager of Shikumen Special Situations Fund and is the sole voting member of Shikumen Special Situations Fund controlling 100% of the voting rights of Shikumen Special Situations Fund. By virtue of the provisions in Part XV of the SFO, Shikumen Capital Management (HK) Limited is deemed to be interested in all the Shares in which Shikumen Special Situations Fund is interested or deemed to be interested. Shikumen Capital Management (HK) Limited is a company incorporated in Hong Kong and wholly-owned by Crosby Capital Limited, a company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of the Stock Exchange. Therefore, by virtue of Part XV of the SFO, Crosby Capital Limited is deemed to be interested in 100% voting rights of Shikumen Special Situations Fund. Mr. Tang Yu Ming, Nelson, a director of the Pre-IPO Investor, Shikumen Special Situations Fund and Shikumen Capital Management (HK) Limited, is one of our non-executive Directors.

Since Shikumen Special Situations Fund is incorporated in the Cayman Islands and registered with Cayman Islands Monetary Authority ("CIMA"), it is subject to the supervision of CIMA and is also subject to the legislations of the Cayman Islands regarding anti-money laundering. The administrator of Shikumen Special Situations Fund has formulated procedures for verifying the identities of prospective investors and the source of payment of investment monies and has complied with these procedures in each subscription. As confirmed by Shikumen Special Situations Fund, it has not received any notice of non-compliance from CIMA.

Save as disclosed above, the Pre-IPO Investor, its holding companies and ultimate beneficial owner(s) do not have any other relationship, whether present or past, with our Group, the Shareholders, the Directors, the senior management of our Group, any connected persons of our Company, any of their respective associates. The acquisition of the Subscription Shares and hence the Shares upon Listing by the Pre-IPO Investor was not financed directly or indirectly by a connected person of our Company nor our Group. The reason for making the Pre-IPO Investment in our Group by the Pre-IPO Investor was for obtaining capital gain.

The Subscription Agreement includes the following special terms:

- (a) After completion of the Subscription, for so long as the Pre-IPO Investor holds all the Subscription Shares, the Pre-IPO Investor shall have the right to nominate one person to the Board and the board of directors of each of Turbo Gain, New Splendid and Next Horizon and shall have the right to request for removal and substitution of such Director and director of each of Turbo Gain, New Splendid and Next Horizon.

HISTORY, REORGANISATION AND GROUP STRUCTURE

- (b) The number of directors of each of our Company, Turbo Gain, New Splendid and Next Horizon shall be three.
- (c) Save with the consent of the Pre-IPO Investor and save for any pre-existing interest, otherwise than in the ordinary course of business of the relevant members of our Group, our Company will not sell, assign, transfer, and will not permit any sale, assignment, transfer, of the assets, properties and businesses of its Subsidiaries, and will not, and will not permit any of its Subsidiaries to, create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrances or security interest other than liens arising by operation of law upon the whole or any part of their respective assets.
- (d) Save with the consent of the Pre-IPO Investor or the Director nominated by it, our Company shall not issue or agree to issue any additional Shares or securities convertible into or exchangeable for Shares.
- (e) Our Company will apply the net proceeds of the Subscription Price received by it for our Group's factory expansion, expansion of the Group's distribution channels in the PRC and/or as general working capital.
- (f) Each of Mr. Lau and Smart Investor has undertaken to the Pre-IPO Investor at any time during the period commencing from completion of the Subscription and ending on the date which is the last day of the sixth month from the Listing Date, he/it will not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares beneficially owned (directly or indirectly) by Mr. Lau and Smart Investor.
- (g) The Pre-IPO Investor has undertaken to our Company, Mr. Lau and Smart Investor that save with the prior consent of our Company and (for the period after Listing) the Stock Exchange (if required), at any time during the period commencing from the completion of the Subscription and ending on the date which is the last day of the sixth month from the Listing Date, it will not dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares beneficially owned (directly or indirectly) by it.
- (h) Our Company shall have the right at any time after the completion of the Subscription and prior to Listing to require the Pre-IPO Investor to provide to our Company shareholder's loan(s) to our Company provided the aggregate amount of which shall not exceed HK\$25,000,000 (or such other amount as may be agreed by our Company and the Pre-IPO Investor in writing).
- (i) The shareholder's loan to be provided by the Pre-IPO Investor to our Company shall be on the following terms:
 - 1. it shall bear interest at the rate of 3% above the prime rate as may from time to time be quoted by The Hongkong and Shanghai Banking Corporation Limited, accrued on a monthly basis and payable on the last day of the 18-month period from the Listing Date;

HISTORY, REORGANISATION AND GROUP STRUCTURE

2. there is no collateral security for the shareholder's loan;
3. the proceeds of the shareholder's loan shall be applied towards general working capital of our Group and such other purposes as may be approved by the Pre-IPO Investor; and
4. such other terms and conditions as may be agreed between our Company and the Pre-IPO Investor.

As at the Latest Practicable Date, our Company had not drawn any amount under the loan facility provided by the Pre-IPO Investor under the Subscription Agreement as stated in (h) and (i) above and our Company has no intention to draw down such loan facility prior to the Listing.

All the special rights of the Pre-IPO Investor stipulated in the Subscription Agreement are stated in (a), (b), (c) and (d) above and all such rights have ceased to have effect on the Latest Practicable Date. Notwithstanding the cessation of the rights of the Pre-IPO Investor stated in (a) above, we have retained Mr. Tang Yu Ming, Nelson as one of our non-executive Directors in view of his extensive experience in investment in the Hong Kong stock market.

Save for the above, no special rights have been granted to the Pre-IPO Investor under the Subscription Agreement.

It is stipulated in the Subscription Agreement as a condition subsequent that the sale and purchase of the Reorganisation Sale Shares contemplated under the Reorganisation Agreement shall be completed by 30 April 2012 failing which the Pre-IPO Investor shall have the right to (i) require our Company to procure the purchase of all the Subscription Shares held by the Pre-IPO Investor at a consideration equivalent to the Subscription Price and (ii) after completion of the said purchase of the Subscription Shares the Subscription Agreement shall terminate and be of no further effect. As the sale and purchase of the Reorganisation Sale Shares contemplated under the Reorganisation Agreement were completed on 16 April 2012, accordingly, the Subscription Agreement became unconditional on the same date. As the Pre-IPO investment was completed and became unconditional more than 28 clear days before the date of the first submission of the listing application form of the Company, the Sole Sponsor is of the view that the Pre-IPO Investment is in compliance with the Interim Guidance on Pre-IPO Investments announced by the Listing Committee of the Stock Exchange on 13 October 2010.

HISTORY, REORGANISATION AND GROUP STRUCTURE

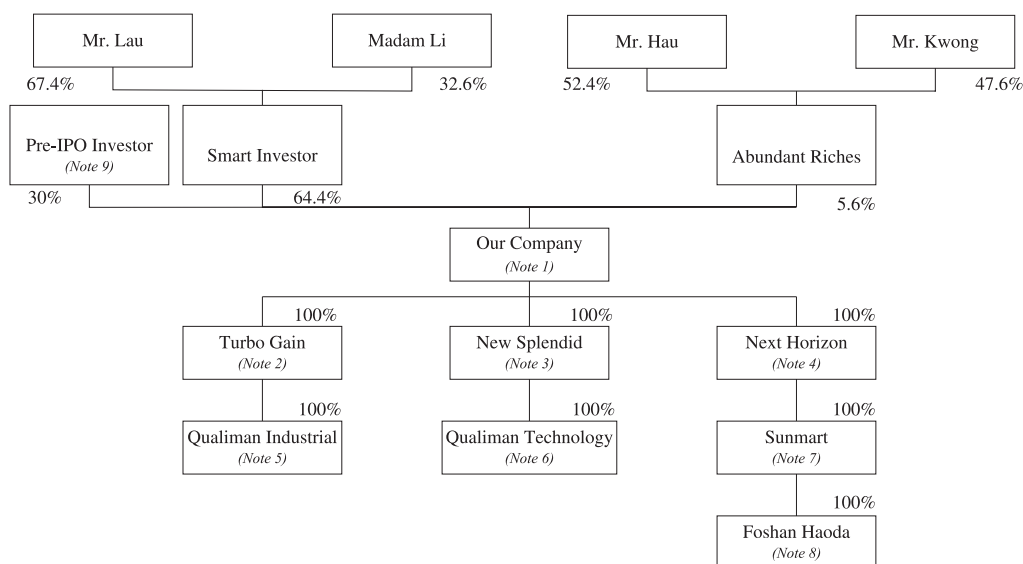
Date of Subscription Agreement	Amount of consideration paid	Number of Shares issued and allotted	Date of allotment and issue of Subscription Shares and consideration payment date	Shareholding in our Company upon completion of Subscription	Cost per Share	Discount to the mid-point of the Offer Price range	Use of proceeds	Approximate shareholding in our Company immediately after the Global Offering and the Capitalisation Issue
23 March 2012	HK\$25 million	<i>Note</i>	27 March 2012	30%	<i>Note</i>	63.0%	There was no application of the net proceeds during the Track Record Period. As at the Latest Practicable Date, approximately HK\$15.2 million has been utilised as general working capital of the Group.	22.5%

Note: An aggregate of 30,000,000 Shares were allotted and issued to the Pre-IPO Investor upon completion of the Pre-IPO Investment. It is expected that an aggregate of 24,000,000 Shares will be allotted and issued to the Pre-IPO Investor pursuant to the Capitalisation Issue. In aggregate, the Pre-IPO Investor will hold 54,000,000 Shares upon the Listing. On the basis of an investment amount of HK\$25 million in return for 54,000,000 Shares, the average cost per Share is approximately HK\$0.463 per Share.

As the Pre-IPO Investor will be a Substantial Shareholder and hence a connected person of our Company for the purpose of the Listing Rules, all the Shares held by it will not form part of the public float upon Listing.

GROUP STRUCTURE

The following diagram illustrates the shareholding and corporate structure of our Group after the Pre-IPO Investment and the Reorganisation and as at the Latest Practicable Date:



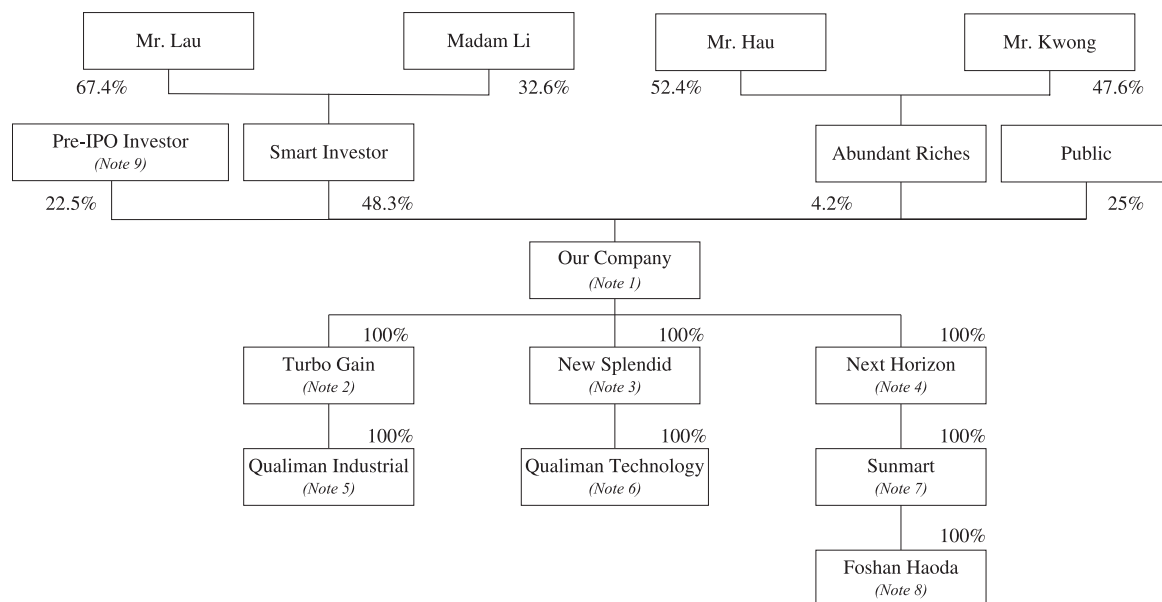
HISTORY, REORGANISATION AND GROUP STRUCTURE

Notes:

1. Our Company was incorporated in the Cayman Islands with limited liability on 14 March 2012 and its principal business activity is investment holding.
2. Turbo Gain was incorporated in the BVI with limited liability on 2 March 2012 and its principal business activity is investment holding.
3. New Splendid was incorporated in the BVI with limited liability on 20 January 2012 and its principal business activity is investment holding.
4. Next Horizon was incorporated in the BVI with limited liability on 6 March 2012 and its principal business activity is investment holding.
5. Qualiman Industrial was incorporated in Hong Kong with limited liability on 14 November 1996 and its principal business activities are manufacture and trading of toys.
6. Qualiman Technology was incorporated in Hong Kong with limited liability on 26 January 2000 and its principal business activities are manufacture and trading of toys.
7. Sunmart was incorporated in Hong Kong with limited liability on 15 August 2003 and its principal business activities are manufacture and trading of toys.
8. Foshan Haoda was established in the PRC on 15 March 2001 and its business scope includes manufacturing of toys, rotating photo frames and hair crimper, alarm clock, emergency light, electric cup and other small household appliances, domestic and export sales.
9. The Pre-IPO Investor was incorporated in the BVI with limited liability and is wholly-owned by Shikumen Special Situations Fund which is a company incorporated in the Cayman Islands. Pursuant to an investment management agreement entered into between Shikumen Special Situations Fund and Shikumen Capital Management (HK) Limited, Shikumen Capital Management (HK) Limited is the investment manager of Shikumen Special Situations Fund and the sole voting member of Shikumen Special Situations Fund and controls 100% of the voting rights of Shikumen Special Situations Fund. Shikumen Capital Management (HK) Limited is a company incorporated in Hong Kong and wholly-owned by Crosby Capital Limited, a company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of the Stock Exchange.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The following diagram illustrates the shareholding and corporate structure of our Group upon completion of the Global Offering and the Capitalisation Issue (but without taking into account any Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme):



Notes:

1. Our Company was incorporated in the Cayman Islands with limited liability on 14 March 2012 and its principal business activity is investment holding.
2. Turbo Gain was incorporated in the BVI with limited liability on 2 March 2012 and its principal business activity is investment holding.
3. New Splendid was incorporated in the BVI with limited liability on 20 January 2012 and its principal business activity is investment holding.
4. Next Horizon was incorporated in the BVI with limited liability on 6 March 2012 and its principal business activity is investment holding.
5. Qualiman Industrial was incorporated in Hong Kong with limited liability on 14 November 1996 and its principal business activities are manufacture and trading of toys.
6. Qualiman Technology was incorporated in Hong Kong with limited liability on 26 January 2000 and its principal business activities are manufacture and trading of toys.
7. Sunmart was incorporated in Hong Kong with limited liability on 15 August 2003 and its principal business activities are manufacture and trading of toys.
8. Foshan Haoda was established in the PRC on 15 March 2001 and its business scope includes manufacturing of toys, rotating photo frames and hair crimper, alarm clock, emergency light, electric cup and other small household appliances, domestic and export sales.
9. The Pre-IPO Investor was incorporated in the BVI with limited liability and is wholly-owned by Shikumen Special Situations Fund which is a company incorporated in the Cayman Islands. Pursuant to an investment management agreement entered into between Shikumen Special Situations Fund and Shikumen Capital Management (HK) Limited, Shikumen Capital Management (HK) Limited is the investment manager of Shikumen Special Situations Fund and the sole voting member of Shikumen Special Situations Fund and controls 100% of the voting rights of Shikumen Special Situations Fund. Shikumen Capital Management (HK) Limited is a company incorporated in Hong Kong and wholly-owned by Crosby Capital Limited, a company incorporated in the Cayman Islands and its shares are listed on the Growth Enterprise Market of the Stock Exchange.

OVERVIEW

Our business model

We are a toy manufacturer offering services primarily on an OEM basis. We manufacture products for our customers according to their specifications, and the products are sold by our customers under their own brand names. Our largest customer, Customer A, is an internationally renowned toy company based in the United States. Our other customers include several internationally reputable toy brands including LeapFrog and Tollytots. Headquartered in Hong Kong, we have a production base which is located in Foshan, Guangdong Province, the PRC.

We engage in vertically and horizontally integrated operation, aiming to provide our customers with one-stop development services. We offer our customers a wide spectrum of manufacturing services encompassing design, prototyping, mould making, product validation, multi-skilled manufacturing processes, general assembly and packaging. Our key manufacturing capabilities 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. Equipped with a broad range of production capabilities and multi-production lines, we are capable of manufacturing different niches of toy products, with focus on toy products for infants aged 3 or below which require very stringent safety standards.

As part of our ancillary value-added services, we also offer ODM services in the product development for some of our customers. Such customers rely on our design engineering capabilities, prototyping skills as well as our advice for their product development. We apply our design engineering knowledge in the course of manufacturing products and provide such customers with advice whenever appropriate so as to facilitate the manufacturing process and enhance the quality of their products.

Our customers

Our largest customer, being Customer A, is an internationally renowned toy company based in the United States. Our key customers are the procurement arms of the internationally well known toy brands, including LeapFrog and Tollytots. All of these customers are our top ten customers in terms of revenue during the Track Record Period. In line with customary industry practice, our major customers do not enter into long term contracts. As of the Latest Practicable Date, we have been maintaining business relationships with our largest customer, Customer A, for over 10 years.

Our sales to our top five customers for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to about HK\$740,674,000, HK\$643,558,000, HK\$763,263,000, HK\$230,483,000 and HK\$242,736,000, which accounted for about 92%, 88%, 87%, 86% and 87%, respectively, of our total turnover for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, respectively. Our sales to our largest customer, Customer A, for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to about HK\$519,277,000, HK\$385,522,000, HK\$448,982,000, HK\$144,640,000 and HK\$144,296,000, which accounted for about 65%, 53%, 51%, 54% and 52% of our total turnover for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, respectively.

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Our business operations and production facilities

Headquartered in Hong Kong, we have a production base located in Foshan, Guangdong Province, the PRC.

For our headquarters, our three Hong Kong operating subsidiaries, namely Sunmart (which directly holds Foshan Haoda), Qualiman Technology and Qualiman Industrial are principally engaged in the trading of toy products, accepting purchase orders, purchasing raw materials, arranging for shipment of products and customer affairs liaison.

Our production base is operated by Foshan Haoda, our wholly-owned subsidiary in the PRC and is situated at No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan City, Guangdong Province, PRC. The land use rights and building ownership rights of such production base are owned by us. The seven buildings comprised in the Haoda Factory (namely, three industrial buildings, two dormitory buildings, a staff canteen and a storage house) occupy a total gross floor area of approximately 35,814 sq.m.. During the Track Record Period, Foshan Haoda housed a workforce ranging from about 455 to about 880 employees, depending on seasonality. As at the Latest Practicable Date, Foshan Haoda housed a workforce of about 748 employees.

In addition to our own production base, our products are also manufactured by the Processing Factory under a processing arrangement among the Processing Factory, Qualiman Industrial and Qualiman Technology. The Processing Factory is located at Yongan Industrial Zone, Guanyao, Nanhai District, Foshan City, Guangdong Province, PRC. The Processing Factory comprised three industrial buildings, three dormitory buildings and other ancillary facilities and in aggregate occupy a total gross area of approximately 30,564 sq.m.. During the Track Record Period, the Processing Factory housed a workforce ranging from about 836 to about 2,089 employees, depending on seasonality. As at the Latest Practicable Date, the Processing Factory housed a workforce of about 1,458 employees.

Our financial performance

For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, our revenue was approximately HK\$803,432,000, HK\$729,776,000, HK\$876,667,000, HK\$267,116,000 and HK\$279,657,000 respectively. Our net profits for such periods were approximately HK\$26,762,000, HK\$9,496,000, HK\$47,676,000, HK\$11,782,000 and HK\$5,198,000 respectively.

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The following table sets forth our selected financial information and operating data for the Track Record Period:

Selected income statement data

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	803,432	729,776	876,667	267,116	279,657
Gross Profit	90,192	79,094	99,372	29,751	34,510
Losses on liquidation of an associate	—	(17,149)	—	—	—
Share of profits of an associate	6,149	—	—	—	—
Profit before tax	33,076	15,725	58,168	14,387	8,162
Profit for the year/period	26,762	9,496	47,676	11,782	5,198

Selected operating data

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	%	%	%	%	%
Gross profit margin	11.2	10.8	11.3	11.1	12.3
Profit margin based on profit before tax	4.1	2.2	6.6	5.4	2.9
Profit margin based on profit after tax	3.3	1.3	5.4	4.4	1.9

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths allow us to achieve sustainable growth of our business:

We have established relationships with our major customers

We believe that our dedication to service quality, on-time delivery and competitive pricing throughout the years have earned us goodwill and recognition by our major customers who have established long term and stable business relationships with us. Our business relationships with our major customers range from 3 to 10 years, within which our business relationships with our largest customer for the year ended 31 March 2012, Customer A, an internationally renowned toy company based in the United States, have lasted for more than 10 years. Our other customers include other well-known brands such as LeapFrog and Tollytots.

Our Directors believe that our well established relationships and market connections with our major customers will continue to strengthen our market presence, and our reliable and high-quality products and dedicated customer services are essential for our future expansions.

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We possess a broad range of production capabilities with vertically and horizontally integrated operation

We engage in vertically and horizontally integrated operation, aiming to provide our customers with one-stop development services. The broad range of manufacturing services offered by us encompass design, prototyping, mould making, product validation, multi-skilled manufacturing processes, general assembly and packaging.

Our key manufacturing capabilities 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. Our engineering services include engineering design, prototyping and tool making. We have a dedicated team of experienced engineers in mechanical, manufacturing, electronic and fabric engineering. We also have an in-house mould shop with modern computerised mould making equipment. In addition to hardware, we have experienced mould designers to design moulds for subsequent mass production.

Equipped with a broad range of production capabilities and multi-production lines, we are capable of manufacturing diversified product classes, such as feature plush toys which require multiple manufacturing skills, plastic toys, electronic toys, water teethers, sewing products, stuffed toys, and sprayed figures.

Our Directors believe that our broad range of production capabilities with vertically and horizontally integrated operation and multi-disciplinary engineering experience give us a competitive edge in engineering development and production, and enable us to adapt quickly to changing market demands.

We possess an experienced management team

We are led by an experienced management team, which possesses extensive industry knowledge and has been instrumental to our development. Our senior management team is led by Mr. Lau, an executive Director, our chief executive officer and one of the co-founders of our Group, who has more than 34 years of experience in the toy manufacturing industry. The dedication of our senior management team has contributed to the stability of our senior management. Most of our senior management members have an established track record in the toy manufacturing industry. In particular, both Mr. Hau, our general manager on China operation, and Mr. Kwong, our general manager on engineering and quality, have over 20 years of experience in the toy manufacturing industry. Further information on the experience and credentials of our management team is set forth in the section headed “Directors, Senior Management and Employees” in this prospectus.

We believe that our Directors and senior management team are capable of optimizing our productivity and formulating and implementing strategic changes to capture market opportunities, which is a key to the continued success of our business.

We place great emphasis on the quality and safety of our products

We are competent in meeting the stringent quality and safety standards which the toy manufacturing industry is subject to in jurisdictions where our customers do business.

We place great emphasis on the quality and safety of our products. Since we focus on manufacturing toy products for infants aged 3 or below, we are required to follow the very stringent product safety standards set by our customers. To ensure manufacturing processes are performed to the highest quality standards, we have obtained ISO9001:2008 certification since May 2007 and the certificate is valid from February 2010. We also have a dedicated quality control team comprising 33 staff as at the Latest Practicable Date responsible for implementing our stringent quality control measures in selecting our raw materials and packaging materials and throughout our whole production process. Furthermore, quality assurance engineers are involved in the early stages of product development such that safety and reliability concerns are taken care of in the product design stage. This aims to prevent the occurrence of non-compliance during the later stages of product development and production-run. For toy products of our major customers, raw materials used for such products are purchased from selected suppliers so as to ensure quality and safety of the products manufactured. All products are tested to comply with customer requirements and the applicable international standards before they are put into production. We have not experienced any issue relating to product recalls by our customers.

With the increasing demand by our customers on more stringent product safety and quality requirements especially in relation to toy products for aged 3 or below, we believe that our emphasis on product quality and safety has contributed to our success in gaining our customers' confidence in our products, which is essential to our long-term development in the toy manufacturing industry.

We have introduced lean production practices to optimize our productivity

Since 2009, we have introduced lean production practices into our production process to increase production efficiency. We have engaged a Hong Kong based consulting company offering advice on lean management in 2009. The consulting services offered by the consulting company to its clients include lean management implementation, corporate social responsibility and compliance, training and coaching in senior management and culture building. The duration of engagement with the consulting company was one year and the consulting fee paid by us was US\$4,000 per month, and the total amount of consulting fees paid by us to the consulting company was US\$48,000. The consulting company provided us with advice and training on lean operation and management, and assisted us in measuring efficiency for productivity and defects for quality. It also helped us on planning and implementing shop floor improvement projects such as workstation re-design, visual factory management, material flow and quick changeover. Prior to the manufacturing of the products, our design and support team provides input into how to optimize the pre-production process and minimise the manufacturing steps. We collaborate with some of our customers in the development of their products, draw up product design, produce prototypes and provide such customers with advice whenever appropriate so as to facilitate the manufacturing process and enhance the quality of their products.

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Our Directors believe that this lean production practice enables us to discover and resolve any issues relating to production at an early stage, thereby allowing us to increase efficiency, improve product quality and reduce wastage and cost.

OUR BUSINESS STRATEGIES

With the aim of further developing our business and continuing our growth, we plan to pursue the following principal business strategies:

Further expand our production capacity and improve our production efficiency

We plan to further increase our production capacity after the Listing by expanding our production lines for packaging and assembly of products in a newly constructed factory building of our own production facility currently operated by Foshan Haoda. This will include importing major equipment and machinery, including injection moulding machines with an expected increase of approximately 51% of the capacity for plastic moulding process, an additional surface mount technology (SMT) line with an expected increase of approximately 25% of the capacity for electronic assembly, and advanced automatic sewing machines with an expected increase of approximately 4% of the capacity for sewing operation, from overseas manufacturers, which is expected to be done by stage. By doing so, we believe that we can reduce our reliance on the Processing Factory. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

We believe that the increase in production capacity will provide us with additional cost-saving advantages from economies of scale as well as allow us to meet the additional demand for our products and further expand our sales and coverage. We expect to employ new equipment and machinery to improve our production efficiency, utilisation rate as well as lower our production costs.

Strengthen and expand our customer base

We plan to strengthen our relations with our customers through collaboration in product development and marketing, which includes, among other things, product quality management. We regularly contact our customers to obtain information on market trends and their product development plans and to provide them with information on new production techniques and materials.

We believe that our close relationship with our customers is key to maintaining and strengthening our customer base. We also plan to expand our customer base by targeting suitable customers and proactively approaching them for business opportunities, including through contacting them through referrals from our existing customers.

Enhance our design and product development capabilities

To further enhance our design and product development capabilities, we plan to reorganise our existing design team and enhance our research and development capabilities with focus on product design and development. We will recruit more experienced engineers and strengthen our

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collaboration with our customers in their product design and product development process. Our Directors believe that this would maintain our sustainable growth in the long run. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for further details.

OUR BUSINESS MODEL

We provide manufacturing services to our customers primarily on an OEM basis. In line with customary industry practice, our major customers do not enter into long term contracts. As an OEM manufacturer, we manufacture products for our customers according to their specifications, and the products are sold by our customers under their own brand names.

Our sales generated from services purely provided on an OEM basis for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to about HK\$621,668,000, HK\$532,205,000, HK\$649,124,000, HK\$195,478,000 and HK\$202,822,000, which accounted for about 77%, 73%, 74%, 73% and 73% of our total turnover for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, respectively.

As part of our ancillary value-added services, we also offer ODM services in the product development for some of our customers. Such customers rely on our design engineering capabilities, prototyping skills as well as our advice for their product development. We apply our design engineering knowledge in the course of manufacturing products and provide such customers with advice whenever appropriate so as to facilitate the manufacturing process and enhance the quality of their products.

The ODM services offered by us form part and parcel of our manufacturing services, aiming to provide our customers with one-stop development services under an integrated operation in our business model. As such, we do not charge our customers separately for offering ODM services. Our sales generated from customers to whom we offered ODM services for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to about HK\$181,764,000, HK\$197,571,000, HK\$227,543,000, HK\$71,638,000 and HK\$76,835,000, which accounted for about 23%, 27%, 26%, 27% and 27% of our total turnover for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, respectively.

PRODUCTS

We emphasise on the quality of our products that fulfils strictly the stringent international safety standards as well as our customers' specifications and requirements. Unlike some other OEM manufacturers who may merely produce parts and components, we produce finished products for our customers. Equipped with a broad range of production capabilities and multi-production lines, we are capable of manufacturing different niches of toy products, with focus on toy products for infants aged 3 or below which require very stringent safety standards.

For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, our sales volume was approximately 22 million pieces, 23 million pieces, 22 million pieces, 7 million pieces and 7 million pieces respectively and the selling price of our Group's products ranged from approximately HK\$5 to HK\$250 per piece, HK\$5 to HK\$260 per piece, HK\$5 to HK\$360 per piece, HK\$5 to HK\$360 per piece, and HK\$5 to HK\$192 per piece respectively. The reason for the drop in the highest selling price of the products to HK\$192 per piece for the four months ended 31 July 2012 is due to the fact that the pieces with high selling prices in the previous years represented only a very small portion of the products produced for a particular customer. Due to that customer's change in product mix, that customer has not placed orders with us to produce such products with high selling prices for the four months ended 31 July 2012.

The products manufactured by us include the following:

- For products for aged 3 or below, they include water teethers, rockers and bouncers, cradle swings, baby activity gyms and baby mobiles, and mechanical plush toys
- For products for aged above 3, they include electronic games, action figures, dolls, playsets and mechanical plush toys

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	Price range (HK\$)				Major target customers			
	Year ended 31 March		Four months ended		Year ended 31 March		Four months ended	
	2010	2011	2012	31 July 2012	2010	2011	2012	31 July 2012
Products for aged 3 or below	5-188	5-180	5-360	5-192	Customer A, LeapFrog, CIDE	Customer A, LeapFrog, CIDE	Customer A, LeapFrog, Tollytots, CIDE	Customer A, LeapFrog, Tollytots, CIDE
Products for aged above 3	6-250	6-260	5-197	6-140	Customer A, CIDE	Customer A, Tollytots, CIDE	Customer A, Tollytots, CIDE	Customer A, Tollytots, CIDE

Sample Pictures



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The table sets out below illustrates the segmental breakdown of our Group's revenue by reference to the target age groups during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Products for aged 3 or below	655,682	81.6	538,524	73.8	598,293	68.2	188,237	70.5	208,780	74.7
Products for aged above 3	<u>147,750</u>	<u>18.4</u>	<u>191,252</u>	<u>26.2</u>	<u>278,374</u>	<u>31.8</u>	<u>78,879</u>	<u>29.5</u>	<u>70,877</u>	<u>25.3</u>
Total	<u>803,432</u>	<u>100.0</u>	<u>729,776</u>	<u>100.0</u>	<u>876,667</u>	<u>100.0</u>	<u>267,116</u>	<u>100.0</u>	<u>279,657</u>	<u>100.0</u>

PRODUCTION FACILITIES AND PROCESSING AGREEMENT

Headquartered in Hong Kong, we have a production base located in Foshan, Guangdong Province, the PRC.

We maintain our administration, finance, procurement, sales and marketing functions in our headquarters in Hong Kong located at Rooms 1902–05, Cheung Tat Centre, 18 Cheung Lee Street, Chai Wan, Hong Kong with a gross floor area of approximately 332 sq.m., of which the unit of Room 1903, Cheung Tat Centre, 18 Cheung Lee Street, Chai Wan, Hong Kong is owned by the Group and the units of Rooms 1902, 1904 and 1905, Cheung Tat Centre, 18 Cheung Lee Street, Chai Wan, Hong Kong are leased from connected persons, details of which are set out in the section headed “Connected Transactions and Relationship with the Controlling Shareholders” in this prospectus. Our Hong Kong head office also serves to keep abreast of the latest market information and international prevailing trends.

For our headquarters, our three Hong Kong operating subsidiaries, namely Sunmart (which directly holds Foshan Haoda), Qualiman Technology and Qualiman Industrial are principally engaged in the trading of toy products, accepting purchase orders, purchasing raw materials, arranging for shipment of products and customer affairs liaison.

Our production base at the Haoda Factory is operated by Foshan Haoda, our wholly-owned subsidiary in the PRC and is situated at No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan City, Guangdong Province, PRC, the land use rights and building ownership rights of which are owned by us. The seven buildings comprised in the Haoda Factory (namely, three industrial buildings, two dormitory buildings, a staff canteen and a storage house) occupy a total gross floor area of approximately 35,814 sq.m.. It carries out the production procedures for our production and is principally engaged in the manufacture of products for some of our major customers.

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In addition to our own production base, our products are also manufactured by the Processing Factory under a processing arrangement among the Processing Factory, Qualiman Industrial and Qualiman Technology. The Processing Factory is located at Heng Road, Tanbei Village, Yongan Industrial Zone, Guanyao, Nanhai District, Foshan City, Guangdong Province, PRC (中國廣東省佛山市南海區官窯永安管理區譚北村“橫路”), with a total gross floor area of approximately 30,564 sq.m.. As at the Latest Practicable Date, the Processing Factory comprised three industrial buildings, three dormitory buildings and other ancillary facilities. It carries out the production procedures for our production and is principally engaged in the manufacture of products for some of our major customers.

The following table sets forth a summary of the information on our production base at Haoda Factory and the Processing Factory as at the Latest Practicable Date:

Production bases	Location	Total gross floor area (approximately)	Year of commencement of manufacturing operation	Range of workforce during Track Record Period⁽¹⁾ (approximately)	Workforce as at Latest Practicable Date (approximately)
Haoda Factory (3 industrial buildings and a storage house)	No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan City, Guangdong Province, PRC	28,803 sq.m.	2004	455–880	748
Processing Factory (3 industrial buildings and an office building)	Yongan Industrial Zone, Guanyao, Nanhai District, Foshan City, Guangdong Province, PRC	24,054 sq.m.	1997	836–2,089	1,458
Total		<u>52,857 sq.m.</u>			

Note:

- (1) Number of workers working in Haoda Factory and the Processing Factory during the year varies depending on production seasonality.

Production capacity

As at the Latest Practicable Date, Haoda Factory had approximately 317 sets of machines whilst the Processing Factory had approximately 409 sets of machines.

Based on the different types of production process, we have estimated the utilisation rates of the production facilities at Haoda Factory and the Processing Factory with reference to plastic toys, sewing products and electronic toys.

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Details of the utilisation rates of the production facilities of our Group at Haoda Factory are summarised in the following table:

	Estimated maximum capacity for the four months ended 31 July 2012	Approximate usage				Approximate utilisation rate				
		For the year ended 31 March			Four months ended 31 July	For the year ended 31 March			Four months ended 31 July	
		2010	2011	2012	2012	2010	2011	2012	2012	
		<i>(machine hours)</i>				<i>(%)</i>				
Plastic toys	396,396	139,986	349,789	361,974	356,022	123,092	88	91	90	88
Sewing products	655,000	232,500	476,956	454,516	451,042	168,858	73	69	69	73
Electronic toys	23,056	8,184	20,668	20,119	20,020	8,153	90	87	87	100

Details of the utilisation rates of the production facilities of the Processing Factory are summarised in the following table:

	Estimated maximum capacity for the four months ended 31 July 2012	Approximate usage				Approximate utilisation rate				
		For the year ended 31 March			Four months ended 31 July	For the year ended 31 March			Four months ended 31 July	
		2010	2011	2012	2012	2010	2011	2012	2012	
		<i>(machine hours)</i>				<i>(%)</i>				
Plastic toys	755,040	266,640	704,064	744,661	731,785	258,148	93	99	97	97
Sewing products	733,600	260,400	547,660	483,661	487,754	183,538	75	66	66	70
Electronic toys	51,876	18,414	45,424	43,973	45,153	17,507	88	85	87	95

Notes:

- Each of the utilisation rates is calculated by taking the actual operating machine hours for particular period divided by the estimated maximum capacity during that particular period.
- The annual maximum capacity of plastic toys is estimated based on the assumption that: (a) for Haoda Factory, it operates consecutively for 22 hours per day and 286 days per year for the three years ended 31 March 2010, 2011 and 2012; and 22 hours per day and 101 days for the four months ended 31 July 2012 without taking into account any non-consecutive operations; and (b) for the Processing Factory, it operates consecutively for 22 hours per day and 286 days per year for the three years ended 31 March 2010, 2011 and 2012; and 22 hours per day and 101 days for the four months ended 31 July 2012 without taking into account any non-consecutive operations.
- The annual maximum capacity of sewing products is estimated based on the assumption that: (a) for Haoda Factory, it operates consecutively for 10 hours per day and 262 days per year for the three years ended 31 March 2010, 2011 and 2012; and 10 hours per day and 93 days for the four months ended 31 July 2012 without taking into account any non-consecutive operations; and (b) for the Processing Factory, it operates consecutively for 10 hours per day and 262 days per year for the three years ended 31 March 2010, 2011 and 2012; and 10 hours per day and 93 days for the four months ended 31 July 2012 without taking into account any non-consecutive operations. For both Haoda Factory and the Processing Factory, the utilisation rates of the machines for sewing products are relatively lower than those for plastic toys and electronic toys due to the shortage of skilful sewing workers to operate the sewing machines.

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4. The annual maximum capacity of electronic toys is estimated based on the assumption that: (a) for Haoda Factory, it operates consecutively for 22 hours per day and 262 days per year for the three years ended 31 March 2010, 2011 and 2012; and 22 hours per day and 93 days for the four months ended 31 July 2012 without taking into account any non-consecutive operations; and (b) for the Processing Factory, it operates consecutively for 22 hours per day and 262 days per year for the three years ended 31 March 2010, 2011 and 2012; and 22 hours per day and 93 days for the four months ended 31 July 2012 without taking into account any non-consecutive operations.
5. The actual operating machine hours for a particular period were based on estimates of the actual number of machine hours used for such period with reference to machinery usage records.
6. For some of our products, multi-skilled manufacturing processes such as sewing operation and plastic processing are involved and different production lines are required in the processing procedures for producing such products. As such, the estimated utilisation rates were prepared for reference only. So in case the manufacturing of a specific type of product involves more than one production skill, such as plastic processing and sewing operation at the same time, we may not be able to produce such type of product when any one of the production lines for plastic toys and sewing products reaches its maximum utilisation rate.

For our Haoda Factory, the utilisation rates of the production facilities for plastic toys are approximately 88%, 91%, 90% and 88% respectively for the year ended 31 March 2010, 2011, 2012 and the four months ended 31 July 2012, and the utilisation rates of the production facilities for electronic toys are approximately 90%, 87%, 87% and 100% respectively for the same periods. On the other hand, the utilisation rates of the production facilities for sewing products at our Haoda Factory are approximately 73%, 69%, 69% and 73% respectively for the year ended 31 March 2010, 2011, 2012 and the four months ended 31 July 2012. The utilisation rates of the machines for sewing products at our Haoda Factory are relatively lower than those for plastic toys and electronic toys due to the shortage of skilful sewing workers to operate the sewing machines.

For the Processing Factory, the utilisation rates of the production facilities for plastic toys are approximately 93%, 99%, 97% and 97% respectively for the year ended 31 March 2010, 2011, 2012 and the four months ended 31 July 2012, and the utilisation rates of the production facilities for electronic toys are approximately 88%, 85%, 87% and 95% respectively for the same periods. On the other hand, the utilisation rates of the production facilities for sewing products at the Processing Factory 75%, 66%, 66% and 70% respectively for the year ended 31 March 2010, 2011, 2012 and the four months ended 31 July 2012. Similar to the situation at our Haoda Factory, the utilisation rates of the machines for sewing products at the Processing Factory are relatively lower due to the shortage of skillful sewing workers to operate the sewing machines. The Processing Factory has subcontracted part of the production process for our products to other subcontractors with such skilful sewing workers. The Processing Factory currently has engaged three subcontractors for performing the sewing processes.

For both our Haoda Factory and the Processing Factory, the machines for plastic toys and electronic toys operated in two shifts a day and hence they operated for 22 hours a day, whereas the machines for sewing products only operated in one shift and hence they operated for 10 hours a day. The machines for sewing products operated in one hour less for one shift per day due to human physical limits of the sewing workers operating the sewing machines. The machines for plastic toys operated in all Saturdays for a year while the machines for sewing products and electronic toys only operated in 26 Saturdays for a year. The machines for sewing products and electronic toys operated in 26 Saturdays less for a year due to the maintenance work done on the machines for producing electronic toys and sewing products.

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In terms of processing or production method, product types and gross profit margin, there are no material differences between the production facilities at our Haoda Factory and those at the Processing Factory. The criteria for us to choose which factory to manufacture our products depend on factors such as whether our Haoda Factory has nearly reached full production capacity and the customer mix.

Processing Agreements

As mentioned above, in addition to our own production base at the Haoda Factory, our products are also manufactured by the Processing Factory under a processing arrangement. Our Group placed production orders to the Processing Factory, which provided processing services to us and manufactured the products in accordance with the specifications provided by us. The Processing Factory is located at Yongan Industrial Zone, Guanyao, Nanhai District, Foshan City, Guangdong Province, PRC. We maintain our management team at the Processing Factory to supervise the whole production process, despite the production is carried out by the Processing Factory.

The Processing Factory is an Independent Third Party and has no other past or present relationship with our Company, our subsidiaries, their shareholders, directors, senior management or any of the respective associates save for being a provider of processing services to our Group pursuant to the processing arrangement mentioned below.

Our Group adopts the following measures in monitoring the production in the Processing Factory: (i) sending our experienced staff to station at the Processing Factory; (ii) reviewing and co-ordinating the production schedules with the management of the Processing Factory; (iii) providing manufacturing advisory services or technical supports to the production personnel of the Processing Factory; and (iv) co-ordinating the shipment schedules with the management of the Processing Factory. As at the Latest Practicable Date, our Group had seconded five management staff and technical staff to support and co-ordinate certain operations with the Processing Factory. The seconded management staff and technical staff are mainly responsible for the provision of operational advisory and technical support services, and assisting in and coordinating production and product quality activities at the Processing Factory. Our executive Director, Mr. Lau, and the senior management of our Group frequently travel to the Processing Factory and visit the factory premises to ensure that our Group's guidance and instructions are well followed.

The salient features of the processing arrangement are summarised below:

Term

The Processing Factory has been providing processing services to our Group since 1997 and had entered into four processing agreements (加工生產合同) with Qualiman Industrial dated 8 December 1996, 18 December 2001, 23 December 2006 and 18 December 2011 respectively. Each of such processing agreements stipulated that the processing arrangement was for a term of five years, which was renewable by entering into another agreement for a further term of five years upon expiry of the previous term. Thus the original term of the first processing agreement dated 8 December 1996 was from 1 January 1997 to 31 December 2001. The term of the second processing agreement dated 18 December 2001 was from 1 January 2002 to 31 December 2006. The term of the third processing agreement dated 23 December 2006 was from 1 January 2007 to 31 December 2011. The term of the current Processing Agreement dated 18 December 2011 is from 1 January 2012 to 31 December 2016.

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The current Processing Agreement, as amended and supplemented by a supplemental agreement dated 8 June 2012 made between the Processing Factory and Qualiman Industrial, also stipulates that the Processing Factory shall not without the written consent of Qualiman Industrial enter into the same or similar processing agreement with any third party or provide processing services to any third party during the subsistence of the processing agreement.

As confirmed by the Processing Factory, the Processing Factory had been operated exclusively for our Group and had not provided processing services to any other parties apart from our Group during the Track Record Period. The Processing Factory further confirmed the same arrangement will be continued for the remaining period of the Processing Agreement.

The processing agreements mentioned above are bilateral in nature and were entered into between the Processing Factory and Qualiman Industrial which served as master agreements with specific duration. In addition to the processing agreements, the Processing Factory had also entered into several processing and assembly contracts (對外來料加工(裝配)合同) with Qualiman Industrial for the provision of processing services. The Processing Factory had also entered into a processing and assembly contract with Qualiman Technology. Such processing and assembly contracts are tripartite in nature and were entered into among the Processing Factory, the Business Agent and Qualiman Industrial (or Qualiman Technology, as the case may be), which govern the terms and provisions for placing purchase orders and the specific processing arrangement.

Primary responsibilities of the parties involved in the processing and assembly contracts

The following terms which govern the primary responsibilities of the parties are commonly contained in each processing and assembly contract:

- (a) the Processing Factory shall provide factory premises, labour and water and electricity for production and shall manufacture the products as requested by us;
- (b) the foreign party, being our wholly-owned subsidiaries Qualiman Industrial and Qualiman Technology (as the case may be), shall provide raw materials, ancillary materials and packaging materials, machinery and equipment, technical guidance and training to workers and it shall also pay processing fee; and
- (c) the Business Agent shall assist the Processing Factory to handle the procedures for settlement of processing fees and import and export procedures.

The Business Agent is an Independent Third Party and a limited company established in the PRC on 15 November 1985. As advised by our PRC Legal Advisers and based on the business licence of the Business Agent, the principal scope of business of the Business Agent includes self-operation and acting as agent in the import and export of goods and technology, imported processing services, and processing with materials and re-export.

The Business Agent was previously an enterprise directly subordinated to the Foreign Trade and Economic Committee of Nanhai District (南海市對外經濟貿易委員會) to encourage foreign trade and provide assistance to the enterprises in Nanhai District in foreign trade. The Business Agent did not charge any fees for assisting the Processing Factory to handle the procedures for settlement of processing fees and import and export procedures.

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As advised by our PRC Legal Advisers, under the PRC law, as the Processing Factory is a legal person according to the relevant PRC laws and regulations, it would be held solely liable for any civil liabilities, and any administrative penalties incurred by the Processing Factory.

During the Track Record Period, our Group and our production facilities had not experienced any shut-downs due to breakdown or failure of our major equipment, inadequate power supply or maintenance, natural disasters, or industrial accidents.

Processing fees

According to the processing agreements, ownership of the machineries and equipment in the Processing Factory remain vested in our Group and are required to be returned to us upon the termination of the Processing Agreement. The processing services are charged on a piece rate basis depending on the specification and ease of production and our Directors understand that during the Track Record Period, the processing fees paid by our Group were sufficient to cover the amount of charges for electricity and water consumed and labour costs of the Processing Factory. Labour cost is subject to variation depending on the number of workers actually engaged by the Processing Factory for the production to our Group and the amount of overtime allowance payable to such workers.

For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, our annual processing fee to the Processing Factory amounted to approximately HK\$46,085,000, HK\$52,288,000, HK\$58,613,000, HK\$10,972,000 and HK\$13,427,000 respectively, representing approximately 6.5%, 8.0%, 7.5%, 4.6% and 5.5% of our total costs of sales. As at 31 March 2010, 2011, 2012 and 31 July 2012, the carrying amount of machinery and equipment, raw materials and accessories and packaging materials provided by our Group to the Processing Factory were approximately HK\$64,489,000, HK\$99,079,000, HK\$95,728,000 and HK\$109,764,000 respectively.

Our Directors have confirmed that the Processing Agreement and the pricing and other terms of the processing and assembly contracts entered into during the Track Record Period were effected on arm's length basis and on normal commercial terms.

Our PRC Legal Advisers have confirmed that the terms in the processing agreements and the processing and assembly contracts do not contravene any laws and regulations in the PRC on the following basis:

- (i) the execution of the processing and assembly contracts has been approved by Nanhai Foreign Trade and Economic Cooperation Bureau;
- (ii) the contents and form of the contracts under the processing arrangement are both legitimate, valid, legally binding and enforceable;
- (iii) the Processing Factory was established in accordance with the PRC Laws; and
- (iv) the Processing Factory operating as a processing entity to carry out the manufacturing operation under the processing arrangement has obtained all the relevant legal approvals and consents.

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As advised by our PRC Legal Advisers, according to confirmations from the relevant tax and customs and other governmental authorities, to the best of their knowledge, the Processing Factory and the production facilities used within the Processing Factory under the Processing Agreement have obtained all necessary licences, approvals and permits from the appropriate regulatory authorities for its business operations in the PRC and has complied in all material respects with relevant laws and regulations in relations to environmental protection, social insurance and taxation matters during the Track Record Period and as at the Latest Practicable Date, save for the matters as disclosed in the paragraph headed “Legal proceedings and non-compliance” in this section below.

Reliance on the Processing Factory

For reference purpose, the utilisation rates of the production facilities for plastic toys and electronic toys at the Haoda Factory have reached approximately 90% and 87% respectively for the year ended 31 March 2012, while the utilisation rate of the production facilities for sewing products at the Haoda Factory for the same period is approximately 69%. The utilisation rates of the machines for sewing products at our Haoda Factory are relatively lower than those for plastic toys and electronic toys due to the shortage of skilful sewing workers to operate the sewing machines. Please refer to the paragraph headed “Production facilities and Processing Agreement — production capacity” in this section of the prospectus for further details.

As the production capacities at the Haoda Factory are currently not sufficient to take up the production of all our products, we outsource part of our production processes to the Processing Factory. Although our production facilities at Haoda Factory are not fully utilised at the current moment, our Directors believe that it is prudent for us to outsource part of our production process so as to avoid the risk of our production plants becoming fully saturated and to ensure timely delivery of the products to our customers.

As advised by our PRC Legal Advisers, six buildings including the factory premises and dormitory of the Processing Factory (“**Processing Premises**”) were constructed by the Processing Factory on a piece of land leased from a third party without having obtained the relevant building ownership certificates, due to the failure of the Processing Factory to obtain the relevant construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) prior to the construction of these buildings and without undertaking the completion inspection of construction work (竣工驗收). The Processing Factory have not obtained the relevant construction works planning permit and construction works commencement permit due to the failure of the lessor and owner of the land to obtain the land use right certificate when the Processing Factory constructed these buildings. Please refer to the paragraph headed “Non-compliance incidents relating to the Processing Factory” in this section of the prospectus for further details. Despite the absence of the building ownership certificate, the buildings of the Processing Factory were designed by a PRC-accredited building engineering company with the construction works carried out by accredited construction contractors. As such, our Directors believe that the buildings of the Processing Factory will not pose any critical safety concern.

Although the Processing Premises form part of our production capacity, in the event that the Processing Factory is required by the relevant authorities to demolish the Processing Premises, we will implement contingency measures and consider taking up the production process currently performed by the Processing Factory by our own production base in Haoda Factory, and

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subcontracting part of the production process to independent subcontractors. The subcontractors currently engaged by the Processing Factory which have spare production capacity are readily available to take up the production for us directly in the event we outsource part of the production process to them. We have already obtained confirmation from the subcontractors, confirming that they are readily available and have spare production capacity to take up such production for us. With reference to the estimated operating machine hours required for the production of sewing products, electronic toys and plastic toys at the Processing Factory for the year ended 31 March 2012 based on the analysis of production capacity set out in the paragraph headed “Business — Production facilities and Processing Agreement — Production capacity” in this prospectus and the estimated increase in our production capacity after the purchase of new equipment and machinery to be financed by the net proceeds from the Global Offering, our Directors estimate that our Haoda Factory can take up approximately 48%, 50% and 45% respectively of the production of sewing products, electronic toys and plastic toys at the Processing Factory, while the subcontractors can take up all the remaining production process performed by the Processing Factory. Please refer to the paragraph headed “Future plans and use of proceeds — Use of proceeds” in this prospectus for further details of the new equipment and machinery to be purchased by us after the Listing. As our contingency measures, machineries and work in progress from the Processing Factory will be relocated. It is estimated that the time involved for relocation of the machineries to our Haoda Factory is about 30 days and the total relocation cost incurred in the contingency plan will be approximately RMB1,000,000. Depending on whether the relocation of machineries from the Processing Factory to our Haoda Factory will take place in the peak season or slack season, and assuming that none of the work which would otherwise be undertaken by the Processing Factory was taken up by ourselves or other subcontractors, our Directors estimate that our potential loss of revenue during the relocation will be approximately in the range of HK\$5.2 million to HK\$17.3 million, and our potential loss of gross profit during the relocation will be approximately in the range of HK\$0.6 million to HK\$2.0 million.

Our Directors consider that the actual production process performed at the Processing Premises and the processing fees paid by us to the Processing Factory with reference to our cost of sales will provide a meaningful assessment of whether the Processing Premises are important to our operations. The Processing Factory has subcontracted a large part of the production process to the subcontractors and the subcontracting fees were charged separately by the Processing Factory in addition to the processing fees paid by us to the Processing Factory. In terms of our cost of sales, the subcontracting fees paid were much higher than the processing fees paid during the Track Record Period. For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, our annual processing fee to the Processing Factory represented approximately 6.5%, 8.0%, 7.5%, 4.6% and 5.5% of our total costs of sales, whereas the subcontracting fees represented approximately 23.2%, 24.5%, 25.8%, 22.4% and 22.8% of our cost of sales respectively. As such and in light of the above contingency measures, our Directors believe that our operations will not be materially affected if we are unable to rely on the Processing Premises for production for whatever reason and the Processing Premises are not crucial to our Group’s operations.

After the Listing, we plan to apply part of the proceeds from the Global Offering for purchasing machineries and for construction of the new factory building operated by Foshan Haoda so as to increase the production capacities at the Haoda Factory. Please refer to the section headed “Future plans and use of proceeds” in this prospectus for further details. Notwithstanding the non-

compliances and irregularities of the Processing Factory disclosed in the paragraph headed “Legal proceedings and non-compliance” in this section below, our PRC Legal Advisers advised that under the PRC law, as the Processing Factory is a legal person according to the relevant PRC laws and regulations, it would be held solely liable for any civil liabilities, and any administrative penalties incurred by the Processing Factory.

PRODUCTION PROCESS

Our production operation is vertically and horizontally integrated. The principal stages involved in the production process include the following:

Product quotation

Our customers will provide their product specifications and sample drawings for obtaining the preliminary quotation. Our staff will conduct feasibility evaluation, which include evaluation of the choice of raw materials and mechanical and other issues. After our feasibility study, we provide our customers with a preliminary quotation on the product cost for their consideration and approval.

Product design

We have a dedicated team of experienced engineers in mechanical, manufacturing, electronic and fabric engineering. Our multi-disciplinary engineering team will work closely with our customers to provide feedback on the designs and specifications of the customers based on our knowledge on raw materials and production process, in order to optimize between material cost, production cost and production time required to produce a specific products that is cost effective, affordable and meets our customers’ requirements.

Prototyping and mould making

If prototype of the new products is required by our customers, we will generate a physical prototype which will be subject to modifications in order to adhere to our customers’ request. Depending on the complexity of the products, the prototype will be made available to our customers generally within three to four weeks.

Where mould making is involved in the production process, our engineering team will design the moulds according to our customers’ specifications and which will be efficient for subsequent mass production. We have an in-house mould shop equipped with computerised mould making equipment which is capable of making high quality moulds for complicated parts with tight tolerances. Typically, it will take about one to two months for production of the required moulds.

Purchase of raw materials

To ensure that the cost, quality and delivery schedule conform to the initial estimation, our purchasing team will procure the requisite raw materials, component parts and packaging materials according to the customers’ specifications. The major raw materials used by our Group in the manufacture of our products include electronic components, resin (for plastic components), fabric (for sewing products) and printing materials for packaging.

Key manufacturing process

Depending on the types of the products, the key manufacturing process in our production includes plastic moulding process, decoration process, metal bending, electronic assembly and sewing operation.

Plastic moulding process

The following three types of primary moulding process are involved in our fabricating plastic parts and components. Statistical process control is widely used in the moulding processes. This ensures moulded parts can meet tight dimensional and aesthetic requirements.

Injection moulding

Injection moulding is a process which converts resins into different shapes of plastic parts. In this process, plastics is melted and injected into the cavity of the mould. The material is then solidified again to produce the desired shape.

Blow moulding

Blow molding is a process by which hollow plastic parts are formed. The blow molding process begins with melting down the plastic and forming it into a parison. The parison is then clamped into a mould and air is pumped into it. The air pressure then pushes the plastic out to match the mould.

Rotational moulding

Rotational moulding is a process by which plastic parts are formed and manufactured using a revolving mould and high heat. In this process, plastics is filled into a metal cavity which will be curved to shape under high heat to form parts of a product.

Decoration process

Plastic parts which have been moulded into shape by the primary moulding process will then go through the intermediate decoration process before assembled together into finished products. The following decoration processes are commonly used in our products:

Spray painting

Spray painting involves a painting technique where a spray gun sprays a coating through the air onto the surface of plastic parts.

Tampo printing

Tampo printing process is used where colour paint is transferred from an etched printing plate to a specified area of the plastic parts (usually involving irregular surface) by a rubber pad.

Hot stamping

Hot stamping is a dry printing method in which a heated die and foil are used to apply graphics to a surface of the plastic parts.

Silk screen printing

Silk screen printing is a printing technique in which colour paint is printed on a specified area of the plastic or fabric parts using a framed screen.

Rooting

Rooting is a process (usually for doll's heads) in which fine nylon or polypropylene materials are stitched into plastic parts by using hair-rooting machines.

Metal bending

Metal bending is involved in fabricating metal tubes and other metal components for our toy products. It is a manufacturing process by which metal is deformed by changing its shape through the use of die sets or bend brakes.

Primary processing

Metal tubes and other metal components formed by metal bending will undergo a rust removal process by electrolysis, which is a rust treatment technique that involves usage of electricity and washing soda.

Coating

After rust removal process, metal parts will be treated with coating. This involves powder-coating, which is a surface treatment process in which powder are blown into a thin fog or smoke and allowed to settle upon the surface of metal due to the effect of static electricity and form a solid coating after proper heating.

Electronic assembly

Electronic assembly for our electronic toys is a multi-step process involving the following:

Insertion

Electronic components such as resistors and capacitors are inserted on printed circuit boards by using insertion mount machines.

Bonding

Integrated circuit (IC) chips are soldered to printed circuit boards using wave soldering machines and surface mounting machines.

Printed circuit board assembly

Printed circuit board assembly, also known as PCBA, is the process of soldering or assembly of electronic components to a printed circuit board. Surface-mount components are mounted to the printed circuit board.

Testing and inspection

Electronic assemblies are tested at various process steps. Testing and inspection equipment such as computerised in-circuit testers and visual comparators are used in our production to support complicated printed circuit board assemblies involving various components.

Sewing operation

Different types of sewing operation are involved in the manufacturing process for our fabric toy products such as fashion dolls' costumes, plush and stuffed toys:

Cutting

Raw fabric is cut into specific shapes and size by press or laser cutting machines according to the pattern design.

Embroidery and silk-screen printing

If it is so required by our customers' specifications, embroidery stitching and silk-screen printing process will be done on the cut pieces of fabric before sewing.

Sewing

The cut pieces of fabric will be sewn together to give the shape of the required accessories of soft toy products. For stuffed toys, fabric components will be stuffed with polyester fibre fillings.

Hand finishing

After sewing, excess fabric and thread will be trimmed away and hand stitching will be performed to finish the soft toy components.

Quality assurance and testing

During the procurement of raw materials and accessories, we conduct tests on the raw materials and other components by various methods including inspections and safety testings to ensure that they meet our quality standards.

During the processing and manufacturing, we arrange for our quality control staff to conduct on-site inspections of all work-in-progress at the production lines and those of the outsourced manufacturers.

General assembly, inspection and packaging

Inspection and quality control tests will be performed on the plastic components, electronic components and fabric sewn parts before general assembly. Inspection stations are appropriately integrated in the assembly lines to ensure the quality of sub-assembled parts and finished goods. Jigs and fixtures are used to support assembly operations.

The assembled parts are then tested again to ensure the finished products are in strict compliance with the customers' specifications.

After final testing and inspection, finished products will be packaged according to our customers' requirements. A wide range of packaging facilities are used for our toy products, including blister sealing, clamshell packing and shrink-wrap.

Subcontracting arrangement

While our own Haoda Factory has not engaged any subcontractors, the Processing Factory has subcontracted part of the production process to independent subcontractors, especially during peak seasons from June to October each year when the demand for our products is high and the production facilities have been operating at near full capacity. The production process involved in the subcontracting arrangement is generally confined to plastic moulding, spray painting, sewing operations for the fabric components, and printed circuit board assembly for the electronic products. Such outsourcing arrangements to subcontractors can provide additional capacity to fulfill extra orders and can also give some flexibility in production scheduling.

Before engaging a new subcontractor, the Processing Factory will inspect the factory of the subcontractor. To ensure the product quality of the products processed by the subcontractors, the Processing Factory will also send quality control staff to the subcontractors' production facilities to monitor their production process. The Processing Factory will also conduct checks on the quality of the products processed by the subcontractors after such products are delivered back to the Processing Factory.

The salient features of the subcontracting arrangement are as follows:

The Processing Factory has not entered into any formal master subcontracting agreement or fixed term contract with the subcontractors as a general practice. Instead, the Processing Factory placed orders with subcontractors on a case by case basis. The orders placed by the Processing Factory will normally set out terms such as the required production procedures, specifications, quantity of products and the fee per unit of products. As advised by our PRC Legal Adviser, under the PRC laws and regulations, the Processing Factory may claim against the subcontractors for any failure to comply with the product specifications or defective quality of the products. The production process involved in the subcontracting arrangement is generally confined to plastic moulding, spray painting, sewing operations for the fabric components, and printed circuit board assembly for the electronic products. The subcontracting fees are negotiated when orders are placed by the Processing Factory with the sub-contractors with reference to the costs of production and the price of the finished products. The Processing Factory conducts audit on the subcontractors to ensure the quality of the products produced by the subcontractors. If a subcontractor passes the audit, the Processing Factory will renew the subcontractor's status and continue to place orders to

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such subcontractor. If the subcontractor fails in the audit exercise, the Processing Factory will terminate such subcontractor and stop placing orders with that subcontractor. During the Track Record Period, none of the subcontractors engaged by the Processing Factory for the production of our Group's products failed to pass the audit conducted by the Processing Factory. For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, there were approximately 14, 14, 14, 14 and 14 subcontractors respectively responsible for the production of our Group's products. All these subcontractors are independent from our Group and none of our Directors (or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or any of our subsidiaries or any of their respective associates) had any interests in any of these subcontractors.

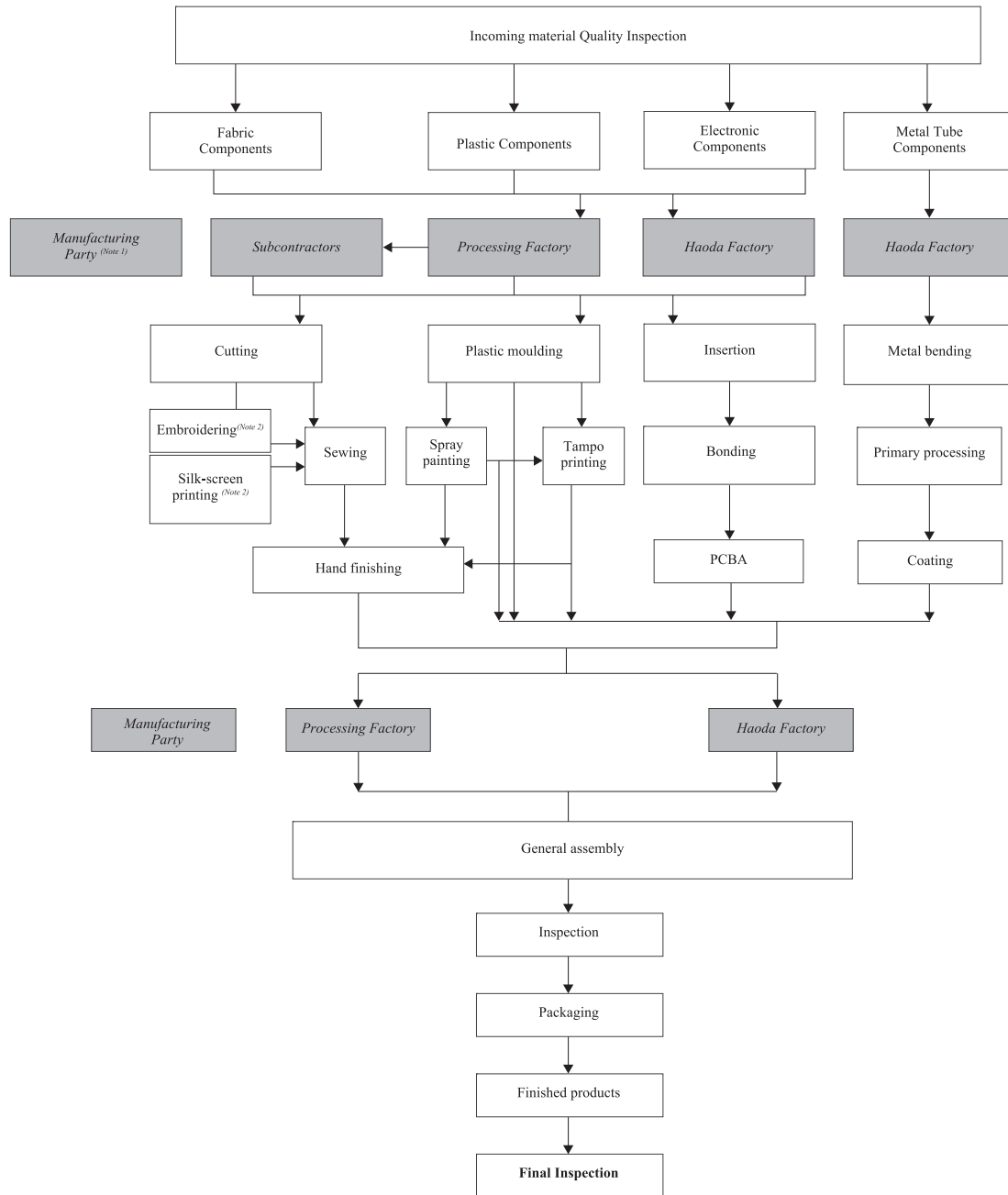
For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, through the engagement of the subcontractors by the Processing Factory, subcontracting fees represented approximately 23.2%, 24.5%, 25.8%, 22.4% and 22.8% of our cost of sales respectively. Such subcontracting fees were charged separately by the Processing Factory in addition to the processing fees paid by us to the Processing Factory. Since the production volume processed by the subcontractors was more than that processed by the Processing Factory, the subcontracting fees paid were higher than the processing fees paid during the Track Record Period.

To prevent overcharge by the subcontractors, we place orders to the Processing Factory with reference to our cost. To manage cost control, the Processing Factory outsources the production process to the subcontractors based on their past performance, the quotations given by them and with reference to the cost of production.

We are not required to obtain any approval from our customers prior to outsourcing to the Processing Factory and the subcontractors.

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The following production flow chart sets out the main steps of the typical production process of our toy products:



Notes:

1. The production process involving fabric components, plastic components and electronic components will be carried out in either the Haoda Factory or the Processing Factory. In turn, the Processing Factory may subcontract part of the production process to the subcontractors. The production process involving metal tube components will be carried out by the Haoda Factory only.
2. Embroidering and silk-screen printing are carried out in the Processing Factory only.
3. There are no transfers of ownership in the raw materials.

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PROCUREMENT OF RAW MATERIALS AND SUPPLIES

Raw materials

The following table sets out the amount of each type of raw materials purchased by us and their approximate percentage of our total purchase of raw materials during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>Approx.</i> HK\$'000	<i>Approx.</i> %	<i>Approx.</i> HK\$'000	<i>Approx.</i> %	<i>Approx.</i> HK\$'000	<i>Approx.</i> %	<i>Approx.</i> HK\$'000	<i>Approx.</i> %	<i>Approx.</i> HK\$'000	<i>Approx.</i> %
Electronic components <i>(Note 1)</i>	99,987	21.7	107,724	26.0	152,910	31.9	78,369	36.8	58,836	33.3
Printed and packaging materials <i>(Note 2)</i>	84,104	18.2	87,124	21.0	110,154	23.0	49,434	23.2	46,029	26.0
Plastics <i>(Note 3)</i>	150,617	32.7	91,492	22.1	84,321	17.6	32,874	15.5	28,219	16.0
Fabric components <i>(Note 4)</i>	43,473	9.4	44,308	10.7	55,185	11.5	27,274	12.8	21,222	12.0
Accessories <i>(Note 5)</i>	48,111	10.4	43,012	10.4	33,962	7.1	6,302	3.0	5,792	3.3
Chemicals <i>(Note 6)</i>	14,338	3.1	21,057	5.1	20,248	4.2	6,006	2.8	7,098	4.0
Metals <i>(Note 7)</i>	20,365	4.5	19,750	4.7	21,914	4.7	12,464	5.9	9,536	5.4
Total	460,995	100.0	414,467	100.0	478,694	100.0	212,723	100.0	176,732	100.0

Notes:

1. Electronic components include dice, integrated circuit chips, motors, printed circuit boards, resistors, speakers, switch, transistors and wire.
2. Printed and packaging materials include blister, carton boxes, instruction sheets, paper inserts and printed boxes.
3. Plastics mainly include resins.
4. Fabric components include polyester and tricot.
5. Accessories include ribbon, velcro and other miscellaneous items for fabric toy products.
6. Chemicals include grease and solvent.
7. Metals include bolts, nuts and screws.

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The following table sets out the geographical breakdown of raw materials purchased by our Group during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>Approx.</i> <i>HK\$'000</i>	<i>Approx.</i> <i>%</i>	<i>Approx.</i> <i>HK\$'000</i>	<i>Approx.</i> <i>%</i>	<i>Approx.</i> <i>HK\$'000</i>	<i>Approx.</i> <i>%</i>	<i>Approx.</i> <i>HK\$'000</i>	<i>Approx.</i> <i>%</i>	<i>Approx.</i> <i>HK\$'000</i>	<i>Approx.</i> <i>%</i>
China	383,926	83.3	298,013	71.9	374,968	78.4	162,101	76.2	131,298	74.3
Taiwan	46,375	10.1	77,254	18.6	47,541	9.9	22,686	10.7	23,234	13.1
South Korea	11,717	2.5	16,775	4.1	22,522	4.7	13,538	6.4	—	0.0
Hong Kong	10,594	2.3	11,661	2.8	12,452	2.6	13,825	6.5	15,401	8.7
Others ^(Note)	8,383	1.8	10,764	2.6	21,211	4.4	573	0.2	6,799	3.9
	460,995	100.0	414,467	100.0	478,694	100.0	212,723	100.0	176,732	100.0

Note: Others includes Saudi Arabia, Malaysia, Japan and Indonesia.

Our total cost of purchase of raw materials during the Track Record Period amounted to about HK\$460,995,000, HK\$414,467,000, HK\$478,694,000 and HK\$176,732,000, which accounted for about 65%, 64%, 62% and 72%, respectively, of our cost of sales for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2012, respectively.

During the Track Record Period, there was no material amount of defective raw materials returned to our suppliers or unsatisfactory finished products reprocessed or disposed by our Group.

Management of the cost of raw materials

To ensure a stable supply of raw materials, we adopt a general policy of purchasing raw materials from multiple sources wherever possible. We do not enter into any long-term contracts with our suppliers. We purchase raw materials from our suppliers through purchase agreements initiated by quotations, which generally set forth the types of raw materials to be purchased, the specifications and the price which generally reflects the prevailing market price. In general, our pricing strategies are based on a cost-plus model, and our pricing to all customers has made reference to the market prices of the raw materials. We do not have formalised hedging policies against any risks of fluctuation in the raw material costs, but we closely monitor the market prices of the raw materials. During the Track Record Period, the market price of resin has experienced fluctuation (as can be seen from the paragraphs headed “Resin” in the “Industry Overview” section) while the market prices of the other raw materials used by us remained relatively stable. In case of any substantial increase in the market price of resin after we accepted the orders from our customers, historically we had successfully negotiated with our customers to adjust the prices of our products so that part of the increase in market price of resin was passed on to our customers (other than Customer A). In general, we assume the risk of any fluctuation in the raw material costs only to the extent when we are unable to negotiate successfully to pass on the increase in raw material costs to our customers in the event of any substantial increase in market price of raw materials after we have accepted the orders from our customers. However, under the arrangement implemented by Customer A for purchase of resin used in manufacturing products for Customer A, the prices of resin are negotiated and agreed upon by Customer A directly with the suppliers. In case of any substantial increase in the market price of resin after we accepted the orders from Customer A,

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historically we had successfully negotiated with Customer A to bear the cost of part of the increase in the market price of resin by issuing credit notes to us. Our Group's purchases of raw materials were generally settled on an open account basis with a credit term of 30 days.

We consider that controlling the level of inventory is important to overall profitability. In order to effectively control our inventory levels, we generally plan the purchase of raw materials after the receipt and confirmation of customers' orders, except for resin which will be purchased in bulk procurement. To ensure a stable supply of raw materials, we adopt a general policy of purchasing raw materials from multiple sources wherever possible. During the Track Record Period, we have not experienced any shortage of raw materials.

In order to avoid accumulation of inventories in our warehouses, as mentioned above, in general, our Group purchases raw material based on customers' purchase orders, with the exception of resin which we may purchase based on customers' sales forecast and the prevailing resin commodity price, and our Group also maintains an inventory management policy whereby we perform full stock take twice a year and ensure the accuracy and correctness of stock-in and stock-out information on record.

Suppliers

We sourced our raw materials from suppliers located in PRC, Taiwan and Hong Kong. We select our suppliers according to criteria such as pricing, quality, reliability and lead time. For the products of our two major customers, namely Customer A and LeapFrog, we may place procurement orders from their certified list of suppliers (including Customer A) in respect of certain types of raw materials. For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, our purchase of raw materials from Customer A, the designated suppliers and recommended certified suppliers of these two major customers in aggregate amounted to HK\$71,802,000, HK\$70,064,000, HK\$95,560,000, HK\$35,860,000 and HK\$31,671,000, representing approximately 15.6%, 16.9%, 20.0%, 16.9% and 17.9%, respectively, of our total cost of purchase of raw materials. There is no tax effect on our Group under this arrangement.

We purchase the raw materials used in manufacturing the products for Customer A through either one of the following methods: (i) directly from Customer A in an arrangement (the "Arrangement") implemented by Customer A in which Customer A is involved in the sale and purchase of raw materials; (ii) from designated suppliers of Customer A participated in the Arrangement; (iii) from recommended certified suppliers of Customer A participated in the Arrangement; and (iv) from other suppliers selected by our Group. The main objectives for Customer A to implement the Arrangement are to leverage purchasing volume so as to increase cost competitiveness and to secure stable supply of raw materials.

Except for a few types of raw materials purchased from some designated suppliers of Customer A (i.e. type 2 of the above purchase method) involving specific requirements from Customer A such as fabric with specific designs required by Customer A, which need to be sourced from some of the designated suppliers of Customer A, we have the discretion in choosing any one of the above type 1, type 3 and type 4 of purchase methods when we select our suppliers for all the raw materials used in manufacturing the products of Customer A. In selecting the suppliers, we will obtain quotations from various suppliers (including Customer A and its recommended certified suppliers in some cases) and make the final decision based on various factors including pricing, quality, reliability and lead time. Based on the forecast provided by Customer A for the usage of raw materials, we will place procurement orders with our suppliers (including suppliers designated or certified by Customer A or

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with Customer A directly to purchase specific types of raw materials including resin, fabric and printed materials). In case the procurement orders are placed with the designated or recommended certified suppliers, we will inform Customer A of the details of our purchases. The suppliers will deliver raw materials to us according to our specifications and requirements. Afterwards, the suppliers will submit details of our purchases to Customer A on a monthly basis for Customer A's validation. In case the procurement orders are placed with Customer A directly, Customer A will purchase the raw materials through its own suppliers and then arrange delivery of the raw materials to us.

In case our Group directly places procurement orders with Customer A or with certain suppliers designated or certified by Customer A under the Arrangement, our Group bears all the material costs. Under the Arrangement, the purchase costs are settled by way of Customer A first making settlement for the procurement orders directly and the amounts settled by Customer A will then be set off against the payment for the products we manufactured and sold to Customer A. According to Hong Kong Accounting Standard 18 — Revenue, the Group has exposure to the significant risks and rewards associated with the sales of goods and the purchase of raw materials. Therefore, the transactions with Customer A are accounted for as trading income of which the sales to Customer A were booked as revenue in gross basis and the related cost of sales were recognised in the consolidated income statement of our Group. The raw materials purchased pursuant to the Arrangement were recognised as inventory in the consolidated statement of financial position during the Track Record Period. Please refer to the paragraphs headed “Accounting treatment of our transactions with Customer A” in this section for further details.

For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, Customer A constituted one of our five largest suppliers and our purchase of raw materials from Customer A amounted to approximately HK\$22,418,000, HK\$28,102,000, HK\$37,981,000, HK\$14,901,000 and HK\$6,269,000, representing about 5%, 7%, 8%, 7% and 4% respectively of our total purchases. Those suppliers who require us to make the payment directly to them will normally provide us with a credit period of 30 days, while the credit period given by us to Customer A under the Arrangement is generally 45 days. The extended credit term is generally covered by the factoring services provided by our banks to us.

The following table sets out a breakdown of all the raw materials purchased by us during the Track Record Period in manufacturing the products for Customer A and their approximate percentage of our total purchase of raw materials used in manufacturing the products for Customer A during the Track Record Period: (i) directly from Customer A under the Arrangement; (ii) from designated suppliers of Customer A participated in the Arrangement; (iii) from recommended certified suppliers of Customer A participated in the Arrangement; and (iv) from other suppliers selected by our Group. For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, there were 3, 3, 3, 3 and 3 designated suppliers of Customer A and 17, 16, 14, 13 and 20 recommended certified suppliers of Customer A for the supply of raw materials to us in manufacturing the products of Customer A respectively.

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	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
(i) Directly from Customer A	22,418	8.4	28,102	12.7	37,981	16.6	14,901	15.9	6,269	7.1
(ii) From designated suppliers of Customer A participated in the Arrangement	10,642	4.0	8,967	4.0	12,950	5.6	5,209	5.5	4,472	5.1
(iii) From recommended certified suppliers of Customer A participated in the Arrangement	25,516	9.6	18,629	8.4	34,585	15.1	10,860	11.6	15,025	17.0
(iv) From other suppliers selected by our Group	<u>207,534</u>	<u>78.0</u>	<u>166,187</u>	<u>74.9</u>	<u>143,860</u>	<u>62.7</u>	<u>62,892</u>	<u>67.0</u>	<u>62,353</u>	<u>70.8</u>
Total purchase of raw materials used in manufacturing the products for Customer A	<u>266,110</u>	<u>100.0</u>	<u>221,885</u>	<u>100.0</u>	<u>229,376</u>	<u>100.0</u>	<u>93,862</u>	<u>100.0</u>	<u>88,119</u>	<u>100.0</u>

Selection of suppliers

When we source our raw materials for manufacturing the products for Customer A, we have the discretion to source raw materials from different suppliers selected by us, except for few types of raw materials such as fabric with specific designs required by Customer A which need to be procured from some designated suppliers of Customer A. There is no stipulation in the master agreement between Customer A and us which imposes any obligation on us to purchase raw materials from or through Customer A or its recommended certified suppliers, except for few types of raw materials such as fabric with specific designs required by Customer A which need to be procured from some designated suppliers of Customer A. There is also no stipulation in any master agreement between other customers and us which imposes any obligation on us to purchase raw materials from or through those customers, except for the integrated circuit chips involving specific requirements of LeapFrog as mentioned below which need to be purchased from a designated supplier of LeapFrog. Under the Arrangement, it is provided that we can give recommendations for better alternative sources and cost-efficient raw materials, and there is no stipulation in the Arrangement which prohibits our Group from purchasing raw materials from other suppliers selected by us.

In determining whether our Group will purchase raw materials directly from Customer A or from the recommended certified suppliers of Customer A under the Arrangement, or from other suppliers selected by us, we will take into account principal factors such as pricing, quality, reliability and availability of the supplies. For the purchase from suppliers selected by us, we will take into account the track record of those suppliers in supplying raw materials to us for manufacturing the products for Customer A. In making a decision on whether to purchase raw materials directly from Customer A or from the recommended certified suppliers of Customer A under the Arrangement, we have to assess the price quotations for the raw materials provided by Customer A under the Arrangement.

For type 1 of the purchase method mentioned above (i.e. purchase of raw materials directly from Customer A under the Arrangement), such raw materials relate to resin only. For this kind of raw materials, we have the discretion to make our own final purchase decision after comparing the price quotations offered by Customer A and other suppliers selected by us, and assessing the quality of raw materials offered by other suppliers selected by us.

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For type 2 of the purchase method mentioned above (i.e. purchase from designated suppliers of Customer A participated in the Arrangement), such raw materials involve specific requirements from Customer A such as fabric with specific designs required by Customer A, which need to be sourced from the designated suppliers of Customer A.

For type 3 of the purchase method mentioned above (i.e. purchase from recommended certified suppliers of Customer A participated in the Arrangement), such raw materials mainly include fabric, electronic components and printed materials. For these types of raw materials, we also have the discretion to make our own decision to either purchase from suppliers which are not involved in the Arrangement or from recommended certified suppliers of Customer A after taking into consideration the price, quality and availability compared with other suppliers not involved in the Arrangement. In respect of this type 3 purchase method (i.e. purchase from recommended certified suppliers of Customer A under the Arrangement), Customer A will provide the price quotations of the raw materials to us. We will then obtain price quotations from other suppliers in the market selected by us and compare these price quotations to make the decision on which suppliers to be selected for our purchase.

Type 4 of the purchase method (i.e. purchase from suppliers selected by our Group) relates to purchases of raw materials from suppliers which are neither Customer A nor the designated or recommended certified suppliers of Customer A and which are selected by us. The raw materials purchased under the above type 4 purchase method for each of the three years ended 31 March 2010, 2011 and 2012 amounted to approximately HK\$207,534,000, HK\$166,187,000 and HK\$143,860,000 respectively, representing approximately 78.0%, 74.9% and 62.7% of the total purchase of raw materials used in manufacturing the products for Customer A respectively.

Some of the raw materials purchased under type 4 purchase method were also available from Customer A and/or its recommended certified suppliers under the Arrangement. However, after comparing the quotations, we had made the final purchase decisions not to purchase those raw materials under the Arrangement but from other suppliers selected by us (which were classified under type 4 of the purchase method). Such purchases for each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2012 amounted to approximately HK\$13,107,000, HK\$49,782,000, HK\$25,125,000 and HK\$10,335,000 respectively, representing approximately 4.9%, 22.4%, 11.0% and 11.7% of the total purchase of raw materials used in manufacturing the products for Customer A respectively.

Payment mechanism

In respect of the raw materials purchased by our Group for manufacturing the products for Customer A under the Arrangement, the prices of raw materials offered to our Group by the designated and recommended certified suppliers were negotiated by Customer A and the purchase costs for such raw materials were first settled directly by Customer A and subsequently charged to our Group by way of set-off against the payment for the products we manufactured and sold to Customer A. As advised by our Company's legal adviser as to Hong Kong laws, although the purchase costs are settled by way of Customer A first making settlement for the procurement orders directly under the Arrangement, the legal ownership of the raw materials purchased by us under the Arrangement will be transferred to us upon delivery of the raw materials to us, and Customer A would not have the right to claim ownership to the raw materials. For other raw materials used in manufacturing the products for Customer A not under the Arrangement, i.e. raw materials through purchase from other suppliers selected by us, no consent from

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or notice to Customer A is required before we place procurement orders with these suppliers and Customer A was not involved in the negotiation of prices of those raw materials supplied to our Group as our Group negotiated the prices of raw materials directly with those suppliers. As indicated in the table above, the cost of raw materials supplied to our Group under the Arrangement accounted for not more than 40% of the total purchases of raw materials used in manufacturing the products for Customer A during the Track Record Period. In general, our pricing strategies to all our customers (including Customer A) are based on a cost-plus model, which principally takes into account material cost, labour cost, manufacturing overhead and a mark-up.

During the Track Record Period, we had experienced an increase in the portions of raw materials purchased from Customer A and from the designated suppliers and the recommended certified suppliers of Customer A under the Arrangement. The main reasons for such an increase are due to the fact that the prices of raw materials offered under the Arrangement were lower than those offered from other suppliers not involved in the Arrangement and in some cases, there was an increase in use of certain types of raw materials involving fabric with specific designs required by Customer A, of which there were no alternative sources of supplies. Please refer to the breakdown of all the raw materials purchased by us during the Track Record Period in manufacturing the products for Customer A as shown in the above table for further details.

In respect of the raw materials used in manufacturing the products for LeapFrog, we source such raw materials from suppliers selected by us, except integrated circuit chips which are purchased from a supplier designated by LeapFrog. We are required to purchase integrated circuit chips from the designated supplier of LeapFrog because such integrated circuit chips involved specific requirements of LeapFrog and there are no alternative suppliers in the market. During the Track Record Period, there was only one designated supplier of LeapFrog for the supply of raw materials (namely, integrated circuit chips) to us in manufacturing the products of LeapFrog. For all the raw materials (including the raw materials supplied to us by the designated supplier of LeapFrog) used in manufacturing the products for LeapFrog, LeapFrog was not involved in the negotiation of prices of the raw materials as our Group negotiated the prices of raw materials directly with those suppliers. LeapFrog was also not involved in the payment of raw materials supplied to us by its designated supplier, as our Group was responsible for payment of raw materials to the designated supplier directly. The following table sets out a breakdown of all the raw materials purchased by us during the Track Record Period in manufacturing the products for LeapFrog, and their approximate percentage of our total purchase of raw materials used in manufacturing the products for LeapFrog during the Track Record Period: (i) from the designated supplier of LeapFrog in respect of the purchase of integrated circuit chips; and (ii) from suppliers selected by us in respect of all other raw materials:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
From the designated supplier	13,226	20.5	14,366	23.4	10,044	17.5	4,890	17.1	5,905	18.7
From suppliers selected by us	51,266	79.5	47,069	76.6	47,272	82.5	23,658	82.9	25,719	81.3
Total purchase of raw materials used in manufacturing the products for LeapFrog	64,492	100.0	61,435	100.0	57,316	100.0	28,548	100.0	31,624	100.0

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The following table sets out a breakdown of all the raw materials purchased by us during the Track Record Period in manufacturing the products for Customer A and LeapFrog and their approximate percentage in terms of the total purchase of all the raw materials of our Group during the Track Record Period relating to purchases: (i) directly from Customer A under the Arrangement; (ii) from designated suppliers of Customer A participated in the Arrangement and from the designated supplier of LeapFrog; (iii) from recommended certified suppliers of Customer A participated in the Arrangement; and (iv) from other suppliers selected by our Group for manufacturing the products of Customer A and LeapFrog.

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	HK\$'000	%(<i>Note</i>)	HK\$'000	%(<i>Note</i>)	HK\$'000	%(<i>Note</i>)	HK\$'000	%(<i>Note</i>)	HK\$'000	%(<i>Note</i>)
(i) Directly from Customer A	22,418	4.9	28,102	6.8	37,981	7.9	14,901	7.0	6,269	3.5
(ii) From designated suppliers of Customer A participated in the Arrangement and from the designated supplier of LeapFrog	23,868	5.2	23,333	5.6	22,994	4.8	10,099	4.7	10,377	5.9
(iii) From recommended certified suppliers of Customer A participated in the Arrangement	25,516	5.5	18,629	4.5	34,585	7.2	10,860	5.1	15,025	8.5
(iv) From other suppliers selected by our Group for Customer A and LeapFrog	258,800	56.1	213,256	51.5	191,132	39.9	86,550	40.7	88,072	49.8
Total purchase of all raw materials by our Group	460,995		414,467		478,694		212,723		176,732	

Note: Represents the purchase amounts in each category as a percentage of the total purchase of all raw materials by our Group.

For some domestic suppliers with long and trusted relationship with the Processing Factory, the Processing Factory received raw materials and paid on our Group's behalf. Our Group would pay back the corresponding amounts to the Processing Factory (at the same price as the Processing Factory ordered from the suppliers). As our Group continued to develop a more trusted relationship with the suppliers, there was an obvious decreasing trend in the above arrangement during the Track Record Period. The credit terms provided by the relevant suppliers and the Processing Factory were 30 days. Please refer to the paragraph headed "Liquidity, financial resources and capital structure — Receipts in advance from customers, accruals and other payables analysis" in the section headed "Financial Information" of this prospectus for further details of the above arrangement. As advised by our PRC Legal Adviser, our Group is not liable under the relevant PRC laws and regulations to pay any enterprise income tax in respect of the above arrangement.

For each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012, the single largest supplier of our Group accounted for approximately 7%, 10%, 8%, 7% and 6% respectively of our total purchases, and the five largest suppliers of our Group together accounted for approximately 21%, 30%, 22%, 21% and 20%, respectively, of our total purchases. Our business relationship with our top five suppliers ranges from 4 to 13 years. We have maintained good relationship with our suppliers and have not experienced any difficulties in obtaining supplies of raw materials.

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Our Directors have confirmed that as at the Latest Practicable Date, none of our Directors and their respective associates or, so far as our Directors are aware, any Shareholders who own 5% or more of the issued Shares immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be taken up under the Global Offering) had any interests in any of the top five suppliers during the Track Record Period.

Accounting treatment of our transactions with Customer A

The transactions between our Group and Customer A are accounted for as trading income (i.e. record the gross sales amount and the related cost of sales and recognise the inventory in the balance sheet), rather than as subcontracting arrangement (i.e. record the net sales amount (subcontracting income) and not to recognise the inventory in the balance sheet).

According to Hong Kong Accounting Standard 18 (“HKAS 18”) — Revenue — paragraph 21 of the Appendix, it states that an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sales of goods.

As concurred by our Group’s reporting accountants, BDO Limited, the transactions between our Group and Customer A have the following features which indicate that the transactions should be accounted for as trading income rather than as subcontracting arrangement:

(1) Our Group is the primary obligor in the arrangement

The fact that our Group is responsible for manufacturing the products desired by Customer A is a strong indicator of our Group’s role in the transactions. Our Group is responsible for fulfillment, including the acceptability of the products ordered by Customer A. If there are defects of goods which are returned by Customer A, it is the responsibility of our Group to bear the repairing costs.

(2) Inventory Risk — our Group bears inventory risk

In general, our Group will make procurement of raw materials after receipt of Customer A’s purchase orders, with the exception of resin which we may purchase before receiving Customer A’s orders. Normally, for each product, it requires a combination of different raw materials (such as resin, fabric, electronic components and printed materials). There are four types of purchase methods for Customer A’s products as described above in the paragraphs headed “Procurement of raw materials and supplies — Suppliers”. For type 4 of purchase method, our Group will purchase from other suppliers not involved in the Arrangement and negotiate the purchase price and conclude the purchase order with the suppliers directly, and Customer A is not involved in this type of purchase method. The risks and rewards of the raw materials will be transferred to our Group upon delivery and our Group will acquire the ownership of the raw materials. For each of the three years ended 31 March 2010, 2011 and 2012, the raw materials purchased by our Group in manufacturing the products for Customer A through this type of arrangement amounted to approximately HK\$207,534,000, HK\$166,187,000 and HK\$143,860,000 respectively, representing approximately 78.0%, 74.9% and 62.7% respectively of our Group’s total purchase of the raw material used in manufacturing the products for Customer A.

For type 1, type 2 and type 3 of the purchase methods, Customer A is involved in the sale and purchase of raw materials. In respect of type 1 of purchase method, i.e., the raw materials are purchased directly from Customer A under the Arrangement, such raw materials relate to resin only. In this type of

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purchase method, the prices of resin are negotiated and decided by Customer A directly with the suppliers. Customer A will then make a quotation to our Group. If our Group agrees with the quotation, Customer A will purchase the raw materials through its own suppliers and then arrange delivery of the raw materials directly from the suppliers to our Group. Under this type 1 of the purchase method, our Group will issue purchase order to Customer A directly.

For type 2 and type 3 of the purchase methods, i.e., purchase from designated suppliers and recommended certified suppliers of Customer A participated in the Arrangement, such raw materials mainly include fabric, electronic components and printed materials. Same as type 1 of the purchase method, Customer A will negotiate the prices with its designated suppliers and recommended certified suppliers and make a quotation to our Group. Once the quotation is agreed by our Group, the purchase orders will be placed to the designated suppliers and recommended certified suppliers by our Group directly.

Under type 1, type 2 and type 3 of the purchase methods, Customer A will make settlement with the suppliers and then off set against the amount payable to our Group for the products that our Group manufactured and sold to Customer A.

Although the price negotiation with the suppliers was handled by Customer A under type 1, type 3 of the purchase method, our Directors consider that we were involved in and had control of the purchase process as we have discretion in selecting our suppliers for all the raw materials used in manufacturing the products of Customer A, except in respect of type 2 of the purchase method for a few types of raw materials involving specific requirements by Customer A such as fabric with specific designs required by Customer A where there are no alternative suppliers in the market. We would compare the quotations and make our final purchase decision.

In respect of the purchase orders with Customer A and the designated suppliers and recommended certified suppliers of Customer A under the Arrangement, the ownership and risks and rewards of inventories will be transferred to our Group upon delivery.

For all the raw materials purchased under all the above four types of purchase methods, we bear the risks associated with the purchased raw materials regardless of the price negotiation process and payment methods. We need to pay the insurance for our inventories (including all raw materials, work-in-progress materials and finished goods) and bear the losses in case there are any accidents which may damage these types of inventory. We also need to bear the cost for the inventories management such as warehouse rentals, inventory delivery costs and the cost for the obsolete and damaged inventory items.

(3) Flexibility in establishing pricing

According to paragraph 21 of Appendix to HKAS 18, the last sentence states that “one feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer”. As considered by our Directors, this feature does not apply to the transactions with Customer A as our Group has the ability to set the selling prices of products sold to Customer A.

Normally, our Group’s pricing strategy to Customer A is based on a cost-plus model, which principally takes into account material costs, labour cost, manufacturing overheads and a mark-up, and our Group has the ability to set our target mark-up and offer the pricing to Customer A for negotiation.

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The Group had been able to maintain a mark-up with Customer A which was similar to the mark-up charged to its other major customers, therefore, the mark-up percentage is not predetermined by Customer A. Our Directors consider that our Group's limits on bargaining power with Customer A are not materially more than those commonly faced by other OEM manufacturers in their dealings with major customers.

(4) Credit Risk — our Group bears the customer's credit risk for the amount receivable from the customer

Sales to Customer A are recorded as trade receivables from Customer A. Our Group is subject to credit risk if Customer A defaults in payments or if Customer A cancels purchase orders to our Group after our Group has purchased the raw materials, irrespective of whether the purchases are made under type 1, type 2, type 3 or type 4 of the above purchase methods. Although we may claim against Customer A for any breach of contract in case Customer A wrongfully cancels the purchase orders, we are still subject to the credit risk if Customer A is unable to settle the amount.

The above features indicate our Group has exposure to credit risk associated with the sale of goods.

After applying the above indicators, our Group's reporting accountants concurred with the view of our Directors that revenue from sales of goods to Customer A should be reported based on the gross amount charged to Customer A. Indicators of gross reporting are (a) our Group is the primary obligor to Customer A, a strong indicator, as our Group is responsible for fulfillment and customer remedies in the event of dissatisfaction with the products sold to Customer A; (b) our Group has general inventory risk as a result of taking title and maintaining inventory; (c) our Group has complete latitude to set the prices for the products; and (d) our Group has credit risk for financing amounts billed to Customer A as accounts receivable. Our Group has, except for type 2 of the purchase method, discretion in supplier selection for purchasing raw materials used in the manufacturing of the products sold to Customer A although Customer A has an involvement in the purchase of raw materials under type 1, type 2 and type 3 of the above purchase methods.

QUALITY CONTROL

We believe that our commitment to the high quality and safety of our products is one of the principal factors contributing to our success. We place strong emphasis on product quality and safety by implementing a comprehensive quality control system in order to maintain our competitive edge.

Our quality assurance engineers are involved in the early stages of product development such that safety and reliability concerns are taken care of in the product design stage. This aims to prevent the occurrence of non-compliance during the later stages of product development and production-run. All products are tested to comply with customer requirements before they are put into production.

We manufacture finished products according to customers' requirements and specifications. In general, our customers will set out the requirements and specifications which include the standards and requirements in the markets where they will sell the products. We are also aware of the industry standards in North America and Western Europe. Accordingly, we also arrange for our finished products to be tested by internal laboratory and third party laboratories in the product validation stage according to the relevant US/European standards. The tests conducted on our finished products consist of physical

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tests and chemical tests. Physical tests conducted on our products include tensile, pressure, bite, strength, drop, impact and flammability tests and chemical tests include heavy metal tests such as the testing of lead content and organic (phthalates) tests but do not cover tests on nitrosamines and nitrosable substances. We are not required to conduct tests on nitrosamines and nitrosable substances in our products according to our customers' specifications. Our Directors are aware that nitrosamines and nitrosable substances are usually contained in products made of synthetic elastomer or natural rubber, which are not materials used in our production. Due to constant tests we conducted on our products in order to fulfill our customers' requirements and specifications, we incurred significant amount of costs for quality and safety control during the Track Record Period. For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, the amounts of costs incurred by our Group for quality and safety control amounted to approximately HK\$21.5 million, HK\$13.5 million, HK\$15.0 million, HK\$5.5 million and HK\$5.6 million, respectively. Following the building up of our internal laboratory facilities which enable us to conduct some of the testing works internally instead of engaging third party laboratories, our expenses for quality and safety control were substantially decreased in the year ended 31 March 2011. For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, the total quality and safety control costs incurred by our Group internally amounted to approximately HK\$10.4 million, HK\$12.4 million, HK\$13.6 million, HK\$5.1 million and HK\$5.5 million, respectively, while the costs incurred by our Group for conducting tests by third party laboratories amounted to approximately HK\$11.1 million, HK\$1.1 million, HK\$1.4 million, HK\$0.4 million and HK\$0.1 million, respectively.

As at the Latest Practicable Date, we have a quality control team of approximately 33 staff whereas the Processing Factory has a quality control team of approximately 55 staff. Our staff in the quality department have received relevant trainings and some of them are college or university graduates. Our quality department is managed by Mr. Kong Tat Chung Edmond ("Mr. Kong"), who has over 20 years of experience in toy industry, especially in quality assurance and testing laboratory and quality control. Mr. Kong has been working in our Group for over 8 years. Mr. Kong holds a Diploma in Industrial Management issued by Hong Kong Productivity Council and Institute of Industrial Engineers (Hong Kong). He also completed a course on quality management in the laboratory conducted in Hong Kong by The National Association of Testing Authorities, Australia in 1994 and a course on supervisory management organised by Hong Kong Institute of Personnel Management in 1994. Mr. Kwong Ka Wing, our general manager of engineering & quality, is responsible for overseeing our product engineering development and the quality assurance of our products. Please refer to the section headed "Directors, Senior Management and Employees" in this prospectus for the experience and credentials of Mr. Kwong. Mr. Kwong and Mr. Kong are both responsible for ensure our products' compliance with our customers' requirements and specifications, including the applicable US/European standards as specified by our customers.

As our Group has not experienced any material product liability or product recalls or other legal claims involving problems relating to the quality of our products and the number of staff in the quality department remained stable during the Track Record Period, both our Directors and the Sole Sponsor are of the view that the current staff level of our Group is sufficient for quality and safety assurance purpose. We currently do not have any planning of expanding the quality control team based on the current production capacity.

We have compiled quality control instruction manuals and have implemented such manuals at various production stages in any effort to maintain our quality control standard. Comprehensive testing, inspection and process control are implemented at different stages of production, including:

Quality control of incoming raw materials

We conduct sample testing on the incoming raw materials to ensure that their quality and measurement meet the prescribed quality standards of our Group and conform to our customers' requirements. Raw materials supplied by suppliers are required to go through an incoming material quality control procedure ("IQC") before acceptance. If the incoming materials pass the IQC, the materials are received. If the incoming materials fail in the IQC and we detect any substandard or defective raw materials, we will return the substandard and defective raw materials to the relevant suppliers for repair or replacement in order to ensure that the raw materials supplied by them comply with the quality requirement in the IQC.

Quality control in the production process

During production, to ensure that the products comply with the specifications and are free from defects, we carry out inspections at each stage of the production process. Quality control staff are stationed at each stage of the production process to screen out products which are defective and to ensure that the quality of the products satisfy customers' designs and specifications as well as our stringent quality standards.

Quality control of the finished products

Upon completion of the production process, the finished products will be transferred to an independent section for random testing and inspection to ensure that our products meet the specifications set out by our customers before delivery to our customers. Unsatisfactory products will be reprocessed or disposed of.

Finally, the finished products produced by our Haoda Factory are subject to the quality inspection by our customers. If defects are detected in the finished products by the customers, the finished products by the Haoda Factory will be reprocessed by the Haoda Factory to ensure that the products can pass the quality inspection.

Quality certifications and recognition

Since we focus on manufacturing toy products for infants aged 3 or below, we are required to follow very stringent product safety standards set by our customers. To assure manufacturing processes are performed to the highest quality standards, we have obtained ISO9001:2008 certification since May 2007 and the certificate is valid from February 2010. Other certifications obtained by us include Export Toys Quality Permit (Registration) (出口玩具質量許可(註冊登記)證書). We are also obliged to comply with the relevant local and international industry quality and safety standards and regulatory requirements, including safety requirement for toys European Standard EN71, Standard Consumer Safety Specification for Toy Safety, Consumer Products Safety Improvement Act.

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Under the supply contracts entered into with our customers, our customers would be eligible to take legal action against our Group for any failure to comply with the product specifications or defective quality in our products.

Since certain manufacturing steps of our Group are outsourced to the Processing Factory and the subcontractors, we may bear the ultimate responsibility for any product defects attributable to the fault of the Processing Factory and the subcontractors. We have not maintained any insurance coverage for any product defects liability due to the fault of the Processing Factory and the subcontractors, as we have put in place measures on quality control in the Processing Factory and the subcontractors to ensure the quality of our products. During the Track Record Period, there was no material liabilities claim on us due to product defects and we did not have any material dispute with the Processing Factory and the subcontractors. Please refer to the paragraph headed “Quality control in the Processing Factory and the subcontractors” in this section of the prospectus for the details of the measures put in place by us on the quality control in Processing Factory and the subcontractors.

As advised by our legal advisers as to the laws of the United States and European Union, both the United States and the European Union Directives do not mandate that manufacturers, distributors or retailers purchase product liability insurance.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material product liability or product recalls or other legal claims involving problems relating to the quality of our products.

For one of our major customers who had experienced a product recall of its own products (which did not involve the products manufactured by us), the customer heightened its quality standard and our Group was required to perform extra tests on the heavy elements (mainly on total lead content) in the toys manufactured for such customer after the product recall. Our Group had also implemented heavy element testing procedures to test the chemical content of the surface coating and metal contents of the toys to ensure the quality of our products.

We have also obtained approvals from some of our customers certifying our Group and the Processing Factory as an approved supplier. There are three major customers, namely Customer A, Tollytots and LeapFrog, who have certified our Group as their approved supplier, while the Processing Factory is an approved supplier of Customer A. The subcontractors of the Processing Factory are not required to obtain any certification as approved supplier from our customers. Generally, to be approved by the customers as a qualified supplier, our production facilities and the Processing Factory need to be inspected by the customers before placing orders, and the supplier’s code of conduct as stipulated by our customers should also be complied with. After obtaining the approved supplier status, our production facilities are also subject to the customers’ periodic inspection. The criteria to be a qualified supplier generally include the examination of the production, safety and quality assurance standards of the manufacturing factory. Once the customer starts to place orders with us, we are considered to be a qualified supplier. We have never failed to comply with the requirements as required by our customers resulting in the termination by our customers of the supply contracts entered into between our Group and our customers and have been remaining as the qualified supplier to our customers in the past years of supply. Taking a literal interpretation, the non-compliance incidents of our Group as disclosed in the paragraphs headed “Legal proceedings and non-compliance” in this section headed “Business” have constituted breaches of the general requirements under two supply contracts: (1) one entered into

between our Group and Customer A which requires our Group to operate our facilities in compliance with applicable laws and regulations; and (2) another entered into between our Group and one of our other customers which requires our Group to comply with all applicable laws and regulations in the jurisdiction where our products are manufactured. Notwithstanding that, during the Track Record Period, we have passed the audit inspections of these two customers and we are still maintaining business relationships with each of these two customers.

Our Directors believe that our commitment to high quality and reliability helps strengthen the recognition and trust among our customers which subsequently translate to increased orders with our Group.

In accordance with the industry practice, we, as an OEM manufacturer, are generally not required to take out product insurance coverage on our products. As advised by our legal advisers as to the laws of the United States and European Union, both the United States and the European Union Directives do not mandate that manufacturers, distributors or retailers purchase product liability insurance. During the Track Record Period and up to the Latest Practicable Date, we have been required by one of our customers to purchase product liability insurance for our products. As at the Latest Practicable Date, the product liability insurance policy obtained and maintained by our Group amounted to a maximum coverage of US\$1 million per occurrence in accordance with the requirement of the customer concerned.

During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material incident of product recall or return by our customers or any material incident of unsatisfactory products produced by our Group, the Processing Factory or the subcontractors of the Processing Factory.

Quality control in the Processing Factory and the subcontractors

We have put in place measures to control the quality of the products manufactured by the Processing Factory and the subcontractors. For the Processing Factory, we send our quality control staff to the site of the Processing Factory to perform daily inspection on the production process and conduct sample random check on the products to ensure that the quality of the products meet our customers' specifications and our quality standards. For the subcontractors, the Processing Factory periodically sends its quality control staff to the sites of the subcontractors to perform inspection on the production process. The Processing Factory also conducts audit on the subcontractors to ensure the quality of the products produced by the subcontractors. If a subcontractor passes the audit, the Processing Factory will renew the subcontractor's status and continue to place orders with such subcontractor. If the subcontractor fails in the audit exercise, the Processing Factory will terminate such subcontractor and stop placing orders with that subcontractor. The Processing Factory is also required to submit to us the audits on the subcontractors for our review. During the Track Record Period, our Group reviewed the audit results performed by the Processing Factory on the subcontractors in detail and acknowledged the audit results given by the Processing Factory that no subcontractor has failed in the audit.

In addition to the procedures performed by the Processing Factory, all subcontractors' products supplied to the Processing Factory are under quality control in the production process of the Processing Factory. The quality control on the production of the Processing Factory in effect controls the subcontractors' product quality. Works in progress of individual processes by the Processing Factory and the subcontractors are required to go through the quality control procedures. The quality control procedures consist of in-process control and inspection. The in-process control checks the quality of the

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work, which is performed by the on-site quality control staff. Inspection checks the final outcome (which is still the works in progress) of an individual process. If defects are detected in the works in progress, the works in progress produced by the Processing Factory or the subcontractors will be reprocessed by the Processing Factory or the relevant subcontractors to ensure the products can pass the quality inspection. Defects in the works in progress will be detected and rejected and works in progress with no defects will be passed to the next production process.

Finished products produced by the Processing Factory are checked by the Processing Factory. The finished products produced by the Processing Factory then undergo an internal inspection by our Group where we conduct sample random check for quality control. If defects are detected in the finished products, the finished products by the Processing Factory are reprocessed by the Processing Factory to ensure that its products can pass our quality inspection. Finally, the finished products produced by the Processing Factory are subject to the quality inspection by our customers. If defects are detected in the finished products by the customers, the finished products by the Processing Factory will be reprocessed by the Processing Factory to ensure that its products can pass the quality inspection.

INVENTORY CONTROL AND WAREHOUSING

We consider that controlling the level of inventory is important to overall profitability. In order to effectively control our inventory levels, we generally plan the purchase of raw materials after the receipt and confirmation of customers' orders, except for resin which will be purchased in bulk procurement. To ensure a stable supply of raw materials, we adopt a general policy of purchasing raw materials from multiple sources wherever possible. During the Track Record Period, we have not experienced any shortage of raw materials.

We have implemented a computerised inventory control system to keep track of inventory levels of our raw materials. We also carry out physical stock counts from time to time to identify any residual raw materials or finished products after the completion of the respective customers' orders. If there are any excess branded finished products manufactured for a particular customer, we will negotiate with and procure such customer to purchase all such excess stock.

We store our raw materials and finished products separately in our Haoda Factory, Processing Factory and some warehouses leased by the Processing Factory from Independent Third Parties which are located nearby our production facilities.

Our inventory is maintained on a first-in-first-out basis. For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2012, our inventory amounted to approximately HK\$91,563,000, HK\$133,707,000, HK\$162,153,000 and HK\$199,743,000, respectively. The average inventory turnover days for the same period were approximately 37.9 days, 63.2 days, 69.5 days and 90.1 days respectively. We have not made any provisions for inventory obsolescence during the Track Record Period.

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SALES AND MARKETING

Our customers

During the Track Record Period, we had a customer base comprising more than 20 customers with headquarters located worldwide, including the United States, Spain, Germany and the United Kingdom. Our key customers are the procurement arms of the internationally well known toy brands, including Customer A, LeapFrog and Tollytots.

The following table sets out some of our key customers and their respective years of business relationships with our Group:

<u>Key customers</u>	<u>Basic background</u>	<u>Years of business relationship with our Group</u>
Customer A ^(Note 1)	It is an internationally renowned toy company based in the United States with a portfolio of brands. Its designs, manufactures and markets a broad variety of toy products worldwide through sales to retailers and wholesalers.	over 10
Tollytots Limited ^(Note 2)	Tollytots Limited is a subsidiary and the infant and pre-school toys division of JAKKS Pacific, Inc. JAKKS Pacific, Inc. is a company listed on the NASDAQ Global Select Market.	over 3
LeapFrog (H.K.) Limited ^(Note 3)	LeapFrog (H.K.) Limited is a group member of LeapFrog Enterprises, Inc. LeapFrog Enterprises, Inc. is a designer, developer and marketer of innovative, technology-based educational products for children. It is a company listed on the New York Stock Exchange.	over 7
CIDE ^(Note 3)	CIDE is the holding company of a group of companies engaged in the development and distribution of electronics learning and licensed products in the toy industry.	over 9

Notes:

1. Customer A is the single largest customer of our Group in terms of revenue for each of the three years ended 31 March 2012.
2. Tollytots Limited ranked within the top five customers of our Group in terms of revenue for each of the two years ended 31 March 2012.
3. LeapFrog (H.K.) Limited and CIDE ranked within the top five customers of our Group in terms of revenue for each of the three years ended 31 March 2012.

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Our sales to our top five customers for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to approximately HK\$740,674,000, HK\$643,558,000, HK\$763,263,000, HK\$230,483,000 and HK\$242,736,000, which accounted for approximately 92%, 88%, 87%, 86% and 87%, respectively, of our total turnover for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2011 and 2012, respectively. Our sales to our largest customer for each of the three years ended 31 March 2012 and the four months ended 31 July 2011 and 2012 amounted to approximately HK\$519,277,000, HK\$385,522,000, HK\$448,982,000, HK\$144,640,000 and HK\$144,296,000, which accounted for approximately 65%, 53%, 51%, 54% and 52% respectively, of our total turnover for each of the years ended 31 March 2010, 2011 and 2012, and the four months ended 31 July 2011 and 2012 respectively. The revenue with our largest customer could be measured reliably under Hong Kong Accounting Standards 18 as the sales quantity and selling price were determined by sales agreement between our Group and our largest customer. Revenue will be recognised on the transfer of risk and rewards of ownership to our largest customer.

Major terms in the sale agreements with our customers

We do not have long-term purchase commitments from our customers and our sales are made on the basis of individual purchase orders. While we have entered into manufacturing agreements or master agreements with some of our major customers (including Customer A), the terms of such agreements merely set out the basic terms and conditions for the transactions without any purchase commitments. Whilst our major customers provide estimates of purchase quantities to us at the beginning of each year, such estimates are non-binding in nature and separate binding purchase orders which set out prices of the relevant products and the quantities required will be made by such customers from time to time, subject to the terms and conditions set out in such manufacturing agreements or master agreements.

The salient features and terms of our current master agreement with Customer A are as follows:

- (a) The master agreement does not stipulate any minimum purchase obligations by Customer A.
- (b) Customer A will purchase the products manufactured by us on a non-exclusive basis pursuant to a purchase order issued by Customer A to us from time to time.
- (c) Customer A may, from time to time, require us to source components from third party suppliers specified by Customer A.
- (d) We will use tooling provided by Customer A to manufacture its products or will obtain Customer A's prior consent before manufacturing or procuring any third parties tooling.
- (e) All right, title and interest in and to all materials, samples and tooling for manufacturing Customer A's products and information provided by Customer A to us in connection with performing the services for Customer A are and will remain the sole and absolute personal and intellectual property of Customer A.
- (f) We will not, without Customer A's approval, make any disclosure of any confidential information in connection with performing the services for Customer A, including the technical data, know-how and designs, to any third party.
- (g) We will be held liable for any defects in the supply or manufacture of Customer A's products caused by us and our subcontractors including but not limited to the failure to manufacture Customer A's products in accordance with Customer A's specifications.

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- (h) The current master agreement is for a period of five years and will expire in 2016, unless terminated by either party without cause by providing 60 days' written notice or Customer A may terminate the master agreement immediately due to our breach of the terms of the master agreement.

In the event that we manufacture or procure third parties to manufacture any tooling for production of the products for Customer A, we will submit the tooling quotation to Customer A for approval. In case Customer A approves the tooling quotation, we will receive the purchase order for the tooling from Customer A, and a credit note of 50% deposit on the purchase order for the tooling will be received from Customer A. After the manufacture of the tooling, a debit note of the balance amount on the purchase order will be sent to Customer A for settlement of the remaining balance.

For our other major customers, we have similarly entered into master agreements with them, pursuant to which they will place purchase orders with us from time to time, subject to the terms and conditions of the respective master agreements. Our major customers do not purchase products exclusively from our Group. The salient features and terms commonly contained in such master agreements are as follows:

- (a) No binding purchase commitments are made in the master agreement. All purchases and services are initiated by the issuance of written purchase orders, subject to the terms and conditions of the relevant master agreement.
- (b) Unless otherwise approved by the customer concerned, we will purchase materials from such customer's approved vendor list.
- (c) We will manufacture the products in accordance with the customer's specifications and in accordance with the terms and conditions of the master agreement.
- (d) We will manufacture the products utilising the moulds and tools as provided or directed by the customer.
- (e) We will keep confidential any information disclosed by the customer in connection with the agreement, including the technology and know-how relating to the manufacture of the products.
- (f) The customer has the exclusive ownership of all right, title and interest in intellectual property rights relating to the products manufactured by us for the customer.
- (g) We will be held liable for any defects in the supply or manufacture of the customer's products caused by us and any failure to manufacture the products in accordance with the customer's specifications.
- (h) The customer will have the right to terminate the agreement if we fail to manufacture the products according to the specifications or otherwise materially breaches the agreement.

Both Customer A and our other major customers will notify us via emails in the event that our customers consider that our goods do not meet the product specifications. After receiving the request from customers for return of goods, we will check the details of the goods concerned against the product

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specifications and manufacturing date to determine whether the request can be accepted. We will discuss and negotiate with our customers on how to resolve the problem amicably. In case the goods concerned should be reworked or replaced, the rework or replacement will generally be done within 30 days after receiving the request from our customers.

We produce products primarily on an OEM basis according to the product specifications in the purchase orders provided by our customers, and in turn our customers will sell the products under their own brand names to their retailers or distributors mostly outside China in overseas markets such as North America and Europe. We do not directly sell the products to end-consumers in other jurisdictions. The risk in and title to the products is passed to the customers when the products pass the quality checking by the customers before shipment and are delivered on board for shipment to the customers' specified place of destination.

Our Directors, based on their industry expertise and knowledge (including publicly available information of certain listed companies engaging in business similar to our Group), understand that it is common industry practice for toy manufacturers in the PRC to rely on their top five customers for large percentage of revenue contribution and do not enter into long term contracts with binding purchase commitments. However, as we provide our customers with one-stop development services, including design, prototyping, mould making, product validation, multi-skilled manufacturing processes, general assembly and packaging, which require us to focus our resources on the major customers with whom we have long-term relationships, our Directors are of the view that it is in our best interest to continue to focus our resources on developing and serving customers which have long term business relationships with our Group, which has demonstrated higher stability in placing orders of significant contract size with our Group on an on-going basis, even in times of global economic volatility. At the same time, we will continue to expand our customer base through collaboration in product development and marketing, as well as through referral by our existing customers. The table below sets out the revenue contribution from our new customers acquired during the Track Record Period and up to 31 July 2012:

	Number of new customers	Revenues from new customers for the year ended 31 March			Revenues from new customers for the four months ended 31 July
		2010	2011	2012	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
New customers acquired during the year ended 31 March 2010	4	496	6,822	1,051	185
New customers acquired during the year ended 31 March 2011	6	N/A	37,152	129,403	27,345
New customers acquired during the year ended 31 March 2012	2	N/A	N/A	401	5,811
New customers acquired during the four months ended 31 July 2012	1	N/A	N/A	N/A	8,207
Total revenue contribution from new customers acquired during the Track Record Period and up to 31 July 2012		<u>496</u>	<u>43,974</u>	<u>130,855</u>	<u>41,548</u>

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For each of the three years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2012, the total number of our customers were 22, 28, 30 and 31 respectively. During the Track Record Period, one of our customers for the year ended 31 March 2010 ceased to place orders with our Group because of a change in such customer's business.

While we will use our best efforts to continue to secure orders from our existing major customers and will expand our customer base, we have long-standing relationships with our major customers and will strive to maintain such relationship after the Listing. In particular, our business relationship with our largest customer, Customer A, has lasted for more than 10 years. Our Directors, to their best knowledge, are not aware of any events or circumstances during the Track Record Period and as of the Latest Practicable Date which would lead to any failure by our Group to secure orders from these major customers, and in particular, Customer A. Our Directors have also confirmed that our major customers have continued to place orders with our Group since the end of the Track Record Period.

According to the Ipsos Report, the total export value of toys from China to the rest of the world amounted to US\$18.5 billion in 2011 and the market sales value of the global toy industry was about US\$85.5 billion in 2011 with North America, our Group's biggest market, accounting for approximately 29% of the market. The production of toys for age 3 or below in China grew at a CAGR of approximately 21.2% from 2007 to 2011 as compared with a CAGR of approximately 19.3% for total value of toy production in China during the same period. There are plenty of market opportunities available for us to further develop our customer base. Due to stable orders placed by our existing customers and to maintain a solid business relationship with our existing customers, we did not proactively approach other potential customers, some of which are sizable industry players. If we lose or fail to secure orders from our major customers, we will seek to obtain orders from our existing customers and new customers we successfully approached by allocating our plant capacities to servicing their orders. The above table further demonstrated the Group's ability to secure significant sales from new customers acquired during the Track Record Period. Our manufacturing facilities, employees' skills and production skills can be well transferred to serve other potential customers and satisfy their needs, especially in view of the wide spectrum of manufacturing services we offer encompassing design, prototyping, mould making, product validation, multi-skilled manufacturing processes, general assembly and packaging. Our Directors, based on their past experience, estimate that it would take up to approximately two weeks to prepare for serving the new customers' orders, such estimation has not taken into account of the time which may be required to complete the certification process of the new customers. The preparation work required for serving new customers during those two weeks usually includes fine-tuning quality procedures to suit the individual customer's requirements, coordinating with staff of new customers to ensure they are satisfied with the production setup, and setting up computer systems to facilitate and monitor the new production process.

During the Track Record Period and up to the Latest Practicable Date, there were no reversals of revenue with our customers as a result of cancellation of sales or sales orders.

Our Directors have confirmed that as at the Latest Practicable Date, none of our Directors or their respective associates or, so far as the Directors are aware, any Shareholders who own 5% or more of the issued Shares immediately following the completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be taken up under the Global Offering) has any interests in

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any of the top five customers of the Group during the Track Record Period, save as disclosed below in relation to CIDE, which is one of our top five customers in terms of revenue for each of the three years ended 31 March 2012.

In December 2010, Qualiman Technology, an indirect wholly-owned subsidiary of our Company, acquired approximately 19.44% interest in CIDE with a view to gaining capital return for its investment. Immediately after the said acquisition and until an allotment and issue of new shares of CIDE on 7 March 2012; the four holders holding in aggregate the remaining 80.56% interest in CIDE were all Independent Third Parties, of which three of the shareholders were individuals (including one of them being the chief executive officer of CIDE and another being the chief operating officer of CIDE) and the remaining one was a corporation. On 7 March 2012, new shares of CIDE were allotted and issued to a new shareholder which was a corporation. All such shareholders of CIDE are Independent Third Parties.

As disclosed in the section headed “Connected Transactions and Relationship with the Controlling Shareholders” in this prospectus, as confirmed by Mr. Lau and Madam Li in the Deed of Non-Competition, CIDE does not carry on any business which competes or likely to compete with the business of our Group. CIDE’s principal business is marketing and distribution of electronic learning and licensed toy products and is not engaged in any manufacturing activities whereas our Group is engaged in manufacturing of pre-school toy products on OEM/ODM basis. CIDE’s target customers are the retailers and distributors of such products. CIDE also markets and distributes electronic learning and licensed toys under, according to CIDE’s website, its own brands which include Kidz delight, Inspiration Works, and brands of its licensors which includes Bandai, Nathan, Diset and New Boy whereas our customers are mainly the procurement arms of internationally well known toy brands and we do not sell any toy products under our own brands. In view of our plan for the Listing, we considered that we should streamline our operations by disposing of our investment in non-core business in order to focus on our core operation of manufacturing of toy products on OEM/ODM basis for international brands where we are experienced in and the operations of which can be controlled by us. On 30 March 2012, Qualiman Technology disposed of its entire interest (which at that time amounted to 17.67% interest in CIDE due to the abovementioned allotment and issue of new shares in CIDE on 7 March 2012) to QM (Hong Kong) Limited, a company incorporated in Hong Kong and owned as to 18% by Mr. Lau, 6% by Madam Li and 76% by Mr. Warren Lau, the son of Mr. Lau and Madam Li, at the same consideration which was equal to our cost of investment at which the 19.44% interest in CIDE was acquired by Qualiman Technology. No gain or loss to our Group resulted from the transfer. To the best knowledge of our Directors, CIDE was profit making for each of the two financial years ended 31 March 2012. Please refer to note 16 of the Accountant’s Report as set out in Appendix I of this prospectus for further details. Our sales to CIDE for each of the three years ended 31 March 2012 and the four months ended 31 July 2012 amounted to about HK\$47,392,000, HK\$52,429,000, HK\$61,026,000 and HK\$22,847,000, which accounted for about 6%, 7%, 7% and 8% respectively, of our total turnover for each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2012, respectively. The Group has continued to sell products to CIDE following the said disposal of the then 17.67% interest in CIDE to QM (Hong Kong) Limited and the product types sold to CIDE following the said disposal were mainly games. As at the Latest Practicable Date, we are not aware of any circumstances which would significantly and adversely affect our future sales to CIDE after the Listing subject to the factors disclosed in the paragraph headed “Developments adverse to our major customers could have an adverse effect on us” in the section headed “Risk Factors” in the Prospectus. As of the Latest Practicable Date, we do not have any plans or intention to acquire or re-acquire any interest in CIDE in the foreseeable future.

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Geographical breakdown for our products

We mainly export our products to North America and Western Europe. North America is the principal market for our products and accounted for approximately 54.5%, 49.3% and 56.8% of our total turnover for each of the years ended 31 March 2010, 2011 and 2012, respectively and approximately 57.1% and 47.6% of our total revenue for the four months ended 31 July 2011 and 2012, respectively.

The table below sets out the geographical breakdown of our revenue during the Track Record Period by reference to the shipping destination of our products^(Note 1):

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
North America <i>(Note 2)</i>	437,799	54.5	360,004	49.3	498,166	56.8	152,415	57.1	133,081	47.6
Western Europe										
— UK	100,038	12.5	94,407	13.0	86,197	9.8	24,090	9.0	29,211	10.4
— France	45,614	5.6	46,033	6.3	51,154	5.8	17,238	6.5	15,955	5.7
— Netherland	31,998	4.0	26,625	3.6	27,037	3.1	8,995	3.4	8,930	3.2
— Others <i>(Note 3)</i>	95,954	11.9	78,964	10.8	79,532	9.1	17,177	6.4	37,473	13.4
Total for Western Europe	273,604	34.0	246,029	33.7	243,920	27.8	67,500	25.3	91,569	32.7
PRC & Taiwan	10,960	1.4	27,660	3.8	41,545	4.8	14,651	5.5	9,784	3.5
Australia, New Zealand & Pacific Islands	20,177	2.5	21,866	3.0	18,053	2.1	8,614	3.2	10,345	3.7
South America	19,524	2.4	23,067	3.2	21,070	2.4	10,229	3.8	12,891	4.6
Central America, Caribbean, Mexico	15,865	2.0	20,266	2.8	24,750	2.8	7,294	2.7	10,840	3.9
Others <i>(Note 4)</i>	25,503	3.2	30,884	4.2	29,163	3.3	6,413	2.4	11,147	4.0
Total turnover	<u>803,432</u>	<u>100.0</u>	<u>729,776</u>	<u>100.0</u>	<u>876,667</u>	<u>100.0</u>	<u>267,116</u>	<u>100.0</u>	<u>279,657</u>	<u>100.0</u>

Notes:

1. The geographical breakdown was prepared based on shipping destination without taking into account of the re-export of our products by the customers.
2. North America refers to the U.S. and Canada.
3. Others includes Germany, Belgium, Italy, Ireland and Spain.
4. Others include Africa, India, Japan, Korea, Mediterranean, Russia and Southeast Asia.

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The table below sets out the geographical breakdown of our revenue derived from sales to Customer A and other top five customers during the Track Record Period by reference to the shipping destination of our products^(Note 1):

	Year ended 31 March						Four months ended 31 July													
	2010			2011			2012			2011			2012							
	Customer A	Other top five customers	%	Customer A	Other top five customers	%	Customer A	Other top five customers	%	Customer A	Other top five customers	%	Customer A	Other top five customers	%					
HK\$'000	HK\$'000		HK\$'000	HK\$'000		HK\$'000	HK\$'000		HK\$'000	HK\$'000		HK\$'000	HK\$'000							
North America ^(Note 2)	270,519	52.1	116,806	52.8	157,188	40.8	159,053	61.7	229,168	51.0	199,930	63.6	78,288	54.1	51,063	59.5	56,966	39.5	47,016	47.8
Western Europe ^(Note 3)	167,437	32.2	95,489	43.1	133,779	34.7	77,703	30.1	129,516	28.9	93,100	29.6	35,138	24.3	26,304	30.6	47,563	33.0	40,234	40.9
PRC & Taiwan	10,618	2.0	329	0.1	20,122	5.2	3,741	1.5	30,722	6.9	859	0.3	12,070	8.4	21	0.0	8,700	6.0	520	0.5
Australia, New Zealand & Pacific Islands	16,175	3.1	3,878	1.8	13,720	3.6	7,272	2.8	4,531	1.0	8,339	2.7	335	0.2	5,195	6.1	4,714	3.3	4,336	4.4
South America	19,022	3.7	504	0.2	22,001	5.7	871	0.3	17,530	3.9	2,367	0.8	8,288	5.7	1,333	1.5	11,113	7.7	943	1.0
Central America, Caribbean, Mexico	14,878	2.9	1,009	0.5	15,828	4.1	4,200	1.6	19,816	4.4	3,270	1.0	6,284	4.4	666	0.8	6,842	4.7	3,912	4.0
Others ^(Note 4)	20,628	4.0	3,382	1.5	22,884	5.9	5,196	2.0	17,699	3.9	6,416	2.0	4,237	2.9	1,261	1.5	8,398	5.8	1,479	1.4
Total turnover from sales to the top five customers	519,277	100.0	221,397	100.0	385,522	100.0	258,036	100.0	448,982	100.0	314,281	100.0	144,640	100.0	85,843	100.0	144,296	100.0	98,440	100.0

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Notes:

1. The geographical breakdown was prepared based on shipping destination without taking into account of the re-export of our products by the customers.
2. North America refers to U.S. and Canada.
3. Western Europe includes UK, France, Netherlands, Germany, Belgium, Italy, Ireland and Spain.
4. Others include Africa, India, Japan, Korea, Mediterranean, Russia and Southeast Asia.

We anticipate that our export sales to North America and Europe will continue to be significant. Therefore, our results of operations are largely affected by the level of demand for our products from our customers in North America and Europe which is in turn influenced by a number of factors some of which are beyond our control, including, amongst others, the recent global economic downturn and general consumer confidence. The financial turmoil in North America and Europe also did not have any material adverse impact on our business operations during the Track Record Period and up to the Latest Practicable Date. Notwithstanding the weakened economies in North America and Europe, as (i) we focus on manufacturing of diversified product classes in pre-school toys on an OEM basis; and (ii) our key customers are internationally reputable toy companies owning well known toy brands, our revenue generated from our sales to North America has increased from approximately HK\$360.0 million for the year ended 31 March 2011 to approximately HK\$498.2 million for the year ended 31 March 2012, whilst some other toy manufacturers having a focus on the markets in North America and Europe might have suffered a decrease in revenue for the same periods due to the difference in the respective customer mix and product mix. As our cost of production and gross profit margin during the Track Record Period were relatively stable, our Directors believe that our business operations will remain stable and the recent financial turmoil in North America and Europe will not have any material adverse effect on our performance. As at the Latest Practicable Date, there has not been any potential withdrawal of any banking facilities, early repayment of outstanding loans required by banks, requests by banks to increase the amount of pledges for secured borrowings, cancellation of orders, bankruptcy or default on any part of our Group's customers or suppliers.

During the Track Record Period and as of the Latest Practicable Date, we have not experienced any material adverse impact on our operating performance and financial position due to the financial turmoil in North America and Europe, and we have not experienced any significant or material decrease in purchase order or extended credit terms to our customers except to Customer A, which our Group renegotiated a new credit policy from 30 days to 45 days during the year ended 31 March 2012.

Pricing policy and payment terms

Our pricing to all customers is based on a variety of factors, including raw material prices, production costs, overhead, sales volume, past relationship and the specifications of different customers. For each specific sales order, our sales department determines the appropriate pricing for that order based on our internal pricing criteria.

In general, our pricing strategies are based on a cost-plus model, which principally takes into account material cost, labour cost, manufacturing overhead and a mark-up. The material cost covers the direct material purchase for the toys, whereas the labour cost covers the direct labour cost. The mark-up is the difference between the cost and the selling price for a product. The percentage range of gross

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profit margin generally charged on our customers is 10% to 13%. The usual logistic terms for the sale of our products are ex-factory and free on board (“FOB”). For ex-factory, it means that our customers collect the finished products from the factory. The liabilities are passed to the customers when they collect the finished products at the factory. When the truck comes to the factory for collecting the products, risks and rewards are transferred to the customers. For FOB, it means that we pay for transportation of the goods to the port of shipment, plus loading costs. Our customers pay for the marine freight transport, insurance, unloading, and transportation from the arrival port to the final destination. The passing of risks to our customers occurs when the finished products arrive in the port of shipment. When the finished products arrive in the port of shipment and are unloaded to the port, risks and rewards are transferred to the customers.

We normally give a credit term ranging from 30 to 75 days to our customers for payment of our invoice. The exact term of the credit period depends on a number of criteria such as the length of business relationship, past payment track record, the financial strength of the relevant customer and the macro-economic conditions. Payment by our customers is generally settled by bank cheques or telegraphic transfer.

We have also participated in an arrangement implemented by one of our major customers, Customer A, for the purchase of some of the raw materials used in manufacturing products for Customer A. Under this arrangement, Customer A is involved in the sale and purchase of raw materials and will make settlement for the procurement orders placed by us with Customer A directly or for the procurement orders placed by us with its designated or recommended certified suppliers. The amounts settled by Customer A will be set off against the price for the products we manufactured and sold to Customer A. Our suppliers will normally provide us with a credit period of 30 days, while the credit period given by us to Customer A is generally 45 days. Please refer to the paragraph headed “Procurement of raw materials and supplies — Suppliers” in this section for further details.

The debtors’ turnover periods during the Track Record Period were approximately 34.0 days, 29.0 days, 29.2 days and 52.4 days. Most of our major customers usually pay punctually and in accordance with their given credit periods. During the Track Record Period, we had not experienced any material bad debt problems.

Marketing

Our Directors believe that our continuous efforts in maintaining high quality products, competitive prices and on-time delivery are the key to strengthening our customer base as well as effective marketing.

The sales and marketing activities of our Group are mainly conducted by the sales and marketing team in our three Hong Kong operating subsidiaries, namely Sunmart, Qualiman Technology and Qualiman Industrial. As at the Latest Practicable Date, our sales and marketing team had approximately six staff. Our sales and marketing team is principally responsible for searching potential customers, customer affairs liaison, handling enquiries from existing customers, and following up the orders and shipments of products for the customers. We also seek customers’ feedback from time to time in respect of the quality of our products through frequent visits with our customers and other communication means such as email and telephone.

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Logistics

Delivery of our products is outsourced to local logistic service providers. Our sales team confirms the specifications and quantity of shipment with the logistic company upon completion of loading and checks with our customers for receipt.

During the Track Record Period and up to the Latest Practicable Date, our Group did not experience any material adverse impact on our operations as a result of failure to meet delivery schedules of our customers.

ENGINEERING AND PRODUCT DEVELOPMENT

As part of our ancillary value-added services, we provide ODM services to our customers. As of the Latest Practicable Date, we have a design and support team of 10 staff providing engineering services include product design, prototyping and tool making. Our Directors believe that our engineering and product development help strengthen our production capabilities and achieve efficiency in our production process.

We collaborate with some of our customers in the development of their new products. Our team draws up product design, produces prototypes and provides such customers with advice whenever appropriate so as to facilitate the manufacturing process and enhance the quality of their products. Depending on the complexity and the customers' requirements, it will generally take about three to four weeks for producing a prototype for a new product. After confirmation of the prototypes by our customers, we will commence actual production of the new products.

The ODM services offered by us form part and parcel of our manufacturing services, aiming to provide our customers with one-stop development services under an integrated operation in our business model. As such, we do not charge our customers separately for offering ODM services. The expenses incurred by us in our ODM services such as the fees incurred for the production of the product prototypes will be reimbursed by our customers. The intellectual property rights of the new products generated from our development belong solely to our customers.

For each of the three years ended 31 March 2012 and the four months ended 31 July 2012, we incurred production development expenses amounted to approximately HK\$3,873,000, HK\$4,262,000, HK\$4,669,000 and HK\$914,000 respectively and they include fees incurred during the design and production of product toolings and salaries of our design and support team.

COMPETITION

Our Directors believe that the global market of toy manufacturing industry is fragmented with a large number of local and overseas players. Our Directors consider that competition within the industry is keen and there are numerous competitors, operating on different scales, which are engaged in the business similar to that of our Group. Our Group competes with OEM manufacturers across the globe and also with in-house capabilities of customers and potential customers.

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According to the Ipsos Report, the toy market in China is highly fragmented with about 7,400 manufacturers and brand owners in 2011. As the competitive landscape of the industry is scattered across different geographical locations, industry players and in-house manufacturing capabilities, there is no meaningful and specific statistics on market shares of a particular industry player readily available.

Our Directors consider that our Group has built up our reputation over the years and have established good business relationships with our major customers. Our Directors are of the view that the principal bases upon which our Group competes are product quality, timely delivery and customer services, and that our Group competes favourably with our competitors by offering high quality products at competitive price.

EMPLOYEES

As of 31 March, 2010, 2011 and 2012 and the four months ended 31 July 2012, we had a total of approximately 595, 715, 683 and 796 full-time employees respectively, whereas the Processing Factory had a total of approximately 936, 942, 1,284 and 1,862 full-time employees respectively.

During the peak seasons from June to October of 2010, 2011 and 2012, there were approximately 200, 30 and 242 temporary employees respectively employed by us whereas approximately 1,032, 1,161 and 805 temporary employees respectively were employed by the Processing Factory.

The following table sets forth the number of our full-time employees by area of responsibility as of 31 July 2012:

	<u>Number of our employees</u>
Management	14
Administration/Human Resources	19
Finance	9
Production	665
Procurement	9
Engineering and product development	28
Quality control	33
Sales and Marketing	6
Material	<u>13</u>
Total	<u><u>796</u></u>

For each of the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2012, our staff costs were approximately HK\$39,081,000, HK\$42,115,000, HK\$44,150,000 and HK\$16,633,000 respectively.

We also provide regular training to all of our employees to improve their skills and enhance their technical knowledge as well as their knowledge of relevant quality standards and work safety standards.

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In accordance with the applicable laws and regulations in the PRC, we make contributions to social security scheme and housing provident fund for our employees. As advised by our PRC Legal Advisers, according to confirmations from the relevant authorities, to the best of their knowledge, we have been in compliance in all material respects with applicable employment laws during the Track Record Period, save for the matters as disclosed in the paragraph headed “Legal proceedings and non-compliance” in this section below.

Our Directors believe that we maintain a good working relationship with our employees. We had not experienced any significant problem or dispute with our employees or suffered disruptions due to any labour dispute during the Track Record Period.

ENVIRONMENTAL PROTECTION

We recognise the importance of environmental protection and have adopted stringent measures for environmental protection in order to ensure the compliance by us of the prevailing environmental protection laws and regulations. Please refer to the paragraphs headed “Environmental protection” in the section headed “Regulations” of this prospectus for details about the environmental protection requirements related to our operations.

For each of the three years ended 31 March 2012 and the four months ended 31 July 2012, our cost of compliance with applicable environmental laws and regulations were approximately HK\$26,000, HK\$31,000, HK\$366,000 and HK\$104,000 respectively which was mainly attributable to the cost of waste disposal. Our Directors currently expect that such cost of compliance going forward for the year ending 31 March 2013 would be around the same range as that incurred during the Track Record Period.

As advised by our PRC Legal Advisers, according to confirmations from the relevant environmental authorities, to the best of their knowledge, both the Haoda Factory and the Processing Factory were in all material respects in compliance with the applicable environmental protection laws and regulations during the Track Record Period, save for the matters as disclosed in the paragraph headed “Legal proceedings and non-compliance” in this section below.

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LEGAL PROCEEDINGS AND NON-COMPLIANCE

We set out below the non-compliances and irregularities relating to our Group and the Processing Factory during the Track Record Period:

Non-compliance incidents relating to our Group

The following table sets out the non-compliances and irregularities relating to our Group during the Track Record Period:

Non-compliance incidents and reasons	Legal consequences and potential maximum penalties and other financial losses	Latest Status	Measures taken/ to be taken to prevent any future breaches and ensure on-going compliance
<i>1. Registered capital of Foshan Haoda</i>			
We did not comply with the requirement to fully pay up the registered capital of Foshan Haoda within the prescribed period:	As advised by our PRC Legal Advisers, we will not be subject to any potential administrative punishment for our failure to contribute fully the registered capital of Foshan Haoda within the required time limit, nor will the legal status of Foshan Haoda be affected for reasons that: (a) approval has been obtained for the reduction of the registered capital to HK\$15,000,000 on 31 January 2008 and issued the new Approval Certificate; (b) the reduced registered capital had been fully paid up on 11 September 2007; (c) Foshan Haoda has passed the industry and commerce annual inspections in the previous years; and (d) as the breach had occurred more than two years ago, no administrative penalty will be imposed according to the Administrative Penalty Law of the People's Republic of China (中華人民共和國行政處罰法).	The registered capital of Foshan Haoda was fully paid up.	The Internal Control Adviser has recommended that the Company should establish policies for execution and monitoring any increase as well as reduction in capital for companies within the Group. For increase/reduction in capital of Foshan Haoda, Deputy General Manager of Foshan Haoda and our Director of Accounting and Administration, Mr. Poon Pak Ki, Eric, would be responsible for the execution of all necessary procedures and documents on time, and all relevant correspondences and documents, including the capital inspection report, would be reviewed by the Company Secretary to ensure proper compliance. <i>(Note)</i>
(i) The initial registered capital of HK\$7 million which should be paid up by 31 December 2002 was fully paid up as of 12 July 2004 according to the relevant capital verification report due to recovery of the market conditions in Europe and United States as a result of the 9-11 incident being slower than expected.			
(ii) The increase in the registered capital from HK\$8.3 million to HK\$20 million in 2005, which was required to be paid up by 27 April 2007. Sunmart had paid up the registered capital in the sum of HK\$15,000,000 by 11 September 2007. The remaining sum of HK\$5,000,000 was not paid due to the business development of Foshan Haoda being affected by the then market conditions in Europe and United States and subsequently, as aforementioned, the relevant authority approved the reduction of the registered capital of Foshan Haoda from HK\$20,000,000 to HK\$15,000,000 on 31 January 2008.			We have implemented the above measures as recommended by the Internal Control Adviser. We also designated the deputy general manager of Foshan Haoda, Mr. Ye Zhi Jian (葉志堅), who has more than 15 years of experience in toy industry, to monitor the implementation of the internal control measures. He is experienced in factory management and implementing internal control in the factory.

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Non-compliance incidents and reasons	Legal consequences and potential maximum penalties and other financial losses	Latest Status	Measures taken/ to be taken to prevent any future breaches and ensure on-going compliance
<p>2. Defect in title ownership for certain of our properties</p>			
<p>We have not obtained the relevant building ownership certificates for 2 buildings located at No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan, Guangdong Province, PRC used by Foshan Haoda as canteen and warehouse. The 2 buildings occupy a total gross floor area of approximately 768 sq.m. and 1,080 sq.m. respectively.</p> <p>Due to our failure to obtain the relevant construction works planning permit and construction works commencement permit prior to the construction of these buildings and undertake the completion inspection of construction work, we are not able to obtain the building ownership certificate in respect of the two buildings. In accordance with the relevant PRC laws and regulations, a building ownership certificate can only be issued upon submission of certain documents in respect of the subject building (including but not limited to the land use right certificate, construction works planning permit and construction works commencement permit and passing the completion inspection of construction work.</p> <p>The reason for the non-compliance is due to the fact that we inadvertently overlooked the legal requirements for obtaining the relevant construction works planning permit and construction works commencement permit prior to the construction of these buildings. As advised by our PRC Legal Adviser, pursuant to 佛山市南海區違法建築工程處理實施辦法 (the Implementation Measures on Administering Illegal Constructions in Nanhai District of Foshan*) (the "Measures"), in order to obtain the outstanding certificate/permits, we are required to fulfill conditions including the completion of certain administration procedures before 31 December 2007. As Foshan Haoda failed to complete the relevant administration procedures of these buildings before 31 December 2007, our PRC Legal Adviser is of the view that these buildings may not meet such condition as required under the Measures.</p>	<p>Based on the certificate dated 15 May 2012 issued by the relevant contractor confirming that the total construction cost for the 2 buildings is RMB554,400, our PRC Legal Advisers advised that we may be imposed a fine not exceeding RMB88,704 by the relevant PRC authorities.</p> <p>The total estimated demolition and relocation costs for these 2 buildings are approximately RMB55,440 and it would take approximately 15 days to demolish these 2 buildings and 2 days to relocate the facilities.</p> <p>Each of these 2 buildings are not crucial to the operation of our Group, and we are of the view that their relocation and/or demolition, if such happen to occur, would not affect our Company's business and financial position in a material manner.</p>	<p>As at the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant authorities with respect to lack of building ownership certificate of the two buildings.</p>	<p>The Internal Control Adviser has recommended that the Company should establish appropriate policies and procedures in handling property construction projects. The Deputy General Manager of Foshan Haoda should supervise the process and ensure that the engineering company/construction company of the construction project would be responsible for executing the process, which should have the expertise in obtaining the relevant building licenses. The Deputy General Manager should review the building licenses to ensure proper compliance. <i>(Note)</i></p> <p>We have implemented the above measures as recommended by the Internal Control Adviser. We also designated the deputy general manager of Foshan Haoda, Mr. Ye Zhi Jian (葉志堅), who has more than 15 years of experience in toy industry, to monitor the implementation of the internal control measures.</p>
<p>3. PRC employee housing fund contribution regulations</p>			
<p>We did not comply with the housing fund requirements for our employees and had not made any such contributions prior to 31 March 2012, due to the unwillingness of the employees of Foshan Haoda to make their respective shares of contribution. We estimate that the maximum outstanding housing fund contributions from 1 January 2004, the date of commencement of employment of staff of Foshan Haoda to 30 June 2012 amounted to approximately RMB3.14 million.</p>	<p>As advised by our PRC Legal Advisers, under the relevant PRC laws and regulations, we may be ordered by the relevant housing fund authority to pay the outstanding housing fund contributions within the prescribed period and be liable for a fine of RMB10,000 to RMB50,000.</p>	<p>Housing fund contributions for all relevant employees of Foshan Haoda have been made since July 2012 and up to the Latest Practicable Date.</p> <p>As at the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant authorities with respect to the non-compliance with the housing fund requirements, and thus we have not settled the outstanding amount of housing fund contribution up to July 2012. However, we have made full provision for such housing fund contributions and the maximum amount of potential fine and our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us due to our non-compliance of the housing fund contribution regulations (except where such penalty, fine, charges or payments have been provided for in audited accounts of our Company or any of its subsidiaries up to 31 March 2012).</p>	<p>The Internal Control Adviser has recommended that the Group should, as soon as possible, arrange payment of housing fund contribution for all relevant employees in accordance with the PRC national laws and regulations and establish an enforceable written policy for housing fund contribution. Moreover, the Internal Control Adviser has also recommended that a designated officer, the deputy general manager of Foshan Haoda, should be responsible for enforcing the written policy. <i>(Note)</i></p> <p>We have implemented the above measures as recommended by the Internal Control Adviser. We also designated the deputy general manager of Foshan Haoda, Mr. Ye Zhi Jian (葉志堅), who has more than 15 years of experience in toy industry, to monitor the implementation of the internal control measures.</p>

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Non-compliance incidents and reasons	Legal consequences and potential maximum penalties and other financial losses	Latest Status	Measures taken/ to be taken to prevent any future breaches and ensure on-going compliance
<p>4. <i>PRC employee social insurance scheme contribution regulations</i></p>			
<p>We did not fully comply with the relevant requirements for making contributions to the social insurance scheme for all relevant employees of Foshan Haoda, due to the unwillingness of the employees of Foshan Haoda to make their respective shares of contribution.</p> <p>We estimate that the maximum outstanding social insurance contributions from 1 January 2004, the date of commencement of employment of staff of Foshan Haoda to 31 July 2012 amounted to approximately RMB6.7 million.</p>	<p>Based on the advice from our PRC Legal Advisers, besides the outstanding social insurance contributions which Foshan Haoda may be required by the relevant authorities to be paid up, we estimated that the potential surcharge and fine that could be imposed to us up to 31 July 2012 amounted to approximately RMB175,000.</p>	<p>Since October 2012, we started to make social insurance contributions for all employees of Foshan Haoda.</p> <p>As at the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant authorities with respect to the non-compliance with the social insurance scheme contribution requirements, and thus we have not settled the outstanding amount of social insurance contribution up to September 2012. However, we have made full provision for social insurance contributions and the potential surcharge and fine and our Controlling Shareholders have agreed to indemnify us for all claims, costs, expenses and losses incurred by us due to our non-compliance of the social insurance contribution regulations (except where such penalty, fine, charges or payments have been provided for in audited accounts of our Company or any of its subsidiaries up to 31 March 2012).</p>	<p>The Internal Control Adviser has recommended that the Group should, as soon as possible, arrange payment of social insurance for all relevant employees in accordance with the PRC national laws and regulations and establish an enforceable written policy for social insurance contribution. Moreover, the Internal Control Adviser has also recommended that a designated officer, the deputy general manager of Foshan Haoda, should be responsible for enforcing the written policy. <i>(Note)</i></p> <p>We have implemented the above measures as recommended by the Internal Control Adviser. We also designate the deputy general manager of Foshan Haoda, Mr. Ye Zhi Jian (葉志堅), who has more than 15 years of experience in toy industry, to monitor the implementation of the internal control measures.</p>
<p>5. <i>Environmental impact evaluation procedures for our production capacity</i></p>			
<p>We were required to undertake the corresponding checks and acceptance procedures for the environmental protection facilities required for the construction project (環保設施竣工驗收手續). However, our Haoda Factory failed to undertake such corresponding checks and acceptance procedures for the environmental protection facilities in a timely manner.</p> <p>The reason for the non-compliance is due to the fact that we inadvertently failed to comply with the relevant legal requirements in a timely manner.</p>	<p>Our PRC Legal Advisers advised that, based on the confirmation of the Directors and the confirmation issued by the relevant environmental authority, it is unlikely that the administrative penalty will be imposed on us for our failure to duly undertake such corresponding checks and acceptance proceeding.</p>	<p>With regard to our Haoda Factory, as advised by our PRC Legal Advisers and confirmed by our Directors, it had undertaken the corresponding checks and acceptance proceeding and obtained the approval letter on 11 May 2012. Our Directors also confirmed that no administrative penalty has been imposed on us by any relevant regulatory authority in connection with our delay in undertaking such procedures.</p> <p>As at the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant authorities with respect to the non-compliance with the environment impact evaluation procedure requirements.</p> <p>Pursuant to the Deed of Indemnity, our Controlling Shareholders agreed to provide an indemnity for any loss incurred by our Group as a result of our failure to duly obtain the relevant certificates or approvals for the construction and operation of our Haoda Factory.</p>	<p>The Internal Control Adviser has recommended that the Company should establish appropriate policies and procedures in handling property construction projects. Deputy General Manager of Foshan Haoda should supervise the process and ensure the engineering company/construction company would be responsible for executing the process, which should have the expertise in obtaining the relevant inspection certificates. The Deputy General Manager should review the relevant inspection certificates, including the one for environmental impact evaluation, to ensure proper compliance. <i>(Note)</i></p> <p>We have implemented the above measures as recommended by the Internal Control Adviser. We also designated the deputy general manager of Foshan Haoda, Mr. Ye Zhi Jian (葉志堅), who has more than 15 years of experience in toy industry, to monitor the implementation of the internal control measures.</p>

Note: In March 2012, we have engaged Kapital Advisory Partners Limited as our internal control adviser (the “Internal Control Adviser”) to undertake a review on of the internal control system of our Group. The Internal Control Adviser is a professional consulting firm that mainly engages in providing consulting and advisory services to listed companies and companies preparing for listing in Hong Kong. The Internal Control Adviser provides services in the areas of internal control and risk management and corporate governance compliance. The key members of the engagement team from the Internal Control Adviser are practising certified public accountants. During the internal control review, our Internal Control Adviser has reviewed the internal control system of our Group according to the agreed scope. The Internal Control Adviser has recommended measures to improve and ratify any significant weakness of the internal control systems identified during the review, which include certain non-compliance and irregularities of our Group.

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Of the non-compliance incidents relating to our Group as disclosed in the paragraph headed “Legal proceedings and non-compliance — Non-compliance incidents relating to our Group” above, the Sole Sponsor has noted that for (1), the registered capital of Foshan Haoda was fully paid up; for (2), the defect in title ownership is on the canteen and warehouse which is of immaterial impact on the operation of our Group; for (3) and (4), our Group has already made payment of social insurance fund contributions and housing fund contributions for all relevant employees in accordance with the applicable PRC law and regulations as recommended by the Internal Control Adviser, and designated the deputy general manager of Foshan Haoda to monitor closely the compliance matters in relation to the social insurance and housing fund contributions; and for (5), our Group had undertaken corresponding checks and acceptance procedures and has already obtained approval letter from the relevant government department. In light of the above, the Sole Sponsor does not consider the above non-compliance incidents would affect the suitability of our Directors to become directors of an issuer under Rules 3.08 and 3.09 of the Listing Rules.

Based on the financial proof provided by the Controlling Shareholders, the Sole Sponsor is of the view that the Controlling Shareholders have adequate funding to pay for the indemnity pursuant to the Deed of Indemnity.

Non-compliance incidents relating to the Processing Factory

The following table sets out the non-compliances and irregularities relating to the Processing Factory during the Track Record Period. Although our Group has requested the Processing Factory to rectify its non-compliances and irregularities, we were informed by the Processing Factory that the Processing Factory had difficulty to rectify such non-compliances and irregularities. As advised by our PRC Legal Advisers, under the PRC law, as the Processing Factory is a legal person according to the relevant PRC laws and regulations, it would be held solely liable for any civil liabilities, outstanding contributions and any administrative penalties incurred by the Processing Factory. Our PRC Legal Advisers further advised that as the Processing Factory is a separate legal person, we do not have any legal right to require the Processing Factory to rectify any non-compliances and irregularities of the Processing Factory. Our Group will not be held liable for any

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non-compliances and irregularities of the Processing Factory and therefore, we will not undertake any rectification measures in respect of the non-compliances and irregularities in relation to the Processing Factory as described below:

Non-compliance incidents and reasons	Legal consequences and potential maximum penalties and other financial losses
<p><i>1. Defect in title ownership for the properties of the Processing Factory</i></p> <p>Six buildings including the factory premises and dormitory of the Processing Factory were constructed by the Processing Factory on a piece of land leased from a third party without having obtained the relevant building ownership certificates, due to the failure of the Processing Factory to obtain the relevant construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) prior to the construction of these buildings and without undertaking the completion inspection of construction work (竣工驗收). The six buildings occupy a total gross floor area of approximately 29,534 sq.m.</p> <p>The Processing Factory have not obtained the relevant construction works planning permit and construction works commencement permit due to the failure of the lessor and owner of the land to obtain the land use right certificate when the Processing Factory have constructed these buildings.</p> <p>In accordance with the relevant PRC laws and regulations, a building ownership certificate can only be issued upon submission of certain documents in respect of the subject building (including but not limited to the land use right certificate, construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) and passing the completion inspection of construction work (竣工驗收).</p>	<p>Based on the certificate dated 15 May 2012 issued by the relevant contractor confirming that the total construction cost for the construction of the relevant buildings is RMB12,654,750, our PRC Legal Advisers advised that the Processing Factory may be imposed a fine not exceeding RMB2,024,760 by the relevant PRC authorities.</p> <p>The Processing Factory applied to Shishan Bureau on 23 May 2012 and had obtained the consent from the Shishan Bureau and Nanhai Bureau that the buildings constructed on the leased land will not be subject to demolition within the next three to five years due to reconstruction planning and will not impose any penalty on the Processing Factory.</p> <p>Our PRC Legal Advisers further advised us that under the PRC law, as the Processing Factory is a legal person according to the relevant PRC laws and regulations, it would be held solely liable for any civil liabilities, and any administrative penalties incurred by the Processing Factory. However, if the relevant PRC authority orders the Processing Factory to demolish the relevant buildings in issue, the business operations of the Processing Factory would be restricted or disrupted. As a result, the use of the Processing Factory to manufacture our products could be materially affected and our business operation or profitability could be adversely and materially affected.</p>
<p><i>2. PRC employee housing fund contribution regulations</i></p> <p>The Processing Factory is required to make housing fund contributions for its employees with effect from 1999 according to the relevant PRC laws and regulations. The Processing Factory did not comply with the housing fund requirements for its employees and had not made any such contributions, due to the unwillingness of the employees of the Processing Factory to make their respective shares of contribution.</p> <p>Up to 31 December 2012, the estimated maximum outstanding housing fund contributions payable by the Processing Factory amounted to approximately RMB4.8 million.</p>	<p>As advised by our PRC Legal Advisers, under the relevant PRC laws and regulations, the Processing Factory may be ordered by the relevant housing fund authority to pay the outstanding housing fund contributions within the prescribed period and be liable for a fine of RMB10,000 to RMB50,000.</p>
<p><i>3. PRC employee social insurance scheme contribution regulations</i></p> <p>The Processing Factory did not fully comply with the relevant requirements for making contributions to the social insurance scheme pursuant to the Social Insurance Law for its employees, due to the unwillingness of the employees of the Processing Factory to make their respective shares of contribution.</p> <p>Up to 31 December 2012, the estimated maximum outstanding social insurance contributions payable by the Processing Factory amounted to approximately RMB15.9 million.</p>	<p>Based on the advice of our PRC Legal Advisers, besides the outstanding social insurance contributions which the Processing Factory may be required by the relevant authorities to be paid up, potential surcharge and fine that could be imposed on the Processing Factory amounted to approximately RMB40,000.</p>

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Non-compliance incidents and reasons

Legal consequences and potential maximum penalties and other financial losses

4. Environmental impact evaluation procedures for the production capacity of the Processing Factory

The Processing Factory was required to undertake the corresponding checks and acceptance procedures for the environmental protection facilities required for the construction project (環保設施竣工驗收手續). However, the Processing Factory failed to undertake such corresponding checks and acceptance procedures for the environmental protection facilities in a timely manner.

As advised by our PRC Legal Advisers, where the main body of the project formally goes into production or use without completing the checks and acceptance procedures for the corresponding environmental protection facilities, the competent authority shall order the enterprise to stop the production or use and impose a fine of less than RMB100,000 on the enterprise.

Save as disclosed above, as advised by our PRC Legal Advisers, according to confirmation from the relevant authorities, to the best of their knowledge, our subsidiaries in the PRC and the Processing Factory have obtained all requisite certificates, permits and licences from the relevant regulatory authorities in the PRC in relation to their establishment and business operations, and complied with the relevant laws and regulations in relation to their operations in all material respects during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, no member of our Group nor the Processing Factory was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against any member of our Group.

RISKS ASSOCIATED WITH OUR BUSINESS OPERATIONS

There are risks associated with our business operations. Please refer to the section headed “Risk Factors” in this prospectus for further details.

Although there are risks associated with our business operations, we have adopted the following measures to prevent or mitigate such risks:

- (a) Regarding the risk of product liability, we have not faced any material incidents of unsatisfactory products produced by our Group, the Processing Factory and our subcontractors.
- (b) Regarding the risk of disruption of our operations, industrial accidents and fire accidents, we have put in place fire prevention measures to monitor and prevent any fire hazards, fire drills and trainings to our workers to promote work place safety, prevent industrial accidents and minimise disruption of our operations.

In particular, fire prevention policy was implemented by us through an operational manual, namely Environmental, Healthy and Safety Management Manual. We carry out periodic drills to prevent fire accidents, arrange trainings to relevant employees and workers. The fire safety equipment is under regular and periodic maintenance and check.

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- (c) Regarding the risk of reliance on subcontractors, our Directors consider that the quality of subcontracting services from all subcontractors is stable, and our Group has mechanisms in place to monitor the performance of the subcontractors. Please refer to the paragraph headed “Quality control” in this section of the prospectus for further details.
- (d) Regarding the risk of power supply shortage, both our Haoda Factory and the Processing Factory have internal power generator to provide limited backup electricity supply during the period when the operations of our Haoda Factory and the Processing Factory were affected by the control of electricity supply provided by local utilities company.

Please refer to the paragraph headed “Internal control measures” below for details of the internal control measures put in place by us to prevent or mitigate the above risks.

During the Track Record Period and up to the Latest Practicable Date, our Group’s business and financial position has not been materially affected by each of the above risks.

INTERNAL CONTROL MEASURES

In March 2012, we have engaged an internal control adviser (the “Internal Control Adviser”) to undertake a review on the internal control system of our Group. During the internal control review, our Internal Control Adviser has reviewed the internal control system of our Group according to the agreed scope. The Internal Control Adviser has recommended measures to improve and ratify significant weakness of the internal control systems identified during the review, and the significant weakness and recommended measures identified has been summarised as follows.

In respect of the failure to comply with the PRC employee housing fund contribution regulations, the Internal Control Adviser has recommended that our Group should, as soon as possible, arrange payment of housing fund contribution for all relevant employees in accordance with the PRC national laws and regulations and establish an enforceable written policy for housing fund contribution. Moreover, the Internal Control Adviser has also recommended that a designated officer, the deputy general manager of Foshan Haoda, should be responsible for enforcing the written policy.

In respect of the failure to comply with the PRC employee social insurance scheme contribution regulations, the Internal Control Adviser has recommended that the Group should, as soon as possible, arrange payment of social insurance for all relevant employees in accordance with the PRC national laws and regulations and establish an enforceable written policy for social insurance contribution. Moreover, the Internal Control Adviser has also recommended that a designated officer, the deputy general manager of Foshan Haoda, should be responsible for enforcing the written policy.

The Sole Sponsor has reviewed the internal control report prepared by the Internal Control Adviser, discussed with the Internal Control Adviser on the adequacy and effectiveness of the internal control measures and understands that the above measures, when fully implemented, to be adequate and effective. Our Directors are of the view that the internal control measures are adequate and effective to enhance the internal control of our Group.

In respect of the risks disclosed in the paragraph headed “Risks associated with our business operations”, we have put in place the following internal control measures to prevent or mitigate the risks of unexpected industrial incidents including, among other things, industrial accidents, material

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operation disruption, fire accidents and shortage of labour. These measures include preventive control procedures, contingency plan and responsive plan which were implemented through an operational manual, namely Environmental, Healthy and Safety Management Manual. Our Group also carries out periodic drills to prevent accidents and arrange trainings to relevant employees and labour. Moreover, the deputy general manager of our Foshan Haoda, Mr. Ye Zhi Jian, has been assigned to monitor the implementation and monitoring of all these control measures. Our Group did not face any shortage of general labour during the Track Record Period. To prevent and mitigate the risk of shortage of labour which will cause disruption to operation, our Group has been carrying out continuously recruitment process through internet recruitment and local human resources centres in major cities nearby. We also strive to provide a satisfactory working environment and competitive package to remunerate and retain our labour. However, we have encountered shortage of skilful sewing workers in our Haoda Factory and the Processing Factory, and the Processing Factory has subcontracted part of the production process for our products to other subcontractors with such skilful sewing workers. The Processing Factory currently has engaged three subcontractors for performing the sewing processes.

INTELLECTUAL PROPERTY

In general, pursuant to the terms of the sale agreements with our customers, our customers retain the exclusive ownership of all right, title and interest in intellectual property rights relating to the moulds and tools used for manufacturing their products and the products produced by us for them. We will be held liable for any breach relating to any misuse of the moulds and tools or any infringement of the customers' intellectual rights, and we shall indemnify the customers from and against any liabilities, claims, costs, fines, penalties and expenses in connection therewith in the event of such breach.

We have adopted measures and policies to protect our customers' intellectual property rights and prevent any misuse or leakage of the customers' moulds to external parties. All the moulds and tools are used for manufacturing the customers' products in accordance with the customers' orders and will not be misused for any unauthorised purpose. Moulds, tools and parts are physically kept within the production area or storage area and will not be moved beyond these areas in the Haoda Factory, the Processing Factory and the subcontractors. Security measures are also put in place to monitor any mishandling of the moulds, tools and parts out of the factory areas and to prevent their leakage. To ensure security measures are properly implemented in the Processing Factory and the subcontractors, for the Processing Factory, we have requested the Processing Factory to implement a Usage and Maintenance of Mould Manual and the deputy general manager of our Foshan Haoda, Mr. Ye Zhi Jian, has been assigned to monitor the implementation of the security measures to ensure that such measures are properly implemented in the Processing Factory. For the subcontractors, they are required to comply with the use of intellectual property rights and proper secured storage of confidential information. Furthermore, the staff of the quality department of the Processing Factory performed regular visits to subcontractor's factory locations for physical inspection on moulds. The visit reports by the staff of the Processing Factory were reviewed by the deputy general manager of Foshan Haoda, Mr. Ye Zhi Jian. There are also security measures for monitoring mishandling of moulds, tools and parts, which include proper and secured storage, proper usage in accordance with the customers' purchase orders or demand, and keeping records periodically to ensure the physical existence of the moulds. Confidential information of the customers which includes but not limited to copyrights, trademark, trade secret, patents and designs is strictly handled and internal policy on the use of computers is adopted to control the use and storage of customer information. Moreover, the sensitive information could only be accessed by authorized persons and such information must be properly and safely kept. All employees of our Group have to

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comply with the regulations in our employee handbook and work manual, which require that all the confidential information, including but not limited to all the information from our customers, company designs and manufacturing information, should not be divulged to any third parties. It also stipulates that all such information should be properly kept and employees should not, without proper authorization, make copies of or carry such information out of the company's premises.

Pursuant to some of the supply contracts entered into with our customers, apart from the potential liabilities for breach of contract, we are required to indemnify our customers in case of any misuse and/or leakage of the mould provided by our customers or the intellectual property rights of our customers provided for our use under the relevant contracts to any third party not permitted under the relevant contracts due to our fault. We may be potentially held liable to indemnify our customers for all losses, damages and costs which our customers may suffer as a result of our misuse and/or leakage of the mould provided by our customers or the intellectual property rights of our customers provided for our use.

During the Track Record Period and up to the Latest Practicable Date, to the best of the knowledge of our Directors, we have not received any complaint from our customers in relation to the use of their trademarks or trade names.

During the Track Record Period and up to the Latest Practicable Date, to the best of the knowledge of our Directors, there is no claim by our customers against us for breach of customer confidentiality or breach of their intellectual property rights.

As at the Latest Practicable Date, our Group has not registered or sought to make any applications for registration of trademarks or patents.

As at the Latest Practicable Date, our Directors confirm that our Group has not received any claim or notice in relation to any infringement of intellectual property rights owned by any third party.

PROPERTIES

Set out below is a summary of our property interests in the PRC and Hong Kong. For further details, please refer to Appendix III to this prospectus.

Owned properties

We own the land use rights and building ownership rights constituting our Haoda Factory located at No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan City, Guangdong Province, PRC. Details of our interests in and title defects of our Haoda Factory are set out in the paragraphs headed "Legal proceedings and non-compliance" above and in the paragraph headed "Risks relating to our business — Defect in title ownership for certain of our properties may adversely affect our ability to use such properties" in the section headed "Risk Factors" in this prospectus.

We also own our headquarters in Hong Kong located at Workshop 3 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong.

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Leased properties

We lease the following properties from our connected persons:

1. Workshop 2 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong;
2. Workshop 4 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong;
3. Workshop 5 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong;
4. Workshop 5 on 23rd Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong;
5. Private Car Parking Space P10 on 2nd Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong; and
6. Apartment 2 on 3rd Floor, of Block C Park Place No. 7 Tai Tam Reservoir Road, Hong Kong.

The properties listed as items 1 to 4 above are used for our self-occupation as headquarters, the property listed as item 5 above is used for our car parking purpose and the property listed as item 6 is used as our Directors quarters.

Details of the leased properties and the leasing arrangements entered into between our Group and our connected persons are set out in the section headed “Connected Transactions and Relationship with the Controlling Shareholders” in this prospectus.

We also lease the following properties from Independent Third Parties:

1. A Car Parking Space No. F106 located at Wo Che Estate Shatin New Territories, Hong Kong which is for our use for car parking purpose;
2. Flat D on 4th Floor, Block 8, City Garden Phase 2, No. 233 Electric Road, North Point, Hong Kong; and
3. A Car Parking Space no. 33 on Level 3 (1B), City Garden, No. 233 Electric Road, North Point, Hong Kong.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS

Our Board currently consists of eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors.

The information of our Directors is set out as follows:

Name	Age	Position/Title	Date of appointment
Mr. Lau Ho Ming, Peter (劉浩銘)	58	Executive Director and chief executive officer	14 March 2012
Mr. Poon Pak Ki, Eric (潘栢基)	45	Executive Director	3 January 2013
Mr. Ng Kam Seng (黃錦城)	31	Executive Director	3 January 2013
Madam Li Man Yee, Stella (李敏儀)	50	Non-executive Director and Chairperson	23 March 2012
Mr. Tang Yu Ming, Nelson (湯毓銘)	42	Non-executive Director	27 March 2012
Mr. Leung Po Wing, Bowen Joseph (梁寶榮) <i>GBS, JP</i>	63	Independent non-executive Director	3 January 2013
Mr. Chan Siu Wing, Raymond (陳兆榮)	48	Independent non-executive Director	3 January 2013
Mr. Chu, Raymond (朱允明)	46	Independent non-executive Director	3 January 2013

Executive Directors

Mr. Lau Ho Ming, Peter (劉浩銘), aged 58, was appointed as our Director on 14 March 2012 and is our chief executive officer and one of the co-founders of our Group. He is also a director of the following subsidiaries of our Company: Turbo Gain, New Splendid, Next Horizon, Qualiman Industrial, Qualiman Technology, Sunmart and Foshan Haoda. Mr. Lau is responsible for formulating our overall business development strategies, management team development and daily operations of our Group. Mr. Lau founded Qualiman Industrial in 1996, Qualiman Technology in 2000. Mr. Lau is the husband of Madam Li, our non-executive Director and Chairperson.

Mr. Lau has experience of 34 years in the toy manufacturing industry. He was a director of Jetta-Victory Toys and Gifts Company Limited (formerly known as Power Victory Limited) from December 1988 to November 1992. He worked in Mattel Toys (HK) Ltd from August 1978 to June 1988. During his employment with Mattel Toys (HK) Ltd, Mr. Lau held the posts of industrial engineer, primary process manager, quality control manager, and his final position in Mattel Toys (HK) Ltd. was director of manufacturing. He started as Industrial Engineer and promoted to Primary Process Manager and Q. C. Manager prior to his final position. Mr. Lau set up first China factory and had full responsibility for the factory during his service in Mattel Toys (HK) Ltd. from 1984 until he left the employment in June 1988. Mr. Lau obtained the 1984 President's Award for innovative performance from Mattel Inc. during his service in Mattel Toys (HK) Ltd. Mr. Lau obtained his Bachelor of Science in Engineering degree from the University of Hong Kong in November 1978 and Master of Business Administration degree from the University of East Asia, Macau in February 1988.

Mr. Lau has been the vice president of The Toys Manufacturers' Association of Hong Kong since 2008. Mr. Lau was the advisor for The Second Council of the Toy Industry Association in Nanhai District, Foshan City* (佛山市南海區玩具行業協會第二屆理事會) in November 2007. Mr. Lau obtained an award from Guangdong government on his contribution to economic development in October, 1996 and obtained an outstanding entrepreneur (傑出企業家) award from China Toys Association* (中國玩具協會) in October 2006. Mr. Lau donated a Peter H. M. Lau Industrial

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Scholarship to the Department of Industrial and Manufacturing Systems Engineering, Faculty of Engineering in the University of Hong Kong to award final year undergraduate students having excellent performances in projects related to industrial and logistic services.

Mr. Lau had been a director of EMC Toys Company Limited (百達玩具有限公司) (“EMC Toys”) and Qualiman Electronic Co. Limited (“Qualiman Electronic”), both were private companies incorporated in Hong Kong. EMC Toys and Qualiman Electronic were dissolved by deregistration pursuant to Section 291AA of the Companies Ordinance on 22 June 2007 and 10 May 2002 respectively. Prior to being dissolved by deregistration, EMC Toys was principally engaged in investment holding and had become defunct and ceased business and Qualiman Electronic had never commenced business. Mr. Lau confirmed that each of EMC Toys and Qualiman Electronic was solvent at the time of it being dissolved by deregistration.

Mr. Poon Pak Ki, Eric (潘栢基), aged 45, was appointed as our Director on 3 January 2013. He is also the director of accounting & administration of Qualiman Industrial, Qualiman Technology and Sunmart. Mr. Poon is responsible for the financial and accounting matters and general administration in our Group.

Prior to joining our Group in November 1996, Mr. Poon worked in Kenneth K.W. Poon & Co, CPA as audit clerk from March 1987 to May 1990. He worked in Local Travel Agency (H.K.) Ltd. as an assistant accountant from June 1990 to April 1991. Mr. Poon worked in Jetta-Victory Toys and Gifts Company Limited as an accountant and office manager from April 1991 and November 1996. Mr. Poon obtained his Bachelor’s degree in Accountancy from the Bolton Institute of Higher Education (now known as University of Bolton) in August 2004, Professional Diploma in Accountancy from Macau Institute of Management, Macau Management Association in January 2000 and Diploma in Accounting for Managers from the Chinese University of Hong Kong in November 1995.

Mr. Ng Kam Seng (黃錦城), aged 31, was appointed as our Director on 3 January 2013. He is also a senior director of Lean & Corporate Development of Qualiman Industrial. Mr. Ng is responsible for the corporate development and lean production strategy in our Group. Since he joined our Group, Mr. Ng has been responsible for formulating and implementing the Group development strategies in conjunction with other members of the senior management team of our Group. In particular, Mr. Ng is the primary responsible person in working with Customer A on lean and future development strategies, which is a joint effort between our Group and Customer A to develop manufacturing improvement methods and production control techniques to ensure toys of Customer A staying competitive. Mr. Ng is also leading a technical team of industrial engineers and manufacturing engineers to monitor and design the manufacturing methods for the production team to execute. As such, Mr. Ng is very familiar with the operations of our Group and plays an important role in furthering the future strategies of our Group and plays a prominent executive role in our Group.

Prior to joining our Group, Mr. Ng pursued his study in a Doctor of Philosophy in Engineering Science between 2005 and 2009. He joined Qualiman Industrial Company Limited in January 2010. Mr. Ng obtained his Bachelor’s degree of Engineering in Industrial Management and Manufacturing Systems Engineering with first class honours from the University of Hong Kong in December 2003 and Master’s degree of Philosophy from the University of Hong Kong in December 2006.

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Non-executive Directors

Madam Li Man Yee, Stella (李敏儀), aged 50, was appointed as our Director on 23 March 2012. Her role as a non-executive Director took effect on 3 January 2013. She is our Chairperson and one of the co-founders of our Group. She is also a director of the following subsidiaries of the Company: Turbo Gain, New Splendid, Next Horizon, Qualiman Industrial, Qualiman Technology, Sunmart and Foshan Haoda. Madam Li is responsible for formulating our overall business development strategies and providing the overall management directions of our Group. Madam Li has over 19 years of experience in toy business. She was a director of EMC Toys since September 1993 until its dissolution in 2007. Madam Li engaged in toy trading in EMC Toys from 1993 until EMC Toys ceased to carry on toy business in 1996. Madam Li co-founded with Mr. Lau Qualiman Industrial in 1996 and Qualiman Technology in 2000. Madam Li is the wife of Mr. Lau, our executive Director and chief executive officer. Madam Li obtained her Bachelor's degree of Arts in Economics from York University in Toronto, Canada in November 1989.

Madam Li had also been a director of EMC Toys. Madam Li also confirmed that EMC Toys was solvent at the time of it being dissolved by deregistration. Prior to being dissolved by deregistration, EMC Toys was principally engaged in investment holding and had become defunct and ceased business.

Mr. Tang Yu Ming, Nelson (湯毓銘), aged 42, was appointed as our Director on 27 March 2012. His role as a non-executive Director took effect on 3 January 2013 and he is also a director of the following subsidiaries of the Company: Turbo Gain, New Splendid and Next Horizon.

Mr. Tang is currently a director of the Pre-IPO Investor and a director of Shikumen Special Situations Fund, the holding company of the Pre-IPO Investor. He has also been a managing director of Shikumen Capital Management (HK) Limited (“Shikumen Hong Kong”) since 2007. He is a co-founder of Shikumen Hong Kong and is responsible for its investment activity, operations and business development. Prior to co-founding Shikumen Hong Kong, Mr. Tang, from 1992 to 2007, spent 15 years in financial asset management industry. Through the investment funds managed by Shikumen Hong Kong, Mr. Tang was an active investor in publicly traded companies, private investments in public equities (PIPEs), pre-IPO investments, private equities and structured transactions. Mr. Tang graduated from Wharton School, University of Pennsylvania with a Bachelor's degree of Science in Economics majoring in Finance and Accounting in December 1992.

Mr. Tang was a non-executive director of The Hong Kong Building and Loan Agency Limited (stock code: 145), the shares of which are listed on the Main Board of the Stock Exchange from October 2009 to May 2010.

Mr. Tang had been a director of Genesis Advisory Group Limited (“Genesis”), IGOLFPACIFIC.COM LIMITED (亞洲高爾夫球網有限公司) (“iGolf”) and Sun On Holding Co., Limited (新安控股有限公司) (“Sun On”), all were private companies incorporated in Hong Kong. Genesis, iGolf and Sun On were dissolved by deregistration pursuant to Section 291AA of the Companies Ordinance on 19 July 2002, 30 January 2004 and 19 December 2008 respectively. Prior to being dissolved by deregistration, Genesis, iGolf and Sun On were principally engaged in investment holding. For Genesis, it had not carried out any business activities since its incorporation nor had it held any asset. As there was no activity or asset, Genesis was eventually dissolved. For each of iGolf and

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Sun On, it was dissolved as there was no more asset or investment held by the company. Mr. Tang confirmed that each of Genesis, iGolf and Sun On was solvent at the time of it being dissolved by deregistration.

Independent non-executive Directors

Mr. Leung Po Wing, Bowen Joseph (梁寶榮) *GBS, JP*, aged 63, was appointed as our independent non-executive Director on 3 January 2013. His role as an independent non-executive Director took effect on 5 January 2013.

Mr. Leung has previously served the government of Hong Kong for 32 years until his retirement as the director of the Office of the Government of the Hong Kong Special Administrative Region in Beijing (“Beijing Office”) in November 2005. Mr. Leung joined the Administrative Service in June 1973 and rose to the rank of Administrative Officer Staff Grade A1 in June 1996. During his service in the Administrative Service, Mr. Leung had served in various policy bureaux and departments. Senior positions held by Mr. Leung included: Deputy Secretary for District Administration (later retitled as Deputy Secretary for Home Affairs) (from April 1987 to September 1990); Deputy Secretary for Planning, Environment and Lands (from September 1990 to December 1992); Private Secretary, Government House (from December 1992 to March 1995); Secretary for Planning, Environment and Lands (from May 1995 to November 1998) and director of the Beijing Office (from November 1998 to November 2005). Mr. Leung has extensive experience in corporate leadership and public administration. During his tenure as the director of the Beijing Office, he had made commendable efforts in promoting Hong Kong in the Mainland, as well as fostering closer links and co-operation between Hong Kong and the Mainland. Mr. Leung obtained a Bachelor of Social Science degree from the University of Hong Kong in 1971.

Mr. Leung is currently an independent non-executive director of each of Paliburg Holdings Limited (stock code: 617), PYI Corporation Limited (stock code: 498) and North Asia Resources Holdings Limited (stock code: 61), all of which are companies listed on the Main Board of the Stock Exchange.

Mr. Chan Siu Wing, Raymond (陳兆榮), aged 48, was appointed as our independent non-executive Director on 3 January 2013. His role as an independent non-executive Director took effect on 5 January 2013.

Mr. Chan currently holds the position of independent non-executive director of each of Phoenitron Holdings Limited (stock code: 8066), a company of which shares are listed on the Growth Enterprise Market of the Stock Exchange, and China Flooring Holding Company Limited (stock code: 2083), a company of which shares are listed on the Main Board of the Stock Exchange. Mr. Chan currently is also an executive director of ENM Holdings Limited (stock code: 128), a company listed on the Main Board of the Stock Exchange.

Mr. Chan has experience of over 20 years in the field of accounting, taxation, finance and trust. Mr. Chan worked as the group chief operating officer of Chinachem Group from November 2008 to August 2011. Prior to that, Mr. Chan was the financial controller and company secretary of Hua Xia Healthcare Holdings Limited (stock code: 8143), a company of which shares are listed on the Growth Enterprise Market of the Stock Exchange, from June 2005 to August 2008. Mr. Chan worked as a

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general manager of Asiatic Trust Hong Kong Limited from June 2003 to September 2004. He was employed as a consultant of International Taxation Advisory Services Limited from August 1992 to December 2002.

Mr. Chan obtained a Bachelor of Economics degree from the University of Sydney in April 1986. Mr. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a certified practicing accountant of the Australian Society of Certified Practising Accountants, and a member of the Macau Society of Certified Practising Accountants.

For the period from September 2004 to December 2009, Mr. Chan was an independent non-executive director of Prosperity Investment Holdings Limited (formerly known as GR Investment International Limited) (stock code: 310). Mr. Chan resigned from Prosperity Investment Holdings Limited for personal career development. For the period from April 2009 to April 2010, Mr. Chan was an independent non-executive director of Karce International Holdings Company Limited (stock code: 1159). Mr. Chan resigned from Karce International Holdings Company Limited due to his other business engagements which required more of his dedication. Both Prosperity Investment Holdings Limited and Karce International Holdings Company Limited are companies listed on the Main Board of the Stock Exchange. For the period from September 2008 to November 2010, Mr. Chan was an independent non-executive director of Pan Asia Mining Limited (formerly known as Intelli-Media Group (Holdings) Limited) (stock code: 8173), a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Chan resigned from Pan Asia Mining Limited due to his other business engagements which required more of his dedication. Mr. Chan was also an independent non-executive director of Orient Energy and Logistics Holdings Limited, a company of which shares are listed on the Frankfurt Stock Exchange, from June 2011 to September 2011. Mr. Chan resigned from Orient Energy and Logistics Holdings Limited because he and the Company were unable to reach agreement on the terms of his service contract.

Mr. Chu, Raymond (朱允明), aged 46, was appointed as our independent non-executive Director on 3 January 2013. His role as an independent non-executive Director took effect on 5 January 2013.

Mr. Chu was the managing director (Equity Derivatives Trading, Institutional Equity Asia Pacific) of The Bank of Nova Scotia from May 2010 to November 2011. Prior to that, Mr. Chu was employed by Standard Chartered Bank (Hong Kong) Limited from June 2007 to April 2010 with the last designation as managing director, Equity Derivatives Trading. Mr. Chu worked in Standard Bank Asia Limited from May 2006 to May 2007 with the last position as managing director, Equities, Asia. He was employed by BOC International Holdings Limited from June 2002 to May 2006 with the last position as the managing director in Business Development Department of its subsidiary BOCI Securities Limited. Mr. Chu obtained a Bachelor of Science degree in Business Administration (International Business) from The California State University in May 1989. Apart from being an independent non-executive Director of our Company, Mr. Chu is currently not engaged in any employment.

Mr. Chu had been a director of Chinese Investments Limited (中訊投資有限公司) (“Chinese Investments”) and Wellco Consultancy Limited (華高管理有限公司) (previously known as “Chipco Limited 捷寶有限公司”) (“Wellco”), both were private companies incorporated in Hong Kong. Chinese Investments and Wellco were dissolved by striking off pursuant to Section 291 of the Companies Ordinance on 9 December 2011 and 15 August 2002 respectively. Prior to being dissolved by striking

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off, both Chinese Investments and Wellco were principally engaged in investment holding. For China Investments, it was a property investment holding company. As the property it held was sold, China Investments was subsequently dissolved. For Wellco, the company ceased operations in Hong Kong. As a result, Wellco had no more activity or asset and it was subsequently dissolved. Mr. Chu confirmed that each of Chinese Investments and Wellco was dormant and solvent at the time of it being dissolved by striking off for not filing annual return to the Companies Registry within the prescribed time.

Details of our Directors' emoluments (whether covered by service contracts and letters of appointment or not), the basis of determining our Directors' emoluments and the proposed length of service as stated in the service contracts are set out under the paragraph headed "Further information about Directors and Shareholders" in Appendix V to this prospectus.

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our Company as at the Latest Practicable Date; and (iii) did not hold any other directorships in public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as the interests of Mr. Lau and Madam Li in the Shares which are disclosed in the paragraph headed "Further information about Directors and Shareholders" in Appendix V to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Hau Yiu Por (侯耀波), aged 55, is our general manager of China operation. Mr. Hau is responsible for our China operation. He joined us in January 1999. Mr. Hau leads a team of managers that organize production schedules, execute productions and coordinate shipping.

Mr. Hau has experience of over 20 years in the toy manufacturing industry. Prior to joining us, Mr. Hau worked in Mattel Industrial Co., Ltd as production controller from May 1985 to June 1986, and Mattel Toys (HK) Ltd as production controller from June 1986 to February 1987 and as senior production supervisor from March 1987 to May 1988. He worked as an independent consultant from March 1987 to December 1990. Prior to joining our Group in January 1999, Mr. Hau worked in Jetta-Victory Toys and Gifts Company Limited as senior plant manager since January 1991. Mr. Hau obtained a Higher Certificate in Textile Technology from the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) in November 1981. Mr. Hau obtained Technician Certificate in Fashion & Clothing Manufacture from Technical Education and Industrial Training Department Hong Kong in July, 1982. Mr. Hau obtained the Management Services Certificate (work study/O & M) from Institute of Management Services in August, 1983.

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Mr. Kwong Ka Wing (鄺家榮), aged 51, is our general manager of engineering & quality. Mr. Kwong is responsible for our product engineering development and the quality assurance of our products. He joined us in March 1999.

Mr. Kwong has experience of over 20 years in the toy manufacturing industry. Prior to joining us, Mr. Kwong worked in Prime Time Toys Limited as senior engineering manager from March 1998 to October 1998, Jetta Company Limited as project manager from May 1993 to February 1998, Automatic Manufacturing Ltd. as assistant mechanical chief engineer from March 1992 to April 1993, Juko Technology Ltd as senior engineer from August 1991 to February 1992, Elec & Eltek Research Ltd. as senior engineer from June 1990 to June 1991, Forward Winsome Industries Ltd as tooling supervisor from July 1989 to January 1990, Arco Toys, Ltd. as tooling engineer from May 1988 to June 1989, and Unitoys Company Limited as senior tooling engineer from August 1985 to May 1988. Mr. Kwong obtained his Postgraduate Diploma in Computer Aided Engineering in October 2000 from University of Paisley. He obtained his Diploma in Management Studies jointly awarded by the Hong Kong Polytechnic (now known as the Hong Kong Polytechnic University) and Hong Kong Management Association in September 1993. Mr. Kwong obtained his Higher Diploma in Production and Industrial Engineering and his Certificate in Building Studies, both in November 1985 from the Hong Kong Polytechnic.

COMPANY SECRETARY

Ms. Cheung Chung Yee, Fendi (張仲怡) *FCCA, CPA, ACS, ACIS*, aged 43, was appointed as our company secretary on 3 January 2013. Ms. Cheung is a fellow member of the Association of Chartered Certified Accountants. She is also an associate member of each of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. Ms. Cheung obtained a Bachelor's degree of Arts in Accountancy from the City Polytechnic of Hong Kong (now known as City University of Hong Kong) in November 1992.

Ms. Cheung has experience of more than 5 years working as company secretary for listed companies in Hong Kong and more than 10 years working as financial controller. Prior to joining our Group, Ms. Cheung was (i) the chief financial officer of Hanny Development (China) Company Limited from December 2010 to February 2012; (ii) the financial controller and company secretary of Tanrich Financial Holdings Limited, a company listed on the Stock Exchange (stock code: 812) from October 2005 to October 2010; (iii) the group chief financial officer of Sun Media Investment Holdings Limited from January 2005 to November 2005; and (iv) the financial controller of Stone Electronic Technology Limited from August 2003 to January 2004; and (v) the company secretary of Sun Media Group Holdings Limited, a company listed on the Stock Exchange (stock code: 307) from April 2003 to August 2003. She also worked with Sun Media Group Holdings Limited and its subsidiary from June 2001 to April 2003 and her last post with that company was group financial controller.

COMPLIANCE WITH THE LISTING RULES AND APPENDIX 14 TO THE LISTING RULES

Our Board has reviewed relevant materials regarding the corporate governance requirements under the Corporate Governance Code set out in Appendix 14 to the Listing Rules and the relevant amended provisions in the Listing Rules effective on 1 January 2012 (the "Corporate Governance

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Requirements”). Our Board has discussed the compliance issues relating to the Corporate Governance Requirements with the advisers to our Company including the compliance advisers and prepared the action plan accordingly.

Our Directors will use their best endeavours to procure our Company to comply with the Corporate Governance Requirements.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee on 3 January 2013 pursuant to a resolution of our Directors passed on 3 January 2013 with written terms of reference in compliance with Rules 3.21 and 3.22 of the Listing Rules. The written terms of reference of the audit committee was adopted pursuant to section C3 of the Corporate Governance Code in Appendix 14 to the Listing Rules. The audit committee consists of three Directors: Mr. Chan Siu Wing, Raymond, Mr. Chu, Raymond and Mr. Leung Po Wing, Bowen Joseph, all of whom are independent non-executive Directors. Mr. Chan Siu Wing, Raymond, who has the appropriate professional qualifications, serves as the chairman of the audit committee. The primary duties of the audit committee of our Company are, among other things, to review and supervise the financial reporting process and internal control systems of our Group.

Remuneration Committee

Our Company established a remuneration committee on 3 January 2013 pursuant to a resolution of our Directors passed on 3 January 2013 with written terms of reference in compliance with Rules 3.25 and 3.26 of the Listing Rules. The written terms of reference of the remuneration committee was adopted pursuant to section B1 of the Corporate Governance Code in Appendix 14 to the Listing Rules. The remuneration committee consists of three Directors: Mr. Chu, Raymond, Mr. Chan Siu Wing, Raymond and Mr. Lau. Mr. Chu, Raymond serves as the chairman of the remuneration committee. The primary duties of the remuneration committee of our Company are, among other things, to review and make recommendations to our Board on terms of remuneration packages, bonuses and other compensation payable to Directors and senior management of our Group. The remuneration committee shall also ensure that no Director or any of his/her associate is involved in deciding his/her own remuneration.

Nomination Committee

Our Company established a nomination committee on 3 January 2013 pursuant to a resolution of our Directors passed on 3 January 2013 with written terms of reference in compliance with section A5 of the Corporate Governance Code in Appendix 14 to the Listing Rules. The nomination committee consists of three Directors: Mr. Leung Po Wing, Bowen Joseph *GBS, JP*, Mr. Chu, Raymond and Mr. Lau. Mr. Leung Po Wing, Bowen Joseph *GBS, JP* serves as the chairman of the nomination committee. The primary duties of the nomination committee of our Company are, among other things, to make recommendations to the Board on the appointment of Directors and the management of the Board succession.

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Corporate Governance Committee

Our Company established a corporate governance committee on 3 January 2013 pursuant to a resolution of our Directors passed on 3 January 2013 with written terms of reference. The corporate governance committee consists of three Directors: Mr. Chan Siu Wing, Raymond, Mr. Tang Yu Ming, Nelson and Mr. Ng. Mr. Chan Siu Wing, Raymond serves as the chairman of the corporate governance committee. The primary duties of the corporate governance committee of our Company are, among other things, to develop and review our Company's policies and practices on corporate governance and make recommendations to our Board and to review and monitor our Company's policies and practices on compliance with legal and regulatory requirements.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

For the Track Record Period, the aggregate remuneration (including fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind) paid to our Directors by us was approximately HK\$2,295,000, HK\$3,097,000, HK\$3,007,000 and HK\$1,588,000, respectively. Details of the Directors' remuneration are also set out in note 8 of the notes to the financial information set out in the Accountant's Report set out in Appendix I to this prospectus. The aggregate amount of fees, salaries, discretionary bonus, defined contribution benefit plans (including pension), housing and other allowances, and other benefits in kind paid to the five highest paid individuals of our Company, other than those already disclosed as Directors' remuneration above, for the Track Record Period were approximately HK\$3,488,000, HK\$3,051,000, HK\$2,767,000 and HK\$655,000, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office during the Track Record Period. No Directors has waived or agreed to waive the respective remuneration during the Track Record Period.

Under the arrangement currently in force, the aggregate amount of our Directors' fees and other emoluments for the year ending 31 March 2013 is estimated to be approximately HK\$4.3 million.

REMUNERATION POLICY

Our remuneration policy is based on position, duties and performance of the employees. Our 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 our employees. The performance appraisal of our staff is conducted annually. The performance appraisal is supervised by Mr. Lau, our chief executive officer and executive Director.

Following the Listing, the overall remuneration structure and process is expected to remain the same, except that the remuneration committee will perform such functions as set out in the paragraph headed "Remuneration committee" in this section.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

EMPLOYEES

For the years ended 31 March 2010, 2011 and 2012 and the four months ended 31 July 2012, our total staff costs were approximately HK\$39,081,000, HK\$42,115,000, HK\$44,150,000 and HK\$16,633,000 respectively. As of 31 July 2012, we employed 796 full-time employees. For a breakdown of our employees by function as of 31 July 2012, please refer to the paragraph headed “Business — Employees” in this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised under the paragraph headed “Share Option Scheme” in Appendix V to this prospectus.

BENEFITS

According to the PRC laws and regulations, our PRC subsidiary is required to participate in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance. In addition, our PRC subsidiary is also required to make contribution to housing fund for its employees.

COMPLIANCE ADVISER

We have appointed Sun Hung Kai International Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules.

Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including issuance or repurchase of Shares;
- (iii) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry with us regarding unusual movements in the price or trading volume of the shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year after the Listing Date.

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTINUING CONNECTED TRANSACTIONS

The following transactions have been carried out by our Group and our connected persons (as defined in the Listing Rules) during the Track Record Period and are expected to continue following the Listing:

A. Leasing of properties from Madam Li

Workshop 2 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong (“Property A”)

On 27 June 2012, Qualiman Industrial and Madam Li, a non-executive Director and a Controlling Shareholder, entered into a lease agreement (“Property A Lease Agreement”) in respect of the leasing of Property A (being property no. 3 under Group III in the valuation certificate set out in Appendix III to this prospectus) from Madam Li to Qualiman Industrial for a term of three years expiring on 31 March 2015, at a monthly rent of HK\$12,000 exclusive of government rates and rents, management fees and utilities charges which shall be borne by Qualiman Industrial. Property A occupies a gross floor area of approximately 872 sq.ft. and our Group currently uses Property A for workshop use.

In case the Property A Lease Agreement is early terminated by Qualiman Industrial, it shall be required to pay compensation to Madam Li equivalent to the total rent for the remaining term.

Either party shall give at least one month’s written notice to the other party in case such party intends not to renew the lease agreement upon its expiry.

Our Directors confirm that the terms of the Property A Lease Agreement are on normal commercial terms and are determined by our Group and Madam Li on arm’s length basis.

The annual rental amount payable by our Group under the Property A Lease Agreement is HK\$144,000.

Workshop 5 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong (“Property B”)

On 27 June 2012, Qualiman Industrial and Madam Li entered into a lease agreement (“Property B Lease Agreement”) in respect of the leasing of Property B (being property no. 5 under Group III in the valuation certificate set out in Appendix III to this prospectus) from Madam Li to Qualiman Industrial for a term of three years expiring on 31 March 2015, at a monthly rent of HK\$12,000 exclusive of government rates and rents, management fees and utilities charges which shall be borne by Qualiman Industrial. Property B occupies a gross floor area of approximately 832 sq.ft. and our Group currently uses Property B for workshop use.

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

In case the Property B Lease Agreement is early terminated by Qualiman Industrial, it shall be required to pay compensation to Madam Li equivalent to the total rent for the remaining term.

Either party shall give at least one month's written notice to the other party in case such party intends not to renew the lease agreement upon its expiry.

Our Directors confirm that the terms of the Property B Lease Agreement are on normal commercial terms and are determined by our Group and Madam Li on arm's length basis.

The annual rental amount payable by our Group under the Property B Lease Agreement is HK\$144,000.

B. Leasing of property from Mr. Lau

Private Car Parking Space P10 on 2nd Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong ("Property C")

On 9 July 2012, Qualiman Industrial and Mr. Lau, an executive Director and a Controlling Shareholder, entered into a lease agreement ("Property C Lease Agreement") in respect of the leasing of Property C (being property no. 7 under Group III in the valuation certificate set out in Appendix III to this prospectus) from Mr. Lau to Qualiman Industrial for a term of three years expiring on 31 March 2015, at a monthly rent of HK\$3,500 exclusive of government rates and rents, management fees and utilities charges which shall be borne by Qualiman Industrial.

In case the Property C Lease Agreement is early terminated by Qualiman Industrial, it shall be required to pay compensation to Mr. Lau equivalent to the total rent for the remaining term.

Either party shall give at least one month's written notice to the other party in case such party intends not to renew the lease agreement upon its expiry.

Our Directors confirm that the terms of the Property C Lease Agreement are on normal commercial terms and are determined by our Group and Mr. Lau on arm's length basis.

The annual rental amount payable by our Group under the Property C Lease Agreement is HK\$42,000.

C. Leasing of property from Goldrich International Limited ("Goldrich")

Workshop 4 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong ("Property D")

On 27 June 2012, Qualiman Industrial and Goldrich entered into a lease agreement ("Property D Lease Agreement") in respect of the leasing of Property D (being property no. 4 under Group III in the valuation certificate set out in Appendix III to this prospectus) from Goldrich to Qualiman Industrial for a term of three years expiring on 31 March 2015 at a

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

monthly rent of HK\$12,000 exclusive of government rates and rents, management fees and utilities charges which shall be borne by Qualiman Industrial. Property D occupies a gross floor area of approximately 808 sq.ft. and our Group currently uses Property D for workshop use.

In case the Property D Lease Agreement is early terminated by Qualiman Industrial, it shall be required to pay compensation to Goldrich equivalent to the total rent for the remaining term.

Either party shall give at least one month's written notice to the other party in case such party intends not to renew the lease agreement upon its expiry.

Goldrich is a company incorporated in Hong Kong with limited liability, principally engaged in investment holding and owned as to 70% by Mr. Lau and 30% by Madam Li and is therefore our connected person.

Our Directors confirm that the terms of the Property D Lease Agreement are on normal commercial terms and are determined by our Group and Goldrich on arm's length basis.

The annual rental amount payable by our Group under the Property D Lease Agreement is HK\$144,000.

D. Leasing of property from Goldrich International Properties Limited ("Goldrich Properties")

Workshop 5 on 23rd Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong ("Property E")

On 27 June 2012, Qualiman Industrial and Goldrich Properties entered into a lease agreement ("Property E Lease Agreement") in respect of the leasing of Property E (being property no. 6 under Group III in the valuation certificate set out in Appendix III to this prospectus) from Goldrich Properties to Qualiman Industrial for a term of three years expiring on 31 March 2015, at a monthly rent of HK\$12,000 exclusive of government rates and rents, management fees and utilities charges which shall be borne by Qualiman Industrial. Property E occupies a gross floor area of approximately 832 sq.ft. and our Group currently uses Property E as storage facilities.

In case the Property E Lease Agreement is early terminated by Qualiman Industrial, it shall be required to pay compensation to Goldrich Properties equivalent to the total rent for the remaining term.

Either party shall give at least one month's written notice to the other party in case such party intends not to renew the lease agreement upon its expiry.

Goldrich Properties is a company incorporated in Hong Kong with limited liability, principally engaged in investment holding and is wholly-owned by Mr. Lau and is therefore our connected person.

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Our Directors confirm that the terms of the Property E Lease Agreement are on normal commercial terms and are determined by our Group and Goldrich Properties on arm's length basis.

The annual rental amount payable by our Group under the Property E Lease Agreement is HK\$144,000.

E. Leasing of property from Loyal Gold (Hong Kong) Limited (“Loyal Gold”)

Apartment 2 on 3rd Floor, of Block C Park Place No. 7 Tai Tam Reservoir Road, Hong Kong (“Property F”)

On 27 June 2012, Qualiman Industrial and Loyal Gold entered into a lease agreement (“Property F Lease Agreement”) in respect of the leasing of Property F (being property no. 8 under Group III in the valuation certificate set out in Appendix III to this prospectus) from Loyal Gold to Qualiman Industrial for a term of three years expiring on 31 March 2015, at a monthly rent of HK\$98,000 exclusive of government rates and rents, management fees and utilities charges which shall be borne by Qualiman Industrial. Property F occupies a gross floor area of approximately 2,288 sq.ft. and our Group currently uses Property F as our Director's quarter.

In case the Property F Lease Agreement is early terminated by Qualiman Industrial, it shall be required to pay compensation to Loyal Gold equivalent to the total rent for the remaining term.

Either party shall give at least one month's written notice to the other party in case such party intends not to renew the lease agreement upon its expiry.

Loyal Gold is a company incorporated in Hong Kong with limited liability, principally engaged in investment holding and wholly owned by Sino Capital Development Limited, a company incorporated in the BVI and owned by Madam Li since Loyal Gold is indirectly wholly-owned by Madam Li, a non-executive Director, it is therefore our connected person.

Our Directors confirm that the terms of the Property F Lease Agreement are on normal commercial terms and are determined by our Group and Loyal Gold on arm's length basis.

The annual rental amount payable by our Group under the Property F Lease Agreement is HK\$1,176,000.

REASONS FOR ENTERING INTO THE TRANSACTIONS CONTEMPLATED UNDER THE LEASE AGREEMENTS

The leasing of Property A, Property B and Property D are for our use as our Group's headquarters in Hong Kong. Property C is a car parking space located in the building where our headquarters is located and is leased for our use for car parking purpose. Property E is also located in the building where our headquarters is located and is used as our Group's storage facilities. Property F is used as our Director's quarter.

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Our Group has been providing director's quarter in Hong Kong to Mr. Lau and his family members since 2002 and throughout the Track Record Period. During the Track Record Period, our Group had been providing director's quarter to Mr. Lau and his family members (a residence in Jardine's Lookout from 1 April 2009 to 31 July 2010 and another residence in Repulse Bay from 1 August 2010 to 31 March 2012), the rental expenses paid by our Group for such director's quarters in each of the three years ended 31 March 2010, 2011 and 2012 were HK\$420,000, HK\$540,000 and HK\$600,000 respectively. We will continue to provide such benefit to Mr. Lau under Mr. Lau's current remuneration package.

LISTING RULES IMPLICATIONS

In view of the fact that Madam Li is a non-executive Director, Mr. Lau is an executive Director and they are, collectively, our Controlling Shareholders, and that the lease agreements set out above are entered into by our Group with Mr. Lau, Madam Li, or companies beneficially owned by them, the transactions under each of the lease agreements under paragraphs A to E in the sub-section headed "Continuing Connected Transactions" above constitute continuing connected transactions of our Company ("Continuing Connected Transactions") under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.25 of the Listing Rules, the consideration payable under each of the lease agreements are considered on an aggregate basis for the purpose of classification of the continuing connected transactions.

Historical figures

Set out below is a summary of the historical figures during the Track Record Period and the proposed annual cap amount of the aggregate consideration under the Property A Lease Agreement, the Property B Lease Agreement, the Property C Lease Agreement, the Property D Lease Agreement, the Property E Lease Agreement and the Property F Lease Agreement (collectively, "Lease Agreements"):

<u>Properties leased from our connected persons</u>	<u>Historical amount for the year ended 31 March</u>			<u>Proposed annual cap amount for each of the three years ending 31 March</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2015</u>
	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>	<i>(HK\$)</i>
1. Property A: Workshop 2 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong	96,000	96,000	96,000	144,000
2. Property B: Workshop 5 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong	120,000	120,000	120,000	144,000
3. Property C: Private Car Parking Space P10 on 2nd Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong	42,000	42,000	42,000	42,000
4. Property D: Workshop 4 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong	120,000	120,000	120,000	144,000
5. Property E: Workshop 5 on 23rd Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong ^(Note 1)	N/A	N/A	112,000	144,000
6. Property F: Apartment 2 on 3rd Floor, of Block C Park Place No. 7 Tai Tam Reservoir Road, Hong Kong ^(Note 2)	N/A	N/A	N/A	1,176,000
Total:	<u>378,000</u>	<u>378,000</u>	<u>490,000</u>	<u>1,794,000</u>

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Notes:

1. Prior to the entering into of the Property E Lease Agreement, our Group has only rented Property E for period of 8 months from 1 August 2011 to 31 March 2012.
2. Our Group has not rented Property F during the Track Record Period.

Proposed annual caps

For each of the three years ending 31 March 2015, the proposed annual cap amount for the aggregate consideration payable by our Group under all the Lease Agreements will be HK\$1,794,000. Such annual cap amount is estimated based on the annual rental payable by our Group to the lessors which are our connected persons as stipulated under the Lease Agreements. After the previous lease agreements expired on 31 March 2012, the parties have reviewed the rental rate of the relevant properties based on the prevailing market rates for the purpose of entering into the current Lease Agreements and as a result of the general increase in market rental rates, the annual rental payable by our Group to the respective landlords as stipulated under the Lease Agreements (other than Property C and Property E) are higher than the annual rental paid by the Group during the Track Record Period for the leasing of such properties. As regards Property C and Property E, the parties reviewed the rentals with reference to the prevailing market rents and as a result the current rental for Property C remains the same as the historical figure and the monthly rental for Property E is lower than the historical figure.

Based on the above annual caps for each of the three years ending 31 March 2015, the applicable percentage ratios under the Listing Rules will be less than 5.0%. Accordingly, the Continuing Connected Transactions will be subject to the reporting, announcement and annual review requirements under the Listing Rules.

CONFIRMATION FROM OUR DIRECTORS

Our Directors (including our independent non-executive Directors) confirm that (i) the Continuing Connected Transactions have been and are entered into in the ordinary and usual course of business of our Group and are on normal commercial terms that are fair and reasonable to our Group and in the interests of our Shareholders and our Group as a whole and (ii) the annual cap amount set out above are fair and reasonable and in the interests of our Shareholders as a whole.

CONFIRMATION FROM VALUER

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer, has confirmed that the rental payable under each of the Lease Agreements by our Group correspond to the fair market rentals and the terms of the Lease Agreements are comparable to prevailing market terms.

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the Continuing Connected Transactions have been and are entered into in the ordinary and usual course of business of our Group and are on normal commercial terms that are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (ii) the annual cap amount set out above are fair and reasonable and in the interests of our Shareholders as a whole.

WAIVER SOUGHT

In the opinion of our Directors (including our independent non-executive Directors), the Continuing Connected Transactions were and will be entered into in the ordinary and usual course of business of our Group, on normal commercial terms or, of applicable, on terms no less favourable to our Group than those available from Independent Third Parties, and are fair and reasonable to our Group and in the interests of our Group and our Shareholders as a whole. Our Directors (including our independent non-executive Directors) are further of the opinion that the proposed annual cap for each of the three year ending 31 March 2015 disclosed above is arrived at after due and careful consideration and is fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Under the Listing Rules, the Continuing Connected Transactions would be subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

However, as the Continuing Connected Transactions are expected to continue on a recurring basis and are expected to extend over a period of three years, our Directors consider that it would be impracticable and would add unnecessary administrative costs to our Company for it to comply strictly with the announcement requirement under Chapter 14A of the Listing Rules.

Accordingly, we have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.42(3) of the Listing Rules from compliance with the announcement requirement under Chapter 14A of the Listing Rules, on the following conditions:

- (a) the annual cap amount for the Continuing Connected Transactions under the Lease Agreements for each of the three years ending 31 March 2015 as stated above will not be exceeded; and
- (b) our Company shall comply/continue to comply with the relevant provisions of Chapter 14A of the Listing Rules including the proposed annual caps set out above in relation to the Continuing Connected Transactions.

If any of the material terms of the Lease Agreements are altered (unless as provided for under the terms of the relevant Lease Agreement) or if our Group enters into any new agreements or arrangements with any connected persons in the future under which the aggregate consideration paid or payable by our Group in each of the three year ending 31 March 2015 exceeds the proposed annual cap set out above, our Group will comply with the applicable requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (but without taking into account of Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme), the following persons individually and/or collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company.

<u>Name</u>	<u>Capacity/Nature of interests</u>	<u>Number of Shares held immediately after the Global Offering and the Capitalisation Issue</u>	<u>Approximately percentage of shareholding in our Company immediately after the Global Offering and the Capitalisation Issue</u>
Smart Investor ^(Note 1)	Beneficial owner	115,920,000	48.3%
Mr. Lau ^(Note 2)	Interest in controlled corporation	115,920,000	48.3%
Madam Li ^(Note 3)	Interest of spouse	115,920,000	48.3%

Notes:

1. The issued share capital of Smart Investor is beneficially owned as to 67.4% by Mr. Lau and 32.6% by Madam Li.
2. These Shares were registered in the name of Smart Investor. As Mr. Lau controls more than one-third of the voting power of Smart Investor, by virtue of the provisions in Part XV of the SFO, Mr. Lau is deemed to be interested in all the Shares held by Smart Investor.
3. As Madam Li is the wife of Mr. Lau, by virtue of the provisions in Part XV of the SFO, she is deemed to be interested in all the Shares in which Mr. Lau is interested or deemed to be interested and vice versa.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Save for the leasing of properties in Hong Kong as described in the sub-section headed “Continuing connected transactions” above, our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing. Having considered the following factors, our Directors believe that we are capable of carrying on our business independently from our Controlling Shareholders and their respective associates after Listing.

Financial independence

Our Directors are of the view that we do not unduly rely on advances from our Controlling Shareholders and their related parties for the business operations. As at the Latest Practicable Date, all the amounts due to and amounts due from related parties, including Directors, Shareholders and related companies, have been fully settled. We have independent financial and accounting systems, independent treasury function for receiving cash and making payments. During the Track Record Period, certain of the banking facilities granted to our Group were secured by guarantees and collateral security provided

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

by the Controlling Shareholders and/or non-Group companies owned by the Controlling Shareholders. As at the Latest Practicable Date, we have obtained consent-in-principle from the relevant banks for their agreement to release all such guarantees and collateral security upon Listing. As such, upon Listing, our Group will have independent access to third party financing without relying on any guarantee from our Controlling Shareholders. We make financial decisions according to our own business needs. As such, our Directors consider that our Group can operate independently from the Controlling Shareholders from the financial perspective.

Operational independence

Our Group has established our own set of organizational structure made up of individual departments, each with specific areas of responsibilities. We have independent access to our suppliers and customers. We have also established a set of internal control procedures to facilitate the effective operation of the business. Our production facilities and our office premises located in Hong Kong are either owned or leased by our Group and operate independently and do not rely on the Controlling Shareholders. The fact that certain of our office premises located in Hong Kong are leased from our connected persons as more particularly described in the section headed “Connected Transactions and Relationship with the Controlling Shareholders” in this prospectus does not affect our operational independence. The Processing Factory is engaged by our Group independently from the Controlling Shareholders.

As disclosed in the paragraph headed “Sales and marketing” in the section headed “Business” in this prospectus, on 30 March 2012, Qualiman Technology disposed of its entire interest in CIDE (which at that time amounted to 17.67% interest in CIDE due to an allotment and issue of new shares in CIDE to a new shareholder on 7 March 2012), one of our top five customers in terms of revenue for each of the three years ended 31 March 2012, to QM (Hong Kong) Limited, a company incorporated in Hong Kong and owned as to 18% by Mr. Lau, as to 6% by Madam Li, and as to 76% by Mr. Warren Lau, the son of Mr. Lau and Madam Li, for the purpose of streamlining the operation of our Group. As at the Latest Practicable Date, due to a further allotment and issue of new shares in CIDE, the equity interest as held by QM (Hong Kong) Limited was further reduced to 15.55%. Despite the fact that Mr. Lau, Madam Li and their son taken together indirectly owns approximately 15.55% equity interest in CIDE, we still have and will continue to have independent access to CIDE as our customer for the following reasons:

- (a) the interest of Mr. Lau, Madam Li and their son in CIDE, even taken together, represents only approximately 15.55% equity interest in CIDE which is not a controlling interest; and
- (b) none of the Controlling Shareholders nor it/his/her associates hold any position in CIDE.

Given the above reasons, the decisions of CIDE in relation to the carrying on of business with our Group and hence our operational independence will not be influenced by the Controlling Shareholders by their owning the approximately 15.55% equity interest in CIDE.

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Management independence

Our Board

Our Board comprises eight Directors, which include three executive Directors, namely and Mr. Lau, Mr. Poon and Mr. Ng, two non-executive Directors, Madam Li and Mr. Tang Yu Ming, Nelson and three independent non-executive Directors, namely Mr. Chan Siu Wing, Raymond, Mr. Chu, Raymond and Mr. Leung Po Wing, Bowen Joseph. Mr. Lau and Madam Li, each a Controlling Shareholder, is an executive Director and non-executive Director respectively. Madam Li is chairperson of our Board and Mr. Lau is our chief executive officer. Save as disclosed above, no other Controlling Shareholder hold any directorship in our Company.

To ensure that our Group can operate independently from the Controlling Shareholders, certain corporate governance measures have been adopted. All of our independent non-executive Directors are experienced and capable of monitoring the operation of our Group independently from the Controlling Shareholders. Therefore, our Directors are of the view that the interests of the Shareholders can be safeguarded. For details of our Directors, please refer to section headed “Directors, Senior Management and Employees” in this prospectus. Each of our Directors is aware of his/her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his/her personal interest. In the event there are conflicts of interests for approving a proposed transaction due to the dual positions of our Director acting as director of our Company and another company, pursuant to the relevant provisions of the Articles, our Director shall be absent from our Board meeting and abstain from voting (nor be counted in the quorum) in the resolution(s) of our Board approving such transaction.

According to the service agreements entered into between our Company and our executive Directors, each of our executive Directors has undertaken to our Group, among other things, that he will not, without any prior written approval from our Board, (i) accept any position of a company whose business may directly or indirectly compete with our Group’s business or be engaged in any business which may directly or indirectly compete with our Group’s business; or (ii) solicit any employee of our Group or induce them to leave our Group or solicit any customers of our Group, during the term of service with our Group and within the 12 months after expiry or termination of his service agreement.

Committees

Our Board has established the (i) audit committee; (ii) remuneration committee; (iii) nomination committee and (iv) corporate governance committee. All members of the audit committee are independent non-executive Directors. Each of the remuneration committee and the nomination committee consists of a majority of independent non-executive Directors to monitor our operations.

The audit committee is responsible for reviewing and supervising our Group’s financial reporting process and internal control system whereas the remuneration committee’s role is to ensure that our Directors are properly remunerated without being influenced by our Controlling Shareholders. The nomination committee ensures that only persons with capability and relevant experience are appointed as

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Directors to avoid the appointment of individuals who may affect the independence of our Board. The corporate governance committee monitors our Group's compliance with legal and regulatory requirements.

Senior Management

Our Group is also managed by the senior management who can work and carry on our business independently from the Controlling Shareholders. For details of our senior management, please refer to the section headed "Directors, Senior Management and Employees".

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Group is capable of managing its business independently from the Controlling Shareholders after Listing.

UNDERTAKINGS

Each of our Company and the Controlling Shareholders have given certain undertakings in respect of the Shares to our Company, the Sole Sponsor, the Sole Global Coordinator, the Hong Kong Underwriter and the Stock Exchange, details of which are set out under the paragraph headed "Undertakings Pursuant to the Hong Kong Underwriting Agreement" in the section headed "Underwriting" in this prospectus. Each of the Controlling Shareholders has also given undertakings in respect of the Shares to our Company and the Stock Exchange as required by Rules 10.07(1) and 10.07(3) of the Listing Rules.

NON-COMPETITION UNDERTAKING

Subject to the terms therein, the Controlling Shareholders as covenantors (collectively, the "Covenantors") entered into a deed of non-competition in favour of our Company dated 10 January 2013 ("Deed of Non-Competition"), pursuant to which each of the Covenantors has undertaken to and covenanted with our Company (for our Company and for the benefit of our subsidiaries) that it/he/she will not, and will procure that its/his/her associates will not (i) either on its/his/her own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, whether for profit or not, carry on, engage, invest, be interested or involved or engaged in or acquire or hold an interest (in each case whether as a shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise) or otherwise be involved in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group including but not limited to the manufacture and sale of toy products on OEM and/or ODM basis as described in this prospectus in Hong Kong, the PRC, Macau and any other country or jurisdiction to which our Group markets or sells our products and/or in which any member of our Group carries on business mentioned above from time to time currently or in future ("Restricted Business"); (ii) either on its/his/her own account or in conjunction with or on behalf of any person, firm or company, or as a principal, shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise, directly or indirectly, solicit, interfere with or endeavour to entice away from any member of our Group any person, firm, company or organization who to its or his or her knowledge is now or has been a customer, supplier or employee of any member in our Group; (iii) without the consent of our

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Company, make use of any information pertaining to the business of our Group which have or may have come to its/his/her/ knowledge in its/his/her capacity as a Controlling Shareholder and/or Director for any purposes.

Each of the Covenantors has also undertaken that if it/he/she and/or any of its/his/her associates is offered of any project or new business opportunity that relates to the Restricted Business, whether directly or indirectly, it/he/she shall: (a) promptly notify our Company in writing of such opportunity and provide such information as is reasonably required by our Company in order to enable our Company to come to an informed assessment of such opportunity; and (b) use its/his/her best endeavours to procure that such opportunity is offered to our Company or one of its subsidiaries on terms no less favourable than the terms on which such opportunity is offered to it/him/her and/or its/his/her associates. In addition, each of the Convenator has further undertaken that (i) it/he/she will provide all information reasonably required or necessary to our Company and our Directors from time to time (including our independent non-executive Directors) for the enforcement of the Deed of Non-Competition and the annual review by the our independent non-executive Directors with regard to compliance of the terms of the Deed of Non-Competition, the findings and the decisions of our independent non-executive Directors would be disclosed in the annual reports or announcements of our Company; (ii) it/he/she will allow our Directors, their respective representatives and the auditors of our Company to have sufficient access to its/his/her records and records of its/his/her associates and to ensure their compliance with the terms and conditions under the Deed of Non-Competition; and (iii) it/he/she will make an annual declaration in favour of our Company on whether it/he/she has fully complied with its/his/her obligations under the Deed of Non-Competition, and if not, particulars of any non-compliance, for inclusion in the annual reports of our Company in the manner consistent with the principles of making voluntary disclosures in the section headed “Corporate governance report” of the annual report prepared in accordance with the requirements of the Listing Rules from time to time.

The Covenantors and their associates (excluding our Group) shall be entitled to invest, participate and be engaged in any Restricted Business or any project or business opportunity, regardless of value, which has been offered or made available to our Group but has been rejected or declined by our Group provided that the following conditions are complied with:

- (a) the information about the principal terms of such project or business opportunity have been disclosed to our Company and our Directors;
- (b) the decision to reject or decline is made after review by the independent non-executive Directors based on the profitability of such project or business opportunity, the resources of our Group required for carrying out such project or business opportunity, the relevant expertise required in such project or business opportunity and the impact on our Group’s business and competitiveness if such project or business opportunity is not taken up by our Group but by the relevant Covenantor and such decision shall be disclosed, with basis, in the annual report of our Company for the relevant financial year in the manner consistent with the principles of making voluntary disclosures in the section headed “Corporate governance report” of the annual report prepared in accordance with the requirements of the Listing Rules from time to time;

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

- (c) the principal terms on which the relevant Covenantor or the relevant associate invests, participates or engages in the such project or business opportunity are substantially the same as or not more favourable than those disclosed to our Company;
- (d) the investment, participation and engagement by the relevant Covenantor or the relevant associate in such project or business opportunity shall be subject to any conditions that may be imposed by our independent non-executive Directors.

Subject to the above, if the relevant Covenantor or the relevant associate decides to be involved, engaged, or participate in the relevant Restricted Business, whether directly or indirectly, the terms of such involvement, engagement or participation shall be disclosed to our Company and our Directors as soon as practicable.

Without prejudice to exceptions stated above, the undertakings of the Covenantors are also subject to the following exceptions:

- (a) the holding of shares or other securities issued by our Company or any of its subsidiaries from time to time; and
- (b) the holding of shares or other securities in any company which has an involvement in the Restricted Business, provided that such shares or securities are listed on a recognised stock exchange and the aggregate interest of the relevant Covenantor and his/her/its associates (as “interest” is construed in accordance with the provisions contained in Part XV of the SFO) do not amount to more than 5% of the relevant share capital of the company concerned.

The Deed of Non-Competition and the rights and obligations thereunder are conditional and will take effect immediately upon Listing.

The obligations of the Covenantors under the Deed of Non-Competition will remain in effect until:

- (a) the date on which our Shares cease to be listed on the Stock Exchange; or
- (b) the Covenantors and their respective associates and/or successors, individually and/or collectively, cease to be deemed as controlling shareholder (within the meaning defined in the Listing Rules from time to time) of our Company,

whichever occurs first.

Each of the Covenantors also represented and warranted to our Company in the Deed of Non-Competition that neither of it/he/she nor any of its/his/her associates is currently interested, involved or engaging, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Business otherwise than through our Group.

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Each of Mr. Lau and Madam Li has also declared in the Deed of Non-Competition to our Company of their interest in CIDE, one of our top five customers in terms of revenue for each of the three years ended 31 March 2012, and each of Mr. Lau and Madam Li has confirmed in the Deed of Non-Competition to our Company that CIDE currently does not carry on, engage, invest, or involved or engaged in, acquire or hold any rights or interest (in each case whether as a shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise), or otherwise involved in the Restricted Business, i.e., the provision of manufacturing services of toy products on OEM and/or ODM basis.

According to the Articles, a Director shall not vote on, or be counted in the quorum of, any resolution of the Board approving any contract or arrangement or other proposal in which the Director or any of his/her associates is materially interested. As the Covenantors have given non-competition undertakings in favour of our Company that none of them have interests in other businesses that compete or are likely to compete with the business of our Group and none of Mr. Lau and Madam Li, each being an executive Director and a non-executive Director respectively, could vote on any resolution of the Board in respect of any business opportunities with CIDE, our Directors are of the view that they are capable of carrying on our Group's business independently of the Covenantors following the Listing.

For illustrative purpose, set out below is a comparison table for the business, target customers, products and sales location between our Group and CIDE:

	<u>Our Group</u>	<u>CIDE (according to CIDE's website)</u>
Principal business	Manufacturing of pre-school toys primarily on an OEM basis	Development and distribution of electronics learning and licensed products in the toy industry
Target customers	Procurement arms of internationally well known toy brands	Retailers and distributors of toy products
Products	Water teethers, rockers and bouncers, cradle swings, baby activity gyms and baby mobiles, and mechanical plush toys for products for aged 3 or below; electronic games, action figures, dolls, playsets and mechanical plush toys for products for aged above 3	Electronic learning and licensed toys
Sales location	Ex-factory or F.O.B. Hong Kong, PRC. Based on customers' shipment request, we noted the goods were primarily shipped to North America and Western Europe	Primarily in North America and Western Europe

CONNECTED TRANSACTIONS AND RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

As shown in the above table, since CIDE is engaged in the development and distribution of toy products and does not manufacture such products while our Group's principal business is the manufacturing of toy products, and that CIDE's target customers are retailers and distributors of toy products whereas our customers are mainly the procurement arms of internationally well known toy brands, therefore, the business activities of CIDE are distinctively different from our Group's core business. In light of this, our Directors are of the view that CIDE does not have direct competition with our Group and none of the Covenantors and our Directors has interests in any business which competes or is likely to compete with the business of our Group.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue, the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

<u>Name</u>	<u>Capacity</u>	<u>Number of Shares held</u>	<u>Position</u>	<u>Percentage of shareholding</u>
Smart Investor	Beneficial Owner	115,920,000	Long	48.30%
Mr. Lau	Interest of controlled corporation	115,920,000 ^(Note 1)	Long	48.30%
Madam Li	Interest of spouse	115,920,000 ^(Note 1)	Long	48.30%
Pre-IPO Investor	Beneficial Owner	54,000,000	Long	22.50%
Shikumen Special Situations Fund	Interest of controlled corporation	54,000,000 ^(Note 2)	Long	22.50%
Shikumen Capital Management (HK) Limited	Investment manager	54,000,000 ^(Note 3)	Long	22.50%
Crosby Capital Limited	Interest of controlled corporation	54,000,000 ^(Note 4)	Long	22.50%

Notes:

1. These Shares were registered in the name of Smart Investor, a company owned as to 67.4% by Mr. Lau and as to 32.6% by Madam Li. As Mr. Lau controls more than one-third of the voting power of Smart Investor, by virtue of the provisions in Part XV of the SFO, Mr. Lau is deemed to be interested in all the Shares held by Smart Investor. Madam Li is the spouse of Mr. Lau. By virtue of the provisions of Part XV of the SFO, Madam Li is deemed to be interested in all the Shares in which Mr. Lau is interested or deemed to be interested.
2. These Shares were registered in the name of the Pre-IPO Investor, a company wholly owned by Shikumen Special Situations Fund. By virtue of the provisions of Part XV of the SFO, Shikumen Special Situations Fund is deemed to be interested in all the Shares held by the Pre-IPO Investor.
3. Pursuant to an investment management agreement entered into between Shikumen Special Situations Fund and Shikumen Capital Management (HK) Limited, Shikumen Capital Management (HK) Limited is the investment manager of Shikumen Special Situations Fund and the sole voting member of Shikumen Special Situations Fund and controls 100% of the voting rights of Shikumen Special Situations Fund.
4. Shikumen Capital Management (HK) Limited is wholly-owned by Crosby Capital Limited. By virtue of the provisions of Part XV of the SFO, Crosby Capital Limited is deemed to be interested in all the Shares in which Shikumen Capital Management (HK) Limited is interested or deemed to be interested.

SHARE CAPITAL

SHARE CAPITAL

The following table is prepared on the basis that the Global Offering and the Capitalisation Issue were effected. This table does not take into account any Shares which may be issued upon the exercise of options granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased pursuant to the Issuing Mandate and the Repurchase Mandate.

US\$

Authorized share capital

<u>500,000,000</u>		<u>50,000</u>
<u>500,000,000</u>	Shares	<u>50,000</u>

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering and the Capitalisation Issue:

100,000,000	Shares in issue as of the date of this prospectus	10,000
60,000,000	Shares to be issued under the Global Offering	6,000
<u>80,000,000</u>	Shares to be issued under the Capitalisation Issue	<u>8,000</u>
<u>240,000,000</u>		<u>24,000</u>

The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

Assumptions

The above table assumes that the Global Offering and the Capitalisation Issue become unconditional. It takes no account of Shares which may be issued upon the exercise of options granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate.

Ranking

The Offer Shares will rank pari passu in all respects with all Shares in issue and/or to be allotted and issued as mentioned in this prospectus and will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares save with respect to the Capitalisation Issue.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" in Appendix V to this prospectus.

SHARE CAPITAL

ISSUING MANDATE

Subject to the conditions set forth in the section headed “Structure and Conditions of the Global Offering” in this prospectus being fulfilled, our Directors have been granted a general mandate to exercise all the powers of our Company to allot, issue and deal with the Shares with an aggregate nominal value not exceeding:

- 20% of the aggregate nominal value of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued upon the exercise of options granted under the Share Option Scheme), and
- the aggregate nominal value of the share capital of our Company repurchased by our Company (if any) pursuant to the Repurchase Mandate.

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- upon the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- the passing of an ordinary resolution of the Shareholders in general meeting revoking or varying such mandate,

whichever is the earliest.

For further details of the Issuing Mandate, please refer to the section headed “Resolutions in writing of all Shareholders passed on 3 January 2013” in Appendix V to this prospectus.

REPURCHASE MANDATE

Subject to the conditions set forth in the section headed “Structure and Conditions of the Global Offering” in this prospectus being fulfilled, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue (excluding any Shares which may be issued upon the exercise of options granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the Listing Rules. A summary of the relevant requirements of the Listing Rules on the Repurchase Mandate is set forth in the section headed “Repurchase by our Company of our own securities” in Appendix V to this prospectus.

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or

SHARE CAPITAL

- upon the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws of the Cayman Islands to be held; or
- the passing of an ordinary resolution of the Shareholders in general meeting revoking or varying such mandate,

whichever is the earliest.

For further information about the Repurchase Mandate, please refer to the section headed “Resolutions in writing of all Shareholders passed on 3 January 2013” in Appendix V to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and our results of operations together with our audited consolidated financial statements for each of the three years ended 31 March 2010, 2011 and 2012 and for the four months ended 31 July 2012 as well as the accompanying notes included in the Accountant's Report set out in Appendix I to this prospectus. The Accountant's Report has been prepared in accordance with HKFRSs. Potential investors should read the whole of the Accountant's Report set out in Appendix I to this prospectus and not rely merely on the information contained in this section. The following discussion and analysis contains forward looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please refer to the section headed "Risk Factors" in this prospectus.

OVERVIEW

We are a toy manufacturer offering services primarily on an OEM basis. Our largest customer, Customer A, is an internationally renowned toy company based in the United States. Our other customers include several internationally reputable toy brands including LeapFrog and Tollytots. Headquartered in Hong Kong, we have a production base located in Foshan, Guangdong Province, the PRC.

We mainly export our products to North America and Western Europe. Revenue from North America accounted for approximately 57.1% and 47.6% of our total revenue for the four months ended 31 July 2011 and 2012, respectively, and approximately 54.5%, 49.3% and 56.8% of our total revenue for each of the three years ended 31 March 2012, respectively. Revenue from Western European accounted for approximately 25.3% and 32.7% of our total revenue for the four months ended 31 July 2011 and 2012, respectively, and approximately 34.0%, 33.7% and 27.8% of our total revenue for each of the three years ended 31 March 2012, respectively. For the four months ended 31 July 2011 and 2012, our Group's revenue was approximately HK\$267.1 million and HK\$279.7 million respectively, representing a growth of approximately 4.7%. For each of the three years ended 31 March 2012, our Group's revenue was approximately HK\$803.4 million, HK\$729.8 million and HK\$876.7 million respectively, representing a CAGR of approximately 4.46% from 2010 to 2012. For the four months ended 31 July 2011 and 2012, our Group's net profits was approximately HK\$11.8 million and HK\$5.2 million respectively, representing a negative growth of approximately 55.9%. Excluding our Group's Listing expenses, our net profits for such periods were approximately HK\$11.8 million and HK\$13.0 million, representing a growth of approximately 10.2%. For each of the three years ended 31 March 2012, our Group's net profits were approximately HK\$26.8 million, HK\$9.5 million and HK\$47.7 million respectively, representing a CAGR of approximately 33.4% from 2010 to 2012.

For further information about our business and operations, please refer to the section headed "Business" of this prospectus.

BASIS OF PREPARATION

Pursuant to the Reorganisation, as more fully described in the section headed "History, Reorganisation and Group Structure" of this prospectus and in Appendix V "Statutory and General Information" to this prospectus, our Company became the holding company of the companies now comprising our Group. Our financial information presents our results of operations, financial position

FINANCIAL INFORMATION

and cash flows of the companies now comprising our Group and has been prepared as if the current group structure had been in existence at the beginning of the Track Record Period, or since the companies' respective dates of incorporation or establishment, where there is a shorter period.

FACTORS AFFECTING THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following factors affect the results of operations and financial condition of our Group:

Level of demand for our products

We rely on a few major customers. Our sales to our top five customers amounted to approximately HK\$230.5 million, HK\$242.7 million, HK\$740.7 million, HK\$643.6 million and HK\$763.2 million which accounted for approximately 86.3%, 86.8%, 92.2%, 88.2%, and 87.1%, respectively, of our total revenue for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012. Sales to our largest customer for the four months ended 31 July 2011, 2012 and each of the three years ended 31 March 2012 amounted to approximately HK\$144.6 million, HK\$144.3 million, HK\$519.3 million, HK\$385.5 million and HK\$449.0 million, respectively, representing approximately 54.1%, 51.6%, 64.6%, 52.8% and 51.2% of our total revenue, respectively.

We have not entered into long-term contracts with our major customers. However, a majority of our top five customers during the Track Record Period have working relationship with us for more than five years. In the event that any of our major customers significantly reduce their purchases from us or our business relationship with them terminates, we may not be able to maintain the same sales volume. Furthermore, our Group's results of operation are also affected by the popularity of our customers' brands, which may decline for reasons of changes in consumer trends or preferences, a loss of goodwill and reputation of them or other reasons.

Our customers' ability to successfully sell their products developed and sold by us

Our customers sell the products sourced from us to retail customers. Consequently, our results of operations are directly affected by the success of our customers in their business. If our customers are unable to market and sell their products successfully or maintain their competitiveness due to lack of market acceptance or otherwise, they may not order new products or may decrease the quantity or purchase price of their orders, which could adversely affect our results of operations and revenue from such customers. Accordingly, our success depends on our customers' ability to successfully sell their products that are developed and sold by us.

Cost of raw materials

Cost of raw materials is a major component of our cost of sales, representing approximately 65.9%, 63.4%, 60.9%, 58.3% and 58.3% of our total cost of sales for the four months ended 31 July 2011, 2012 and each of the three years ended 31 March 2012. Fluctuation in the cost of our raw materials and our ability to pass on any increase in raw material costs to our customers will affect our total cost of sales and our gross profit margins. During the Track Record Period, the principal raw materials used in our manufacturing of toys were resin, fabric and printing materials.

FINANCIAL INFORMATION

Although our Group's gross profit margin changed as a result of movement in raw material prices and other factors, such fluctuation was minimal. The greatest gross profit margin fluctuation during the Track Record Period was approximately 1.5% only. Our Group generally maintains its gross profit margin level by adopting a cost-plus pricing model and making recommendation to our customers on the product design as necessary to minimise impact of movement in raw material costs, based on our experience and industry knowledge.

Changes in the global economic condition, especially in the U.S. and Europe

Changes in global market demand level for consumer goods may have a significant effect on our financial condition and results of operations. In particular, we would be affected by changes in the economic condition of the United States and Europe as these countries constitute the major proportion of our revenue.

Our customers may reduce their purchases from us due to, for example:

- a general decline in economic conditions;
- a decline in economic conditions in the United States or Western Europe, or both; and
- a decline in the purchases of toy products in general.

For the four months ended 31 July 2011 and 2012, sales of our products to customers in North America and Western Europe amounted to approximately 57.1% and 47.6%; and 25.3% and 32.7% respectively of our total revenue. For each of three years ended 31 March 2012, sales of our products to customers in North America and Western Europe amounted to approximately 54.5%, 49.3% and 56.8%; and 34.0%, 33.7% and 27.8% respectively of our total revenue.

Fluctuations in foreign exchange rates

As our sales are primarily made in US dollar and HK dollar whereas our purchases of materials and payment of wages and salaries to the PRC workers are in RMB and HK dollar, we are exposed to exchange rate risk. During the Track Record Period, the Group has experienced no material exchange losses. In addition, we are exposed to the risks associated with the currency conversion and exchange rate system in the PRC.

Our profit margins will be negatively affected to the extent that we are unable to increase the U.S. dollar selling prices of the products we sell to our overseas customers to account for any appreciation of the RMB against the U.S. dollar. Further, any future significant fluctuations in exchange rates will result in increases or decreases in our reported costs and earnings, and also adversely affect the carrying value of our non-Hong Kong dollar-denominated assets and the amount of our equity, and, accordingly, our business, financial condition, results of operations and prospects.

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CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings in Hong Kong	Over the shorter of the unexpired or the lease terms
Leasehold land and buildings in the PRC	Over the shorter of the lease terms or 4.5%
Leasehold improvements	Over the shorter of the lease terms or 35%
Plants and machinery	9.5% or 35%
Fixtures, furniture and office equipment	35%
Motor vehicles	18% or 35%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair

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value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated income statement in the period in which it arises.

Financial Instruments

Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

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Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment loss on financial assets

The Group assesses, at the end of each Relevant Periods, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Financial liabilities

Financial liabilities at amortised cost including trade payables, accruals and other payables, amounts due to related companies and directors, and borrowings, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Revenue recognition

Revenue from sales of goods and moulding income is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to make contributions for their employees who are registered as permanent residents in Mainland China. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

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MANAGEMENT DISCUSSION AND ANALYSIS

Summary of results of operations

The following table summarises our Group's consolidated revenue and results for the Track Record Period prepared on the basis set out in note 2 to the audited financial statements set forth in the Accountant's Report contained in Appendix I to this prospectus. Potential investors should read this section in conjunction with the Accountant's Report contained in Appendix I to this prospectus and not merely rely on the information contained in this section.

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Revenue	803,432	729,776	876,667	267,116	279,657
Cost of sales	<u>(713,240)</u>	<u>(650,682)</u>	<u>(777,295)</u>	<u>(237,365)</u>	<u>(245,147)</u>
Gross profit	90,192	79,094	99,372	29,751	34,510
Other income and gains	5,580	12,396	15,648	1,698	401
Selling expenses	(36,473)	(22,141)	(22,306)	(6,439)	(6,192)
Administrative expenses	(31,672)	(35,715)	(32,646)	(10,129)	(19,883)
Loss on liquidation of an associate	—	(17,149)	—	—	—
Share of profits of an associate	6,149	—	—	—	—
Finance costs	<u>(700)</u>	<u>(760)</u>	<u>(1,900)</u>	<u>(494)</u>	<u>(674)</u>
Profits before income tax expense	<u>33,076</u>	<u>15,725</u>	<u>58,168</u>	<u>14,387</u>	<u>8,162</u>
Income tax expense	<u>(6,314)</u>	<u>(6,229)</u>	<u>(10,492)</u>	<u>(2,605)</u>	<u>(2,964)</u>
Profit for the year/period	<u><u>26,762</u></u>	<u><u>9,496</u></u>	<u><u>47,676</u></u>	<u><u>11,782</u></u>	<u><u>5,198</u></u>

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Description of selected consolidated statements of comprehensive income line items

Revenue

Our Group is principally engaged in providing toy manufacturing services to our customers primarily on an OEM basis. In line with customary industry practice, our major customers do not enter into long term contracts. As an OEM manufacturer, we manufacture products for our customers according to their specifications, and the products are sold by our customers under their own brand names. As part of our ancillary value-added services, we also offer ODM services in the product development for some of our customers. Such customers rely on our design engineering capabilities, prototyping skills as well as our advice for their product development. We apply our design engineering knowledge in the course of manufacturing products and provide such customers with advice whenever appropriate so as to facilitate the manufacturing process and enhance the quality of their products. Such ODM services is ancillary to and forms an integral part of our manufacturing services to our customers and we do not separately charge our customers for such services. The products manufactured by us include:

- Products for aged 3 or below, which include water teethers, rockers and bouncers, cradle swings, baby activity gyms and baby mobiles; and
- Products for aged above 3, which include electronic games, action figures, dolls and playsets.

Our Group's revenue during the Track Record Period represented the amounts received and receivable for toys manufactured and sold, net of discounts, returns, allowances and sales related taxes.

Our Group's revenue can generally be analyzed by geographical region and target age group. With reference to our Group's results by geographical regions, as the cost of sales and the operating expenses cannot be allocated into different geographical regions, no segment results can be provided for the different geographical regions.

Revenue by geographical region

The following table sets forth the breakdown of our Group's revenue from our customers by geographical location during the Track Record Period^(Note 1):

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
North America ^(Note 2)	437,799	54.5	360,004	49.3	498,166	56.8	152,415	57.1	133,081	47.6
Western Europe ^(Note 3)	273,604	34.0	246,029	33.7	243,920	27.8	67,500	25.3	91,569	32.7
PRC & Taiwan	10,960	1.4	27,660	3.8	41,545	4.8	14,651	5.5	9,784	3.5
Australia, New Zealand & Pacific Island	20,177	2.5	21,866	3.0	18,053	2.1	8,614	3.2	10,345	3.7
South America	19,524	2.4	23,067	3.2	21,070	2.4	10,229	3.8	12,891	4.6
Central America, Caribbean, Mexico	15,865	2.0	20,266	2.8	24,750	2.8	7,294	2.7	10,840	3.9
Others ^(Note 4)	25,503	3.2	30,884	4.2	29,163	3.3	6,413	2.4	11,147	4.0
Total:	803,432	100.0	729,776	100.0	876,667	100.0	267,116	100.0	279,657	100.0

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Notes:

1. The geographical breakdown was prepared based on shipping destination without taking into account of the re-export of our products by the customers.
2. North America refers to the U.S. and Canada.
3. Western Europe includes Germany, France, UK, Netherland, Belgium, Italy, Ireland and Spain.
4. Others include India, Japan, Korea, Mediterranean, Russia and Southeast Asia.

As illustrated in the above table, our Group's revenue increased from approximately HK\$267.1 million for the four months ended 31 July 2011 to approximately HK\$279.7 million for the four months ended 31 July 2012, representing a growth rate of approximately 4.7%, increased from approximately HK\$729.8 million for the year ended 31 March 2011 to approximately HK\$876.7 million for the year ended 31 March 2012, representing a growth rate of approximately 20.1% and decreased from approximately HK\$803.4 million for the year ended 31 March 2010 to approximately HK\$729.8 million for the year ended 31 March 2011, representing a decrease of approximately 9.2%.

North America and Western Europe were our Group's principal markets for our products during the Track Record Period. During the four months ended 31 July 2012 and 31 July 2011, revenue from North America accounted for approximately 47.6% and 57.1% of our Group's total revenue respectively, while revenue from Western Europe accounted for approximately 32.7% and 25.3% of our Group's total revenue respectively. During the three years ended 31 March 2012, revenue from North America accounted for approximately 54.5%, 49.3% and 56.8% of our Group's total revenue respectively, while revenue from Western Europe accounted for approximately 34.0%, 33.7% and 27.8% of our Group's total revenue respectively.

Our Group has an operating history since 1996. Our largest customer, Customer A, became our customer in 2000. Throughout the years, we have developed the key strength of providing quality toy products that meet the appropriate safety standards. As we gained recognition in the toy production industry, we began to contract with other international renowned toy brands such as CIDE, LeapFrog and Tollytots, and from 2009 until present, our Group has been doing business with increasing number of customers. As we expect our business to continue to expand, we have commenced construction of a new factory building of our own production facility currently operated by Foshan Haoda, which is expected to be done in stages and completed before the end of 2013, in order to increase our production capacity, improve our production efficiency and utilisation rate so that we could accommodate more orders from our customers in the foreseeable future.

There are three main methods in which our Group seeks to increase our revenue stream:

- (i) As we have established solid relationships with our customers throughout our operating history, our existing customers would often come to us for our engineering and production expertise when they have new projects or products and are looking for trusted suppliers with proven track record of producing products of high quality;
- (ii) As our existing customers are satisfied with our production qualities, they would also occasionally refer new customers and new businesses to our Group; and

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- (iii) As our Group also has strong design knowledge in addition to our engineering and production expertise, we would also occasionally take initiatives to communicate to our existing customers relating to any new toy designs or trends that we spot in the market and discuss any potential business opportunities.

For the four months ended 31 July 2012, our Group's approximately 4.7% increase in revenue compared to the four months ended 31 July 2011 was mainly attributable to the increase in revenue from Western Europe, Central America, Caribbean, Mexico and the "others" category. For the four months ended 31 July 2012, revenue from Western Europe increased by approximately HK\$24.1 million, revenue from Central America, Caribbean and Mexico increased by approximately HK\$3.5 million and revenue from the "others" category increased by approximately HK\$4.7 million. The increase in revenue from Western Europe was primarily due to increased product demand from Western Europe and mainly Customer A selling more to Western Europe compared to the corresponding period in the previous year. The increase in revenue from Central America, Caribbean, Mexico, the "others" category and South America was primarily due to our customers' continued emphasis in selling to retail markets in developing countries with more growth opportunities. As a result of our customers' continued emphasis in selling to retail markets in developing countries, revenue from Central America, Caribbean, Mexico increased from approximately HK\$7.3 million for the four months ended 31 July 2011 to approximately HK\$10.8 million for the four months ended 31 July 2012, representing an increase of approximately 47.9%, revenue from the "others" category increased from approximately HK\$6.4 million for the four months ended 31 July 2011 to approximately HK\$11.1 million for the four months ended 31 July 2012, representing an increase of approximately 73.4%, and revenue from South America increased from approximately HK\$10.2 million for the four months ended 31 July 2011 to approximately HK\$12.9 million for the four months ended 31 July 2012, representing an increase of approximately 26.5%. The increase in revenue of the above was partially offset by the decrease in revenue from North America and also, to a lesser extent, PRC and Taiwan. For the four months ended 31 July 2012, revenue from North America decreased by approximately HK\$19.3 million and revenue from PRC and Taiwan decreased by approximately HK\$4.9 million. The decrease in revenue from North America, PRC and Taiwan was primarily due to our customers' focus on selling to Western Europe and other developing countries and mainly Customer A selling less to North America compared to the corresponding period in the previous year.

For the year ended 31 March 2012, our Group's approximately 20.1% increase in revenue compared to the year ended 31 March 2011 was mainly attributable to the increase in revenue from North America. For the year ended 31 March 2012, revenue from North America increased by approximately HK\$138.2 million and revenue from Western Europe decreased by approximately HK\$2.1 million compared to the year ended 31 March 2011. The increase in revenue from North America was primarily due to the recovery of the retail market in North America and a turnaround from the lingering effect of the credit crisis in mainly America during the year ended 31 March 2011. The decrease in revenue from Western Europe was primarily due to the ongoing and intensifying European sovereign debt crisis which affected the entire European economy and its retail market in general. Apart from the increase in revenue from North America, the increase in revenue was, to a lesser extent, also attributable to the revenue increase from Central America, Caribbean and Mexico and PRC and Taiwan as a few of our large customers continued to put more emphasis in selling to the retail markets in developing countries with more growth opportunities during the year ended 31 March 2012 as compared to the year ended 31 March 2011 to offset the relatively slower growth and more saturated and developed economies such as North America and Western Europe. As a result of our customers' continued

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emphasis on fast-growing countries, revenue from PRC and Taiwan increased from approximately HK\$27.7 million for the year ended 31 March 2011 to approximately HK\$41.5 million for the year ended 31 March 2012, representing an increase of approximately 49.8% and revenue from Central America, Caribbean and Mexico increased from approximately HK\$20.3 million for the year ended 31 March 2011 to approximately HK\$24.8 million for the year ended 31 March 2012, representing an increase of approximately 22.2%. The increase in revenue of the above was partially offset by the decrease in revenue from Australia, New Zealand and Pacific Island and South America. Sales to Australia, New Zealand and Pacific Island and South America during the Track Record Period were fragmented in terms of customer concentration and the fluctuation in revenue was mainly due to a change in demand from our customers selling to those regions. The “others” category remained relatively stable for the year ended 31 March 2012 compared to the year ended 31 March 2011.

For the year ended 31 March 2011, our Group’s approximately HK\$73.7 million decrease in revenue was mainly attributable to the decrease in revenue from both North America and Western Europe, which was partially offset by the increase in revenue from PRC and Taiwan, South and Central America, Caribbean and Mexico and the “others” category. For the year ended 31 March 2011, revenue from North America decreased by approximately HK\$77.8 million and revenue from Western Europe decreased by approximately HK\$27.6 million compared to the year ended 31 March 2010. The decrease in revenue from North America and Western Europe was primarily due to the lingering effect of the credit crisis in mainly America and the start of the European sovereign debt crisis in Europe as there was a general inventory build-up amongst those customers during the year ended 31 March 2010 and as a result, customers selling to the North American and European retail markets became more cautious when purchasing products from us. The revenue from North America and Western Europe therefore decreased during the year ended 31 March 2011 compared to the year ended 31 March 2010 due to this general holdback in purchases from our customers. The increase in revenue from PRC and Taiwan, South and Central America, Caribbean and Mexico and the “others” category was mainly attributable to the fact that a few of our large customers began putting more emphasis in selling to the retail markets in developing countries with more growth opportunities during the year ended 31 March 2011 as compared to the year ended 31 March 2010 in order to offset the relatively more stagnant economies in North America and Europe. As a result of our Group’s emphasis on fast-growing countries, revenue from PRC and Taiwan increased from approximately HK\$11.0 million for the year ended 31 March 2010 to approximately HK\$27.7 million for the year ended 31 March 2011, representing an increase of approximately 151.8%, revenue from Central America, Caribbean and Mexico increased from approximately HK\$15.9 million for the year ended 31 March 2010 to approximately HK\$20.3 million for the year ended 31 March 2011, representing an increase of approximately 27.7%, revenue from South America increased from approximately HK\$19.5 million for the year ended 31 March 2010 to approximately HK\$23.1 million for the year ended 31 March 2011, representing an increase of approximately 18.5% and the revenue from the “others” category increased from approximately HK\$25.5 million for the year ended 31 March 2010 to approximately HK\$30.9 million for the year ended 31 March 2011, representing an increase of approximately 21.2%.

For the year ended 31 March 2010, our Group achieved revenue of approximately HK\$803.4 million and approximately 54.5% and 34.0% of our Group’s revenue were derived from revenue from North America and Western Europe respectively.

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Revenue by target age group

Our Group mainly manufactured products in the following two target age group categories during the Track Record Period:

- Products for aged three or below, which include water teethers, rockers and bouncers, cradle swings, baby activity gyms and baby mobiles; and
- Products for aged above 3, which include electronic games, action figures, dolls and playsets.

The following table sets forth the breakdown of our Group's revenue by reference to the target age groups during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Products for aged 3 or below	<u>655,682</u>	<u>81.6</u>	<u>538,524</u>	<u>73.8</u>	<u>598,293</u>	<u>68.2</u>	<u>188,237</u>	<u>70.5</u>	<u>208,780</u>	<u>74.7</u>
Products for aged above 3	<u>147,750</u>	<u>18.4</u>	<u>191,252</u>	<u>26.2</u>	<u>278,374</u>	<u>31.8</u>	<u>78,879</u>	<u>29.5</u>	<u>70,877</u>	<u>25.3</u>
Total	<u><u>803,432</u></u>	<u><u>100.0</u></u>	<u><u>729,776</u></u>	<u><u>100.0</u></u>	<u><u>876,667</u></u>	<u><u>100.0</u></u>	<u><u>267,116</u></u>	<u><u>100.0</u></u>	<u><u>279,657</u></u>	<u><u>100.0</u></u>

As illustrated in the above table, our Group's revenue from selling toy products that are in the aged 3 or below category accounted for approximately 70.5%, 74.7%, 81.6%, 73.8% and 68.2% of our Group's total revenue respectively, while revenue from selling toy products that are in the aged above 3 category accounted for approximately 29.5%, 25.3%, 18.4%, 26.2% and 31.8% of our Group's total revenue respectively, during the four months ended 31 July 2011 and 2012 and the three years ended 31 March 2012. The gradual shift in product mix in terms of revenue generation from the year ended 31 March 2010 to the year ended 31 March 2012 from the "products for aged 3 or below" category to the "products for aged above 3" category was mainly due to the increase in revenue from Tollytots, which mainly purchased products from us that belong to the aged above 3 category.

For the four months ended 31 July 2012, the revenue generated from selling toy products that belong to the aged 3 or below category was approximately HK\$208.8 million, representing an increase of approximately 10.9% from approximately HK\$188.2 million for the four months ended 31 July 2011. For the four months ended 31 July 2012, the revenue generated from selling toy products that belong to the aged above 3 category was approximately HK\$70.9 million, representing decrease of approximately 10.1% from approximately HK\$78.9 million for the four months ended 31 July 2011. The increase in proportion of revenue from toy products that are in the aged 3 or below category was primarily due to the decrease in proportion of our revenue from Tollytots, which mainly purchased products from us that belong to the aged above 3 category compared to the corresponding period in the previous year.

For the year ended 31 March 2012, the revenue generated from selling toy products that belong to the aged 3 or below category was approximately HK\$598.3 million, representing an increase of approximately 11.1% from approximately HK\$538.5 million for the year ended 31 March 2011. For the

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year ended 31 March 2012, the revenue generated from selling toy products that belong to the aged above 3 category was approximately HK\$278.4 million, representing an increase of approximately 45.6% from approximately HK\$191.3 million for the year ended 31 March 2011. The increase in both categories was primarily attributable to the overall increase in our Group's revenue during the year as a result of the increase in revenue from selling to our principal market of North America. The increase in proportion of revenue from toy products that are in the aged above 3 category was primarily due to the increase in proportion of our total revenue from Tollytots, which mainly purchased toy products from us that belong to the aged above 3 category compared to the previous year. Our Group's sales to Tollytots were approximately HK\$109.7 million for the year ended 31 March 2012, which represented an increase of approximately 256.2% compared to the previous year due to the full-year effect of selling to Tollytots.

For the year ended 31 March 2011, the revenue generated from selling toy products that belong to the aged 3 or below category was approximately HK\$538.5 million, representing a decrease of approximately 17.9% from approximately HK\$655.7 million for the year ended 31 March 2010. The decrease was primarily due to the overall decrease in our Group's revenue during the year and the gradual shift in product mix to selling more products that belong to the aged above 3 category. For the year ended 31 March 2011, the revenue generated from selling toy products that belong to the aged above 3 category was approximately HK\$191.3 million, representing an increase of approximately 29.4% from approximately HK\$147.8 million for the year ended 31 March 2010. The increase in proportion of revenue from toy products that are in the aged above 3 category was primarily due to the increase in proportion of our total revenue from Tollytots, which mainly purchased toy products from us that belong to the aged above 3 category compared to the previous year. Our Group's sales to Tollytots were approximately HK\$30.8 million for the year ended 31 March 2011 and nil during the year ended 31 March 2010 as our business relationship with Tollytots commenced during the year ended 31 March 2011.

Cost of sales

Our Group's cost of sales primarily consisted of raw material costs, processing fees to the Processing Factory, subcontracting fees, other factory overheads and labour costs.

The following table sets out the breakdown of our cost of sales during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Raw materials	434,707	60.9	379,406	58.3	453,343	58.3	156,423	65.9	155,450	63.4
Processing fees	46,085	6.5	52,288	8.0	58,613	7.5	10,972	4.6	13,427	5.5
Subcontracting fees	165,235	23.2	159,503	24.5	200,873	25.8	53,102	22.4	55,826	22.8
Other factory overheads	51,867	7.2	43,011	6.7	44,081	5.8	11,794	5.0	14,080	5.7
Labour costs	15,346	2.2	16,474	2.5	20,385	2.6	5,074	2.1	6,364	2.6
Total:	<u>713,240</u>	<u>100.0</u>	<u>650,682</u>	<u>100.0</u>	<u>777,295</u>	<u>100.0</u>	<u>237,365</u>	<u>100.0</u>	<u>245,147</u>	<u>100.0</u>

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As illustrated in the above table, for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, our Group's cost of sales was approximately HK\$237.4 million, HK\$245.1 million, HK\$713.2 million, HK\$650.7 million and HK\$777.3 million respectively. The approximately 3.2% increase in our Group's cost of sales from the four months ended 31 July 2011 to the four months ended 31 July 2012 was primarily due to the increase in our Group's revenue for the corresponding period. The approximately 19.5% increase in our Group's cost of sales from the year ended 31 March 2011 to the year ended 31 March 2012 was primarily due to the increase in our Group's revenue for the corresponding year and the approximately 8.8% decrease in our Group's cost of sales from the year ended 31 March 2010 to the year ended 31 March 2011 was primarily due to the decrease in our Group's revenue for the corresponding year. Our Group's cost of sales was relatively stable and maintained at approximately 88.9%, 87.7%, 88.8%, 89.2% and 88.7%, respectively, of our Group's revenue for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012. Of these, the cost of raw materials was the largest cost component of our Group's cost of sales, representing approximately 65.9%, 63.4%, 60.9%, 58.3% and 58.3% respectively of our Group's costs of sales for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012. The slight upward trend of our Group's processing fees, subcontracting fees and labour costs from 2010 to 2012 as a percentage of our Group's total cost of sales respectively was primarily due to the continuous upward rise in staff salaries in the PRC. Throughout the Track Record Period, as a percentage of our Group's total cost of sales, most components of our cost of sales have been relatively stable.

Our Group purchases raw materials from our suppliers through purchase agreements initiated by quotations, which generally set forth the types of raw materials to be purchased, the specifications and the price which generally reflects the prevailing market price. During the Track Record Period, the major types of raw materials purchased by our Group included electronic components, printer materials for packaging, resin for plastic components, fabric for sewing products, accessories, chemicals and metals. The following table sets out the breakdown of total purchase of raw material by major items during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Electronic components <i>(Note 1)</i>	99,987	21.7	107,724	26.0	152,910	31.9	78,369	36.8	58,836	33.3
Printed and packaging materials <i>(Note 2)</i>	84,104	18.2	87,124	21.0	110,154	23.0	49,434	23.2	46,029	26.0
Plastics <i>(Note 3)</i>	150,617	32.7	91,492	22.1	84,321	17.6	32,874	15.5	28,219	16.0
Fabric <i>(Note 4)</i>	43,473	9.4	44,308	10.7	55,185	11.5	27,274	12.8	21,222	12.0
Accessories <i>(Note 5)</i>	48,111	10.4	43,012	10.4	33,962	7.1	6,302	3.0	5,792	3.3
Chemicals <i>(Note 6)</i>	14,338	3.1	21,057	5.1	20,248	4.2	6,006	2.8	7,098	4.0
Metals <i>(Note 7)</i>	20,365	4.5	19,750	4.7	21,914	4.7	12,464	5.9	9,536	5.4
Total	460,995	100.0	414,467	100.0	478,694	100.0	212,723	100.0	176,732	100.0

Notes:

1. Electronic components include dice, integrated circuit chips, motors, printed circuit boards, resistors, speakers, switch, transistors and wire.

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2. Printed and packaging materials include blister, carton boxes, instruction sheets, paper inserts and printed boxes.
3. Plastics mainly include resins.
4. Fabric components include polyester and tricot.
5. Accessories include ribbon, velcro and other miscellaneous items for fabric toy products.
6. Chemicals include grease and solvent.
7. Metals include bolts, nuts and screws.

As illustrated in the above table, for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, our Group's total purchase of raw materials was approximately HK\$212.7 million, HK\$176.7 million, HK\$461.0 million, HK\$414.5 million and HK\$478.7 million respectively. The approximately 16.9% decrease in raw materials for the four months ended 31 July 2012 despite the revenue increase was primarily due to our Group's difference in pattern in purchasing raw materials compared to the corresponding period in the previous year as our Group has planned to purchase more raw materials deeper into the peak sales season this year. The approximately 10.1% decrease in raw materials for the year ended 31 March 2011 and the approximately 15.5% increase in raw materials for the year ended 31 March 2012 were attributable to the revenue decrease for the year ended 31 March 2011 and the revenue increase for the year ended 31 March 2012.

The largest components of our Group's raw materials consisted of electronic components, printed and packaging materials, and plastics, which comprised of approximately 75.5%, 75.3%, 72.6%, 69.1% and 72.6% in aggregate of our total purchases of raw materials during the Track Record Period, respectively. As compared to 2010, our Group has been purchasing more electronic components and printer and packaging materials as a percentage of total purchases of raw materials, and on the other hand, our Group has been purchasing less plastics as a percentage of total purchases of raw materials, as our Group's product mix evolved during the Track Record Period as a result of our customers requesting an increasing amount of newer toy products that required electronic components and fancier and more elaborate packaging.

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The follow table sets forth the reconciliation between the raw materials purchase amounts during the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012 of approximately HK\$212.7 million, HK\$176.7 million, HK\$461.0 million, HK\$414.5 million and HK\$478.7 million, respectively, to the raw materials cost of sales amounts during the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012 of approximately HK\$156.4 million, HK\$155.5 million, HK\$434.7 million, HK\$379.4 million and HK\$453.3 million, respectively:

	<u>Year ended 31 March</u>			<u>Four months ended 31 July</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Opening raw materials balance	48,834	61,277	86,983	86,983	108,440
Raw material purchases during the year/period	460,995	414,467	478,694	212,723	176,732
Less: Closing raw materials balance	<u>(61,277)</u>	<u>(86,983)</u>	<u>(108,440)</u>	<u>(101,814)</u>	<u>(101,391)</u>
	<u>448,552</u>	<u>388,761</u>	<u>457,237</u>	<u>197,892</u>	<u>183,781</u>
Raw materials remaining in work in progress and finished goods as at year end/period end	<u>(13,845)</u>	<u>(9,355)</u>	<u>(3,894)</u>	<u>(41,469)</u>	<u>(28,331)</u>
Raw materials cost of sales during the year/period	<u>434,707</u>	<u>379,406</u>	<u>453,343</u>	<u>156,423</u>	<u>155,450</u>

Our Group generally adopts a cost-plus pricing model pursuant to which our Group will add a certain margin to the production costs of our products. Furthermore, our Group will discuss with our customers on the product design as necessary to facilitate the production and minimize production costs and raw material costs, based on our experience and engineering knowledge. For example, if the price of a certain type of raw materials increases significantly, our Group may recommend our customers to use other similar raw materials with a steadier price trend as a cost effective substitute. During the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, our Group's gross profit margins remained relatively stable at approximately 11.1%, 12.3%, 11.2%, 10.8% and 11.3% respectively. The small degree of fluctuation in our Group's gross profit margin, despite the general increasing trend in staff salaries in the PRC, demonstrated that our Group had the ability to pass on the increase in cost to our customers.

Apart from our own Haoda Factory, which is our wholly-owned subsidiary in the PRC, our Group's second production facility, namely, the Processing Factory, is operated under a processing arrangement pursuant to the Processing Agreement. During the Track Record Period, the basis for determining the processing fees paid by our Group to the Processing Factory represented the unit costs of production incurred by the Processing Factory, which include the direct and indirect labour, utility charges, depreciation and administrative expenses for production purposes. For the four months ended

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31 July 2011 and 2012 and each of the three years ended 31 March 2012, our annual processing fee paid to the Processing Factory amounted to approximately HK\$13.9 million, HK\$15.9 million, HK\$47.6 million, HK\$53.6 million and HK\$59.1 million respectively, representing approximately 5.8%, 6.5%, 6.7%, 8.2% and 7.6% of our Group's total costs of sales respectively. The increase in processing fees paid to the Processing Factory for the year ended 31 March 2011 compared to the year ended 31 March 2010 despite the decrease in revenue was primarily due to more products being retained and produced in the Processing Factory as a result of other subcontractors not being able to take up further productions during the year and the appreciation of the RMB currency, which led to higher labour and material costs.

While our Group's own Haoda Factory has not engaged any subcontractors, the Processing Factory has subcontracted a substantial part of the production process to independent subcontractors, especially during peak seasons from June to October each year when the demand for our products is high and the production facilities have been operating at near full capacity. For such subcontracting arrangement, the subcontracting fees were charged separately by the Processing Factory in addition to the processing fees paid by us to the Processing Factory. For the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, through the engagement of the subcontractors by the Processing Factory, subcontracting fees amounted to approximately HK\$53.1 million, HK\$55.8 million, HK\$165.2 million, HK\$159.5 million and HK\$200.9 million respectively, representing approximately 22.4%, 22.8%, 23.2%, 24.5% and 25.8% of our Group's total cost of sales respectively.

Gross profit and gross profit margin

The following table sets out our gross profit and gross profit margin during the Track Record Period:

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross profit	90,192	79,094	99,372	29,751	34,510
Gross profit margin	11.2%	10.8%	11.3%	11.1%	12.3%

As a result of the approximately HK\$12.6 million increase in our Group's revenue, our Group's gross profit increased by approximately 15.8% from approximately HK\$29.8 million for the four months ended 31 July 2011 to approximately HK\$34.5 million for the four months ended 31 July 2012. Our Group's gross profit margin increased slightly from 11.1% for the four months ended 31 July 2011 to 12.3% for the four months ended 31 July 2012. Our Group's gross profit margin increased slightly from the four months ended 31 July 2011 of approximately 11.1% to the four months ended 31 July 2012 of approximately 12.3% because our Group was able to negotiate a better mark-up margin for the mix of products being sold during the four months ended 31 July 2012 due to the increased complexity in manufacturing those products.

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As a result of the approximately HK\$146.9 million increase in our Group's revenue, our Group's gross profit increased by approximately 25.7% from approximately HK\$79.1 million for the year ended 31 March 2011 to approximately HK\$99.4 million for the year ended 31 March 2012. Our Group's gross profit margin remained relatively stable from 10.8% for the year ended 31 March 2011 to 11.3% for the year ended 31 March 2012.

As a result of the decrease in our Group's revenue, our Group's gross profit decreased by approximately 12.3% from approximately HK\$90.2 million for the year ended 31 March 2010 to approximately HK\$79.1 million for the year ended 31 March 2011. Our Group's gross profit margin remained relatively stable from 11.2% for the year ended 31 March 2010 to 10.8% for the year ended 31 March 2011.

Our Group's gross profit margins during the Track Record Period were primarily affected by the following three factors: (i) average selling price of our products, which differed year-by-year due to the change in product mix requested by our Group's customers; (ii) different combinations of raw materials purchased to cater for the change in product mix requested by our Group's customers; and (iii) fluctuation of the prices of major raw materials of our products and the cost of staff labour.

Product mix and raw materials

During the Track Record Period, our Group sold toy products in the aged 3 or below category and the aged above 3 category. Our Group's gross profit margins were affected by our Group's sales of different combination of toy products within these 2 categories throughout the Track Record Period according to our customers' orders and demand.

During the four months ended 31 July 2011, 2012 and each of the three years ended 31 March 2012, our Group's cost of raw materials accounted for approximately 65.9%, 63.4%, 60.9%, 58.3% and 58.3% of our total cost of sales respectively. The cost of raw materials have fluctuated historically due to fluctuations of the market prices for the raw materials. During the four months ended 31 July 2011, 2012 and each of the three years ended 31 March 2012, resin represented a major commodity component which accounted for approximately 15.5%, 16.0%, 32.7%, 22.1% and 17.6% of our total cost of raw materials and approximately 13.8%, 11.5%, 21.1%, 14.1% and 10.8% of our total cost of sales respectively. Electronic components and printed and packaging materials also represented other major cost of sales items. For hypothetical purposes, assuming that our Group cannot pass on the increase in raw material cost to our customers, any significant increase in resin, electronic components and printing and packaging materials may have a significant impact on our Group's gross profit margin. For detailed sensitivity analysis on gross profit margin under different scenarios of revenue and cost of sales fluctuations, please refer to the "Sensitivity analysis" paragraph below.

Extent to which our Group would be able to maintain a cost-plus model

Although different customers constantly requested different products from us (which is evident from the increasing trend of toy products sold that are in the "aged above 3" category during the Track Record Period) and hence our cost structure was constantly affected by the change in the mix of products that we manufactured and the cost of raw materials and staff labour used for the manufacturing of products (which is evident from the decreasing proportion of resin used and the increasing proportion of electronic components used as part of our raw materials during the Track Record Period), our Group managed to maintain a steady cost-plus product pricing model as demonstrated by the steady gross profit

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margins of approximately 11.1%, 12.3%, 11.2%, 10.8% and 11.3% for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, respectively. Our Group's steady cost-plus product pricing model during the Track Record Period further demonstrated that we were able to pass on a significant portion of the increase in our production cost to our customers through negotiating a higher selling price for our products.

For detailed analysis on our Group's revenue and cost of sales, please refer to the sections headed "Revenue" and "Cost of sales" above.

Other income and gains

Other income and gains mainly consisted of moulding income, fair value gain on financial assets, interest income and "others".

The following table sets out the components of other income and gains during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Moulding income	4,777	85.6	5,591	45.1	4,124	26.4	822	48.4	2,645	659.6
Fair value gain/(loss) on derivative financial instruments ^(Note)	—	—	3,563	28.7	2,628	16.8	(296)	(17.4)	(5,153)	(1,285.0)
Realised gain on derivative financial instruments	—	—	531	4.3	5,593	35.8	683	40.2	2,436	607.5
Interest income	124	2.2	306	2.5	212	1.4	23	1.4	12	3.0
Exchange gains, net	222	4.0	1,611	13.0	1,769	11.3	186	10.9	99	24.7
Gain on disposal of property, plant and equipment	—	—	—	—	60	0.3	—	—	—	—
Sundry income from an associate	40	0.7	440	3.6	—	—	—	—	—	—
Others	417	7.5	354	2.8	1,262	8.0	280	16.5	362	90.2
Total:	5,580	100.0	12,396	100.0	15,648	100.0	1,698	100.0	401	100.0

Note: Financial assets at fair value through profit or loss consisted of non-deliverable forward contracts entered into by our Group. For more information on our Group's non-deliverable forward contracts for currency hedging, please refer to the "Derivative financial instruments" paragraph below.

As illustrated in the table above, for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, our Group's other income and gains was approximately HK\$1.7 million, HK\$0.4 million, HK\$5.6 million, HK\$12.4 million and HK\$15.6 million respectively. Moulding income was the major component of our Group's other income and gains and represented approximately 48.4%, 659.6%, 85.6%, 45.1% and 26.4% of our total other income and gains for the four months ended

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31 July 2011 and 2012 and each of the three years ended 31 March 2012 respectively. Moulding income represented the income generated from our selling of toy moulds to our customers. Our Group sold these toy moulds to the same customers who purchased toys from our Group. The substantial increase in moulding income as a percentage of our total other income and gains during the four months ended 31 July 2012 compared to the four months ended 31 July 2011 was primarily due to the loss on derivative financial instruments due to the depreciating RMB during the four months ended 31 July 2012. The decrease in moulding income as a percentage of our total other income and gains during the three years ended 31 March 2012 was primarily due to our Group entering into non-deliverable forward contracts in 2011 for hedging the appreciation of RMB against the US\$. The non-deliverable forward contracts are marked to the market as at the financial year end date and the appreciation of the RMB during the three years ended 31 March 2012 gave rise to the fair value gain on derivative financial instruments and realised gains on derivative financial instruments. Fair value gain on derivative financial instruments refers to the gain on the fair value of the derivative financial instruments that have not yet matured during the financial year. Realised gain on derivative financial instruments refers to the gain on the fair value of the derivative financial instruments that have matured during the financial year.

The approximately HK\$1.3 million decrease in our Group's other income and gains for the four months ended 31 July 2012 compared to the four months ended 31 July 2011, representing a decrease of approximately 76.5%, was primarily due to the depreciation of the RMB against the US\$ during the four months ended 31 July 2012 compared to the appreciation of the RMB against the US\$ during the four months ended 31 July 2011, which gave rise to a loss on our non-deliverable forward contracts of approximately HK\$2.7 million for the four months ended 31 July 2012, which was partially offset by the increase in moulding income of approximately HK\$1.8 million for the four months ended 31 July 2012 due to more of our customers requesting new moulds for new products.

The approximately HK\$3.2 million increase in our Group's other income and gains for the year ended 31 March 2012 compared to the year ended 31 March 2011, representing an increase of approximately 25.8%, was primarily due to the continuous appreciation of the RMB against the US\$, which gave rise to an increase in gain on our non-deliverable forward contracts of approximately HK\$4.1 million for the year ended 31 March 2012.

The approximately HK\$6.8 million increase in our Group's other income and gains for the year ended 31 March 2011 compared to the year ended 31 March 2010, representing an increase of approximately 121.4%, was primarily due to our Group entering into non-deliverable forward contracts for hedging against the exchange rate fluctuation of the US\$ against RMB in 2011, which gave rise to the fair value gain on derivative financial instruments of approximately HK\$4.1 million and the increase of approximately HK\$1.4 million in net exchange gains for the year ended 31 March 2011. There was no gain on derivative financial instruments for the year ended 31 March 2010 as our Group did not enter into any derivative financial instruments prior to 31 March 2010.

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Selling expenses

Selling expenses mainly consisted of transportation fees and declaration fees.

The following table sets out the components of selling expenses during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Transportation Fees	26,412	72.4	16,950	76.6	18,954	85.0	5,404	83.9	5,533	89.4
Declaration Fees	10,061	27.6	5,191	23.4	3,352	15.0	1,035	16.1	659	10.6
Total	36,473	100.0	22,141	100.0	22,306	100.0	6,439	100.0	6,192	100.0

As illustrated in the above table, for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, our Group's selling expenses was approximately HK\$6.4 million, HK\$6.2 million, HK\$36.5 million, HK\$22.1 million and HK\$22.3 million respectively. Transportation fees was the largest component of our Group's selling expenses, representing approximately 83.9%, 89.4%, 72.4%, 76.6% and 85.0% of our total selling expenses for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012 respectively.

Our Group's selling expenses of approximately HK\$6.2 million for the four months ended 31 July 2012 was stable compared to the four months ended 31 July 2011 of approximately HK\$6.4 million.

Our Group's selling expenses of approximately HK\$22.3 million for the year ended 31 March 2012 was stable compared to the year ended 31 March 2011 of approximately HK\$22.1 million. The slight increase in selling expenses was primarily attributable to a combined higher transportation and declaration fees due to the increase in revenue during the year, which led to our Group having to incur more costs for the arranging of customer logistics for product delivery.

The approximately HK\$14.4 million decrease in our Group's selling expenses for the year ended 31 March 2011 compared to the year ended 31 March 2010, representing a decrease of approximately 39.5%, was primarily due to the decrease in transportation and declaration fees as a result of (i) our Group's decrease in revenue for the year; and (ii) more of our customers began to arrange their own logistics and transportation in 2011 for delivery of their products and hence there was a lesser need for us to arrange for transportation services from external logistic companies.

Administrative expenses

Administrative expenses mainly consisted of salaries to our staff, rents and rates for office spaces, depreciation on our fixed assets and other administrative expenses.

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The following table sets out the components of administrative expenses during the Track Record Period:

	Year ended 31 March						Four months ended 31 July			
	2010		2011		2012		2011		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Salaries	22,826	72.1	24,696	69.1	22,990	70.4	7,288	72.0	9,109	45.8
Rent and rates	1,812	5.7	1,676	4.7	1,871	5.7	525	5.2	831	4.2
Postages	416	1.3	468	1.3	517	1.6	169	1.7	152	0.8
Insurance	496	1.6	533	1.5	254	0.8	126	1.2	105	0.5
Entertainment	779	2.5	1,682	4.7	980	3.0	426	4.2	216	1.1
Travelling	795	2.5	741	2.1	709	2.2	203	2.0	149	0.8
Consultancy fees	1,219	3.8	1,162	3.3	1,103	3.4	160	1.6	123	0.6
Depreciation	1,250	3.9	1,732	4.8	1,230	3.8	389	3.8	406	2.0
Audit fees	118	0.4	120	0.4	460	1.4	40	0.4	40	0.2
Listing expenses	—	—	—	—	—	—	—	—	7,842	39.4
Other administrative expenses	1,961	6.2	2,905	8.1	2,532	7.7	803	7.9	910	4.6
Total:	31,672	100.0	35,715	100.0	32,646	100.0	10,129	100.0	19,883	100.0

As illustrated in the above table, for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, our Group's administrative expenses was approximately HK\$10.1 million, HK\$19.9 million, HK\$31.7 million, HK\$35.7 million and HK\$32.6 million respectively. Other administrative expenses primarily included utilities, motor vehicle expenses, bank charges and repairs and maintenance fees.

The approximately HK\$9.8 million increase in our Group's administrative expenses for the four months ended 31 July 2012 compared to the four months ended 31 July 2011, representing an increase of approximately 97%, was primarily due to (i) the approximately HK\$7.8 million listing expenses incurred by the Group during the four months ended 31 July 2012; and (ii) the approximately HK\$1.8 million increase in salary expenses as a result of a relatively higher peak season bonus and pro-rata double pay paid to employees during the four months ended 31 July 2012 compared to the corresponding period in the previous years in order to reward our Group's employees' hard work during the year, in particular for the proposed Listing of the Company.

The approximately HK\$3.1 million decrease in our Group's administrative expenses for the year ended 31 March 2012 compared to the year ended 31 March 2011, representing a decrease of approximately 8.7%, was primarily due to (i) the approximately HK\$0.5 million decrease in depreciation expenses as a result of the written-off plant and machineries from the previous year; (ii) the approximately HK\$0.4 million decrease in the 'others' category as a result of lesser expenditures on motor vehicles due to less maintenance fees relating to motor vehicles; (iii) the approximately HK\$0.7 million decrease in entertainment expenses as a result of our staff spending less on entertainment with customers and suppliers; and (iv) the approximately HK\$1.7 million decrease in salary expenses as a result of the decrease in the number of administrative headcount from 50 staff to 47 staff.

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The approximately HK\$4.0 million increase in our Group's administrative expenses for the year ended 31 March 2011 compared to the year ended 31 March 2010, representing an increase of approximately 12.6%, was primarily due to (i) the approximately HK\$1.9 million increase in our salary expenses as a result of more bonuses being paid to administrative staff for the year ended 31 March 2011 as compared to the previous year; (ii) the approximately HK\$0.9 million increase in other administrative expenses as a result of increase in bank charges from our banking facilities and increase in sundry expenses; and (iii) the approximately HK\$0.9 million increase in entertainment expenses as a result of our staff spending more on entertainment with customers and suppliers.

Loss on liquidation of an associate

The loss on the liquidation of an associate of approximately HK\$17.1 million for the year ended 31 March 2011 represented liquidation of our Group's associate, namely Eagletron, a company engaged in the manufacturing of consumer electronic products in Dongguan, Guangdong Province, the PRC, due to liquidity problems.

Mr. Lau was acquainted with the management of Eagletron and was offered an opportunity to invest in Eagletron. Prior to acquiring the shares in Eagletron, Mr. Lau had discussed with Eagletron's management and directors, conducted site visits at Eagletron's factory and had been provided with and had considered the financial information of Eagletron. On the basis that the investment cost in Eagletron under the offer was substantially lower than the then book value of the assets of Eagletron, and with a view to gaining capital return, Qualiman Technology acquired 20% equity interests of Eagletron at the aggregate consideration of HK\$2 million. The acquisition was completed on 18 January 2010. Our Group recorded a share of profits from an associate of approximately HK\$6.1 million for the year ended 31 March 2010, which arose as a result of the excess of our Group's share of the net asset value of Eagletron based on the audited financial statements of Eagletron for the year ended 31 March 2010 over our cost of investment of HK\$2 million. Eagletron was loss making for the year ended 31 March 2010. On the same date as Qualiman Technology acquired the 20% equity interest in Eagletron, pursuant to two loan arrangements, our Group advanced to Eagletron (i) a loan of HK\$3 million which was interest bearing at the rate of 6.25% per annum and (ii) a loan of HK\$2 million which was unsecured and interest free. The two loan arrangements were entered into by Qualiman Technology on the basis that (i) for the HK\$3 million loan, the interest rate of 6.25% per annum payable by Eagletron to Qualiman Technology for the loan represents a reasonable return of investment in advancing the loan, and (ii) for the HK\$2 million interest-free loan, it was a shareholder's loan provided to Eagletron pursuant to the terms of the investment based on the same terms as the shareholders' loans provided by the other shareholders of Eagletron. The principal amount of the HK\$2 million loan was repaid in full to us in December 2010 as part of the total consideration of HK\$6 million contemplated under a sale and lease back arrangement disclosed below.

In the second half of 2010, we were informed by Eagletron that due to the adverse market conditions, the credit period for settling payables to its suppliers were shortened and it took a longer period of time for Eagletron to collect receivables from its customers. As a result, it started to experience working capital constraints and requested our Group to advance further loans to it. Hoping to keep the business of Eagletron going and prevent it from missing its payment obligations owing to its creditors and being wound up by creditors immediately thereby leading to the loss of our investment in Eagletron and the loans provided to Eagletron becoming irrecoverable instantly and in view of that the title of the machinery and equipment sold under the equipment transfer agreement would be transferred

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to Qualiman Technology, Qualiman Technology entered into the sale and lease back arrangement with Eagletron in respect of certain machinery and equipment. On 21 December 2010, Qualiman Technology entered into an equipment transfer agreement with Eagletron pursuant to which a batch of machinery and equipment were sold by Eagletron to our Group at the consideration of HK\$6 million which was leased back to Eagletron for a term of five years commencing from 21 December 2010 and ending on 20 December 2015 pursuant to a machinery and equipment leasing agreement entered into between Qualiman Technology and Eagletron in December 2010. As shown in the accountant's report set out Appendix I to this prospectus, such sale and lease back arrangement was treated by our auditors as a loan in the amount of HK\$6 million provided by our Group to Eagletron for accounting purpose as the substance of this arrangement was actually to finance the operation of Eagletron. Subsequently, a petition was filed by a creditor of Eagletron on 21 April 2011 at the High Court, a court order was granted on 29 June 2011 that Eagletron be wound up by the High Court and the Official Receiver be constituted provisional liquidator of the affairs of the Eagletron. We noted that joint and several provisional liquidators were appointed on 29 June 2011 and joint and several liquidators were appointed on 21 October 2011 for the compulsory winding up of the company and as at the Latest Practicable Date, Eagletron is still in compulsory winding up and it has still not been dissolved yet. As informed by the joint and several liquidators, as at the Latest Practicable Date, the liquidators were continuing their investigation into the affairs of Eagletron and they considered that the prospect of dividend payment to any class of creditors in Eagletron's liquidation was remote. Our Company's legal advisers as to Hong Kong laws have advised that, (i) as a creditor of Eagletron, Qualiman Technology and its directors will not have any legal liability owing to Eagletron due to its liquidation; and (ii) as Eagletron is a limited liability company incorporated in Hong Kong, the legal liability of Qualiman Technology as a shareholder of Eagletron is limited to its investment in Eagletron's issued capital, i.e., the HK\$2 million invested in the 20% equity interest of Eagletron which had been fully paid up and other than that, Qualiman Technology (in its capacity as a shareholder of Eagletron) and its directors will not have any legal liability owing to Eagletron due to its liquidation. By reason of that in about February 2011, we were informed that all the machinery and equipment under the sale and lease back arrangement which were located in Eagletron's production facilities in the PRC were seized by the local government of Dongguan and starting from February 2011, Eagletron had been defaulting in payment of interest under the HK\$3 million interest bearing loan and the monthly rental for leasing the machinery and equipment under the machinery and equipment leasing agreement, our Directors considered the interest in Eagletron, which included the Group's share of net assets of approximately HK\$8.1 million and outstanding loans to Eagletron of approximately HK\$9 million comprising the amount of HK\$3 million outstanding loan amount under the said HK\$3 million interest bearing loan and the HK\$6 million loan under the sale and lease back arrangement, were irrecoverable and therefore impairment was made in 2011. As a result, the Group recorded a loss on liquidation of an associate of approximately HK\$17.1 million for the year ended 31 March 2011. We have instigated arbitration proceedings in the PRC in order to recover the machinery and equipment under the sale and lease back arrangement and we have obtained an arbitral award in which Eagletron was required to return all of the machinery and equipment under the sale and lease back arrangement and pay to our Group all relevant rental payments in arrears in respect of the machinery and equipment with interest and reimburse our Group the cost of the arbitration proceedings. Our Group has applied for enforcement of the arbitral award at the PRC court. According to the enforcement judgment granted by the PRC court on 4 September 2012, during the course of enforcement, it had been ascertained that all the assets of Eagletron had been sold by public auction by the First People's Court of Dongguan City and all the proceeds of the sale had been distributed. Accordingly, all the assets of Eagletron for enforcement of judgment had been disposed of. Furthermore, the court had made enquiries with the local financial institutions, lands and properties

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registration authorities, vehicles management authorities and industry and commerce authorities regarding the properties of Eagletron and was unable to find any assets under Eagletron's name which could be available for enforcement. Therefore, the enforcement proceedings were closed by the court. As at the Latest Practicable Date, the Group has not received any distribution from the liquidation of Eagletron or compensation awarded to our Group in the arbitration proceedings.

Our Company's legal advisers as to Hong Kong laws have advised that the two loan arrangements described above are legal under Hong Kong law for the reasons that:

- (a) as the lender, Qualiman Technology, by making the said loans (which were made in connection with its investment in Eagletron) was not carrying on money lending business in Hong Kong and was thus not required to obtain any money lending licence under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and thus Qualiman Technology would not be subject to the provisions applicable to money lenders in the Money Lenders Ordinance; and
- (b) such loans were not illegal under section 24 of the Money Lenders Ordinance as the loans were not at an effective rate of interest which exceeds 60 per cent per annum,

such loan arrangements were legal and enforceable.

We invested in Eagletron with a view to gaining capital return and not for any planning to diversify into business other than pre-school toys manufacturing. As at the Latest Practicable Date, our Group has no planning of diversifying into business other than pre-school toys manufacturing after the Listing. Currently, our Group has no intention to make investment of a similar nature in the foreseeable future.

Investment policy and guidelines

Any investments which are material and not in the ordinary course of the Group's business to be made by the Group shall first require a review by a committee composed of all the executive Directors and key senior management staff. The committee shall review the investment rationale, strategic and economic benefits to the Group and the underlying risks and liabilities associated with such investments. The committee shall prepare a report detailing the analyses of the above attributes of the project and its recommendation, which will then be presented to all Directors of the Company for consideration and approval. The quorum of any such board meeting approving such investments must include a majority of the Independent non-executive Directors of the Company. The committee of executive Directors and key senior management staff shall be responsible for monitoring the investments on a regular basis and shall report to all Directors in regular intervals on the progress and performance of such investments. For disposal of such investments, the same policy as stated above applies.

Share of profits of an associate

The share of profits from an associate of approximately HK\$6.1 million for the year ended 31 March 2010 represented the excess of our share of the net fair value of our associate's, namely Eagletron, identifiable assets over the cost of the investment as described in the paragraph headed "Loss on liquidation of an associate" above.

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Finance costs

Finance costs mainly consisted of interest on our Group's interest-bearing bank borrowings from our banking facilities.

The increase in finance costs from approximately HK\$0.5 million for the four months ended 31 July 2011 to approximately HK\$0.7 million for the four months ended 31 July 2012 was primarily attributable to the increase in our interest-bearing borrowings for the purpose of purchasing raw materials for production in the coming peak sales months.

The increase in finance costs from approximately HK\$0.8 million for the year ended 31 March 2011 to approximately HK\$1.9 million for the year ended 31 March 2012 was primarily attributable to (i) our Group having to borrow more for the purchase of more raw materials compared to the previous year for production in the coming peak sales months as we anticipate our revenue to continue growing; and (ii) the extension of the credit policy with our largest customer, Customer A, in September 2011 from an average of 30 days to 45 days, which led to us having to factor more of our trade receivables from Customer A with our banks. The rationale behind factoring Customer A's trade receivables was to ensure our Group received the trade receivable amounts from banks on a timely manner to maintain our healthy working capital position despite the extension of credit policy with Customer A. The increase in trade receivables factoring caused our finance cost to substantially increase for the year ended 31 March 2012 compared to the year ended 31 March 2011. The factoring loan amounts were approximately HK\$21.9 million and HK\$38.4 million as at 31 March 2012 and 31 July 2012, respectively. The duration of each factoring loan is dependent on how long it requires Customer A to settle the corresponding trade receivables with the bank. The bank charges our Group interest for the factoring loan until Customer A settles the corresponding trade receivables with the bank. As at 31 March 2012, the outstanding amount due to the bank under the above factoring arrangement was approximately HK\$21.9 million. Set out below are some key terms relating to the above factoring arrangement:

Duration	Factoring arrangement will continue to be available to our Group provided that our Group provides the required documents under the factoring arrangement to the bank.
Discounting Charge	Factored accounts receivables are charged at 1.35% per annum over one month HIBOR.
Maximum Financing Period	Up to 75 days from the date of invoice
Prepayment Limit	HK\$63 million
Covenants and Undertakings	(i) Our Group to promptly submit to the bank details of any arbitration, litigation or legal proceedings commenced against us; (ii) Our Group to promptly inform the bank any change in our directors or beneficial shareholders, amendment to our articles of association or substantial change in our principal business; and

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- (iii) Our Group to ensure all relevant and necessary filings, consents and licenses are duly obtained, completed and will remain in full effect throughout the period of the factoring arrangement.

Other Terms and Conditions

- (i) The bank may, at any time, immediately modify, terminate, cancel or suspend the entire factoring arrangement or any part of it; and
- (ii) The bank has the overriding right, at any time, to require immediate payment of all principal, interests, fees and other amounts outstanding under the factoring arrangement.

Despite the fact that the terms of the bank borrowings in relation to the above factoring arrangement between the Group and the bank (the “Factoring Arrangement”) are stated to be on non-recourse terms, the Factoring Arrangement is in substance on a recourse basis as in order to honour the Factoring Arrangement, the Group still retained the risks and rewards associated with the delay payment by Customer A and had to fulfil certain covenants and undertakings as stated above. Furthermore, the bank reserves the overriding rights, at any time, to demand immediate repayment from the Group or amend the terms of the Factoring Arrangement. Normally, when Customer A has settled the trade receivables with the factoring bank, the factoring bank would notify the Group and the Group would then record the settlement and reduce the trade receivables amount accordingly.

In addition to the Factoring Arrangement, in August 2012, our Group also obtained banking facilities for applying factoring arrangement with Tollytots and LeapFrog for the purpose of maintaining flexibility in managing our working capital position. For each of the three years ended 31 March 2012 and four months ended 31 July 2012, the total amount of the trade receivables which is covered by Factoring Arrangement was HK\$nil, HK\$nil, HK\$29 million and HK\$55.6 million, respectively, which accounted for nil, nil, 34.6% and 35.6% of total trade receivable balances for each of the three years ended 31 March 2012 and four months ended 31 July 2012, respectively. We may consider entering into similar factoring arrangement with other customers with the view to maintaining more flexibility in managing our working capital position.

The increase in finance costs from approximately HK\$0.7 million for the year ended 31 March 2010 to approximately HK\$0.8 million for the year ended 31 March 2011 was primarily attributable to the increase in our interest-bearing borrowings for the purpose of purchasing raw materials for production in the coming peak sales months.

Income tax expense

Our Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of our Group are domiciled and operate.

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In relation to our Group, our Company was incorporated in the Cayman Islands on 14 March 2012 as an exempted company and, accordingly, is exempt from Cayman Islands income tax. Hong Kong profits tax has been provided for at the rate of 16.5% during the Track Record Period on the estimated assessable profits arising in or derived from Hong Kong. Foshan Haoda, which was established and operated in China, are subject to China corporate income tax at the rate of 25% during the Track Record Period.

During the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, the effective tax rates of our Group were approximately 18.1%, 36.3%, 19.1%, 39.6% and 18.0%, respectively. During the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, the income tax expenses of the Hong Kong companies of our Group were approximately HK\$2.5 million, HK\$2.9 million, HK\$6.1 million, HK\$5.8 million and HK\$10.1 million, respectively, and the income tax expenses of Foshan Haoda, our only operating subsidiary in the PRC, were approximately HK\$0.1 million, HK\$0.1 million, HK\$0.2 million, HK\$0.4 million and HK\$0.4 million, respectively. Our Directors confirm that our Group has made all required tax filings under relevant tax law and regulations in applicable jurisdictions, has paid all tax demanded and our Directors are not aware of any dispute or potential dispute with the relevant tax authorities. Excluding the effect of the Listing expenses, the effective tax rate for the four months ended 31 July 2012 was approximately 18.5%, and excluding the effect of the loss on liquidation of an associate, the effective tax rate for the year ended 31 March 2011 was approximately 19.0%.

During the Track Record Period, part of our products was manufactured by the Processing Factory under a processing arrangement among the Processing Factory, Qualiman Industrial and Qualiman Technology. Pursuant to Departmental Interpretation and Practice Notes No. 21 (Revised in July 2012) (“DIPN 21”) issued by the Inland Revenue Department of Hong Kong (“IRD”), in the event of a Hong Kong manufacturing company entering into a contract processing arrangement with a PRC entity where the production processes are carried out at a processing facility situated in the PRC and such Hong Kong manufacturing company provides raw materials and machinery without consideration and the technical and managerial know-how according to the processing agreements, profits of the Hong Kong manufacturing company generated from the sale of goods that are manufactured/processed by such PRC entity can be entitled to the 50:50 offshore claim so that 50% of such profit is apportioned and treated as derived outside Hong Kong and the chargeable profits so apportioned can be treated as non-taxable in Hong Kong.

In order to be entitled to the concessionary tax treatment under DIPN 21, we are required to provide a full range of financial information and records to the IRD in accordance with the specific requirements under the DIPN 21, including, among others, the prescribed mechanism on internal reporting and recording financial transactions. Our Directors therefore consider it would be unduly burdensome for us to fully comply with the requirements under DIPN 21 and additional administrative costs may be incurred. In light of the potential costs and benefits, we did not apply for, and currently we do not have any intention to apply for, the concessionary tax treatment under the DIPN 21 in respect of our processing arrangement with the Processing Factory.

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Our Group has not applied for the bilateral advance pricing arrangement (“APA”) between Hong Kong and the PRC with reference to the Departmental Interpretation and Practice Notes No. 48 (“DIPN 48”) issued by the IRD in March 2012. DIPN 48 provides guidance for enterprises seeking an APA which is a voluntary arrangement that determines an appropriate set of criteria for the determination of the transfer pricing of transactions between associated enterprises over a fixed period of time.

Our Group has not applied for and currently has no intention to apply for the APA process. DIPN 48 indicates that the tentative time frame for concluding an APA is 18 months from the acceptance of the formal application and it is possible it would take longer if there are prolonged negotiations between the tax authorities involved. Given the size of our Group’s operation, the uncertainty of the timing required to conclude an application given it has been introduced to the market for a relatively short time, the substantial costs in hiring professional parties for an extended period of time, and the management time and resources that will be involved in the application process, our Directors consider that it is not beneficial to make such an application. Furthermore, as the APA process is voluntary, our Directors consider that there should not be any consequence to our Group for not making an APA application.

Sensitivity analysis

Prospective investors should note that the below analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect. Such information by no means reflects our Group’s historical experience, financial results and normal course of conducting business. Prospective investors should not place undue reliance on such information. Please refer to the paragraph under “Investors should not place undue reliance on information in this Prospectus which is not factual but hypothetical in nature such as analyses based on assumptions” in the section headed “Risk Factors” in this prospectus for further details.

Prospective investors should also note that each sensitivity analysis highlighted below only has one variable factor and assumes holding all other financial factors constant. The average price per unit and average cost per unit information are all for illustration purposes only as our Group has numerous types of toy products and therefore any average price per unit or average cost per unit information would not be meaningful in terms of assessing our Group’s financial performance. Furthermore, as mentioned above, the sensitivity analysis below does not reflect the way our Group conducts business normally (for example, our Group would not sell our products at a very low price when the cost in manufacturing those products remain unchanged) and prospective investors should not place undue reliance on the sensitivity analysis below.

For the three years ended 31 March 2010, 2011 and 2012, holding all other factors constant, if the average selling price of the products of our Group increases or decreases by 1%, our Group’s revenue will be increased or reduced by approximately HK\$8.0 million, HK\$7.3 million and HK\$8.8 million. The gross profit margin of our Group will be increased or reduced by 0.9%, 0.9% and 0.9% respectively and the profit before tax (without exceptional loss on liquidation of associate) (the “Adjusted PBT”) will be increased or reduced by approximately 24.3%, 22.2% and 15.1% respectively.

For the three years ended 31 March 2010, 2011 and 2012, holding all other factors constant, if the price of raw materials of the Group increases or decreases by 1%, our Group’s raw material cost will be increased or reduced by approximately HK\$4.3 million, HK\$3.8 million and HK\$4.5 million. The gross profit margin of our Group will be reduced or increased by 0.5%, 0.5% and 0.5% respectively and the Adjusted PBT will be reduced or increased by approximately 13.1%, 11.5% and 7.8% respectively.

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For the three years ended 31 March 2010, 2011 and 2012, holding all other factors constant, if the price of resin of our Group increases or decreases by 1%, our Group's resin cost will be increased or reduced by approximately HK\$1.4 million, HK\$0.8 million and HK\$0.8 million. The gross profit margin of our Group will be reduced or increased by 0.2%, 0.1% and 0.1% respectively and the Adjusted PBT will be reduced or increased by approximately 4.3%, 2.6% and 1.4% respectively. For the three years ended 31 March 2010, 2011 and 2012, holding all other factors constant, if the price of electronic components of our Group increases or decreases by 1%, our Group's electronic component cost will be increased or reduced by approximately HK\$0.9 million, HK\$1.0 million, HK\$1.4 million. The gross profit margin of our Group will be reduced or increased by 0.1%, 0.1% and 0.1% respectively and the Adjusted PBT will be reduced or increased by 2.9%, 3.0% and 2.5% respectively. For the three years ended 31 March 2010, 2011 and 2012, holding all other factors constant, if the price of printed and packaging materials increases or decreases by 1% (which was the maximum fluctuation during the Track Record Period), our Group's printed and packaging materials cost will be increased or reduced by approximately HK\$0.8 million, HK\$0.8 million and HK\$1.0 million. The gross profit margin of our Group will be reduced or increased by 0.1%, 0.1% and 0.1% respectively and the Adjusted PBT will be reduced or increased by approximately 2.4%, 2.4% and 1.8% respectively.

Accounting treatment of our transactions with Customer A

The transactions between our Group and Customer A are accounted for as trading income (i.e. record the gross sales amount and the related cost of sales and recognise the inventory in the balance sheet), rather than as subcontracting arrangement (i.e. record the net sales amount (subcontracting income) and not to recognise the inventory in the balance sheet).

According to Hong Kong Accounting Standard 18 ("HKAS 18") — Revenue — paragraph 21 of the Appendix, it states that an entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sales of goods.

As concurred by our Group's reporting accountants, BDO Limited, the transactions between our Group and Customer A have the following features which indicate that the transactions should be accounted for as trading income rather than as subcontracting arrangement:

(1) Our Group is the primary obligor in the arrangement

The fact that our Group is responsible for manufacturing the products desired by Customer A is a strong indicator of our Group's role in the transactions. Our Group is responsible for fulfillment, including the acceptability of the products ordered by Customer A. If there are defects of goods which are returned by Customer A, it is the responsibility of our Group to bear the repairing costs.

(2) Inventory Risk — our Group bears inventory risk

In general, our Group will make procurement of raw materials after receipt of Customer A's purchase orders, with the exception of resin which we may purchase before receiving Customer A's orders. Normally, for each product, it requires a combination of different raw materials (such as resin, fabric, electronic components and printed materials). There are four types of purchase methods for Customer A's products as described in the paragraphs headed "Procurement of raw materials and supplies — Suppliers" in the "Business" section of this prospectus.

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For all the raw materials purchased under all the four types of purchase methods, we bear the risks associated with the purchased raw materials regardless of the price negotiation process and payment methods. We need to pay the insurance for our inventories (including all raw materials, work-in-progress materials and finished goods) and bear the losses in case there are any accidents which may damage these types of inventory. We also need to bear the cost for the inventories management such as warehouse rentals, inventory delivery costs and the cost for the obsolete and damaged inventory items.

(3) Flexibility in establishing pricing

According to paragraph 21 of Appendix to HKAS 18, the last sentence states that “one feature indicating that an entity is acting as an agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer”. As considered by our Directors, this feature does not apply to the transactions with Customer A as our Group has the ability to set the selling prices of products sold to Customer A.

Normally, our Group’s pricing strategy to Customer A is based on a cost-plus model, which principally takes into account material costs, labour cost, manufacturing overheads and a mark-up, and our Group has the ability to set our target mark-up and offer the pricing to Customer A for negotiation. Our Group had been able to maintain a mark-up with Customer A which was similar to the mark-up charged to its other major customers, therefore, the mark-up percentage is not predetermined by Customer A.

(4) Credit Risk — our Group bears the customer’s credit risk for the amount receivable from the customer

Sales to Customer A are recorded as trade receivables from Customer A. Our Group is subject to credit risk if Customer A defaults in payments or if Customer A cancels purchase orders to our Group after our Group has purchased the raw materials, irrespective of whether the purchases are made under type 1, type 2, type 3 or type 4 of the above purchase methods. Although we may claim against Customer A for any breach of contract in case Customer A wrongfully cancels the purchase orders, we are still subject to the credit risk if Customer A is unable to settle the amount.

The above features indicate our Group has exposure to credit risk associated with the sale of goods.

After applying the above indicators, our Group’s reporting accountants concurred with the view of our Directors that revenue from sales of goods to Customer A should be reported based on the gross amount charged to Customer A. Indicators of gross reporting are (a) our Group is the primary obligor to Customer A, a strong indicator, as our Group is responsible for fulfillment and customer remedies in the event of dissatisfaction with the products sold to Customer A; (b) our Group has general inventory risk as a result of taking title and maintaining inventory; (c) our Group has complete latitude to set the prices for the products; and (d) our Group has credit risk for financing amounts billed to Customer A as accounts receivable. Our Group has, except for type 2 of the purchase method, discretion in supplier selection for purchasing raw materials used in the manufacturing of the products sold to Customer A although Customer A has involvement in the purchase of raw materials under type 1, type 2 and type 3 of the above purchase methods.

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Please refer to the paragraphs headed “Accounting treatment of our transactions with Customer A” in the “Business” section of this prospectus for further details.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Comparison of the four months ended 31 July 2012 and 2011

Revenue

Our Group’s revenue increased from approximately HK\$267.1 million for the four months ended 31 July 2011 to approximately HK\$279.7 million for the four months ended 31 July 2012, representing an increase of approximately 4.7%. Such increase was mainly attributable to the increase in revenue from Western Europe, Central America, Caribbean, Mexico and the “others” category, which was partially offset by the decrease in revenue from North America. The increase in revenue from Western Europe was primarily due to increased product demand from Western Europe and Customer A selling more to Western Europe and the decrease in revenue from North America was primarily due to Customer A selling less to North America.

Cost of sales

Our Group’s cost of sales increased from approximately HK\$237.4 million for the four months ended 31 July 2011 to approximately HK\$245.1 million for the four months ended 31 July 2012, representing an increase of approximately 3.2%. Such increase was mainly attributable to the increase in our Group’s revenue for the corresponding period.

Gross profit

Our Group’s gross profit increased from approximately HK\$29.8 million for the four months ended 31 July 2011 to approximately HK\$34.5 million for the four months ended 31 July 2012, representing an increase of approximately 15.8%. Such increase was mainly attributable to the increase in our Group’s revenue for the corresponding period.

Our Group’s gross profit margin increased slightly from the four months ended 31 July 2011 of approximately 11.1% to the four months ended 31 July 2012 of approximately 12.3% because our Group was able to negotiate a better mark-up margin for the mix of products being sold during the four months ended 31 July 2012 due to the increased complexity in manufacturing those products.

Other income and gains

Our Group’s other income and gains decreased from approximately HK\$1.7 million for the four months ended 31 July 2011 to approximately HK\$0.4 million for the four months ended 31 July 2012, representing a decrease of approximately 76.5%. Such decrease was mainly attributable to the depreciation of the RMB against the US\$ during the four months ended 31 July 2012 compared to the appreciation of the RMB against the US\$ in the previous year, which gave rise to a loss on our non-deliverable forward contracts, which was partially offset by the increase in moulding income due to more of our customers requesting for new moulds for new products.

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Selling expenses

Our Group's selling expenses remained stable at approximately HK\$6.2 million for the four months ended 31 July 2012 as compared to approximately HK\$6.4 million for the four months ended 31 July 2011.

Administrative expenses

Our Group's administrative expenses increased from approximately HK\$10.1 million for the four months ended 31 July 2011 to approximately HK\$19.9 million for the four months ended 31 July 2012, representing an increase of approximately 97%. Such increase was mainly attributable to the approximately HK\$1.8 million increase in salary expenses as a result of a relatively higher peak season bonus and pro-rata double pay paid to employees during the four months ended 31 July 2012 compared to the corresponding period in the previous year and our Group's listing expenses of approximately HK\$7.8 million related to the Global Offering. Listing expenses mainly consisted of fees paid to professional parties.

Finance cost

Our Group's finance costs increased from approximately HK\$0.5 million for the four months ended 31 July 2011 to approximately HK\$0.7 million for the four months ended 31 July 2012, representing an increase of approximately 40.0%. Such increase was mainly attributable to the increase in our interest-bearing borrowings for the purpose of obtaining loans for raw materials purchase for production in the coming peak sales months.

Profit before taxation

Our Group's profit before taxation decreased from approximately HK\$14.4 million for the four months ended 31 July 2011 to approximately HK\$8.2 million for the four months ended 31 July 2012, representing a decrease of approximately 43.1%. Such decrease was primarily due to the approximately HK\$7.8 million Listing expenses incurred for the Global Offering and a decrease in other income and gains as a result of a larger loss on our Group's non-deliverable forward contracts, which was partially offset by the increase in our Group's total revenue as a result of the increase in revenue from Western Europe and other developing countries such as South America, Central America, Caribbean, Mexico and the "others" category.

Income tax expense

Our Group's income tax expense increased from approximately HK\$2.6 million for the four months ended 31 July 2011 to approximately HK\$3.0 million for the four months ended 31 July 2012, representing an increase of approximately 15.4%. Our Group's effective tax rate increased from approximately 18.1% for the four months ended 31 July 2011 to approximately 36.3% for the four months ended 31 July 2012. The increase in income tax expense was primarily due to the increase in profit before tax after excluding Listing expenses and the increase in effective tax rate was primarily due to the non-tax deductible nature of our Group's Listing expenses. Excluding the effect of the Listing expenses, the effective tax rate for the four months ended 31 July 2012 was approximately 18.5%. The effective tax rate of 18.5% for the four months ended 31 July 2012 was still relatively higher than the

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effective tax rate of 18.1% for the four months ended 31 July 2011 because our Group incurred legal fees for drafting new tenancy agreement, and setting up group companies, which were capital in nature and non-deductible for tax purposes.

Profit for the year

Our Group's profit after taxation decreased from approximately HK\$11.8 million for the four months ended 31 July 2011 to approximately HK\$5.2 million for the four months ended 31 July 2012, representing a decrease of approximately 55.9%. The decrease in profit after taxation was primarily attributable to all the factors discussed above. Please refer to the above for the analysis on all income statement items.

Comparison of the years ended 31 March 2012 and 2011

Revenue

Our Group's revenue increased from approximately HK\$729.8 million for the year ended 31 March 2011 to approximately HK\$876.7 million for the year ended 31 March 2012, representing an increase of approximately 20.1%. Such increase was mainly attributable to the increase in revenue from North America. The increase in revenue from North America was primarily due to the recovery of the retail market in North America and a turnaround from the lingering effect of the credit crisis in mainly America during the year ended 31 March 2011.

Cost of sales

Our Group's cost of sales increased from approximately HK\$650.7 million for the year ended 31 March 2011 to approximately HK\$777.3 million for the year ended 31 March 2012, representing an increase of approximately 19.5%. Such increase was mainly attributable to the increase in our Group's revenue for the corresponding year.

Gross profit

Our Group's gross profit increased from approximately HK\$79.1 million for the year ended 31 March 2011 to approximately HK\$99.4 million for the year ended 31 March 2012, representing an increase of approximately 25.7%. Such increase was mainly attributable to the increase in our Group's revenue for the corresponding year.

Our Group's gross profit margin remained stable at approximately 11.3% for the year ended 31 March 2012 as compared to approximately 10.8% for the year ended 31 March 2011.

Other income and gains

Our Group's other income and gains increased from approximately HK\$12.4 million for the year ended 31 March 2011 to approximately HK\$15.6 million for the year ended 31 March 2012, representing an increase of approximately 25.8%. Such increase was mainly attributable to (i) our Group's non-deliverable forward contracts for hedging against the exchange rate fluctuation of the US\$ against RMB, which gave rise to the increase in gains for the year ended 31 March 2012 compared to the year ended 31 March 2011; and (ii) our customers began requesting auxiliary services more

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frequently in 2012 instead of 2011 due to the increasing demand for fancier price tags and labels in order to attract purchases from their end customers, which gave rise to the increase in the “others” category, and the income our Group received from providing auxiliary services increased from approximately HK\$0.3 million for the year ended 31 March 2011 to approximately HK\$1.3 million for the year ended 31 March 2012.

Selling expenses

Our Group’s selling expenses increased slightly from approximately HK\$22.1 million for the year ended 31 March 2011 to approximately HK\$22.3 million for the year ended 31 March 2012, representing an increase of approximately 0.9%. Such increase was mainly attributable to a combined higher transportation and declaration fees due to the increase in revenue during the year, which led to our Group having to incur more costs for the arranging of customer logistics for product delivery.

Administrative expenses

Our Group’s administrative expenses decreased from approximately HK\$35.7 million for the year ended 31 March 2011 to approximately HK\$32.6 million for the year ended 31 March 2012. Such decrease was mainly attributable to (i) the decrease in depreciation expenses as a result of written-off plant and machineries from the previous year; (ii) the decrease in the ‘others’ category as a result of smaller expenditures on motor vehicles due to less maintenance fees relating to motor vehicles; (iii) the decrease in entertainment fees as a result of our staff spending less on entertainment with customers and suppliers; and (iv) the decrease in salary expenses as a result of the decrease in the number of administrative headcount.

Loss on liquidation of an associate

Our Group’s losses on liquidation of an associate decreased from approximately HK\$17.1 million for the year ended 31 March 2011 to nil for the year ended 31 March 2012. Such HK\$17.1 million loss was attributable to the liquidation of our Group’s associate, namely Eagletron, a company engaged in the manufacturing of consumer electronic products in Dongguan, due to liquidity problems as mentioned above.

Finance costs

Our Group’s finance costs increased from approximately HK\$0.8 million for the year ended 31 March 2011 to approximately HK\$1.9 million for the year ended 31 March 2012, representing an increase of approximately 137.5%. Such increase was mainly attributable to (i) our Group having to borrow more for the purchase of more raw materials for production in the coming peak sales months; and (ii) the extension of the credit policy with our largest customer, Customer A, in September 2011 from an average of 30 days to 45 days, which led to our having to factor more of our trade receivables from Customer A with our banks.

Profit before taxation

Our Group’s profit before taxation increased from approximately HK\$15.7 million for the year ended 31 March 2011 to approximately HK\$58.2 million for the year ended 31 March 2012, representing an increase of approximately 271.0%. Such increase was primarily due to the increase in

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our Group's total revenue as a result of the increase in revenue from North America and the increase in our income and gains as a result of the increase in gain on the derivative instruments and the increase in net exchange gains, which was partially offset by the increase in finance costs as a result of the increase in our interest-bearing borrowings for the purpose of purchase of raw materials for production.

Income tax expense

Our Group's income tax expense increased from approximately HK\$6.2 million for the year ended 31 March 2011 to approximately HK\$10.5 million for the year ended 31 March 2012, representing an increase of approximately 69.4%. Our Group's effective tax rate decreased from approximately 39.6% for the year ended 31 March 2011 to approximately 18.0% for the year ended 31 March 2012. The increase in income tax expense was primarily due to the increase in profit before tax while the decrease in effective tax rate was primarily due to the loss on liquidation of associate of approximately HK\$17.1 million in 2011, which are non-deductible expenses due to capital in nature. Excluding the effect of the loss on liquidation of an associate, the effective tax rate for the year ended 31 March 2011 was approximately 19.0%.

Profit for the year

Our Group's profit after taxation increased from approximately HK\$9.5 million for the year ended 31 March 2011 to approximately HK\$47.7 million for the year ended 31 March 2012, representing an increase of approximately 402.1%. The increase in profit after taxation was primarily attributable to all the factors discussed above. Please refer to the above for the analysis on all income statement items.

Comparison of the years ended 31 March 2011 and 2010

Revenue

Our Group's revenue decreased from approximately HK\$803.4 million for the year ended 31 March 2010 to approximately HK\$729.8 million for the year ended 31 March 2011, representing a decrease of approximately 9.2%. Such decrease was mainly attributable to the decrease in revenue from both the North America and Western Europe regions as there was a general inventory build-up amongst the North American and European retailers as a result of the lingering effects of the credit crisis and this made these customers become more cautious when purchasing products from us.

Cost of sales

Our Group's cost of sales decreased from approximately HK\$713.2 million for the year ended 31 March 2010 to approximately HK\$650.7 million for the year ended 31 March 2011, representing a decrease of approximately 8.8%. Such decrease was primarily due to the decrease in our Group's revenue for the corresponding year. The percentage of cost of sales to total revenue remained stable from approximately 88.8% for the year ended 31 March 2010 to approximately 89.2% for the year ended 31 March 2011.

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Gross profit and gross profit margin

Our Group's gross profit decreased from approximately HK\$90.2 million for the year ended 31 March 2010 to approximately HK\$79.1 million for the year ended 31 March 2011, representing a decrease of approximately 12.3%. Such decrease was primarily due to the decrease in our Group's revenue. Our Group's gross profit margin remained relatively stable from 11.2% for the year ended 31 March 2010 to 10.8% for the year ended 31 March 2011.

Other income and gains

Our Group's other income and gains increased from approximately HK\$5.6 million for the year ended 31 March 2010 to approximately HK\$12.4 million for the year ended 31 March 2011, representing an increase of approximately 121.4%. Such increase was primarily due to our Group entering into non-deliverable forward contracts for hedging against the exchange rate fluctuation of the US\$ against RMB in 2011, which gave rise to the gain on derivative financial instruments while there was no such gain for the previous year as our Group did not enter into any derivative financial instruments prior to 31 March 2010.

Selling expenses

Our Group's selling expenses decreased from approximately HK\$36.5 million for the year ended 31 March 2010 to approximately HK\$22.1 million for the year ended 31 March 2011, representing a decrease of approximately 39.5%. Such decrease was primarily due to the decrease in transportation and declaration fees as a result of (i) our Group's decrease in revenue for the year; and (ii) more of our customers began to arrange their own logistics and transportation in 2011 for delivery of their products.

Administrative expenses

Our Group's administrative expenses increased from approximately HK\$31.7 million for the year ended 31 March 2010 to approximately HK\$35.7 million for the year ended 31 March 2011, representing an increase of approximately 12.6%. Such increase was primarily due to (i) the increase in our salary expenses as a result of more bonuses being paid to administrative staff for the year ended 31 March 2011 as compared to the previous year; (ii) the increase in other administrative expenses such as higher bank commissions and charges; and (iii) the increase in entertainment fees as a result of our staff spending more on entertainment with customers and suppliers.

Loss on liquidation of an associate

Our Group's losses of liquidation of an associate of approximately HK\$17.1 million for the year ended 31 March 2011 represented the loss on liquidation of Eagletron, a company engaged in the manufacturing of consumer electronic products in Dongguan, due to liquidity problems as mentioned above. There was no occurrence of liquidation of our Group's associates for the year ended 31 March 2010.

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Share of profits of an associate

Our Group's share of profits of an associate of approximately HK\$6.1 million for the year ended 31 March 2010 was attributable to the excess of our share of the net fair value of our associate's, namely Eagletron, identifiable assets over the cost of the investment. As Eagletron was liquidated on 29 June 2011, there was no share of profits for the year ended 31 March 2011.

Finance costs

Our Group's finance costs increased from approximately HK\$0.7 million for the year ended 31 March 2010 to approximately HK\$0.8 million for the year ended 31 March 2011, representing an increase of approximately 14.3%. Such increase was mainly attributable to the increase in our interest-bearing borrowings for the purpose of obtaining loans for raw materials purchase for production in the coming peak sales months.

Profit before taxation

Our Group's profit before taxation decreased from approximately HK\$33.1 million for the year ended 31 March 2010 to approximately HK\$15.7 million for the year ended 31 March 2011, representing a decrease of approximately 52.6%. Such decrease was primarily due to the decrease in our total revenue as a result of the decrease in revenue from our two principal markets, namely North America and Western Europe, which was partially offset by the decrease in selling expenses as a percentage of total sales from approximately 4.5% for the year ended 31 March 2010 to approximately 3.0% for the year ended 31 March 2011.

Income tax expense

Our Group's income tax expense decreased from approximately HK\$6.3 million for the year ended 31 March 2010 to approximately HK\$6.2 million for the year ended 31 March 2011, representing a decrease of approximately 1.6%. Our Group's effective tax rate increased from approximately 19.1% for the year ended 31 March 2010 to approximately 39.6% for the year ended 31 March 2011. The decrease in income tax expense was primarily due to the decrease in profit before tax while the increase in effective income tax rate was primarily due to the loss on liquidation of associate of approximately HK\$17.1 million in 2011, which are non-deductible expenses due to capital in nature. Excluding the effect of the loss on liquidation of an associate, the effective tax rate for the year ended 31 March 2011 was approximately 19.0%.

Profit for the year

Our Group's profit after taxation decreased from approximately HK\$26.8 million for the year ended 31 March 2010 to approximately HK\$9.5 million for the year ended 31 March 2011, representing a decrease of approximately 64.6%. The decrease in profit after taxation was primarily attributable to all the factors discussed above. Please refer to the above for the analysis on all income statement items.

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LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

Our operations are funded through a combination of cash generated from our operations and bank borrowings. Our Directors are not aware of any material change to the sources of cash of our Group and the use of cash by our Group during the Track Record Period. As of 30 November 2012, our material sources of liquidity are cash and bank balances of approximately HK\$27.3 million.

Net current assets

Details of our Group's current assets and liabilities as of respective dates of the consolidated statements of the financial position are extracted as follows:

	At 31 March			At 31 July	At 30 November
	2010	2011	2012	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>
Current assets					
Inventories	91,563	133,707	162,153	199,743	147,494
Trade receivables	59,641	56,236	83,829	156,350	115,582
Tax recoverable	39	1,060	—	—	—
Prepayments, deposits and other receivables	20,984	24,123	2,881	8,433	5,277
Derivative financial instruments	—	3,563	6,191	1,038	496
Amounts due from related companies	10,303	9,945	7,740	—	—
Amount due from a director	550	419	—	—	—
Loan to an associate	3,000	—	—	—	—
Cash and cash equivalents	22,195	12,180	40,485	32,769	27,255
	<u>208,275</u>	<u>241,233</u>	<u>303,279</u>	<u>398,333</u>	<u>296,104</u>
Current liabilities					
Trade payables	74,301	74,809	83,025	147,878	122,110
Receipts in advance, accruals and other payables	58,973	46,398	57,244	49,441	24,106
Amounts due to related parties	2,470	3,220	—	—	—
Amount due to a director	1,313	1,873	52	—	—
Interest-bearing bank borrowings	16,072	54,560	76,164	126,247	54,988
Loan from a director	15,000	15,000	15,000	—	—
Income tax payable	5,068	816	5,795	7,279	12,027
	<u>173,197</u>	<u>196,676</u>	<u>237,280</u>	<u>330,845</u>	<u>213,231</u>
Net current assets	<u><u>35,078</u></u>	<u><u>44,557</u></u>	<u><u>65,999</u></u>	<u><u>67,488</u></u>	<u><u>82,873</u></u>

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Our Group had net current assets of approximately HK\$82.9 million as at 30 November 2012, approximately HK\$67.5 million as at 31 July 2012 and approximately HK\$35.1 million, HK\$44.6 million, HK\$66.0 million as at 31 March 2010, 2011 and 2012, respectively.

As at 30 November 2012, the increase in net current assets was primarily attributable to (i) the decrease in interest-bearing bank borrowings of approximately HK\$71.2 million from approximately HK\$126.2 million to approximately HK\$55.0 million, representing a decrease of approximately 56.4%; and (ii) the decrease in trade payables of approximately HK\$25.8 million from approximately HK\$147.9 million to approximately HK\$122.1 million, representing a decrease of approximately 17.4%, which was partially offset by (i) the decrease in inventories of approximately HK\$52.2 million from approximately HK\$199.7 million to approximately HK\$147.5 million, representing a decrease of approximately 26.1%; and (ii) the decrease in trade receivables of approximately HK\$40.8 million from approximately HK\$156.4 million to approximately HK\$115.6 million, representing a decrease of approximately 26.1%.

The decrease in interest-bearing bank borrowings was primarily due to our Group settling some of the bank borrowings obtained for the purchase of raw materials for peak season production. The decrease in trade payables was primarily due to our Group settling the payables to our suppliers for the purchases our Group made before the peak sales season. The decrease in inventories was primarily due to our Group delivering the products in our warehouses to our customers during the peak sales season. The decrease in trade receivables was primarily due to our Group's customers settling their payables to us for the purchases they made during the peak sales season.

As at 31 July 2012, the increase in net current assets was primarily attributable to (i) the increase in inventories of approximately HK\$37.5 million from approximately HK\$162.2 million to approximately HK\$199.7 million, representing an increase of approximately 23.1%; (ii) the increase in trade receivables of approximately HK\$72.6 million from approximately HK\$83.8 million to approximately HK\$156.4 million, representing an increase of approximately 86.7%; and (iii) the decrease in loan from a director of HK\$15 million from HK\$15 million to nil, which was partially offset by (i) the increase in trade payables of approximately HK\$64.9 million from approximately HK\$83.0 million to approximately HK\$147.9 million, representing an increase of approximately 78.2%; (ii) the increase in interest-bearing bank borrowings of approximately HK\$50.0 million from approximately HK\$76.2 million to approximately HK\$126.2 million, representing an increase of approximately 65.6%; and (iii) the decrease in cash and cash equivalents of approximately HK\$7.7 million from approximately HK\$40.5 million to approximately HK\$32.8 million, representing a decrease of approximately 19.0%.

The increase in inventories was primarily due to the growth of our revenue during the year and the preparation of the peak season months of our Group's business which led to an increase in our finished goods to cope with the anticipated increase in revenue in the coming year. The increase in trade receivables was primarily due to the seasonality factor of our Group's business and the decrease in loan from a director was due to the settlement of such loan in July 2012. The increase in trade payables was primarily due to the increase in the purchase of raw materials during the year for production as a result of the increase in revenue and the increase in interest-bearing bank borrowings was primarily due to our Group obtaining more borrowings to purchase a larger amount of raw materials for production in the coming peak sales months.

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As at 31 March 2012, the increase in net current assets was primarily attributable to (i) the increase in inventories of approximately HK\$28.5 million from approximately HK\$133.7 million to approximately HK\$162.2 million, representing an increase of approximately 21.3%; (ii) the increase in trade receivables of approximately HK\$27.6 million from approximately HK\$56.2 million to approximately HK\$83.8 million, representing an increase of approximately 49.1%; and (iii) the increase in cash and bank balances of approximately HK\$28.3 million from approximately HK\$12.2 million to approximately HK\$40.5 million, representing an increase of approximately 232.0%, which was partially offset by (i) the increase in receipts in advance, accruals and other payables of approximately HK\$10.8 million from approximately HK\$46.4 million to approximately HK\$57.2 million, representing an increase of approximately 23.3%; (ii) the decrease in deposits, prepayments and other receivables of approximately HK\$21.2 million from approximately HK\$24.1 million to approximately HK\$2.9 million, representing a decrease of approximately 88.0%; (iii) the increase in interest-bearing bank borrowings of approximately HK\$21.6 million from approximately HK\$54.6 million to approximately HK\$76.2 million, representing an increase of approximately 39.6%; and (iv) the increase in trade payables of approximately HK\$8.2 million from approximately HK\$74.8 million to approximately HK\$83.0 million, representing an increase of approximately 11.0%.

The increase in inventories was primarily due to the growth of our revenue during the year, which led to an increase in our finished goods to cope with the anticipated increase in revenue in the coming year and the increase in trade receivables was primarily due to the increase in revenue during the year and the extended credit policy for Customer A as mentioned above. The increase in receipts in advance, accruals and other payables was primarily due to the approximately HK\$32.6 million dividend payables to the Controlling Shareholders and Gold Grand, the decrease in deposits, prepayments and other receivables was primarily due to the insurance company settling the insurance compensation receivables of approximately HK\$17.7 million during the year ended 31 March 2012 in relation to the insurance that our Group purchased on the raw materials that were destroyed during the fire accident that occurred in the Processing Factory before the Track Record Period and the increase in interest-bearing bank borrowings was primarily due to the extension of the credit policy with our largest customer, Customer A, in September 2011 from an average of 30 days to 45 days, which led to our having to factor more of our trade receivables from Customer A with our banks. The extension of the credit policy represented a new program launched by Customer A in which they required most of their suppliers to extend their credit policies.

As at 31 March 2011, the increase in net current assets was primarily attributable to (i) the increase in inventories of approximately HK\$42.1 million from approximately HK\$91.6 million to approximately HK\$133.7 million, representing an increase of approximately 46.0%; (ii) the decrease in receipts in advance, accruals and other payables of approximately HK\$12.6 million from approximately HK\$59.0 million to approximately HK\$46.4 million, representing a decrease of approximately 21.4%; and (iii) the increase in derivative financial instruments of approximately HK\$3.6 million from nil to approximately HK\$3.6 million, which was partially offset by (i) the increase in interest-bearing bank borrowings of approximately HK\$38.5 million from approximately HK\$16.1 million to approximately HK\$54.6 million, representing an increase of approximately 239.1%.

The increase in inventories was primarily due to the increase in our raw materials and finished goods to cope with the anticipated increase in revenue in the coming year, the decrease in accruals and other payables was primarily due to the decrease in sourcing of raw materials from the Processing Factory as we began to source more raw materials directly from suppliers, and the increase in derivative

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financial instruments was due to the entering into of the non-deliverable forward contracts during 2011. The increase in interest-bearing bank borrowings was partially due to obtaining loans for the purpose of purchasing raw materials for production in the coming peak sales months and also partially due to the financial year cut-off as these borrowings were paid off after 31 March 2011.

Inventories analysis

Set out below is the summary of our Group's inventory balance during the Track Record Period, ageing analysis as at the respective dates during the Track Record Period and the subsequent sales of inventory as at 31 July 2012 and 31 March 2012 by ageing:

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	61,277	86,983	108,440	101,391
Work in progress	22,894	31,037	14,834	14,057
Finished goods	7,392	15,687	38,879	84,295
 Total	 91,563	 133,707	 162,153	 199,743

Inventories ageing analysis

As at 31 July 2012

	0-30 days	31-60 days	61-90 days	>90 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw Materials	64,309	17,471	4,534	15,077	101,391
Work in Progress	10,438	1,659	660	1,300	14,057
Finished Goods	54,472	17,680	7,877	4,266	84,295
 Total	 129,219	 36,810	 13,071	 20,643	 199,743

As at 31 March 2012

	0-30 days	31-60 days	61-90 days	>90 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw Materials	44,780	36,949	6,555	20,156	108,440
Work in Progress	11,124	1,215	444	2,051	14,834
Finished Goods	26,181	5,453	1,958	5,287	38,879
 Total	 82,085	 43,617	 8,957	 27,494	 162,153

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As at 31 March 2011

	<u>0-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>>90 days</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw Materials	41,646	12,718	5,879	26,740	86,983
Work in Progress	18,851	3,972	2,174	6,040	31,037
Finished Goods	10,913	4,582	—	192	15,687
Total	<u>71,410</u>	<u>21,272</u>	<u>8,053</u>	<u>32,972</u>	<u>133,707</u>

As at 31 March 2010

	<u>0-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>>90 days</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw Materials	19,724	15,599	3,446	22,508	61,277
Work in Progress	12,208	2,304	1,184	7,198	22,894
Finished Goods	4,262	234	586	2,310	7,392
Total	<u>36,194</u>	<u>18,137</u>	<u>5,216</u>	<u>32,016</u>	<u>91,563</u>

Subsequent usage of inventories as at 31 July 2012 by ageing analysis

	<u>Current- 30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>>90 days</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Inventories as at 31 July 2012	129,219	36,810	13,071	20,643	199,743
Subsequent usage of inventories up to the Latest Practicable Date	129,219	36,810	13,071	20,643	199,743
Subsequent usage percentage	100%	100%	100%	100%	100%

Subsequent usage of inventories as at 31 March 2012 by ageing analysis

	<u>Current- 30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>>90 days</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Inventories as at 31 March 2012	82,085	43,617	8,957	27,494	162,153
Subsequent usage of inventories up to the Latest Practicable Date	82,085	43,617	8,957	27,494	162,153
Subsequent usage percentage	100%	100%	100%	100%	100%

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As illustrated in the above tables, as at 31 July 2012 and 31 March 2010, 2011 and 2012, our Group's inventories was approximately HK\$199.7 million, HK\$91.6 million, HK\$133.7 million and HK\$162.2 million respectively. Raw materials was the largest component of our Group's inventories, representing approximately 50.8%, 66.9%, 65.1% and 66.9% of our total inventories as at 31 July 2012 and 31 March 2010, 2011 and 2012 respectively.

Inventories as at 31 July 2012 were approximately HK\$199.7 million, representing an increase of approximately 23.1% as compared with that as at 31 March 2012. The increase in inventories was primarily due to the seasonality factors of our business as our Group was entering the peak sales season and our Group has manufactured more finished goods for preparation to be shipped out to our customers.

Inventories as at 31 March 2012 were approximately HK\$162.2 million, representing an increase of approximately 21.3% as compared with that as at 31 March 2011. The increase in inventories was primarily due to the growth of our revenue during the year, which led to an increase in our raw material and finished goods to cope with the anticipated increase in revenue in the coming year. Our Group's raw materials balance also increased in order to cope with the confirmed purchase orders for the upcoming peak season from June to October.

Inventories as at 31 March 2011 were approximately HK\$133.7 million, representing an increase of approximately 46.0% as compared with that as at 31 March 2010. The increase in inventories was primarily due to an increase in our Group's raw materials and finished goods to cope with the anticipated increase in revenue in the coming year.

Our Group's average inventories' turnover days for the four months ended 31 July 2012 and each of the three years ended 31 March 2012 were 90.1 days, 37.9 days, 63.2 days and 69.5 days respectively.

Production life cycle and production lead time

Our Group produces finished goods based on customers' orders. Our Group's customers generally place their purchase orders approximately 4–6 weeks before the commencement of production for our Group to manage the purchasing lead time of raw materials. The production time usually takes approximately 4 weeks. In general, the production life cycle and production lead time from the dates of the purchase orders made by the customers to the dates of the shipment of finished goods take approximately 10 weeks.

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Measures to prevent accumulation of inventories

In order to avoid accumulation of inventories in our warehouses, as mentioned above, in general, our Group purchases raw material based on customers' purchase orders, with the exception of resin which we may purchase based on customers' sales forecast and the prevailing resin commodity price, and our Group also maintains an inventory management policy whereby we perform full stock take twice a year and ensure the accuracy and correctness of stock-in and stock-out information on record. In addition, our Group handles the raw materials and finished products based on a "first-in first-out" method to ensure raw inventories of older age will not be unnecessarily accumulated for an extended period of time. Throughout the year, our Group reviews the stock taking records and the inventory ageing analysis to ensure inventories are properly used in accordance with the above policy and that there is no unnecessary accumulation of inventories of old age. The following table sets forth the breakdown of inventories balance into those with and without confirmed customer orders during the Track Record Period:

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
With confirmed customer orders	79,343	116,075	141,347	186,247
Without confirmed customer orders				
— <i>Resin</i>	5,359	8,837	10,130	10,615
— <i>Other materials</i> ^(Note)	6,861	8,795	10,676	2,881
	12,220	17,632	20,806	13,496
Total	91,563	133,707	162,153	199,743

Note: Other materials mainly represent electronic components, printed materials and fabric. As some suppliers for these materials had minimum ordering amounts, there were leftover materials even when our Group purchased them with confirmed customer orders. Please also refer above for the subsequent usage of inventories table.

We do not have a general provisioning policy for inventories, but make assessments on provisions on a case-by-case basis. During the Track Record Period, we have not made any provision on our inventories. No provisions were necessary because our Group's raw materials are common in nature and therefore can be used for the production of many of our Group's products. Please refer to the table above for the subsequent usage of our inventories by ageing up to the Latest Practicable Date. Up to the Latest Practicable Date, approximately HK\$199.7 million, or 100%, of our inventories as of 31 July 2012 has been utilized or sold. Up to the Latest Practicable Date, approximately HK\$162.2 million, or 100%, of our inventories as of 31 March 2012 has been utilized or sold.

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Trade receivables analysis

The following tables set forth the ageing analysis (based on the invoice date) of trade receivables as at the respective dates of consolidated statement of financial position and the subsequent settlement of trade receivables as at 31 July 2012 and 31 March 2012 by ageing:

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current–30 days	40,021	39,097	41,024	98,758
31–60 days	4,603	6,609	15,880	39,975
61–90 days	2,986	5,009	15,151	5,994
Over 90 days	12,031	5,521	11,774	11,623
Total	59,641	56,236	83,829	156,350

Subsequent settlement of trade receivables as at 31 July 2012 by ageing analysis

	Current– 30 days	31–60 days	61–90 days	>90 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables as at 31 July 2012	98,758	39,975	5,994	11,623	156,350
Subsequent settlement of trade receivables up to the Latest Practicable Date	95,569	39,898	5,994	11,408	152,869
Subsequent settlement percentage	96.8%	99.8%	100.0%	98.2%	97.8%

Subsequent settlement of trade receivables as at 31 March 2012 by ageing analysis

	Current– 30 days	31–60 days	61–90 days	>90 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables as at 31 March 2012	41,024	15,880	15,151	11,774	83,829
Subsequent settlement of trade receivables up to the Latest Practicable Date	40,931	15,761	15,151	11,774	83,617
Subsequent settlement percentage	99.8%	99.2%	100.0%	100.0%	99.8%

Our Group's trading terms with customers are mainly on credit. In general, our Group has a policy of allowing an average credit period of 30–75 days to all its customers from the invoice date. Our Group seeks to maintain strict control over outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest bearing.

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Trade receivables as at 31 July 2012 were approximately HK\$156.4 million, representing an increase of approximately 86.6% as compared with that as at 31 March 2012. The increase in trade receivables was mainly due to the seasonality of our Group's business as our Group was just entering 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 our customers. Historically, our Group's trade receivables dropped back to comparable levels after peak sales months.

Trade receivables as at 31 March 2012 were approximately HK\$83.8 million, representing an increase of approximately 49.1% as compared with that as at 31 March 2011. The increase in trade receivables was mainly due to (i) the approximately 20.1% increase in revenue for the year ended 31 March 2012 as compared to the year ended 31 March 2011; and (ii) our Group extending a longer credit period to our largest customer, Customer A, from 30 days to 45 days in September 2011, which gave rise to substantial increase in the ageing categories from 31 days and above. The extension of the credit policy represented a new program launched by Customer A in which they required most of their suppliers to extend their credit policies.

Trade receivables as at 31 March 2011 were approximately HK\$56.2 million, representing a decrease of approximately 5.7% as compared with that as at 31 March 2010. The decrease in trade receivables was mainly due to the approximately 9.2% decrease in revenue for the year ended 31 March 2011 as compared to the year ended 31 March 2010.

Our Group reviews receivables for evidence of impairment on both an individual and collective basis. We also monitor the ageing status of our trade receivables and payment history, subsequent settlement, on-going business relationships and financial condition of our customers. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balance as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Our Group's average trade receivables turnover days for the four months ended 31 July 2012 and each of the three years ended 31 March 2012 were 52.4 days, 34.0 days, 29.0 days and 29.2 days respectively. This was in line with the credit terms of 30–75 days normally granted by our Group to our customers during the Track Record Period.

Up to the Latest Practicable Date, approximately HK\$152.9 million out of the trade receivable as at 31 July 2012, representing approximately 97.8% of the total balance, has been received.

Up to the Latest Practicable Date, approximately HK\$83.6 million out of the trade receivable as at 31 March 2012, representing approximately 99.8% of the total balance, has been received.

Deposits, prepayments and other receivables analysis

Deposits, prepayments and other receivables of our Group mainly represented the insurance compensation receivables for each of the two years ended 31 March 2011.

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Deposits, prepayments and other receivables as at 31 July 2012 was approximately HK\$8.4 million, representing an increase of approximately 189.7% as compared with that of 31 March 2012. The increase in deposits, prepayments and other receivables was primarily due to the approximately HK\$5.6 million increase in prepayments made for the purpose of mainly construction of the new factory to be operated by Foshan Haoda.

Deposits, prepayments and other receivables as at 31 March 2012 was approximately HK\$2.9 million, representing a decrease of approximately 88.0% as compared with that as at 31 March 2011. The decrease in deposits, prepayments and other receivables was primarily due to the insurance company settling the insurance compensation receivables of approximately HK\$17.7 million during the year ended 31 March 2012 in relation to the insurance that our Group purchased on the raw materials that were destroyed during the fire accident that occurred in our Processing Factory before the Track Record Period.

Deposits, prepayments and other receivables as at 31 March 2010 and 31 March 2011 remained stable at approximately HK\$21.0 million and HK\$24.1 million respectively. The insurance compensation receivables balance, which mainly represented the entire deposits, prepayments and other receivables balance, amounted to approximately HK\$16.9 million and HK\$17.7 million as at 31 March 2010 and 31 March 2011 respectively. The insurance compensation receivables balance represented the outstanding insurance payments in relation to the insurance that our Group purchased on the raw materials that were destroyed during the fire accident that occurred in our Processing Factory before the Track Record Period.

In relation to the abovementioned fire accident, the fire accident occurred in the Processing Factory on 15 January 2009 due to an electrical short circuit and our raw materials stored in the Processing Factory were destroyed by the fire. However, there were no material disruptions to our business operations as we had sufficient raw materials stored in other warehouses for production purposes. The loss borne by our Group due to such fire accident after deducting the insurance compensation was approximately HK\$9.7 million. Our Group has put in place fire prevention measures in our Haoda Factory and the Processing Factory to prevent similar happenings in the future. Please refer to the paragraph headed “Risks associated with our business operations” for more details.

Trade payables analysis

Set out below is the ageing analysis of our Group’s trade payables, based on invoice date, as at the respective dates during the Track Record Period and the subsequent settlement of trade payables as at 31 July 2012 and 31 March 2012 by ageing:

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current–30 days	38,583	39,777	37,318	103,422
31–60 days	9,298	10,006	22,357	21,460
61–90 days	17,656	24,147	22,240	18,722
Over 90 days	8,764	879	1,110	4,274
 Total	74,301	74,809	83,025	147,878

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Subsequent settlement of trade payables as at 31 July 2012 by ageing analysis:

	<u>Current- 30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>> 90 days</u>	<u>Total</u>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Account payables as at 31 July 2012	103,422	21,460	18,722	4,274	147,878
Subsequent settlement of trade payables up to the Latest Practicable Date	103,374	21,449	18,722	4,012	147,557
Subsequent settlement percentage	99.9%	99.9%	100.0%	93.9%	99.8%

Subsequent settlement of trade payables as at 31 March 2012 by ageing analysis:

	<u>Current- 30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>> 90 days</u>	<u>Total</u>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Account payables as at 31 March 2012	37,318	22,357	22,240	1,110	83,025
Subsequent settlement of trade payables up to the Latest Practicable Date	37,306	22,357	22,240	856	82,759
Subsequent settlement percentage	100.0%	100.0%	100.0%	77.1%	99.7%

In general, our Group's suppliers have a policy of allowing an average credit period of 30 days to us from the invoice date.

Trade payables as at 31 July 2012 were approximately HK\$147.9 million, representing an increase of approximately 78.2% as compared with that as at 31 March 2012. The increase in trade payables was primarily due to our Group settling our payables slower in general in order to maintain our working capital level.

Trade payables as at 31 March 2012 were approximately HK\$83.0 million, representing an increase of approximately 11.0% as compared with that as at 31 March 2011. The increase in trade payables was consistent with the revenue growth during the year as we had to purchase more raw materials from our suppliers during the year to support the increase in production.

Trade payables as at 31 March 2011 were approximately HK\$74.8 million, which was stable with the trade payables balance as at 31 March 2010. As the average creditors' turnover days were longer for the year ended 31 March 2011, our Group also settled our payables slower in general in order to maintain our working capital level.

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Our Group's average trade payable turnover days for the four months ended 31 July 2012 and each of the three years ended 31 March 2012 were 57.5 days, 39.0 days, 41.8 days and 37.1 days respectively. This is in line with our Group's working capital management policy in trying to shorten our cash conversion cycle to ensure cash disbursements are made after receipts from customers in general.

Up to the Latest Practicable Date, approximately HK\$147.6 million out of the trade payable as at 31 July 2012, representing approximately 99.8% of the total balance, has been paid.

Up to the Latest Practicable Date, approximately HK\$82.8 million out of the trade payable as at 31 March 2012, representing approximately 99.7% of the total balance, has been paid.

Receipts in advance from customers, accruals and other payables analysis

Set out below is our Group's receipts in advance from customers, accruals and other payables as at the respective dates during the Track Record Period:

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Receipts in advance from customers	206	3,612	936	542
Accruals and other payables	57,894	42,786	23,710	21,368
Dividend payables	873	—	32,598	27,531
	58,973	46,398	57,244	49,441

Furthermore, set out below is the breakdown of our Group's accruals and other payables during the Track Record Period:

	At 31 March						At 31 July	
	2010		2011		2012		2012	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Accrued Salaries	935	1.6	1,271	3.0	3,365	14.2	2,098	9.8
Accrued Social and Housing Fund	5,503	9.5	8,032	18.8	11,578	48.8	12,255	57.4
Payables to Processing Factory	48,915	84.5	28,463	66.5	3,030	12.8	—	0.0
Deposits for Moulding Income	2,061	3.6	4,485	10.5	3,627	15.3	1,142	5.3
Others	480	0.8	535	1.2	2,110	8.9	5,873	27.5
Total:	57,894	100.0	42,786	100.0	23,710	100.0	21,368	100.0

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Receipts in advance, accruals and other payables as at 31 July 2012 were approximately HK\$49.4 million, representing a decrease of approximately 13.6% as compared with that as at 31 March 2012. The decrease in receipts in advance, accruals and other payables was primarily due to the approximately HK\$5.1 million decrease in dividend payables due to the payment of dividends to Mr. Lau, Madam Li and Gold Grand and the approximately HK\$2.3 million decrease in accruals and other payables mainly due to the decrease in payables to Processing Factory to nil as our Group no longer relied on the Processing Factory in helping us settle the payables to our suppliers.

Receipts in advance, accruals and other payables as at 31 March 2012 were approximately HK\$57.2 million, representing an increase of approximately 23.3% as compared with that as at 31 March 2011. The increase in receipts in advance, accruals and other payables was primarily due to the approximately HK\$32.6 million dividend payables to Mr. Lau, Madam Li and Gold Grand, which is partially offset by the approximately HK\$19.1 million decrease in accruals and other payables. The approximately HK\$19.1 million decrease in accruals and other payables was primarily due to the approximately HK\$25.5 million decrease in payables to the Processing Factory as our Group continued to rely less on the Processing Factory in helping us settle the payables to our suppliers for the purchase of raw materials, which was slightly offset by the approximately HK\$2.1 million increase in accrued salaries to our employees and the approximately HK\$3.6 million increase in accrued social and housing fund for our employees in the PRC. In relation to the above arrangement with the Processing Factory, the Group did not source raw materials from the Processing Factory. Raw material purchases were always directly sourced from our suppliers. For some suppliers with long and trusted relationship with the Processing Factory, the Processing Factory received raw materials and paid on the Group's behalf. The Group would pay back the corresponding amounts to the Processing Factory (at the same price as the Processing Factory ordered from the suppliers). As the Group continued to develop a more trusted relationship with the suppliers, there was a decreasing trend in the above arrangement during the Track Record Period. The credit terms provided by the relevant suppliers and the Processing Factory were 30 days. As at 31 July 2012, all payables to the Processing Factory were fully settled.

Receipts in advance, accruals and other payables as at 31 March 2011 were approximately HK\$46.4 million, representing a decrease of approximately 21.4% as compared with that as at 31 March 2010. The decrease in receipts in advance, accruals and other payables was primarily due to the approximately HK\$15.1 million decrease in accruals and other payables. The approximately HK\$15.1 million decrease was primarily due to the approximately HK\$20.4 million decrease in payables to Processing Factory as our Group began to rely less on the Processing Factory in helping us settle the payables to our suppliers for the purchase of raw materials as we began to develop a most trusted relationship with our suppliers. This decrease was slightly offset by the approximately HK\$2.5 million increase in accrued social and housing fund to our employees in the PRC and the approximately HK\$2.4 million increase in deposits received in advance for our moulds sales from our customers as a result of new customers requesting new design moulds during the year ended 31 March 2011.

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Selected consolidated statements of cash flows data

The following table shows the changes in cash flows of our Group for the Track Record Period:

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Audited)</i>	<i>(Unaudited)</i>	<i>(Audited)</i>
Net cash generated from/(used in) operating activities	16,298	(24,732)	7,175	170	(40,750)
Net cash generated from/(used in) investing activities	(15,874)	(22,924)	(18,117)	(4,392)	3,676
Net cash generated from/(used in) financing activities	(16,748)	38,767	42,478	21,439	29,806

Operating activities

Our Group derived our cash inflow from operating activities principally from the receipts of payments for the sale of our services and products. Our cash outflow from operations is principally for purchases of raw materials, production outsourcing, salary payments and other administrative expenses.

For the four months ended 31 July 2012, our Group had net cash generated from operating activities before changes in working capital of approximately HK\$14.3 million and a net cash outflow from operating activities of approximately HK\$40.8 million. The difference of approximately HK\$55.1 million was primarily attributable to (i) the approximately HK\$72.5 million increase in trade receivables due to the peak sales seasonality factor of our Group's business; (ii) the approximately HK\$37.6 million increase in inventories due to primarily the increase in finished goods as our Group manufactured more finished goods for preparation to ship out to our customers during peak sales months; and (iii) the approximately HK\$5.6 million increase in prepayments, deposits and other receivables due to the increase in prepayments made for the purpose of mainly construction of the new factory to be operated by Foshan Haoda, which was partially offset by the approximately HK\$64.9 million increase in trade payables due to our Group maintaining a healthy working capital level amid the increase in trade receivables.

For the year ended 31 March 2012, our Group had net cash generated from operating activities before changes in working capital of approximately HK\$59.5 million and a net cash inflow from operating activities of approximately HK\$7.2 million. The difference of approximately HK\$52.3 million was primarily attributable to (i) the approximately HK\$28.4 million increase in inventories due to the growth of our revenue during the year, which led to an increase in our finished goods to cope with the anticipated increase in revenue in the coming year; (ii) the approximately HK\$27.6 million increase in trade receivables primarily due to the increase in revenue during the year; (iii) the approximately HK\$21.8 million decrease in receipts in advance, accruals and other payables due to the decrease in sourcing of raw materials from the Processing Factory; and (iv) an approximately HK\$4.5 million incomes taxes paid during the year, which was partially offset by (i) an approximately HK\$21.2 million decrease in prepayments, deposits and other receivables due to the settlement of the insurance

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receivables relating to the fire accidents that occurred in the Processing Factory before the Track Record Period; and (ii) the increase in trade payables of approximately HK\$8.2 million due to the business growth during the year.

For the year ended 31 March 2011, our Group had net cash generated from operating activities before changes in working capital of approximately HK\$39.1 million and a net cash outflow from operating activities of approximately HK\$24.7 million. The difference of approximately HK\$63.8 million was primarily attributable to (i) the approximately HK\$42.1 million increase in inventories due to the increase in our Group's raw materials and finished goods to cope with the anticipated increase in revenue in the coming year; and (ii) the approximately HK\$11.7 million decrease in receipts in advance, accruals and other payables due to the decrease in sourcing of raw materials from the Processing Factory. The net operating cash outflow for the year ended 31 March 2011 was primarily due to the relatively low profit before income tax of approximately HK\$15.7 million during the year.

For the year ended 31 March 2010, our Group had net cash generated from operating activities before changes in working capital of approximately HK\$38.0 million and a net cash inflow from operating activities of approximately HK\$16.3 million. The difference of approximately HK\$21.7 million was primarily attributable to (i) the approximately HK\$35.2 million increase in inventories; (ii) the approximately HK\$3.9 million decrease in receipts in advance, accruals and other payables; and (iii) the approximately HK\$3.8 million decrease in trade payables, which was partially offset by the approximately HK\$30.4 million decrease in trade receivables.

Investing activities

During the Track Record Period, cash used in investing activities was primarily related to the purchase of property, plant and equipment and investments in associate companies.

For the four months ended 31 July 2012, our Group had net cash generated from investing activities of approximately HK\$3.7 million, which was primarily due to the approximately HK\$7.7 million repayment from related parties, relating to the disposal of interests in CIDE, and the approximately HK\$2.4 million increase in derivative financial instruments which was partially offset by the purchase of property, plant and equipment of approximately HK\$6.5 million for the purpose of improving our lab test equipments and production facilities.

For the year ended 31 March 2012, our Group had net cash used in investing activities of approximately HK\$18.1 million, which was primarily due to the purchase of property, plant and equipment of approximately HK\$13.2 million for the purpose of improving our lab test equipments and production facilities and the approximately HK\$5.6 million increase in derivative financial instruments.

For the year ended 31 March 2011, our Group had net cash used in investing activities of approximately HK\$22.9 million, which was primarily due to (i) the purchase of property, plant and equipment of approximately HK\$12.4 million for the purpose of improving our lab test equipments and production facilities; (ii) the approximately HK\$4.0 million injection to the then associate company, Eagletron for working capital purpose; and (iii) the approximately HK\$4.3 million purchase of available-for-sale investments relating to Qualiman Technology, an indirect wholly-owned subsidiary of our Company, acquired approximately 19.44% interest in CIDE, which was one of our top five customers in terms of revenue for each of the three years ended 31 March 2012, in December 2011. Please refer to note 16 of the Accountant's Report as set out in Appendix I of this prospectus.

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For the year ended 31 March 2010, our Group had net cash used in investing activities of approximately HK\$15.9 million, which was primarily due to the investment in associate company, Eagletron, of approximately HK\$2.0 million and the approximately HK\$5.0 million injection to the then associate company, Eagletron for working capital purposes.

Financing activities

During the Track Record Period, cash used in financing activities primarily consisted of payment of dividends and repayment of bank borrowings while cash generated from financing activities included proceeds from bank borrowings.

For the four months ended 31 July 2012, our Group had net cash inflow from financing activities of approximately HK\$29.8 million, which was primarily attributable to the proceeds from bank borrowings of approximately HK\$52.7 million arising from the factoring of our trade receivables from Customer A and for the purpose of purchasing raw materials for production in the coming peak sales months, which was partially offset by the HK\$15.0 million repayment of advance to a director in July 2012, and the approximately HK\$5.1 million payment of dividends to Mr. Lau, Madam Li and Gold Grand.

For the year ended 31 March 2012, our Group had net cash inflow from financing activities of approximately HK\$42.5 million, which was primarily attributable to the proceeds from bank borrowings of approximately HK\$489.0 million arising from the factoring of our trade receivables from Customer A and for the purpose of purchasing raw materials for production in the coming peak sales months, which was partially offset by the approximately HK\$464.0 million repayment of bank borrowings. The extension of the credit policy with Customer A during the year ended 31 March 2012 led our Group to factor more of our trade receivables from it with our banks.

For the year ended 31 March 2011, our Group had net cash inflow from financing activities of approximately HK\$38.8 million, which was primarily due to the proceeds from bank borrowings of approximately HK\$144.4 million for the purpose of purchasing raw materials for production in the coming peak sales months, which was partially offset by the approximately HK\$105.3 million repayment of bank borrowings.

For the year ended 31 March 2010, our Group had net cash outflow from financing activities of approximately HK\$16.7 million, which was primarily due to i) the payment of dividend of HK\$18.6 million to the Controlling Shareholders; ii) the repayment of bank borrowings of approximately HK\$49.6 million; and iii) the advance to related parties of approximately HK\$5.9 million, which was partially offset by the proceeds from bank borrowings of approximately HK\$56.7 million.

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Indebtedness

The following table sets out our bank borrowings as at the dates indicated:

	At 31 March			At 31 July	At 30 November
	2010	2011	2012	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Unaudited)</i>
Within one year or on demand	10,878	51,660	74,464	124,947	54,088
In the second year	2,294	1,200	1,200	1,200	900
In the third to fifth years, inclusive	2,900	1,700	500	100	—
	<u>16,072</u>	<u>54,560</u>	<u>76,164</u>	<u>126,247</u>	<u>54,988</u>

The following table sets out our amount due to a director, amounts due to related parties and loan from a director as at the dates indicated:

	At 31 March			At 31 July	At 30 November
	2010	2011	2012	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(Unaudited)</i>
Amount due to a director	1,313	1,873	52	—	—
Amounts due to related parties	2,470	3,220	—	—	—
Loan from a director	15,000	15,000	15,000	—	—
	<u>18,783</u>	<u>20,093</u>	<u>15,052</u>	<u>—</u>	<u>—</u>

Our Group had settled its debts primarily through cash generated from its operations and the available unutilised banking facilities and accordingly, our Directors are of the opinion that as at the Latest Practicable Date our Group had sufficient resources to meet its present debt repayment requirements.

The following table sets out the range of interest rates of our bank borrowings for the periods indicated:

	Year ended 31 March			Four months ended 31 July	Four months ended 30 November
	2010	2011	2012	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ranges of interest rates	1.45% to 3.25% over HIBOR	1.45% to 3.25% over HIBOR	1.45% to 3.25% over HIBOR	1.45% to 3.25% over HIBOR	1.45% to 3.25% over HIBOR

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At the close of business on 30 November 2012, being the latest practicable date in relation to this indebtedness statement prior to the printing of this prospectus, our Group had bank borrowings of approximately HK\$55.0 million and the amount due to a director, related parties and loan from a director were nil. As at 30 November 2012, our Group has provided financial guarantee in respect of bank loans to related companies of our Group, the outstanding balance of the bank loan was HK\$20.5 million. Pursuant to the guarantee agreement, our Group would be liable to repay the bank loans if the loans are irrecoverable. Upon the Listing, the guarantees provided by our Group in respect of bank loans of related companies of our Group will be released.

As at 30 November 2012, our Group had utilized approximately HK\$75.5 million of the banking facilities and had approximately HK\$222.4 million of unutilised banking facilities. All our banking facilities were secured by:

- (i) Pledge of certain leasehold land and buildings of our Group;
- (ii) Corporate guarantee by related companies and pledge of the related companies' property, plant and equipment. The related companies are controlled by our Director, Mr. Lau and his spouse Madam Li;
- (iii) Personal guarantee by our Director, Mr. Lau.

Upon the Listing, the guarantees provided by related companies and personal guarantee provided by our Director, Mr. Lau will be released and replaced by corporate guarantees provided by our Company. In relation to our existing banking facilities, our Group is subject to the bank covenants of maintaining a gearing ratio at or below 0.7 at all times and a consolidated net worth of no less than HK\$50 million.

During the Track Record Period, our Group's bank borrowings were for import and export trade facilities purposes, purchases of raw materials and were variable rate borrowings with the interest rate ranged from 1.45% to 3.25% over HIBOR, none of them contained cross-default provision. Bank borrowings were denominated in the respective functional currency of the relevant group entities.

We confirm that there had not been any material change in our indebtedness since 30 November 2012 and up to the Latest Practicable Date.

Except as described above and apart from intra-group liabilities and normal trade payables, as at 30 November 2012, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

Contingent liabilities

As at 31 July 2012 and 31 March 2010, 2011, 2012 the Group has executed financial guarantee in respect of bank loans of related companies of our Group. Pursuant the guarantee agreement, our Group would be liable to repay the bank loans if the loans are irrecoverable. As at 31 July 2012 and 31 March 2010, 2011, 2012, the outstanding balances of the bank loans were approximately HK\$20.9 million, HK\$0.8 million, HK\$21.2 million and HK\$21.3 million respectively. Our Group's maximum exposure

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under the financial guarantee contracts was equivalent to the amount outstanding at respective reporting date. No provision for our Group's obligation under the financial guarantee contracts has been made as our Directors considered that default in repayment of loans was not probable.

The financial guarantee contracts will be released upon the listing of the Group.

Capital commitments and operating lease commitments

Our Group had the following capital commitments as at the dates indicated below:

	At 31 March			At 31 July	At 30 November
	2010	2011	2012	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(Unaudited)</i>
Contracted, but not provided for, in respect of acquisition of property, plant and equipment	—	14,080	8,351	4,822	1,676

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

As at 30 November 2012, 31 July 2012 and 31 March 2010, 2011 and 2012, our Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 31 March			At 31 July	At 30 November
	2010	2011	2012	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(Unaudited)</i>
Within one year	952	1,740	—	2,130	2,130
In the second and fifth years, inclusive	—	142	—	3,326	2,616
	<u>952</u>	<u>1,882</u>	<u>—</u>	<u>5,456</u>	<u>4,746</u>

Capital expenditure

	Year ended 31 March			Four months ended 31 July	Four months ended 30 November
	2010	2011	2012	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
					<i>(Unaudited)</i>
Capital expenditures in respect of acquisition of property, plant and equipment	<u>2,838</u>	<u>12,379</u>	<u>13,225</u>	<u>6,512</u>	<u>7,971</u>

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Our capital expenditures for the four months ended 30 November 2012, four months ended 31 July 2012 and each of the three years ended 31 March 2012 primarily consisted of expenditures on the acquisition of plant and machineries. We expect our capital expenditures for the year ending 31 March 2013 to be HK\$6.1 million for the operations of the new factory building to be operated by Foshan Haoda. We intend to finance these capital expenditures primarily through IPO proceeds.

As we may incur additional capital expenditures from time to time as we pursue new opportunities to expand our production capacities, actual expenditures may differ significantly from our current plans. Our planned capital expenditure projects may also change due to changes in business plans such as potential acquisitions, individual project progress, market conditions and outlook. Further, our ability to obtain sufficient funding for our planned capital expenditure projects in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the North America, Western Europe, China and other jurisdictions in which we operate.

Financial ratios analysis

Set out below are certain major financial ratios of our Group:

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
Debtors' turnover days ^(Note 1)	34.0	29.0	29.2	47.9	52.4
Creditors' turnover days ^(Note 2)	39.0	41.8	37.1	72.5	57.5
Inventories' turnover days ^(Note 3)	37.9	63.2	69.5	88.7	90.1
Return on equity ^(Note 4)	38.3%	11.8%	47.8%	12.7%	5.0%
Debt to equity ratio (as at the respective year/period ended) ^(Note 5)	49.9%	93.0%	91.4%	119.4%	120.4%
Current ratio (as at the respective year/period ended) ^(Note 6)	1.2	1.2	1.3	1.2	1.2

Notes:

- (1) Debtors' turnover days equals to the average trade receivables for the last two periods divided by the revenue for the period, multiplied by 365 days in respect of year periods or multiplied by 122 days in respect of four-month periods.
- (2) Creditors' turnover days equals to the average trade payables for the last two periods divided by the cost of sales for the period, multiplied by 365 days in respect of year periods or multiplied by 122 days in respect of four-month periods.
- (3) Inventories' turnover days equals to the average inventories for the last two periods divided by the cost of sales for the period, multiplied by 365 days in respect of year periods or multiplied by 122 days in respect of four-month periods.
- (4) Return on equity equals to net profit attributable to shareholders divided by shareholders' equity and multiplied by 100%.
- (5) Debt to equity ratio equals to the closing debt of the period divided by the closing total equity of the period and multiplied by 100%. Debts are defined to include payables incurred not in the ordinary course of business, which includes interest-bearing bank borrowings, amount due to related parties, amount due to a director and loan from a director.
- (6) Current ratio equals to total current assets divided by total current liabilities.

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Debtors' turnover days

Our Group's average debtors' turnover days for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012 were approximately 47.9 days, 52.4 days, 34.0 days, 29.0 days and 29.2 days, respectively. This was in line with the credit terms of 30 to 75 days normally granted by our Group to our customers during the Track Record Period. The increase in debtors' turnover days for the four months ended 31 July 2012 compared to the year ended 31 March 2012 was primarily due to the seasonality of our Group's business as our Group was just entering the peak sales season. As the trade receivable numerator in calculating the debtors' turnover days is an average of the 31 March 2012 and 31 July 2012 balances and the revenue denominator represents mainly non-peak season revenue from April 2012 to end of July 2012, the debtors' turnover days for the four months ended 31 July 2012 substantially increased from that for the year ended 31 March 2012. The substantial increase in debtors' turnover days during the peak sales season every year is normal for our Group due to the seasonality nature of our business, which is evident from the relatively high debtors' turnover days of approximately 47.9 days for the four months ended 31 July 2011. Historically, our Group's debtors' turnover days dropped back to comparable levels after peak sales season. The small increase in debtors' turnover days for the year ended 31 March 2012 was primarily due to our Group renegotiating a new credit policy for our largest customer, Customer A, from 30 days to 45 days for the year ended 31 March 2012. The decrease in the debtors' turnover days from approximately 34.0 days for the year ended 31 March 2010 to approximately 29.0 days for the year ended 31 March 2011 was primarily due to the earlier settlement by our Group's customers.

Creditors' turnover days

Our Group's average creditors' turnover days for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012 were approximately 72.5 days, 57.5 days, 39.0 days, 41.8 days and 37.1 days respectively. The increase in creditor's turnover days for the four months ended 31 July 2012 compared to the year ended 31 March 2012 was primarily due to the increase in debtors' turnover days and as a result, our Group settled the payables to our suppliers slower on average in order to maintain a healthy working capital level. Moreover, as the trade payable numerator in calculating the creditors' turnover days is an average of the 31 March 2012 and 31 July 2012 balances and the cost of sales denominator represents the partially non-peak season cost of sales from April 2012 to end of July 2012, the creditors' turnover days for the four months ended 31 July 2012 substantially increased from that for the year ended 31 March 2012. The small decrease in creditors' turnover days for the year ended 31 March 2012 compared to the year ended 31 March 2011 was primarily due to our Group wanting to maintain a good relationship with our suppliers and therefore settling our trade payables faster in general. The increase in creditors' turnover days for the year ended 31 March 2011 compared to the year ended 31 March 2010 was primarily due to the increase in debtors' turnover days during the year and as a result, our Group settled the payables to our suppliers slower on average in order to maintain a healthy working capital level.

Inventories' turnover days

Our Group's average inventories' turnover days for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012 were approximately 88.7 days, 90.1 days, 37.9 days, 63.2 days and 69.5 days, respectively. The increase in inventories' turnover days for the four months ended 31 July 2012 compared to the year ended 31 March 2012 was primarily due to the seasonality of

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our Group's business as our Group was just entering the peak sales season. During the peak sales season, our Group produced a large amount of finished goods and had them stored in our warehouses to prepare for shipping out to our customers. As a result, our Group's inventories' turnover days increased substantially for the four months ended 31 July 2012. The substantial increase in inventories' turnover days during the peak sales season every year is normal for our Group due to the seasonality nature of our business, which is evident from the relatively high inventories' turnover days of approximately 88.7 days for the four months ended 31 July 2011. Historically, our Group's inventories' turnover days dropped back to comparable levels after peak sales season. The increase in inventories' turnover days during the three years ended 31 March 2012 was primarily due to the increase in our Group's raw materials and finished goods to cope with the anticipated increase in revenue in the coming year and not due to our Group's customers unwilling or delay in taking up the finished goods at the expense of our Group. Please refer to the paragraphs under "Inventories analysis" above for details, amongst others, on our Group's production life cycle, production lead time and measures to prevent accumulation of inventories.

Return on equity

Our Group's return on equity for the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012 were approximately 12.7%, 5.0%, 38.3%, 11.8% and 47.8% respectively. The fluctuations in return on equity ratio during the Track Record Period were primarily due to changes in the profit after tax with the reasons discussed above.

Debt to equity ratio

Our Group's debt to equity ratios as at 31 July 2011 and 2012 and 31 March 2010, 2011 and 2012 were approximately 119.4%, 120.4%, 49.9%, 93.0% and 91.4% respectively. The increase in our Group's debt to equity ratio as at 31 March 2011 compared to that as at 31 March 2010 was primarily due to the increase in interest-bearing bank borrowings. The interest-bearing bank borrowings were primarily used for the purpose of purchasing raw materials for production in the coming peak sales months. The increase in interest-bearing bank borrowings was primarily due to the anticipated growth of our business, which would require us to purchase more raw materials for production. The debt to equity ratio remained stable at approximately 93.0% and 91.4% as at 31 March 2011 and 31 March 2012, respectively. The credit policy with our largest customer, Customer A, also changed in September 2011, which made us factor more of our trade receivables from Customer A with our banks. The increase in our Group's debt to equity ratio as at 31 July 2012 compared to that as at 31 March 2012 was primarily due to the increase in interest-bearing bank borrowings for the purpose of purchasing raw materials and factoring more of our trade receivables, which was partially offset by the repayment of HK\$15.0 million loan from a director. The factoring loan amounts were approximately HK\$21.9 million and HK\$38.4 million as at 31 March 2012 and 31 July 2012, respectively.

Current ratio

Our Group's current ratios as at 31 July 2011 and 2012 and 31 March 2010, 2011 and 2012 were approximately 1.2, 1.2, 1.2, 1.2 and 1.3 respectively. The current ratios were stable throughout the Track Record Period. Please refer to the "Net current assets" section above for more detailed analysis on our Group's current asset and current liability items.

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WORKING CAPITAL CONFIRMATION

Taking into account the cash generated from operating activities, the net proceeds of the Global Offering and the credit facilities maintained with the banks and financial institutions, our Directors are satisfied that we will have sufficient working capital for our Group's present requirements during the 12 months following the date of this prospectus.

We strive to manage our cash flow to ensure that we have sufficient funds to meet our existing and future cash requirements. In addition to cash generated from our operations and proceeds from the Global Offering, we may consider, if necessary, to obtain bank borrowings to fund our working capital requirement.

We also maintain a prudent capital expenditure policy that our capital expenditure plan must be approved by our corporate headquarters and implemented according to our business plan and cash flow situation.

We expect to finance our operations through a combination of cash generated from operations, proceeds from the Global Offering and when necessary, bank borrowings.

RELATED PARTY TRANSACTIONS

For a discussion of related party transactions, please refer to the Accountant's Report on our Group as contained in Appendix I to this prospectus.

OFF BALANCE SHEET ARRANGEMENTS

We have not entered into any material off-balance sheet transactions or arrangements save as disclosed under "Capital commitments and operating lease commitments" in this section of the prospectus.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Credit Risk

Our Group's credit risk is primarily attributable to its trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers and, where appropriate, credit guarantee insurance cover is purchased. Normally, our Group does not obtain collateral from customers. Our Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. The trade receivables from the five largest debtors as at 31 March 2010, 2011, 2012 and 31 July 2012 represented 95%, 86%, 89% and 83% of the total trade

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receivables respectively, while the largest debtor represented 55%, 46%, 35% and 36% of the total trade receivables respectively. Given the credit worthiness and reputation of the major debtors, management believes the risk arising from concentration is manageable and not significant.

Liquidity risk

Our Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities of our Group's bank borrowings during the Track Record Period based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date our Company can be required to pay.

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 July 2012			
Trade payables	147,878	147,878	147,878
Accruals and other payables	48,899	48,899	48,899
Bank overdraft	194	194	194
Interest-bearing bank borrowings subject to a repayment on demand clause	126,053	126,053	126,053
	323,024	323,024	323,024
	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2012			
Trade payables	83,025	83,025	83,025
Accruals and other payables	56,308	56,308	56,308
Amount due to a director	52	52	52
Loan from a director	15,000	15,000	15,000
Bank overdraft	658	658	658
Interest-bearing bank borrowings subject to a repayment on demand clause	75,506	75,506	75,506
	230,549	230,549	230,549

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	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2011			
Trade payables	74,809	74,809	74,809
Accruals and other payables	42,786	42,786	42,786
Amounts due to related parties	3,220	3,220	3,220
Amount due to a director	1,873	1,873	1,873
Loan from a director	15,000	15,000	15,000
Bank overdraft	4,073	4,073	4,073
Interest-bearing bank borrowings subject to a repayment on demand clause	50,487	50,487	50,487
	192,248	192,248	192,248

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2010			
Trade payables	74,301	74,301	74,301
Accruals and other payables	58,767	58,767	58,767
Amounts due to related parties	2,470	2,470	2,470
Amount due to a director	1,313	1,313	1,313
Loan from a director	15,000	15,000	15,000
Bank overdraft	4,674	4,674	4,674
Interest-bearing bank borrowings subject to a repayment on demand clause	9,118	9,118	9,118
Other bank borrowings	2,280	2,335	2,335
	167,923	167,978	167,978

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the above analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

The table that follows summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments dates set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "within 1 year or on demand" time band in the maturity analysis above. Taking into account the Group's financial position, our Directors do not consider that it is probable that

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the bank will exercise its discretion to demand immediate repayment. Our Directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Maturity analysis — bank loans subject to repayment on demand clause based on scheduled repayments			Total contractual undiscounted cash flow
	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 July 2012	125,088	1,212	100	126,400
At 31 March 2012	74,068	1,218	502	75,788
At 31 March 2011	47,754	1,237	1,720	50,711
At 31 March 2010	4,103	2,356	2,957	9,416

After making due enquiries with our Directors and the reporting accountants of our Company and reviewing the Accountant's Report as set out in Appendix I to this prospectus (the "Accountant's Report"), the Sole Sponsor noted that all bank loans that contain a repayment on demand clause have already been classified as current liabilities in the Accountant's Report in accordance with Hong Kong Interpretation 5 "Presentation of Financial Statements - Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" issued by the Hong Kong Institute of Certified Public Accountants.

Interest rate risk

Interest-bearing financial assets are mainly bank balances which are all short-term in nature. Interest-bearing financial liabilities are mainly bank loans with fixed interest rates which expose our Company to fair value interest rate risk. The interest rates and terms of repayment of the bank loans are disclosed in Note 26 to the Financial Information.

DERIVATIVE FINANCIAL INSTRUMENTS

Our derivative financial instruments represented the foreign currency non-deliverable forward contracts held by our Group. Non-deliverable forward contracts are cash-settled forward contracts where the gain or loss at the time on the settlement date is calculated based on taking the difference between the agreed upon exchange rate and the prevailing spot rate at the time of settlement. During the Track Record Period, the foreign currency non-deliverable forward contracts entered into and held by our Group were RMB forward contracts and it was done with the objective to mitigate the risk of the appreciation of RMB which would cause the increase in production costs denominated in RMB. The reason for entering into these contracts is due to its simple settlement mechanism and a transparent risk profile. These contracts allowed our Group to lock-in the RMB denominated costs at either a pre-determined contract rate. Our Group considered the measure was for cost control purpose and did not involve trading of or speculating in financial derivative products.

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Hedging policy and guidelines

Our Group would consider entering into foreign exchange contracts to lock-in the desirable exchange rates between RMB and US\$ for managing the production costs of our Group which are denominated in RMB and the sales of our Group which are denominated in US\$ and HK\$. Throughout the history of our Group and up to the Latest Practicable Date, our Group has never entered into any foreign currency contracts that are not related to the operations of our Group, and our Group has no intention to hold other derivative financial instruments beyond such foreign currency contracts which relate to the operations of our Group.

During the Track Record Period, the breakdown of our Group's sales in terms of US\$ and HK\$ is as follows:

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales in US\$	278,834	334,909	396,355	114,688	130,237
Sales in HK\$	524,598	394,867	480,312	152,428	149,420
Total:	803,432	729,776	876,667	267,116	279,657

During the Track Record Period, the breakdown of our Group's cost of sales denominated in RMB, HK\$ and US\$ is as follows:

Cost of sales denominated in:

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	655,426	567,488	693,909	223,701	234,910
HK\$	43,393	67,376	71,110	8,216	3,816
US\$	14,421	15,818	12,276	5,448	6,421
Total:	713,240	650,682	777,295	237,365	245,147

During the Track Record Period, three staff from the finance and accounting department and headed by Mr. Poon Pak Ki, Eric has periodically reviewed the amount of foreign currency forward contracts held by our Group and the latest currency trend of US\$ and RMB, and sought quotation from banks for foreign currency forward contracts as necessary. Our finance and accounting department would compare the quotations between different banks and then discussed the actual final terms and subscription amounts with the preferred bank. If our finance and accounting department, after taking into account of the above factors, considered that it was appropriate for our Group to enter into foreign currency contracts, it would make relevant proposal to Mr. Lau for endorsement and approval. The outstanding foreign currency forward contracts of our Group as at the Latest Practicable Date do not have early exit terms and early termination of these contracts would constitute a breach which would entail costs to our Group. For risk management purposes and to prevent speculation, our Group did not

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enter into foreign currency forward contract which has an aggregated amounts greater than our cost of sales in RMB. There was no formal documentation of the hedging relationships and these foreign currency forward contracts were not designated for a particular purchase transaction. Given the above and since the effectiveness of the hedge cannot be measured reliably, no hedge accounting policies in accordance to Hong Kong Accounting Standards 39 were adopted by our Group to account for the foreign currency forward contracts.

Going forward and since October 2012, our Group has implemented the foreign currency forward contract policy (“Foreign Currency Forward Contract Policy”) in relation to the foreign currency contracts. Our Group should perform, analysis and monitoring of when entering into the foreign currency forward contracts:

- (1) To ensure the decision to enter into the foreign currency forward contracts could be based on reasonable assumptions derived from professional views and reasonable analysis on the foreign currency movements;
- (2) To ensure the entering into such foreign currency forward contracts are strictly for the purpose of cost control;
- (3) To ensure the total cumulative exposure of all outstanding contracts shall not exceed the expected cost of sales in RMB during the next twelve months;
- (4) To review previous foreign currency forward transactions to improve the cost control measure for future transactions; and
- (5) To ensure the foreign currency forward transactions to be entered into are properly reviewed and authorized.

This analysis would involve revision of the past movements of the respective foreign currencies under the contract, the forecast payments denominated in or linked to the currency under the contract, in accordance with the sales order (and hence purchases) on hand or foreseeing orders in the coming period, and the projected trends of the two currencies in the coming period. The analysis would also include ongoing monitoring mechanism to mitigate downside risks if the foreign currency under the contract fluctuates substantially after entering into the contracts to lower the exposure systematically by exploring ways for early termination or entering into offsetting contracts to stop loss, taking into consideration the costs to our Group in doing so.

The entering into of all foreign exchange contracts requires the review and approval of the Board. In particular, for entering into foreign currency forward contracts with the notional amount equal to or above US\$5 million, the quorum of any such Board meeting approving the purchase of such foreign currency contracts must include a majority of our Independent non-executive Directors. For experiences of our Independent non-executive Directors, please refer to the section headed “Directors, senior management and employees” in this prospectus.

Further, as ongoing monitoring and control of the risk exposure, the team in the finance and accounting department under the supervision of Mr. Poon, an executive Director, is required to submit a foreign exchange exposure report to Mr. Tang Yu Ming, Nelson, a non-executive Director, for review on a monthly basis which will include, amongst others, summary of the outstanding foreign currency

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contracts including the latest value of respective contracts, the expected cash inflows or outflows from the contracts, the gain and loss positions of the contracts, the maturity and settlement dates of the contracts, the RMB exposure of our Group such as the expected cost of sales denominated in or linked with the RMB, and status of any foreign exchange positions that might require management attention. Such foreign exchange exposure reports shall also be presented to the entire Board for review on a quarterly basis.

Mr. Tang has been appointed as a Director on 27 March 2012. Mr. Tang graduated from Wharton School, University of Pennsylvania with a Bachelor of Science in Economics degree majoring in finance and accounting in December 1992. He is currently a director of the Pre-IPO Investor and a director of Shikumen Special Situations Fund, the holding company of the Pre-IPO Investor. He is also a managing director of Shikumen Capital Management (HK) Limited (“Shikumen Hong Kong”) since 2007. He is a co-founder of Shikumen Hong Kong and is responsible for its investment activity, operations and business development. Prior to co-founding Shikumen Hong Kong, Mr. Tang, from 1992 to 2007, spent 15 years in financial asset management industry. Through the investment funds managed by Shikumen Hong Kong, Mr. Tang was an active investor in publicly traded companies, private investments in public equities (PIPEs), pre-IPO investments, private equities and structured transactions. For details of Mr. Tang’s biography, please refer to the section headed “Directors, senior management and employees” in this prospectus.

For so long as our Group continues to enter into foreign currency forward contracts after Listing, the Foreign Currency Forward Contract Policy will be reviewed annually, at a minimum, to ensure that it remains consistent with the overall objectives of our Group and current financial trends in the market. The Foreign Currency Forward Contract Policy may be reviewed and updated more frequently if conditions dictate. Proposed amendments to the Foreign Currency Forward Contract Policy should be prepared by the team in the finance and accounting department, and should be reviewed and ratified by Mr. Tang and the board of Directors. On the above basis, the Sole Sponsor considered that there is sufficient control in place for our Group’s financial derivatives activities.

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Major terms of the foreign currency forward contracts outstanding at the end of each reporting period during the Track Record Period are as follows:

<u>Notional Amount</u>	<u>Forward contract rates</u>	<u>Commencement date</u>	<u>Maturity date</u>	<u>Realised Gain/(Loss)</u>
31 March 2010				
NIL				
31 March 2011				
(1) For the following foreign currency forward contracts, our Group would sell US Dollars to the bank in exchange for RMB at the agreed forward rate for the forward contracts, and the gains or losses are calculated and settled with the bank on maturity date:				
1 contract to buy RMB in total of US\$500,000	US\$1 to RMB6.6840	2 July 2010	1 April 2011	US\$10,019 ^(Note 1)
1 contract to buy RMB in total of US\$1,500,000	US\$1 to RMB6.6390	2 July 2010	4 July 2011	US\$40,109 ^(Note 1)
1 contract to buy RMB in total of US\$2,000,000	US\$1 to RMB6.4680	15 March 2011	15 December 2011	US\$39,703 ^(Note 1)
1 contract to buy RMB in total of US\$4,000,000	US\$1 to RMB6.4400	15 March 2011	15 March 2012	US\$65,721 ^(Note 1)
1 contract to buy RMB in total of US\$5,000,000	US\$1 to RMB6.3830	15 March 2011	13 September 2012	US\$38,839 ^(Note 1)
1 contract to buy RMB in total of US\$2,000,000	US\$1 to RMB6.5610	2 July 2010	4 January 2012	US\$82,824 ^(Note 1)
1 contract to buy RMB in total of US\$1,800,000	US\$1 to RMB6.6213	26 July 2010	26 January 2012	US\$87,665 ^(Note 1)
1 contract to buy RMB in total of US\$1,500,000	US\$1 to RMB6.5400	2 July 2010	4 January 2012	US\$57,118 ^(Note 1)
1 contract to buy RMB in total of US\$1,000,000	US\$1 to RMB6.6020	23 July 2010	19 January 2012	US\$45,067 ^(Note 1)

(2) For the following foreign currency forward contracts, our Group would sell US Dollars to the bank in exchange for RMB at the agreed forward rate for the forward contracts, and the gains or losses are calculated and settled with the bank on an on-going monthly basis from commencement to maturity of the contracts:

1 contract to buy RMB in total of US\$500,000	US\$1 to RMB6.8900	13 August 2010	13 September 2012	US\$149,284 ^(Note 2)
1 contract to buy RMB in total of US\$1,000,000	US\$1 to RMB6.8500	2 July 2010	4 January 2012	US\$54,000 ^(Note 2)
1 contract to buy RMB in total of US\$1,500,000	US\$1 to RMB6.5860	1 February 2011	8 February 2013 ^(Note 4)	US\$36,000 ^(Note 2)
1 contract to buy RMB in total of US\$900,000	US\$1 to RMB6.6000 for the first 7 months and US\$1 to RMB6.5300 for the 8th to 19th months	7 March 2011	7 March 2013 ^(Note 4)	US\$40,500 ^(Note 2)

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<u>Notional Amount</u>	<u>Forward contract rates</u>	<u>Commencement date</u>	<u>Maturity date</u>	<u>Realised Gain/(Loss)</u>
31 March 2012				
(1) For the following foreign currency forward contracts, our Group would sell US Dollars to the bank in exchange for RMB at the agreed forward rate for the forward contracts, and the gains or losses are calculated and settled with the bank on maturity date:				
1 contract to buy RMB in total of US\$5,000,000	US\$1 to RMB6.3830	15 March 2011	13 September 2012	US\$38,839 ^(Note 1)
2 contracts to buy RMB in total of US\$5,000,000	US\$1 to RMB6.3050	12 September 2011	12 September 2013	N/A ^(Note 3)
1 contract to buy RMB in total of US\$5,000,000	US\$1 to RMB6.4100	30 September 2011	9 October 2012	US\$51,938 ^(Note 1)
1 contract to buy RMB in total of US\$5,000,000	US\$1 to RMB6.4000	30 September 2011	9 October 2013	N/A ^(Note 3)
(2) For the following foreign currency forward contracts, our Group would sell US Dollars to the bank in exchange for RMB at the agreed forward rate for the forward contracts, and the gains or losses are calculated and settled with the bank on an on-going monthly basis from commencement to maturity of the contracts:				
1 contract to buy RMB in total of US\$500,000	US\$1 to RMB6.8900	13 August 2010	13 September 2012	US\$149,284 ^(Note 2)
1 contract to buy RMB in total of US\$1,500,000	US\$1 to RMB6.5860	1 February 2011	8 February 2013 ^(Note 4)	US\$36,000 ^(Note 2)
1 contract to buy RMB in total of US\$900,000	US\$1 to RMB6.5300	7 March 2011	7 March 2013 ^(Note 4)	US\$40,500 ^(Note 2)
1 contract to buy RMB in total of US\$500,000	US\$1 to RMB6.5500 for the first 3 months and US\$1 to RMB6.4500 for the 4th to 15th months	15 June 2011	13 June 2013 ^(Note 4)	US\$24,000 ^(Note 2)
1 contract to buy RMB in total of US\$1,000,000	US\$1 to RMB6.4200	3 January 2012	28 February 2014 ^(Note 4)	US\$95,054 ^(Note 2)
1 contract to buy RMB in total of US\$1,150,000	US\$1 to RMB6.4500 for the first 9 months and US\$1 to RMB6.4000 for the 10th to 21st months	3 January 2012	2 January 2014 ^(Note 4)	US\$109,315 ^(Note 2)
1 contract to buy RMB in total of US\$1,350,000	US\$1 to RMB6.4500 for the first 6 months and US\$1 to RMB6.4000 for the 7th to 18th months	3 January 2012	2 January 2014 ^(Note 4)	US\$101,670 ^(Note 2)
1 contract to buy RMB in total of US\$1,150,000	US\$1 to RMB6.4400 for the first 12 months and US\$1 to RMB6.3900 for the 13th to 24th months	4 January 2012	2 January 2014 ^(Note 4)	US\$109,293 ^(Note 2)
1 contract to buy RMB in total of US\$500,000	US\$1 to RMB6.4400 for the first 12 months and US\$1 to RMB6.3900 for the 13th to 24th months	5 January 2012	7 January 2014 ^(Note 4)	US\$47,494 ^(Note 2)

FINANCIAL INFORMATION

<u>Notional Amount</u>	<u>Forward contract rates</u>	<u>Commencement date</u>	<u>Maturity date</u>	<u>Realised Gain/(Loss)</u>
31 July 2012				
(1) For the following foreign currency forward contracts, our Group would sell US Dollars to the bank in exchange for RMB at the agreed forward rate for the forward contracts, and the gains or losses are calculated and settled with the bank on maturity date:				
1 contract to buy RMB in total of US\$5,000,000	US\$1 to RMB6.3830	15 March 2011	13 September 2012	US\$38,839 ^(Note 1)
2 contracts to buy RMB in total of US\$5,000,000	US\$1 to RMB6.3050	12 September 2011	12 September 2013	N/A ^(Note 3)
1 contract to buy RMB in total of US\$5,000,000	US\$1 to RMB6.4100	30 September 2011	9 October 2012	US\$51,938 ^(Note 1)
1 contract to buy RMB in total of US\$5,000,000	US\$1 to RMB6.4000	30 September 2011	9 October 2013	N/A ^(Note 3)
(2) For the following foreign currency forward contracts, our Group would sell US Dollars to the bank in exchange for RMB at the agreed forward rate for the forward contracts, and the gains or losses are calculated and settled with the bank on an on-going monthly basis from commencement to maturity of the contracts:				
1 contract to buy RMB in total of US\$500,000	US\$1 to RMB6.8900	13 August 2010	13 September 2012	US\$149,284 ^(Note 2)
1 contract to buy RMB in total of US\$1,500,000	US\$1 to RMB6.5860	1 February 2011	8 February 2013 ^(Note 4)	US\$36,000 ^(Note 2)
1 contract to buy RMB in total of US\$900,000	US\$1 to RMB6.5300	7 March 2011	7 March 2013 ^(Note 4)	US\$40,500 ^(Note 2)
1 contract to buy RMB in total of US\$500,000	US\$1 to RMB6.5500 for the first 3 months and US\$1 to RMB6.4500 for the 4th to 15th months	15 June 2011	13 June 2013 ^(Note 4)	US\$24,000 ^(Note 2)
1 contract to buy RMB in total of US\$1,000,000	US\$1 to RMB6.4200	3 January 2012	28 February 2014 ^(Note 4)	US\$95,054 ^(Note 2)
1 contract to buy RMB in total of US\$1,150,000	US\$1 to RMB6.4500 for the first 9 months and US\$1 to RMB6.4000 for the 10th to 21st months	3 January 2012	2 January 2014 ^(Note 4)	US\$109,315 ^(Note 2)
1 contract to buy RMB in total of US\$1,350,000	US\$1 to RMB6.4500 for the first 6 months and US\$1 to RMB6.4000 for the 7th to 18th months	3 January 2012	2 January 2014 ^(Note 4)	US\$101,670 ^(Note 2)
1 contract to buy RMB in total of US\$1,150,000	US\$1 to RMB6.4400 for the first 12 months and US\$1 to RMB6.3900 for the 13th to 24th months	4 January 2012	2 January 2014 ^(Note 4)	US\$109,293 ^(Note 2)
1 contract to buy RMB in total of US\$500,000	US\$1 to RMB6.4400 for the first 12 months and US\$1 to RMB6.3900 for the 13th to 24th months	5 January 2012	7 January 2014 ^(Note 4)	US\$47,494 ^(Note 2)

Notes:

1. Representing the realised gains or losses of these contracts on their respective maturity dates.

FINANCIAL INFORMATION

2. Representing the aggregated realised gains or losses for the period from the commencement of the respective foreign currency forward contracts to their respective maturity/expiry dates.
3. No gain or loss has been realised for these contracts as at the Latest Practicable Date.
4. As at the Latest Practicable Date, these contracts have been expired or terminated.

As at the Latest Practicable Date, the principal value (notional value) of the outstanding foreign currency contracts was US\$10 million (approximately HK\$77.6 million) and their maturity dates were 12 September 2013 and 9 October 2013 respectively. There was no off-balance sheet item related to these contracts as at the Latest Practicable Date. The valuation of the above foreign exchange forward contracts at the end of each reporting period during the Track Record Period was conducted by an independent third party valuer. The valuation methodology used to value the foreign exchange forward contracts was the forward curve interpolation, which was based on the terms and conditions, nature, historical prices of the underlying currencies and contractual period of the foreign exchange forward contracts.

The sum of the notional amounts of foreign currency forward contracts as at 31 July 2011 and 2012 and as at 31 March 2010, 2011, 2012 were US\$26.2 million (approximately HK\$203.2 million) and US\$28.6 million (approximately HK\$221.8 million), nil, US\$23.2 million (approximately HK\$179.9 million), US\$28.6 million (approximately HK\$221.8 million), respectively, which did not exceed our Group's total cost of sales in RMB for the respective years. Taking into the above and the fact that our Group's purpose for entering into the foreign currency forward contracts was to manage the risk of the appreciation of RMB which would effect the raw materials and manufacturing costs denominated in RMB, our Directors do not consider the entering into of such arrangements to be speculative activities.

During the four months ended 31 July 2011 and 2012 and each of the three years ended 31 March 2012, realised gain arising from forward exchange contracts amounted to approximately HK\$0.7 million, HK\$2.4 million, nil, HK\$0.5 million and HK\$5.6 million and fair value gain/(loss) on derivative financial instruments amounted to HK\$(0.3) million, HK\$(5.2) million, nil, HK\$3.6 million and HK\$2.6 million, respectively. The derivatives were measured at fair value at the end of each reporting period. The maximum impact of the foreign exchange forward contracts on the Group's cashflow and liquidity positions at a given time would be the total principal value (notional value) of the then outstanding foreign exchange forward contracts in the event that RMB became worthless. The maximum gain exposure was unlimited. As at the Latest Practicable Date, the maximum loss exposure was US\$10 million (approximately HK\$77.6 million) and the theoretical impact on the Group's cashflow and liquidity position was therefore US\$10 million (approximately HK\$77.6 million), which would only materialise in the event the RMB has become worthless.

Save for the abovementioned foreign currency forward contracts, our Group had not engaged in other hedging activities during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, our Group had not and currently has no intention to enter into any derivative financial instrument contracts for purposes other than hedging purpose. Details of the Group's foreign currency forward contracts will be included in the annual report of the Group after listing.

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DIVIDEND POLICY

For the year ended 31 March 2010, dividends of HK\$16.5 million attributable to the year ended 31 March 2010 were declared and for the year ended 31 March 2012, dividends of approximately HK\$54.0 million attributable to the year ended 31 March 2012 were declared. Mr. Hau, Mr. Kwong, Mr. Lau, Madam Li and Gold Grand received dividends during the Track Record Period. All the dividends declared during the Track Record Period has been fully settled as at the Latest Practicable Date. The declared dividend was settled by our Group's working capital and our Directors do not foresee any significant impact on the working capital sufficiency for our Group's present requirements during the 12 months following the date of this prospectus. We have not declared any dividends since 31 March 2012 up to the Latest Practicable Date. The payment and the amount of any future dividends will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividends, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends on a pro rata basis according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of any future dividends will be subject to our discretion. We currently have no intention to declare any dividend in respect of the year ending 31 March 2013 and the six months ending 30 September 2013.

Dividends may be paid out of our Group's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such profits will not be available to be reinvested in our Group's operations. There can be no assurance that our Group will be able to declare or distribute any dividend in the amount set out in any of its plans or at all. Our Group's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Group in the future.

PROPERTY INTERESTS AND PROPERTY VALUATION

Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent property valuer and consultant, has valued the property interest of our Group as at 31 October 2012. Texts of its letters, summary of valuation and valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited are included in Appendix III to this prospectus.

The table below sets forth the reconciliation of the net book value of our Group's property interest as at 31 July 2012 with the valuation of such interests as at 31 October 2012 as stated in Appendix III to this prospectus.

	<i>(HK\$'000)</i>
Net book value of property interest of our Group as at 31 July 2012	
— Buildings and land use rights	15,658
Movements during the three months ended 31 October 2012	
Add: Exchange difference	65
Less: Depreciation and amortisation during the period	123
Net Book value as at 31 October 2012 (unaudited)	15,600
Valuation surplus as at 31 October 2012 (unaudited)	39,040
Valuation as at 31 October 2012 as per Appendix III to this prospectus	54,640

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

As the Pre-IPO Investment was completed on 27 March 2012, as at 31 July 2012, our Company had approximately HK\$25 million share premium balance available for distribution to our Shareholders.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets attributable to the owners of our Company, which has been prepared on the basis of the notes set out below. This unaudited pro forma statement of adjusted net tangible assets attributable to the owners of our Company has been prepared for illustrative purposes only and because of this hypothetical nature, it may not give a true picture of our financial position.

	Audited consolidated net tangible assets attributable to the owners of our Company as at 31 July 2012⁽¹⁾ <i>HK\$'000</i>	Estimated net proceeds from the Global Offering⁽²⁾ <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of our Company <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets per Share⁽³⁾ <i>HK\$</i>
Based on the Offer Price of HK\$1.0 per Share	104,842	35,800	140,642	0.59
Based on the Offer Price of HK\$1.5 per Share	104,842	64,000	168,842	0.70

Notes:

1. The consolidated net tangible assets attributable to the owners of our Company as at 31 July 2012 is derived from the consolidated net assets attributable to the owners of our Company as at 31 July 2012 as set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on 60,000,000 Offer Shares and the hypothetical Offer Price of HK\$1.0 and HK\$1.5 per Offer Share, being the lower end and higher end of the stated Offer Price range per Offer Share, assuming no exercise of any option which may be granted under the Share Option Scheme, after deduction of underwriting fees and estimated expenses payable by our Company in connection with the Reorganisation and the Global Offering.
3. The unaudited pro forma adjusted net tangible assets per Share is calculated based on 240,000,000 Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue assuming no exercise of any option which may be granted under the Share Option Scheme.

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DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules.

NO INTERRUPTION

Our Directors confirm that there was no interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 12 months prior to the Latest Practicable Date.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of our Group since 31 July 2012, being the date to which the latest audited financial statements of our Group were made up which have been set out in the Accountant's Report attached as Appendix I to this prospectus. Our Directors further confirm that the Group has not extended credit to its existing customers and experienced any material decrease in customers' orders and average selling prices from existing customers subsequent to 31 July 2012 and up to the Latest Practicable Date.

Furthermore, our Directors confirm that there is no material change in both our pricing strategies (which are based on a cost-plus model, which principally takes into account materials cost, labour cost, manufacturing overhead and a mark-up) and the mark-up under our Group's cost-plus model subsequent to the Track Record Period and up to the Latest Practicable Date.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

Please see the section headed “Business — Our Business Strategies” for a detailed description of our future plans.

USE OF PROCEEDS

Assuming an Offer Price of HK\$1.25 per Share, being the mid-point of the proposed Offer Price range of HK\$1.00 to HK\$1.50 per Share, the net proceeds from the Global Offering are estimated to be approximately HK\$49.9 million, after deducting underwriting fees and estimated expenses payable by our Company in connection thereto. Such net proceeds are intended to be used as follows:

- approximately 52.5% of the net proceeds, or approximately HK\$26.2 million, for importing and employing major equipment and machinery including, amongst all, an addition of injection moulding machines with an expected increase of approximately 51% of the capacity for plastic moulding process; an additional surface mount technology (SMT) line with an expected increase of approximately 25% of the capacity for electronic assembly; and advanced automatic sewing machines with an expected increase of approximately 4% of the capacity for sewing operation from overseas manufacturers. This is expected to be done by stages with intended use of approximately HK\$4.3 million, HK\$13.0 million and HK\$8.9 million, representing approximately 8.6%, 26.1% and 17.8% of the net proceeds, for the periods ending 31 March 2013, the six months ending 30 September 2013 and the six months ending 31 March 2014, respectively;
- approximately 30.0% of the net proceeds, or approximately HK\$15.0 million, for the construction of the new factory building operated by Foshan Haoda. As of 31 March 2012, approximately HK\$5 million has been paid for the construction of the building by internal resources of the Group. It is expected that approximately HK\$4.6 million, HK\$1.7 million and HK\$8.7 million, representing 9.2%, 3.4% and 17.4% of the net proceeds will be employed for the construction of the building (including fire safety and electricity infrastructure) by stages for the periods ending 31 March 2013, six months ending 30 September 2013 and six months ending 31 March 2014, respectively in order to, among other things, increase our Group’s production capacity. The total fee for the construction of the factory building (including fire safety and electricity infrastructure) is estimated to be HK\$21.2 million and such construction is expected to be completed by early 2014;
- approximately 7.6% of the net proceeds, or approximately HK\$3.8 million, for reorganising our existing design team and enhancing our research and development capabilities by recruiting more experienced engineers and employing adequate tooling for prototyping for the team. It is expected that an additional team of 10 engineers will be recruited and with more manpower and funding for prototyping, our Group will be able to strengthen our collaboration with our customers to understand and accommodate their needs in their product development process; and
- approximately 9.9% of the net proceeds, or approximately HK\$4.9 million, for working capital and other general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

In the event that the Offer Price is set at the high-end and the low-end of the proposed Offer Price range, we will receive net proceeds of approximately HK\$64.0 million and HK\$35.8 million, after deducting related underwriting fees and expenses, respectively. We will use the net proceeds based on the percentages disclosed above, regardless of whether the Shares are priced at the upper end or lower end of the proposed Offer Price.

To the extent that the net proceeds from the issue of the Offer Shares are not immediately required for the above purpose, it is the present intention of our Directors that such proceeds will be placed on short-term interest bearing deposits with authorized financial institutions.

UNDERWRITING

HONG KONG UNDERWRITER

Sun Hung Kai International Limited

HONG KONG UNDERWRITING ARRANGEMENTS

Hong Kong Public Offering

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 6,000,000 Hong Kong Public Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued, and to certain other conditions described in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator and us agreeing to the Offer Price), the Hong Kong Underwriter has agreed to subscribe, or procure subscribers to subscribe, for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus and the Application Forms. The Hong Kong Underwriting Agreement is conditional upon and subject to the International Placing Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriter to subscribe or procure subscriptions for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) either (i) there has been a breach of any of the representations, warranties, undertakings or provisions of either the Hong Kong Underwriting Agreement or the International Placing Agreement by our Company or the Controlling Shareholders; or (ii) any of the representations, warranties and undertakings given by our Company or the Controlling Shareholders in the Hong Kong Underwriting Agreement or the International Placing Agreement, as applicable, is (or would when repeated be) untrue, incorrect or misleading in any respect; or
- (b) any statement contained in this prospectus, the Application Forms or the formal notice or any announcement or document issued by our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become or been discovered to be untrue, incorrect or misleading in any material respect, or any forecasts, expressions of opinion, intention or expectation expressed in this prospectus, the Application Forms or the formal notice are not, in all material respects, fair and honest and made on reasonable grounds or, where appropriate, based on reasonable assumptions, when taken as a whole; or

UNDERWRITING

- (c) any of our reporting accountants, our property valuer, or any of our counsels has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or
- (d) our Company withdraws any of this prospectus, the Application Forms or the Global Offering; or
- (e) any litigation or claim being threatened or instigated against any member of our Group or any Director, any executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company or the commencement by any governmental, political or regulatory body of any action against any executive Director in his or her capacity as such or an announcement by any governmental, political or regulatory body that it intends to take any such action; or
- (f) any contravention by any member of our Group of the Companies Ordinance, the SFO or any of the Listing Rules; or
- (g) any event, act or omission which gives or is likely to give rise to any liability of any of our Company or the Controlling Shareholders pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement or the International Placing Agreement, as applicable which in the reasonable opinion of the Sole Bookrunner and the Sole Sponsor, will or may make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement or the International Placing Agreement or the Global Offering to be performed or implemented as envisaged; or
- (h) any breach of any of the obligations of our Company or the Controlling Shareholders under the Hong Kong Underwriting Agreement or the International Placing Agreement, as applicable, which in the reasonable opinion of the Sole Bookrunner and the Sole Sponsor, will or may make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement or the International Placing Agreement or the Global Offering to be performed or implemented as envisaged; or
- (i) the issue or requirement to issue by our Company of a supplementary prospectus, Application Form pursuant to the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the sole opinion of the Sole Bookrunner and the Sole Sponsor, materially adverse to the marketing for or implementation of the Global Offering and such termination right to expire upon the Sole Bookrunner and the Sole Sponsor consent to issuance of the relevant supplementary prospectus, Application Form; or
- (j) any change or development involving a prospective change in the business, assets, liabilities, conditions, business affairs, prospects, profits, losses or the financial or trading position or performance or management of our Company and its subsidiaries taken as a whole; or
- (k) any matter that has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute a material omission therefrom; or

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- (l) there will have developed, occurred, happened or come into effect any change or development involving a prospective change or development, or any event or series of events, matters or circumstances likely to result in or representing a change or development, or prospective change or development, concerning or relating to:
- (i) any local, national, regional or international financial, political, economic, legal, military, industrial, fiscal, regulatory, currency or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets and interbank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, British Virgin Islands or the Cayman Islands (each a “Relevant Jurisdiction”); or
 - (ii) any new law or regulation or any change in any existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting a Relevant Jurisdiction; or
 - (iii) (A) any event or series of events in the nature of force majeure (including, without limitation, acts of government, economic sanctions, strikes or lock-outs (whether or not covered by insurance), riots, fire, explosion, flooding, civil commotion, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease, accident or interruption or delay in transportation), or (B) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other declaration of a national or international state of emergency or calamity or crisis, in the case of either (A) or (B), in or affecting a Relevant Jurisdiction; or
 - (iv) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange or the Shenzhen Stock Exchanges or (B) a general moratorium on commercial banking activities in a Relevant Jurisdiction or any other relevant jurisdiction, declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services, in the case of either (A) or (B), in or affecting a Relevant Jurisdiction; or
 - (v) any taxation or any exchange control (or the implementation of any exchange control, currency exchange rates or foreign investment regulations) in a Relevant Jurisdiction adversely affecting an investment in the Shares; or
 - (vi) a petition is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group,

UNDERWRITING

and which, with respect to any of clauses (i) through (vi) above, individually or in the aggregate in the reasonable opinion of the Sole Global Coordinator and the Sole Sponsor:

- (A) is, will be or may be adverse to the general affairs, management, business or financial or trading position or prospects of our Company or our Group as a whole or to any present or prospective Shareholders of our Company in its capacity as such; or
- (B) has, will have or may have an adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or subscribed for or purchased or the distribution of Offer Shares and/or make it impracticable, inadvisable or inexpedient for any material part of the Hong Kong Underwriting Agreement, the International Placing Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
- (C) makes or may make it impracticable, inadvisable or inexpedient to proceed with or to market the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus, the Application Forms or the formal notice,

then the Sole Global Coordinator and the Sole Sponsor, in their sole and absolute discretion, may terminate the Hong Kong Underwriting Agreement with immediate effect.

UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

Undertaking by our Company

We have undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Sole Lead Manager and the Hong Kong Underwriter pursuant to the Hong Kong Underwriting Agreement that, except pursuant to the Capitalisation Issue, the Global Offering or grant of options or issue of our Shares upon exercise of such options pursuant to the Share Option Scheme, we will not without the prior written consent of the Sole Sponsor and the Sole Bookrunner and unless in compliance with the requirements of the Listing Rules, at any time during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the date on which dealings in our Shares commence on the Stock Exchange (“**First Six-month Period**”), offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital, debt capital or other securities or any interest therein, or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise.

UNDERWRITING

Undertaking by the Controlling Shareholders

Each of the Controlling Shareholders, pursuant to the Hong Kong Underwriting Agreement, has agreed and undertake to the Sole Sponsor, the Sole Bookrunner, our Company and the Hong Kong Underwriter that, (except pursuant to the Global Offering), it or he will not, without the prior written consent of the Sole Sponsor and the Sole Bookrunner,

- (a) at any time during the First Six-Month Period:
 - (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend, make any short sale or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, cause our Company to repurchase, any of the share or debt capital or other securities of our Company or any interest therein (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein whether now owned or hereinafter acquired, owned directly by the Controlling Shareholders (including holding as a custodian) or with respect to which the Controlling Shareholders have beneficial ownership (collectively the “**Lock-up Shares**”) (the foregoing restriction is expressly agreed to preclude the Controlling Shareholders from engaging in any hedging or other transaction which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of the Lock-up Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders, respectively;

Such prohibited hedging or other transactions would include without limitation any short sale or any purchase, sale or grant of any right (including without limitation any put or call option) with respect to any of the Lock-up Shares or with respect to any security that includes, relates to, or derives any significant part of its value from such Shares); or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, directly or indirectly, any of the economic consequences of ownership of any such capital or securities or any interest therein; or
 - (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
 - (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in paragraph (i) or (ii) or (iii) above, whether any such transaction described in paragraph (i) or (ii) or (iii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise;
- (b) at any time in the six month period commencing from the expiry of the First Six-month Period (“**Second Six-month Period**”), it or he will not enter into any of the foregoing transactions in paragraphs (a)(i) or (a)(ii) or (a)(iii) above or agree or contract to or publicly

UNDERWRITING

announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances or any other transactions, the Controlling Shareholders will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of our Company;

- (c) until the expiry of the Second Six-Month Period, in the event that it or he enters into any such transactions or agrees or contracts to, or publicly announces an intention to enter into any such transactions, it or he will take all reasonable steps to ensure that it or he will not create a disorderly or false market in the securities of our Company; and
- (d) at any time during the First Six-Month Period or the Second Six-Month Period (where applicable), (i) each of the Controlling Shareholders will, if it or he pledges or charges any Shares or other securities of our Company in respect of which it or he is the beneficial owner, immediately inform our Company, the Sole Sponsor, the Sole Global Coordinator and, if required, the Stock Exchange of any such pledges or charges and the number of Shares or other securities of our Company so pledged or charged, and (ii) the Controlling Shareholders will, if he/she/it receives any indication, either verbal or written, from any such pledgee or chargee of Shares or other securities of our Company that such Shares or other securities of our Company will be disposed of, immediately inform us, the Sole Sponsor and the Sole Global Coordinator and, if required, the Stock Exchange of any such indication.

INTERNATIONAL PLACING

In connection with the International Placing, our Company expects to enter into the International Placing Agreement with, among others, the International Underwriter and other parties named therein. Under the International Placing Agreement, the International Underwriter will, subject to certain conditions, agree to purchase the International Offer Shares being offered pursuant to the International Placing or procure purchasers for such International Offer Shares.

COMMISSION AND EXPENSES

The Underwriter will receive an underwriting commission of 6% of the aggregate Offer Price payable for the Offer Shares initially offered under the Global Offering. We will bear the underwriting commissions, SFC transaction levy and Stock Exchange trading fee payable by us in connection with the issue of the New Shares together with any applicable fees relating to the Global Offering. In addition, we may, at each of our sole discretion, pay the Sole Global Coordinator an additional incentive fee for all the Shares offered and sold in the Global Offering.

The aggregate commissions and fees, together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately HK\$25.1 million in total (based on the mid-point of our indicative price range for the Global Offering).

UNDERWRITING

HONG KONG UNDERWRITER'S INTERESTS IN OUR COMPANY

Save for the obligations and the interests under the Hong Kong Underwriting Agreement as disclosed above, the Hong Kong Underwriter has no shareholding in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriter and its affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

STAMP TAXES

Buyers of Offer Shares sold by the Underwriter may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

SOLE SPONSOR'S INDEPENDENCE

The independence criteria applicable to the Sole Sponsor set out in Rule 3A.07 of the Listing Rules is satisfied by CIMB Securities Limited.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of:

- the Hong Kong Public Offering of initially 6,000,000 Shares (subject to re-allocation as mentioned below) in Hong Kong as described below in the paragraphs headed “The Hong Kong Public Offering”; and
- the International Placing of initially 54,000,000 Shares (subject to re-allocation as mentioned below) outside the United States in reliance on Regulation S.

Investors may apply for our Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for our Shares under the International Placing, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of our Shares to institutional and professional investors and other investors expected to have a sizeable demand for our Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. Prospective investors will be required to specify the number of our Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. The number of Shares to be offered under the Hong Kong Public Offering and the International Placing respectively may be subject to re-allocation as described in the paragraphs headed “The Hong Kong Public Offering” in this section.

The 60,000,000 Offer Shares in the Global Offering will represent 25% of our enlarged share capital immediately after the completion of the Global Offering.

Allocation of the International Offer Shares to investors under the International Placing will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not the relevant investor is likely to buy further, and/or hold or sell its International Offer Shares after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of an appropriate shareholder base to our benefit and the benefit of our Shareholders as a whole.

Allocation of Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Public Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares and that those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter, subject to agreement on the Offer Price to be determined between the Sole Global Coordinator and us under the Price Determination Agreement on the Price Determination Date. The International Placing is expected to be fully underwritten by the International Underwriter. The Hong Kong Public Offering and the

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

International Placing are subject to the conditions described in “Conditions of the Global Offering” in this section below. In particular, we and the Sole Global Coordinator must agree on the Offer Price for the Global Offering. The Hong Kong Underwriting Agreement was subject to an agreement on the Offer Price between the Sole Global Coordinator and us for purposes of the Hong Kong Public Offering. The International Placing Agreement (including the agreement on the Offer Price between us and the Sole Global Coordinator for purposes of the International Placing) is expected to be entered into on the Price Determination Date, which is expected to be on Wednesday, 16 January 2013. The Hong Kong Underwriting Agreement and the International Placing Agreement are inter-conditional upon each other.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.50 and is expected to be not less than HK\$1.00, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum Offer Price of HK\$1.50 per Offer Share plus a 1.0% brokerage fee, 0.005% Stock Exchange trading fee and 0.003% SFC transaction levy. This means that, for every board lot of 2,000 Offer Shares, you should pay HK\$3,030.24 at the time of your application.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$1.50, we will refund the respective difference, including the brokerage fee, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. We will not pay interest on any refunded amounts. Please refer to the section headed “How to Apply for the Hong Kong Public Offer Shares” in this prospectus for further details.

DETERMINATION OF THE OFFER PRICE

We expect the Offer Price to be fixed by agreement among us and the Sole Global Coordinator on the Price Determination Date when market demand for the Offer Shares will be determined. We expect the Price Determination Date to be on or around Wednesday, 16 January 2013 and in any event, no later than Thursday, 17 January 2013. The Offer Price will not be more than HK\$1.50 per Offer Share and is expected to be not less than HK\$1.00 per Offer Share. You should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.

The Sole Global Coordinator may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, and with our consents, following prior consultation with the Sole Sponsor reduce the number of Offer Shares and/or the indicative offer price range below that described in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) of the reduction in the number of Offer Shares and/or the indicative offer price range. We will also make an announcement on our Company’s website (www.quali-smart.com.hk) and on the Stock Exchange’s website (www.hkexnews.hk) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon among the Sole Global Coordinator and us, following prior consultation with the Sole Sponsor, will be fixed within such revised offer price range. In such notice, we will also confirm or revise, as appropriate, the working capital statement as currently disclosed in the section headed “Financial Information — Working Capital Confirmation” in this prospectus, the offering statistics as currently disclosed in the section headed “Summary” in this prospectus, the use of proceeds in the section headed “Future Plans and Use of Proceeds” in this prospectus and any other financial information which may change as a result of such reduction.

If you have already submitted an application for Hong Kong Public Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will be allowed to subsequently withdraw your application, if the number of Offer Shares and/or the offer price range is reduced. If we do not publish a notice in the South China Morning Post (in English) or the Hong Kong Economic Times (in Chinese) and make an announcement on our Company’s website (www.quali-smart.com.hk) and on the Stock Exchange’s website (www.hkexnews.hk) of a reduction in the number of Offer Shares and/or the indicative offer price range stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by us, will be within the offer price range as stated in this prospectus.

If we are unable to reach an agreement with the Sole Global Coordinator on the Offer Price by Thursday, 17 January 2013, the Global Offering will not proceed and will lapse. We expect to publish an announcement of the Offer Price, together with the level of interest in the International Placing and the application results and basis of allotment of the Hong Kong Public Offer Shares on Tuesday, 22 January 2013.

Conditions of the Global Offering

Acceptance of all applications for the Offer Shares will be conditional on, among other things:

- the Listing Committee granting the listing of and permission to deal in the Shares in issue and to be issued as described in this prospectus, and such listing and permission not having been subsequently revoked prior to the commencement of dealings in the Shares on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Placing Agreement on or about the Price Determination Date; and
- the obligations of the Underwriter under the Underwriting Agreements becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Global Coordinator and the Sole Sponsor) and such obligations not being terminated in accordance with the terms of the respective agreements,

in each case, on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date that is 30 days after the date of this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will not proceed and will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Global Offering in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and make an announcement on our Company's website (www.quali-smart.com.hk) and on the Stock Exchange's website (www.hkexnews.hk) on the day after such lapse.

In the above situation, we will return all application monies to the applicants, without interest and on the terms described in the sections headed "How to Apply for the Hong Kong Public Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies" in this prospectus. In the meantime, we will hold all application monies in a separate bank account or separate bank accounts with the receiving banker or other banks licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

We expect to dispatch share certificates for the Offer Shares on Tuesday, 22 January 2013. However, these share certificates will only become valid certificates of title on 8:00 a.m. on Wednesday, 23 January 2013 provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section headed "Underwriting" in this prospectus has not been exercised.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is a fully underwritten public offer (subject to agreement as to pricing and satisfaction or waiver of the other conditions provided in the Hong Kong Underwriting Agreement and described in the paragraphs headed "Determination of the Offer Price — Conditions of the Global Offering" above) for the subscription in Hong Kong of, initially, 6,000,000 Offer Shares at the Offer Price (representing 10% of the total number of the Offer Shares initially available under the Global Offering). Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering described below, the Hong Kong Public Offer Shares will represent 2.5% of our enlarged issued share capital immediately after completion of the Global Offering.

Any application for more than 100% of the Hong Kong Public Offer Shares initially included in the Hong Kong Public Offering (that is, 6,000,000 Offer Shares) will be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him or her that he or she and any person(s) for whose benefit he or she is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Offer Shares under the International Placing, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. We and the Hong Kong Underwriter will take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who have indicated interest in or have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have applied for or have received the Offer Shares in the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to the following adjustments in the event of over-subscription under the Hong Kong Public Offering:

- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the International Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Hong Kong Public Offer Shares available under the Hong Kong Public Offering will be 18,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of the International Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of the Hong Kong Public Offer Shares available under the Hong Kong Public Offering will be 24,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and
- If the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of the International Offer Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of the Hong Kong Public Offer Shares available under the Hong Kong Public Offering will be 30,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.

If the Hong Kong Public Offering is not fully subscribed, however, the Sole Bookrunner may reallocate to the International Placing all or any unsubscribed Hong Kong Public Offer Shares in such numbers as they deem appropriate.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL PLACING

The number of the Offer Shares to be initially offered for sale under the International Placing will be 54,000,000 Offer Shares, representing approximately 90% of the Offer Shares initially available under the Global Offering and 22.5% of our enlarged issued share capital immediately after completion of the Global Offering.

Pursuant to the International Placing, the International Offer Shares will be conditionally placed on our behalf by the International Underwriter or through selling agents appointed by them. The International Offer Shares will be placed with certain professional and institutional investors and other investors anticipated to have a sizeable demand for the International Offer Shares in Hong Kong and

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

other jurisdictions outside the United States (other than the PRC) in offshore transactions meeting the requirements of, and in reliance on Regulation S. The International Placing is subject to the Hong Kong Public Offering becoming unconditional.

The Sole Global Coordinator and the Sole Sponsor may require any investor who has been offered Offer Shares under the International Placing and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator and the Sole Sponsor so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that such investor is excluded from any application of the Hong Kong Public Offer Shares under the Hong Kong Public Offering.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

CHANNELS TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

You may apply for the Hong Kong Public Offer Shares by using one of the following channels:

- using a **WHITE** or **YELLOW** Application Form; or
- apply online through the designated website of the HK eIPO White Form Service Provider, referred to in this prospectus as the “**HK eIPO White Form Service**”; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **HK eIPO White Form Service** or by giving **electronic application instructions** to HKSCC.

WHICH APPLICATION CHANNEL YOU SHOULD USE

- Use a **WHITE** Application Form if you want the Hong Kong Public Offer Shares to be registered in your own name.
- Instead of using a **WHITE** Application Form, you may apply for the Hong Kong Public Offer Shares by means of **HK eIPO White Form Service** by submitting applications online through the designated website at www.hkeipo.hk. Use **HK eIPO White Form** if you want the Hong Kong Public Offer Shares to be registered in your own name.
- Use a **YELLOW** Application Form if you want the Hong Kong Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant’s stock account.
- Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf via CCASS. Any Hong Kong Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant’s stock account.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

WHERE TO COLLECT THE APPLICATION FORMS

- (a) You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 11 January 2013 until 12:00 noon on Wednesday, 16 January 2013 from:

the following address of the Hong Kong Underwriter:

Sun Hung Kai International Limited

42/F, The Lee Gardens,
33 Hysan Avenue,
Causeway Bay,
Hong Kong

or any of the following branches of Hang Seng Bank Limited, the receiving banker for the Hong Kong Public Offering:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Head Office	83 Des Voeux Road Central
	Causeway Bay Branch	28 Yee Wo Street
	North Point Branch	335 King's Road
Kowloon	Yaumati Branch	363 Nathan Road
	Kowloon Main Branch	618 Nathan Road
	Hung Hom Branch	21 Ma Tau Wai Road
New Territories	Shatin Branch	Shop 18 Lucky Plaza, Wang Pok Street, Shatin
	Tsuen Wan Branch	289 Sha Tsui Road, Tsuen Wan

- (b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 11 January 2013 to 12:00 noon on Wednesday, 16 January 2013 from:

- the depository counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- your stockbroker, who may have such Application Forms and this prospectus available.

WHEN TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Wednesday, 16 January 2013, or, if the application lists are not open on that day, by the time and date stated in "Effect of bad weather conditions on the opening of the application lists" below.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Your completed **WHITE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed in “Where to collect the Application Forms” above, at the following times:

Friday, 11 January 2013 — 9:00 a.m. to 5:00 p.m.
Saturday, 12 January 2013 — 9:00 a.m. to 1:00 p.m.
Monday, 14 January 2013 — 9:00 a.m. to 5:00 p.m.
Tuesday, 15 January 2013 — 9:00 a.m. to 5:00 p.m.
Wednesday, 16 January 2013 — 9:00 a.m. to 12:00 noon

Time for inputting electronic application instructions to HKSCC

CCASS Clearing/Custodian Participants should input **electronic application instructions** via CCASS at the following times:

Friday, 11 January 2013 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, 12 January 2013 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, 14 January 2013 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, 15 January 2013 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, 16 January 2013 — 8:00 a.m.⁽¹⁾ to 12:00 noon

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Friday, 11 January 2013 until 12:00 noon on Wednesday, 16 January 2013 (24 hours daily, except the last application day). The latest time for inputting your electronic application instructions via CCASS (if you are a CCASS Participant) is 12:00 noon on Wednesday, 16 January 2013 or if the Application Lists are not open on that day, by the time and date stated in “Effect of bad weather conditions on the opening of the application lists” below.

HK eIPO White Form

You may submit your application to the designated HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk from 9:00 a.m. on Friday, 11 January 2013 until 11:30 a.m. on Wednesday, 16 January 2013 or such later time as described in “Effect of bad weather conditions on the opening of the application lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 16 January 2013, the last application day, or, if the application lists are not open on that day, then by the time and date stated in “Effect of bad weather conditions on the opening of the application lists” below.

You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the website at or before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Application lists

The application lists will be opened from 11:45 a.m. to 12:00 noon on Wednesday, 16 January 2013, except as provided in “Effect of bad weather conditions on the opening of the application lists” below. No proceedings will be taken on applications for the Hong Kong Public Offer Shares and no allocation of any such Shares will be made earlier than Wednesday, 16 January 2013.

Effect of bad weather conditions on the opening of the application lists

The application lists will be opened between 11:45 a.m. and 12:00 noon on Wednesday, 16 January 2013, subject only to weather conditions. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 16 January 2013, the application lists will not open or close on that day. Instead, they will open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong.

HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

Obtain a WHITE or YELLOW Application Form

You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque(s) or banker’s cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

Decide how many Hong Kong Public Offer Shares you want to subscribe. Calculate the amount you must pay on the basis of the maximum Offer Price as stated in the Application Forms, plus brokerage fee of 1%, the SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%. The Application Forms have tables showing the exact amount payable for certain numbers of shares up to 6,000,000 Shares (as indicated on the **WHITE** and **YELLOW** Application Forms). Your application must be for a minimum of 2,000 Shares. Application for more than 2,000 Shares must be in one of the number of Shares set out in the table in the respective Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorized officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it or if your application is made through a duly authorized attorney, our Company, the Sole Sponsor and the Sole Global Coordinator (or their respective agents or nominees), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Each Application Form must be accompanied by either one cheque or one banker's cashier order.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorized by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the firstnamed applicant;
- be made payable to “Hang Seng (Nominee) Limited — Quali-Smart Public Offer”; and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your cheque does not meet all these requirements or is dishonored on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorized by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;
- be made payable to “Hang Seng (Nominee) Limited — Quali-Smart Public Offer”; and
- be crossed “Account Payee Only”.

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements.

Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to above. Multiple or suspected multiple applications are liable to be rejected. Please refer to “How many applications you can make” in this section below.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

You should note that by signing the Application Form, among other things:

- (i) you confirm that you have only relied on the information and representations in this prospectus in making your application and not on any other information or representation concerning us and you agree that neither we, the Sole Sponsor, the Sole Bookrunner, the Underwriter nor any of their respective directors, officers, employees, partners, agents, advisors or any other parties involved in the Global Offering will have any liability for any such other information or representations;
- (ii) you agree that our Company, the Sole Sponsor, the Sole Bookrunner, the Underwriter, and any of their respective directors, officers, employers, partners, agents or advisors are liable only for the information and representations contained in this prospectus and any supplement thereto;
- (iii) you undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares, nor otherwise participate in the International Placing; and
- (iv) you agree to disclose to us, the Hong Kong Branch Share Registrar, the receiving banker, our advisors, our agents, the Sole Sponsor, the Sole Bookrunner and its agents the personal data and any information which they require about you or the person(s) for whose benefit you have made this application.

In order for the **YELLOW** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signatures will be accepted.

- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its CCASS Participant I.D. in the appropriate box.
- If you are applying as an individual CCASS Investor Participant:
 - you must fill in your name and your Hong Kong identity card number; and
 - you must insert your CCASS Participant I.D. in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
 - you must insert all joint CCASS Investor Participants' names and the Hong Kong identity card numbers of all the joint CCASS Investor Participants; and
 - you must insert your CCASS Participant I.D. in the appropriate box.

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- If you are applying as a corporate CCASS Investor Participant:
 - you must insert your company name and your company's Hong Kong business registration number; and
 - you must fill in your CCASS Participant I.D. and stamp your company chop (bearing your company name) in the appropriate box.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we, the Sole Sponsor and the Sole Global Coordinator, as our agent, may accept it at their discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We, the Sole Sponsor and the Sole Global Coordinator, in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

Personal Data

The section of the Application Form headed "Personal data" applies to any personal data held by us, the Sole Sponsor, the Sole Global Coordinator, the Hong Kong Branch Share Registrar, the receiving banker, our advisors, and our agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

APPLY THROUGH HK eIPO WHITE FORM

- (i) If you are an individual, you may apply through **HK eIPO White Form** Service by submitting an application through the designated website at www.hkeipo.hk. If you apply through **HK eIPO White Form** Service, the Hong Kong Public Offer Shares will be issued in your own name.
- (ii) Detailed instructions for application through the **HK eIPO White Form** Service are set out on the designated website at www.hkeipo.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated HK eIPO White Form Service Provider and may not be submitted to our Company.
- (iii) In addition to the terms and conditions set out in this prospectus, the designated HK eIPO White Form Service Provider may impose additional terms and conditions upon you for the use of the **HK eIPO White Form** Service. Such terms and conditions are set out on the designated website at www.hkeipo.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

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- (iv) By submitting an application to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form Service**, you are deemed to have authorized the designated HK eIPO White Form Service Provider to transfer the details of your application to our Company and our Hong Kong Branch Share Registrar.
- (v) You may submit an application through the **HK eIPO White Form Service** in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each electronic application instruction in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.
- (vi) You should give **electronic application instructions** through **HK eIPO White Form Service** at the times set out in “— When to apply for the Hong Kong Public Offer Shares — **HK eIPO White Form**” above. You should make payment for your application made by **HK eIPO White Form Service** in accordance with the methods and instructions set out in the designated website at www.hkeipo.hk. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Wednesday, 16 January 2013, or such later time as described in “When to Apply for the Hong Kong Public Offer Shares — Effect of bad weather conditions on the opening of the application lists” above, the designated HK eIPO White Form Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.hkeipo.hk.
- (vii) Once you have completed payment in respect of any electronic application instruction given by you or for your benefit to the designated HK eIPO White Form Service Provider to make an application for the Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form Service** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.
- (viii) Warning: The application for Hong Kong Public Offer Shares through the **HK eIPO White Form Service** is only a facility provided by the designated HK eIPO White Form Service Provider to public investors. Our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, and the HK eIPO White Form Service Provider take no responsibility for such applications, and provide no assurance that applications through the **HK eIPO White Form Service** will be submitted to our Company or that you will be allotted any Hong Kong Public Offer Shares.

Additional Information

For the purposes of allocating the Hong Kong Public Offer Shares, each applicant giving **electronic application instructions** through the **HK eIPO White Form Service** to the HK eIPO White Form Service Provider through the designated website at www.hkeipo.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Public Offer Shares for which you have applied, or if your application is otherwise rejected by the designated HK eIPO White Form Service Provider, the

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designated HK eIPO White Form Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated HK eIPO White Form Service Provider on the designated website at www.hkeipo.hk.

HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or CCASS Internet System (<https://ip.ccass.com>) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you come to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
2/F, Infinitus Plaza
199 Des Voeux Road
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Clearing Participant or CCASS Custodian Participant to our Company and the Hong Kong Branch Share Registrar.

Minimum Subscription Amount and Permitted Numbers

You may give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Each electronic application instruction in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

Application for Hong Kong Public Offer Shares by HKSCC Nominees on Your Behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

- (i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

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(ii) HKSCC Nominees does all the things on behalf of each of such persons who:

- agrees that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
- undertakes and agrees to accept the Hong Kong Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
- undertakes and confirms that that person has not indicated an interest for, applied for or taken up any Shares under the International Placing;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by our Company, our Directors, the Sole Sponsor and the Sole Global Coordinator in deciding whether or not to make any allotment of the Hong Kong Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorises our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between our Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations and that person agrees that neither our Company, the Sole Sponsor, the Sole Bookrunner, the Underwriter or any other parties involved in the Global Offering will have any liability for any such other information or representations;

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- agrees that our Company, the Sole Sponsor, the Sole Bookrunner, the Underwriter and any of their respective directors, officers, employees, partners, agents, advisors or any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to our Company and the Hong Kong Branch Share Registrar, the receiving banker, advisors, agents, the Sole Sponsor and the Sole Bookrunner and their respective agents, the personal data and any information which they require about that person or the person(s) for whose benefit the application is made;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable until after the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any public offer shares to any person before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application if before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by our Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Public Offer Shares; and
- agrees that such person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the Laws of Hong Kong.

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Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees will be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Offer Share paid on application, refund of the application monies, in each case including brokerage, the SFC transaction levy and the Stock Exchange trading fee, by crediting your designated bank account; and
- instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC will be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Allocation of Hong Kong Public Offer Shares

For the purpose of allocating the Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- No temporary documents of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application**

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instructions on your behalf or your CCASS Investor Participant stock account on Tuesday, 22 January 2013 or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) on our own website at www.quali-smart.com.hk and our Hong Kong Public Offering website at www.tricor.com.hk/ipo/result, and in special allocation results booklets which are available for inspection during opening hours of the branches or sub-branches of the receiving banker from Tuesday, 22 January 2013 to Thursday, 24 January 2013.

The basis of allotment of the Hong Kong Public Offering will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.quali-smart.com.hk on or before Tuesday, 22 January 2013. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 22 January 2013 or such other date as shall be determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 22 January 2013. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account and the credit of any refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 22 January 2013. No interest will be paid thereon.

Section 40 of the Companies Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

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Warning

Application for the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Sole Sponsor, the Sole Bookrunner, the Underwriter and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. If CCASS Investor Participants have problems in connecting to the CCASS Phone System or CCASS Internet System to submit **electronic application instructions**, they should either:

- (i) submit the **WHITE** or **YELLOW** Application Form or **electronic application instructions** to the HK eIPO White Form Service Provider (as appropriate); or
- (ii) go to HKSCC's Customer Service Centre to complete an application instruction input request form for **electronic application instructions** before 12:00 noon on Wednesday, 16 January 2013 or such later time as described in “— Effect of bad weather conditions on the opening of the Application Lists” above.

HOW MANY APPLICATIONS YOU CAN MAKE

- (i) You may make more than one application for the Hong Kong Public Offer Shares only if you are a nominee, in which case you may make an application as a nominee by: (i) giving electronic application instructions to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:
 - an account number; or
 - another identification number for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed. It will be a term and condition of all applications that by completing and delivering an Application Form, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; or to the HK eIPO White Form Service Provider through the **HK eIPO White Form Service**; or
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving

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electronic application instructions to HKSCC or to the HK eIPO White Form Service Provider through the **HK eIPO White Form Service**, and that you are duly authorized to sign the Application Form as that other person's agent.

- (ii) All of your applications under the Hong Kong Public Offering are liable to be rejected as multiple applications if you, or you and your joint applicant(s) together:
- make more than one application (whether individually or jointly) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC via CCASS or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form Service** (www.hkeipo.hk);
 - apply both (whether individually or jointly) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the designated HK eIPO White Form Service Provider through the **HK eIPO White Form Service** (www.hkeipo.hk);
 - apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC via CCASS or to the HK eIPO White Form Service Provider through the **HK eIPO White Form Service** (www.hkeipo.hk) to apply for more than 6,000,000 Hong Kong Public Offer Shares (being the total number of the Hong Kong Public Offer Shares initially being offered for subscription by the public); or
 - have applied for or taken up any Offer Shares under the International Placing or otherwise participated in the International Placing or indicated an interest for, or have been or will be placed (including conditionally and/or provisionally) any Offer Shares under the International Placing.
- (iii) All of your applications are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and: (i) the principal business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. Unlisted company means a company with no equity securities listed on the Stock Exchange. Statutory control in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than one-half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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RESULTS OF ALLOCATIONS

The results of allocations of the Hong Kong Public Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC or the designated HK eIPO White Form Service Provider which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of the Hong Kong Public Offer Shares successfully applied for will be made available at the times and dates and in the manner specified below:

- Results of allocations will be available from the Stock Exchange's website at www.hkex.com.hk;
- Our results of allocations will be available from the website at www.tricor.com.hk/ipo/result on a 24-hour basis from 8:00 a.m. on Tuesday, 22 January 2013 to 12:00 midnight on Monday, 28 January 2013. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result. Results of allocations will also be available from our website at www.quali-smart.com.hk;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 22 January 2013 to Friday, 25 January 2013;
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Tuesday, 22 January 2013 to Thursday, 24 January 2013 at all the receiving banker's branches and sub-branches at the addresses set out in "Where to Collect the Application Forms".

PRICE OF THE OFFER SHARES

The maximum Offer Price is set out in the Application Forms. You must also pay a brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%. The Application Forms have tables showing the exact amount payable for certain numbers of Shares up to 6,000,000 Shares. Your application must be for a minimum of 2,000 Shares. Applications must be in one of the numbers set out in the table. No application for any other number of Shares will be considered and any such application is liable to be rejected.

You must pay the maximum Offer Price, brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% in full when you apply for the Shares. You must pay the amount payable upon application for Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form if you apply for the Hong Kong Public Offer Shares using Application Forms.

If your application is successful, brokerage is paid to the participants of the Stock Exchange or the Stock Exchange (as the case may be), the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, such levy is collected on behalf of the SFC).

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If the Offer Price, as finally determined, is lower than the maximum Offer Price, our Company will refund the specific difference, including the brokerage, Stock Exchange trading fee and SFC transaction levy attributable to the surplus application monies. Our Company will not pay interest on any refunded amounts. Further details for refund are set out in “Dispatch/Collection of Share Certificates and Refund Monies” below.

DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (i) for applicants on **WHITE** Application Forms or by **HK eIPO White Form Service**, (A) Share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or (B) Share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described below);
- (ii) for applicants on **WHITE** and **YELLOW** Application Forms, refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (A) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (B) all the application monies, if the application is wholly unsuccessful; and/or (C) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% but without interest;
- (iii) for applicants who apply through **HK eIPO White Form Service** by paying the application monies through a single bank account and whose application is wholly or partially unsuccessful and/or the Offer Price being less than the initial price per Offer Share paid on the application, e-Auto Refund payment instructions (if any) will be despatched to the application payment bank account; and
- (iv) for applicants who apply through the **HK eIPO White Form Service** by paying the application monies through multiple bank accounts and whose application is wholly or partially unsuccessful and/or the Offer Price being less than the initial price per Offer Share paid on the application, refund cheques will be sent to the address as specified on the **HK eIPO White Form** application by ordinary post and at the applicant’s own risk.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications under the **WHITE** or **YELLOW** Application Forms and Share certificates for successful applicants under the **WHITE** Application Form or to the **HK eIPO White Form Service Provider** via **HK eIPO White Form Service** are expected to be posted on Tuesday, 22 January 2013. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of payments.

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(i) If you apply using a **WHITE** Application Form:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **WHITE** Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, you may collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 22 January 2013. If you are an individual, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorisation from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Tricor Investor Services Limited. If you do not collect your refund cheque(s) and Share certificate(s) within the time period specified for collection, they will be dispatched promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or, if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and your Share certificates (where applicable) in person, your Share certificate(s) (where applicable) and/or refund cheque(s) (where applicable) will be dispatched to the address on your Application Form on Tuesday, 22 January 2013 by ordinary post and at your own risk.

(ii) If you apply using a **YELLOW** Application Form:

If you apply for the Hong Kong Public Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Tuesday, 22 January 2013, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for the Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering on our own website and in special allocation results booklets which are available for inspection during opening hours of the branches or sub-branches of the receiving banker on Tuesday, 22 January 2013 to Thursday, 24 January 2013. You should check the announcement published by us and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 22 January 2013 or such other date as will be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque(s) (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be on Tuesday, 22 January 2013, by ordinary post and at your own risk.

(iii) If you apply through HK eIPO White Form service:

If you apply for 1,000,000 Hong Kong Public Offer Shares or more through the **HK eIPO White Form Service** and your application is wholly or partially successful, you may collect your Share certificate(s) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 22 January 2013, or such other date as notified by our Company in the newspapers as the date of dispatch of e-Auto Refund payment instructions/refund cheque(s)/ Share certificate(s). If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or, if you apply for 1,000,000 Hong Kong Public Offer Shares but have not indicated on your application that you will collect your Share certificates in person, your Share certificate(s) will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider on Tuesday, 22 January 2013 by ordinary post and at your own risk.

If you apply through the **HK eIPO White Form Service** by paying the application monies through a single bank account and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, e-Auto Refund payment instructions (if any) will be dispatched to your application payment bank account on Tuesday, 22 January 2013.

If you apply through the **HK eIPO White Form Service** by paying the application monies through multiple bank accounts and your application is wholly or partially unsuccessful and/or the final Offer Price being different from the Offer Price initially paid on your application, refund cheque(s) will be sent to the address specified in your application instructions to the designated HK eIPO White Form Service Provider on Tuesday, 22 January 2013, by ordinary post and at your own risk.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated HK eIPO White Form Service Provider set out in this section headed “— Apply through HK eIPO White Form — Additional Information” of this prospectus.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Shares are set out in the notes attached to the Application Forms (whether you are making your application by an Application Form or through **HK eIPO White Form** or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note the following situations in which the Hong Kong Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(i) If your application is revoked:

By completing and submitting an Application Form or giving an electronic application instruction to HKSCC, you agree that your application is irrevocable until after the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person on or before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked if on or before the expiration of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominee on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

(ii) If the allotment of Hong Kong Public Offer Shares is void:

The allotment of the Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give electronic application instruction to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies our Company of that longer period within three weeks of the closing of the application lists.

(iii) If you make applications under the Hong Kong Public Offering as well as the International Placing:

You or the person whose benefits you apply for have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally and/or provisionally) Shares in the International Placing. By filling in any of the Application Forms or giving **electronic application instructions** to HKSCC or to the HK eIPO White Form Service Provider via the **HK eIPO White Form** Service electronically, you agree not to apply for International Offer Shares under the International Placing.

Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Offer Shares, and to identify and reject indications of interest in the International Placing from investors who have received the Hong Kong Public Offer Shares in the Hong Kong Public Offering.

(iv) If our Company, the Sole Sponsor, the Sole Global Coordinator or their respective agents exercise their discretion:

Our Company, the Sole Sponsor, the Sole Global Coordinator, HK eIPO White Form Service Provider and their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(v) Your application will be rejected or not be accepted if:

- your application is a multiple or a suspected multiple applications;
- your Application Form is not completed correctly in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- your **electronic application instructions** through the **HK eIPO White Form** Service are not completed in accordance with the instructions, terms and conditions set out in the designated website at www.hkeipo.hk;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored on its first presentation;

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

- you or the person for whose benefit you are applying have applied for and/or received or will receive Offer Shares under the International Placing;
- we believe that accepting your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located; or
- any of the Underwriting Agreements does not become unconditional or is terminated in accordance with their respective terms thereof.

REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Public Offer Shares for any of, but not limited to, the above reasons, our Company will refund your application monies, including brokerage, SFC transaction levy and Stock Exchange trading fee. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage, SFC transaction levy and Stock Exchange trading fee) without interest.

If the Offer Price as finally determined is less than HK\$1.50 per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies, without interest.

All such interest accrued prior to the date of dispatch of refund monies will be retained for the benefit of our Company.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company, the Sole Sponsor and the Sole Bookrunner, cheques for applications made on Application Forms for certain small denominations of the Hong Kong Public Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) is expected to be made on Tuesday, 22 January 2013 in accordance with the various arrangements as described above.

COMMENCEMENT OF DEALINGS IN THE SHARES

- Dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, 23 January 2013.
- The Shares will be traded in board lots of 2,000 each. The stock code of the Shares is 1348.

HOW TO APPLY FOR THE HONG KONG PUBLIC OFFER SHARES

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

- If the Stock Exchange grants the listing of, and permission to deal in the Shares and our Company comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses.
- Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.



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11 January 2013

The Board of Directors
Quali-Smart Holdings Limited

CIMB Securities Limited

Dear Sirs,

We set out below our report on the financial information regarding Quali-Smart Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), including the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the years ended 31 March 2010, 2011, 2012 and for the four months ended 31 July 2012 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 March 2010, 2011, 2012 and 31 July 2012 and the Company’s statements of financial position as at 31 March 2012 and 31 July 2012, together with the notes thereto (collectively the “Financial Information”), and the comparative consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows of the Group for the four months ended 31 July 2011 (the “Interim Comparative Information”) prepared on the basis of presentation and preparation set forth in notes 1 and 2.1 of Section II in this report below, for inclusion in the prospectus of the Company dated 11 January 2013 (the “Prospectus”) in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands on 14 March 2012 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Group Structure” in the Prospectus (the “Reorganisation”), the Company became the holding company of the subsidiaries now comprising the Group.

As at the date of this report, the Company had direct and indirect interests in the subsidiaries as set out in note 1 of the Section II below. The Group is principally engaged in the manufacture and trading of toy products. The Company and its subsidiaries have adopted 31 March as their financial year end date. The Company has not carried out any business since the date of its incorporation, except for the

aforementioned reorganisation. Details of the companies comprising the Group that are subject to statutory audit during the relevant periods and the names of the respective auditors are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group for the Relevant Periods (the “Underlying Financial Statements”) in accordance with the basis of presentation and preparation in notes 1 and 2.1 of Section II below and the accounting policies set out in note 2.3 of Section II below which conform with Hong Kong Financial Reporting Standards (“HKFRSs”), issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The Financial Information has been prepared by the Directors based on the Underlying Financial Statements of the Group, on the basis of presentation and preparation set out in notes 1 and 2.1 of Section II below. No statement of adjustments as defined under Rule 4.15 of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (the “Main Board Listing Rules”) is considered necessary.

Respective responsibilities of directors and reporting accountant

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information and Interim Comparative Information in accordance with the basis of presentation and preparation set out in notes 1 and 2.1 of Section II below, in accordance with the accounting policies in note 2.3 of Section II below, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Main Board Listing Rules, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Information and Interim Comparative Information that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for the Financial Information presented in this report and the contents of the circular in which this report is included.

Our responsibility is to form an independent opinion and a review conclusion on the Financial Information and the Interim Comparative Information, based on our procedures on the Financial Information and Interim Comparative Information, respectively, and to report our opinion and a review conclusion thereon to you.

Procedures performed in respect of the Underlying Financial Statements and the Financial Information

For the purpose of this report, we have carried out audit procedures in respect of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA, and have examined the Financial Information of the Group and carried out appropriate procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Procedures performed in respect of the Interim Comparative Information

For the purpose of this report, we have also performed a review of the Interim Comparative Information in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information performed by the Independent Auditor of the Equity” issued by the HKICPA. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other procedures to the Interim Comparative Information. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of any significant matters that might be identified in audit. Accordingly, we do not express an audit opinion on the Interim Comparative Information.

Opinion in respect of the Financial Information

In our opinion, the Financial Information, for the purpose of this report, prepared on the basis of presentation and preparation set out in notes 1 and 2.1 of Section II below and in accordance with the accounting policies in note 2.3 of Section II below gives a true and fair view of the state of affairs of the Company as at 31 March 2012 and 31 July 2012 and the state of affairs of the Group as at 31 March 2010, 2011, 2012 and 31 July 2012 and of the results and cash flows of the Group for the Relevant Periods.

Review conclusion in respect of the Interim Comparative Information

Based on our review for the purpose of this report, nothing has come to our attention that causes us to believe that the Interim Comparative Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

Consolidated income statements

	Notes	Year ended 31 March			Four months ended 31 July	
		2010	2011	2012	2011	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Unaudited)	HK\$'000
REVENUE	5	803,432	729,776	876,667	267,116	279,657
Cost of sales		<u>(713,240)</u>	<u>(650,682)</u>	<u>(777,295)</u>	<u>(237,365)</u>	<u>(245,147)</u>
Gross profit		90,192	79,094	99,372	29,751	34,510
Other income and gains	5	5,580	12,396	15,648	1,698	401
Selling expenses		(36,473)	(22,141)	(22,306)	(6,439)	(6,192)
Administrative expenses		(31,672)	(35,715)	(32,646)	(10,129)	(19,883)
Loss on liquidation of an associate	17	—	(17,149)	—	—	—
Share of profits of an associate	17	6,149	—	—	—	—
Finance costs	7	<u>(700)</u>	<u>(760)</u>	<u>(1,900)</u>	<u>(494)</u>	<u>(674)</u>
PROFIT BEFORE INCOME						
TAX EXPENSE	6	33,076	15,725	58,168	14,387	8,162
Income tax expense	10	<u>(6,314)</u>	<u>(6,229)</u>	<u>(10,492)</u>	<u>(2,605)</u>	<u>(2,964)</u>
PROFIT FOR THE YEAR/ PERIOD		<u>26,762</u>	<u>9,496</u>	<u>47,676</u>	<u>11,782</u>	<u>5,198</u>

Consolidated statements of comprehensive income

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PROFIT FOR THE YEAR/PERIOD	26,762	9,496	47,676	11,782	5,198
Other comprehensive income:					
Exchange differences on translating foreign operations	180	949	780	780	(166)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/ PERIOD	<u>26,942</u>	<u>10,445</u>	<u>48,456</u>	<u>12,562</u>	<u>5,032</u>

Consolidated statements of financial position

	Notes	At 31 March			At 31 July
		2010	2011	2012	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	16,857	20,083	25,849	29,523
Prepaid land lease payments	14	7,725	7,874	7,962	7,831
Interests in an associate	17	10,149	—	—	—
Interest-bearing loan	15	—	3,483	—	—
Available-for-sale investments	16	—	4,257	—	—
Total non-current assets		34,731	35,697	33,811	37,354
CURRENT ASSETS					
Inventories	18	91,563	133,707	162,153	199,743
Trade receivables	19	59,641	56,236	83,829	156,350
Prepayments, deposits and other receivables	20	20,984	24,123	2,881	8,433
Derivative financial instruments	21	—	3,563	6,191	1,038
Amount due from a director	25	550	419	—	—
Amounts due from related companies	25	10,303	9,945	7,740	—
Loan to an associate	17	3,000	—	—	—
Tax recoverable		39	1,060	—	—
Cash and cash equivalents	22	22,195	12,180	40,485	32,769
Total current assets		208,275	241,233	303,279	398,333
CURRENT LIABILITIES					
Trade payables	23	74,301	74,809	83,025	147,878
Receipts in advance, accruals and other payables	24	58,973	46,398	57,244	49,441
Amount due to a director	25	1,313	1,873	52	—
Amounts due to related parties	25	2,470	3,220	—	—
Interest-bearing bank borrowings	26	16,072	54,560	76,164	126,247
Loan from a director	25	15,000	15,000	15,000	—
Income tax payable		5,068	816	5,795	7,279
Total current liabilities		173,197	196,676	237,280	330,845
NET CURRENT ASSETS		35,078	44,557	65,999	67,488
TOTAL ASSETS LESS CURRENT LIABILITIES		69,809	80,254	99,810	104,842
Net assets		69,809	80,254	99,810	104,842
EQUITY					
Share capital	27	2,100	2,100	2,178	78
Reserves	28	67,709	78,154	97,632	104,764
Total equity		69,809	80,254	99,810	104,842

Consolidated statements of changes in equity

	Attributable to ordinary equity holders of the Company							Total HK\$'000
	Share capital	Share premium	Capital reserve	Statutory reserve	Translation reserve	Other reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000 (note a)	HK\$'000 (note b)	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2009	2,100	—	9,271	86	2,497	—	45,413	59,367
Dividends paid	—	—	—	—	—	—	(16,500)	(16,500)
	—	—	—	—	—	—	(16,500)	(16,500)
Comprehensive income								
Exchange differences arising on translation of foreign operations	—	—	—	—	180	—	—	180
Profit for the year	—	—	—	—	—	—	26,762	26,762
Total comprehensive income for the year	—	—	—	—	180	—	26,762	26,942
Transfer to statutory reserve	—	—	—	141	—	—	(141)	—
At 31 March 2010 and 1 April 2010	2,100	—	9,271	227	2,677	—	55,534	69,809
Comprehensive income								
Exchange differences arising on translation of foreign operations	—	—	—	—	949	—	—	949
Profit for the year	—	—	—	—	—	—	9,496	9,496
Total comprehensive income for the year	—	—	—	—	949	—	9,496	10,445
Transfer to statutory reserve	—	—	—	128	—	—	(128)	—
At 31 March 2011 and 1 April 2011	2,100	—	9,271	355	3,626	—	64,902	80,254
Dividends paid	—	—	—	—	—	—	(53,955)	(53,955)
	—	—	—	—	—	—	(53,955)	(53,955)
Comprehensive income								
Exchange differences arising on translation of foreign operations	—	—	—	—	780	—	—	780
Profit for the year	—	—	—	—	—	—	47,676	47,676
Total comprehensive income for the year	—	—	—	—	780	—	47,676	48,456
Shares issued	78	24,977	—	—	—	—	—	25,055
Transfer to statutory reserve	—	—	—	124	—	—	(124)	—
At 31 March 2012	2,178	24,977	9,271	479	4,406	—	58,499	99,810

	Attributable to ordinary equity holders of the Company							Total
	Share capital	Share premium	Capital reserve	Statutory reserve	Translation reserve	Other reserve	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000 (note a)	HK\$'000 (note b)	HK\$'000	HK\$'000	HK\$'000	
At 1 April 2012	2,178	24,977	9,271	479	4,406	—	58,499	99,810
Comprehensive income								
Exchange differences arising on translation of foreign operations	—	—	—	—	(166)	—	—	(166)
Profit for the period	—	—	—	—	—	—	5,198	5,198
Total comprehensive income for the period	—	—	—	—	(166)	—	5,198	5,032
Reduction in capital upon reorganisation	(2,100)	—	—	—	—	2,100	—	—
Transfer to statutory reserve	—	—	—	38	—	—	(38)	—
At 31 July 2012	78	24,977	9,271	517	4,240	2,100	63,659	104,842
At 1 April 2011	2,100	—	9,271	355	3,626	—	64,902	80,254
Comprehensive income								
Exchange differences arising on translation of foreign operations	—	—	—	—	780	—	—	780
Profit for the period	—	—	—	—	—	—	11,782	11,782
Total comprehensive income for the period	—	—	—	—	780	—	11,782	12,562
Transfer to statutory reserve	—	—	—	44	—	—	(44)	—
At 31 July 2011 (Unaudited)	2,100	—	9,271	399	4,406	—	76,640	92,816

- (a) Capital reserve represents the benefits obtained from the equity owner.
- (b) In accordance with the Company Law of the People's Republic of China (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.

Consolidated statements of cash flows

	Notes	Year ended 31 March			Four months ended 31 July	
		2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000 (Unaudited)	2012 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before income tax expense		33,076	15,725	58,168	14,387	8,162
Adjustments for:						
Interest income	5	(124)	(306)	(212)	(23)	(12)
Interest expenses	7	700	760	1,900	494	674
Depreciation of property, plant and equipment	6	10,271	9,534	7,768	2,278	2,720
Amortisation of prepaid land lease payments	6	187	191	200	65	67
Share of profits of an associate	17	(6,149)	—	—	—	—
Fair value gain/(losses) on derivative financial instruments	5	—	(3,563)	(2,628)	296	5,153
Realised gain on derivative financial instruments	5	—	(531)	(5,593)	(683)	(2,436)
Gain on disposal of property, plant and equipment	5	—	—	(60)	—	—
Write off of interests in an associate		—	8,149	—	—	—
Write off of loans to an associate		—	9,000	—	—	—
Write off of trade receivables	6	—	93	—	—	—
		37,961	39,052	59,543	16,814	14,328
Increase in inventories		(35,173)	(42,144)	(28,446)	(77,862)	(37,590)
Decrease/(increase) in trade receivables		30,445	3,312	(27,593)	(97,400)	(72,521)
Decrease/(increase) in prepayments, deposits and other receivables		486	(2,385)	21,242	23,318	(5,552)
(Decrease)/increase in trade payables		(3,804)	508	8,216	132,470	64,853
(Decrease)/increase in receipts in advance, accruals and other payables		(3,867)	(11,703)	(21,752)	2,411	(4,268)
(Advance to)/repayment from directors		(550)	131	419	419	—
Cash generated from/(used in) operations		25,498	(13,229)	11,629	170	(40,750)
Income taxes paid		(9,200)	(11,503)	(4,454)	—	—
Net cash flows from/(used in) operating activities		16,298	(24,732)	7,175	170	(40,750)

Notes	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received	124	306	212	23	12
Purchases of property, plant and equipment	(2,838)	(12,379)	(13,225)	(5,098)	(6,512)
Acquisition of an associate	(2,000)	—	—	—	—
Purchases of available-for-sale investments	—	(4,257)	—	—	—
Increase in derivative financial instruments	—	531	5,593	683	2,436
Proceeds from sale of property, plant and equipment	—	—	60	—	—
Advance to an associate	(5,000)	(6,000)	—	—	—
Repayment from an associate	—	2,000	—	—	—
Advance to related parties	(10,160)	(5,022)	(18,048)	—	—
Repayment from related parties	4,000	5,380	7,291	—	7,740
Increase in interest-bearing loan	—	(3,483)	—	—	—
Net cash flows (used in)/from investing activities	(15,874)	(22,924)	(18,117)	(4,392)	3,676
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares	—	—	25,000	—	—
Proceeds from bank borrowings	56,707	144,424	488,999	93,750	52,670
Repayment of bank borrowings	(49,571)	(105,335)	(463,980)	(57,819)	(2,123)
Advance from related parties	4,250	2,250	—	—	—
Repayment to related parties	(10,120)	(1,500)	(3,220)	(12,044)	—
Advance from a director	5,691	1,010	—	—	—
Repayment to a director	(4,378)	(450)	(1,821)	(1,954)	(15,000)
Interest paid	(700)	(760)	(1,900)	(494)	(674)
Dividends paid	(18,627)	(872)	(600)	—	(5,067)
Net cash flows (used in)/from financing activities	(16,748)	38,767	42,478	21,439	29,806
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS					
Cash and cash equivalents at beginning of year/period	33,932	17,521	8,107	8,107	39,827
Effect of foreign exchange rate changes, net	(87)	(525)	184	607	16
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	17,521	8,107	39,827	25,931	32,575

	<i>Notes</i>	Year ended 31 March			Four months ended 31 July	
		2010	2011	2012	2011	2012
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>(Unaudited)</i>						
ANALYSIS OF BALANCES OF						
CASH AND CASH						
EQUIVALENTS						
Cash and cash equivalents as stated						
in the consolidated statements						
of financial position						
	22	22,195	12,180	40,485	34,159	32,769
Less: Bank overdraft						
	26	(4,674)	(4,073)	(658)	(8,228)	(194)
Cash and cash equivalents as stated						
in the consolidated statements						
of cash flows						
		<u>17,521</u>	<u>8,107</u>	<u>39,827</u>	<u>25,931</u>	<u>32,575</u>

MAJOR NON-CASH TRANSACTIONS

For the year ended 31 March 2010, pursuant to the resolution passed on 1 February 2010, dividends of HK\$16,500,000 attributable to the year ended 31 March 2010 were approved and the amount of HK\$873,000 outstanding was included in the “other payables” balance as at 31 March 2010.

For the year ended 31 March 2012, pursuant to the resolution passed on 23 December 2011, dividends of HK\$53,955,000 attributable to the year ended 31 March 2012 were approved and the amount of HK\$20,757,000 was settled by offsetting the current account with director, while the remaining amount of HK\$32,598,000 was included in the “other payables” balance as at 31 March 2012.

For the year ended 31 March 2012, the transactions of the Group mentioned in note 16 were settled through the current account with a related company of the Group. Therefore, movements of these transactions are not reflected in the consolidated statements of cash flows accordingly.

Statements of financial position of the Company

		<u>At 31 March</u> <u>2012</u>	<u>At 31 July</u> <u>2012</u>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
CURRENT ASSETS			
Prepayments, deposits and other receivables		—	2,614
Amount due from a subsidiary		25,000	14,471
Amount due from a shareholder		<u>54</u>	<u>54</u>
Total current assets		<u>25,054</u>	<u>17,139</u>
Net assets		<u>25,054</u>	<u>17,139</u>
EQUITY			
Share capital	27	78	78
Reserve		<u>24,976</u>	<u>17,061</u>
Total equity		<u>25,054</u>	<u>17,139</u>

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION AND BASIS OF PRESENTATION

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.

Particulars of the companies now comprising the Group have been set out below in our report. The Company has not carried on any business since the date of incorporation, saved for the transactions relating to the Reorganisation.

Pursuant to a group reorganisation as more fully explained in the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group Structure" in the Prospectus (the "Reorganisation"), the companies now comprising the Group underwent the Reorganisation to rationalise the existing group structure for the purpose of the Company's proposed listing of its shares on the Main Board of the Stock Exchange. The Reorganisation was completed on 16 April 2012.

For the purpose of this report, the Financial Information has been prepared to reflect the reorganisation of the entities under common control. The Company and its subsidiaries are ultimately controlled by Mr. Lau Ho Ming, Peter and Miss Li Man Yee, Stella, beneficial shareholders of the Company, before and after the completion of the Reorganisation.

The Reorganisation upon completion is accounted for as reorganisation under common control using the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA. The Financial Information as set out in this report for the years ended 31 March 2010, 2011 and 2012 is prepared on a combined basis as prescribed by Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

For the purpose of this report, the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of acquisition or incorporation/establishment, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 March 2010, 2011, 2012 and 31 July 2012 have been prepared to present the state of affairs of the Group as if the current structure had been in existence at these dates or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period.

As at the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private companies in Hong Kong (or, if incorporated/established outside Hong Kong, have characteristics substantially similar to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company name	Place and date of incorporation/establishment	Particulars of issued and fully paid share capital/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Subsidiaries					
Turbo Gain Investments Limited ¹	British Virgin Islands ("BVI"), 2 March 2012	1 share of US Dollars ("US\$") 1 per share	100	—	Investment holding
New Splendid Developments Limited ¹	BVI, 20 January 2012	1 share of US\$1 per share	100	—	Investment holding
Next Horizon Holdings Limited ¹	BVI, 6 March 2012	1 share of US\$1 per share	100	—	Investment holding

Company name	Place and date of incorporation/ establishment	Particulars of issued and fully paid share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct %	Indirect %	
Qualiman Industrial Co. Limited ²	Hong Kong ("HK"), 14 November 1996	1,000,000 shares of HK Dollars ("HK\$") 1 per share	—	100	Manufacture and trading of toys and other products
Qualiman Technology & Products Co. Limited ²	HK, 26 January 2000	1,000,000 shares of HK\$1 per share	—	100	Manufacture and trading of toys and other products
Sunmart Company Limited ²	HK, 15 August 2003	100,000 shares of HK\$1 per share	—	100	Manufacture and trading of toys and other products
佛山市南海浩達精密玩具有限公司 Foshan Nanhai Haoda Precision Toys Co., Ltd* ³	The People's Republic of China (the "PRC"), 15 March 2001	HK\$15,000,000	—	100	Manufacture and trading of toys and other products

As at the date of this report, no statutory audited financial statements have been prepared for the Company since the date of its incorporation as the Company has not been involved in any significant business transactions other than the Reorganisation described in the section headed "History, Reorganization and Group Structure" in the Prospectus.

Notes:

- No statutory audited financial statements have been prepared for this subsidiary since the date of its incorporation as there is no statutory requirements and the subsidiary has not yet been involved in any significant business transactions.
- The statutory financial statements for the years ended 31 March 2010 and 2011 were audited by Poon, Mak & Wan; and for the year ended 31 March 2012 were audited by BDO Limited, both are certified public accountants registered in Hong Kong.
- Registered as a wholly-foreign-owned enterprise under the laws of the PRC. The statutory financial statements for the years ended 31 December 2009, 2010 and 2011 were audited by Foshan Zhuoxin Certified Public Accountants Limited, a certified public accountants registered in PRC.

* The English translation of the name is for reference only, its official names are in Chinese.

2.1 BASIS OF PREPARATION

The Financial Information has been prepared on the basis set out in note 1 and in accordance with the accounting policies set out below which comply with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The HKICPA issued a number of new or revised HKFRSs which are generally effective for annual periods beginning on or after 1 April 2012.

For the purpose of preparing and presenting the Financial Information, the Group has early adopted all these new and revised HKFRSs that are relevant to the Group's operations as at the beginning of the Relevant Periods.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Main Board Listing Rules.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSS

The Group has not applied the following new/revised HKFRSs, that have been issued but are not yet effective, in preparing the Financial Information.

HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial statements</i> ²
HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosures of Interests in Other Entities</i> ²
HKFRS 13	<i>Fair Value Measurements</i> ²
HKAS 1 (Revised) (Amendments)	Amendments to HKAS 1 (Revised) Presentation of Financial Statements — <i>Presentation of Items of Other Comprehensive Income</i> ¹
HKAS 27 (2011)	<i>Separate Financial Statements</i> ²
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ²
HKAS 19 (2011)	<i>Employee Benefits</i> ²
HK(IFRIC)-Interpretation 20	<i>Strapping Costs of the Production Phase of a Surface Mine</i> ²
HKAS 32 and HKFRS 7 (Amendments)	<i>Offsetting Financial Assets and Financial Liabilities</i> ³
HKFRS 7 and HKFRS 9 (Amendments)	<i>Mandatory Effective Date of HKFRS 9 and Transition Disclosures</i> ⁴
HKFRSs (Amendments)	<i>Annual Improvements 2009–2011 Cycle</i> ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2013 and 2014, as appropriate

⁴ Effective for annual periods beginning on or after 1 January 2015

Amendments to HKAS 1 (Revised) — Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

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.

HKFRS 10 — Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of “de facto” control where an investor can control an investee while holding less than 50% of the investee’s voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 11 — Joint Arrangement

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 — Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity’s interests in other entities and the effects of those interests on the reporting entity’s financial statements.

HKFRS 13 — Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 “Financial Instruments: Disclosures”. HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

HKFRS 32 — Offsetting Financial Assets and Financial Liabilities

HKAS 32 Amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the HKAS 32 offsetting criteria to settlement systems (such as central clear house system which apply gross settlement mechanism that are not simultaneous).

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group’s financial statements/the directors are not yet in a position to quantify the effects on the Group’s financial statements.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

This Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. As explained in note 1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition of all other subsidiaries during the Relevant Periods is accounted for using the acquisition method of accounting.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. No amount is recognised in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment (i.e. gain on bargain purchase) at the time of common control combination. The combined statements of income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control or since their respective dates of incorporation/establishment, where this is a shorter period, regardless of the date of the common control combination.

All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on combination.

Business combination and basis of consolidation

Except for the business combination under common control, which is accounted for using the merger accounting described above, the acquisition method of accounting is used for all other acquisitions of subsidiaries or businesses.

Under the acquisition method, the consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. For each business combination, the acquirer measures the non-controlling interest that represents a present ownership interest in the subsidiary in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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.

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.

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the combined statements of income from the effective dates of acquisition or up to the effective 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.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Any excess of the investor's share of the net fair value of the associate's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of key management personnel of the Group or the parent of the Company.
- (b) An entity is related to the Group if any of the following conditions apply:
 - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group;
 - (vi) The entity is controlled or jointly controlled by a person identified in (a); or
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

- (i) that person's children and spouse or domestic partner;
- (ii) children of that person's spouse or domestic partner; and
- (iii) dependents of that person or that person's spouse or domestic partner.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings in Hong Kong	Over the shorter of the unexpired or the lease terms
Leasehold land and buildings in the PRC	Over the shorter of the lease terms or 4.5%
Leasehold improvements	Over the shorter of the lease terms or 35%
Plants and machinery	9.5% or 35%
Fixtures, furniture and office equipment	35%
Motor vehicles	18% or 35%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Construction in progress is stated at cost less impairment losses. Cost comprises direct costs of construction as well as borrowing costs capitalised during the periods of construction and installation. Capitalisation of these costs ceases and the construction in progress is transferred to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

The gain or loss on disposal of an item of property, plant and equipment is the difference between the net sale proceeds and its carrying amount, and is recognised in profit or loss on disposal.

Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the consolidated statement of income in the period in which it arises.

Leases

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor to sub-lease the leased assets under operating lease, such rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentive received from the lessor are charged to the consolidated income statement on the straight-line basis over the lease terms.

Financial Instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

These assets are non-derivative financial assets that are designated as available-for-sale or are not included in other categories of financial assets. Subsequent to initial recognition, these assets are carried at fair value with changes in fair value recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary instruments, which are recognised in profit or loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each Relevant Periods, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

Loan and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

Available-for-sale financial assets

Where a decline in the fair value constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

Any impairment losses on available-for-sale debt investments are subsequently reversed in profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investment, any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income.

For available-for-sale equity investment that is carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss is not reversed.

(iii) Financial liabilities

Financial liabilities at amortised cost including trade payables, accruals and other payables, amounts due to related parties and a director, and borrowings, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the Relevant Periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) *Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vii) *Derecognition*

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Revenue recognition

Revenue from sales of goods and moulding income is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Income taxes

Income taxes for the Relevant Periods comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On combination, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year/period are translated into Hong Kong dollars at the weighted average exchange rates for the year/period.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits and assets similar in nature to cash, which are not restricted as to use.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Employee benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statements as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries operating in Mainland China are required to make contributions for their employees who are registered as permanent residents in Mainland China. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

Determination of the accounting treatment for revenue

The Group is principally engaged in the manufacture and trading of toy products. The Group manufactures finished products for customers according to their specifications and the products are sold by customers under their own brand names. The major customer of the Group may be involved in the raw materials procurement procedures and under such circumstances will make settlement to the suppliers on behalf of the Group. The amounts settled by the major customer will be set off against the trade receivable from the major customer. In determining whether the revenue shall be recorded on a net basis or gross basis, the Group has made reference to indicators and requirements stated in the requirement in HKAS 18 paragraph 8 and HKAS 18 Appendix paragraph 21 and consider the economic

substance of the transactions. Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances, and the Group considers itself does not have an agency relationship with the customer under HKAS 18 by assessing the following features that are arising from its operations:

- The Group is the primary obligor to the customer as the Group is responsible for fulfillment and customer remedies in the event of dissatisfaction.
- The Group has general inventory risk as a result of taking title and maintaining inventory.
- The Group has complete latitude to set the prices for the products.
- The Group has credit risk for financing amounts billed to the customer as accounts receivable.

The Group also considers that the economic substance of the raw materials purchase transaction and the sales transaction with major customer is not a linked transaction as the Group has no obligation to purchase raw materials from the major customer, it should be dealt with as a separate transaction. As a result, trading revenue is presented on a gross basis.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period are discussed below.

Provision for obsolete and slow-moving inventories

Management of the Group reviews an ageing analysis at the end of each reporting period, and makes allowance for obsolete and slow-moving items. These estimates are based on the current market conditions and the historical experience of selling merchandise of similar nature. It could change as a result of changes in market conditions. Such changes will have impact on the carrying amounts of inventories and the allowance of the inventories in the period in which such estimates have been changed. The Group reassesses these estimates at the end of each reporting period.

Depreciation

The Group depreciates property, plant and equipment over the estimated useful life, and after taking into account of their estimated residual value, using the straight-line method, from 3 years to 30 years, commencing from the date on which the assets are available for use. The estimated useful life reflects the management's estimations of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Provision for impairment of trade receivables

The policy for the provision for impairment of trade receivables of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

Fair value of other financial instruments

The directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices and rates.

4. 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			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)				
North America	437,799	360,004	498,166	152,415	133,081
Western Europe					
— United Kingdom	100,038	94,407	86,197	24,090	29,211
— France	45,614	46,033	51,154	17,238	15,955
— Netherland	31,998	26,625	27,037	8,995	8,930
— Others <i>(note 1)</i>	95,954	78,964	79,532	17,177	37,473
South America	19,524	23,067	21,070	10,229	12,891
PRC and Taiwan	10,960	27,660	41,545	14,651	9,784
Australia, New Zealand and Pacific Islands	20,177	21,866	18,053	8,614	10,345
Central America, Caribbean and Mexico	15,865	20,266	24,750	7,294	10,840
Others <i>(note 2)</i>	25,503	30,884	29,163	6,413	11,147
Total	803,432	729,776	876,667	267,116	279,657

Note 1: Others include Germany, Belgium, Italy, Ireland and Spain.

Note 2: Others include Africa, India, Japan, Korea, Mediterranean, Russia and Southeast Asia.

(ii) Specified non-current assets

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)				
Mainland China, the PRC	24,085	25,627	31,921	28,678	35,790
Hong Kong	10,646	2,330	1,890	2,059	1,564
Total	34,731	27,957	33,811	30,737	37,354

(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			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Customer A	519,277	385,522	448,982	144,640	144,296
Customer B	109,173	118,772	104,431	35,024	39,564
Customer C	—	30,810	109,734	23,427	23,095

5. 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			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
<i>Revenue</i>					
Sale of goods	<u>803,432</u>	<u>729,776</u>	<u>876,667</u>	<u>267,116</u>	<u>279,657</u>
<i>Other income and gains</i>					
Moulding income	4,777	5,591	4,124	822	2,645
Gain on derivative financial instruments					
— Fair value gain/(losses) ^(note 1)	—	3,563	2,628	(296)	(5,153)
— Realised gain ^(note 2)	<u>—</u>	<u>531</u>	<u>5,593</u>	<u>683</u>	<u>2,436</u>
	—	4,094	8,221	387	(2,717)
Interest income					
— from bank deposits	13	—	3	23	12
— from loan to an associate	31	203	—	—	—
— from interest-bearing loan	—	30	140	—	—
— from other loan	80	73	69	—	—
Exchange gains, net	222	1,611	1,769	186	99
Gain on disposal of property, plant and equipment	—	—	60	—	—
Sundry income from an associate	40	440	—	—	—
Others	<u>417</u>	<u>354</u>	<u>1,262</u>	<u>280</u>	<u>362</u>
	<u>5,580</u>	<u>12,396</u>	<u>15,648</u>	<u>1,698</u>	<u>401</u>

Note 1: The amount represents the change in fair value on the outstanding foreign currency forward contracts as at each of the years ended 31 March 2010, 2011, 2012 and period ended 31 July 2012.

Note 2: The amount represents the realised gain on the foreign currency forward contracts which are matured during the year/period.

6. PROFIT BEFORE INCOME TAX EXPENSE

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

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Cost of inventories sold	713,240	650,682	777,295	237,365	245,147
Depreciation	10,271	9,534	7,768	2,278	2,720
Amortisation of prepaid land lease payments	187	191	200	65	67
Employee benefits expenses (excluding directors' remuneration (note 8)):					
Wages and salaries	31,714	34,080	34,685	10,412	12,567
Pension scheme contributions	2,288	1,973	2,577	1,257	1,745
Other benefits	2,784	2,965	3,881	1,134	733
	<u>36,786</u>	<u>39,018</u>	<u>41,143</u>	<u>12,803</u>	<u>15,045</u>
Auditor's remuneration	118	120	460	40	40
Operating lease charges in respect of land and buildings	1,752	1,613	1,814	522	831
Write off of trade receivables	—	93	—	—	—

7. FINANCE COSTS

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Interest on bank advance and other borrowings:					
— Wholly repayable within five years	700	760	1,900	494	674
— Not wholly repayable within five years	—	—	—	—	—
	<u>700</u>	<u>760</u>	<u>1,900</u>	<u>494</u>	<u>674</u>

The analysis shows the finance costs of bank borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the loan agreements. For the years ended 31 March 2010, 2011, 2012 and four months ended 31 July 2011 and 2012 the interest on bank borrowings which contain a repayment on demand clause amounted to HK\$494,000, HK\$631,000, HK\$1,828,000, HK\$418,000 and HK\$674,000 respectively.

8. DIRECTORS' REMUNERATION

Details of the directors' remuneration during the Relevant Periods are as follows:

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	—	—	—	—	—
Other emolument:					
Salaries, allowances and benefits in kind	2,220	2,999	2,905	871	1,553
Pension scheme contributions	75	98	102	34	35
	<u>2,295</u>	<u>3,097</u>	<u>3,007</u>	<u>905</u>	<u>1,588</u>

(Unaudited)

Executive directors

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 March 2010				
Mr. Lau Ho Ming, Peter	—	1,308	36	1,344
Mr. Ng Kam Seng	—	368	16	384
Mr. Poon Pak Ki, Eric	—	544	23	567
	<u>—</u>	<u>2,220</u>	<u>75</u>	<u>2,295</u>
Year ended 31 March 2011				
Mr. Lau Ho Ming, Peter	—	1,478	37	1,515
Mr. Ng Kam Seng	—	911	31	942
Mr. Poon Pak Ki, Eric	—	610	30	640
	<u>—</u>	<u>2,999</u>	<u>98</u>	<u>3,097</u>
Year ended 31 March 2012				
Mr. Lau Ho Ming, Peter	—	1,443	37	1,480
Mr. Ng Kam Seng	—	738	34	772
Mr. Poon Pak Ki, Eric	—	724	31	755
	<u>—</u>	<u>2,905</u>	<u>102</u>	<u>3,007</u>
Four months ended 31 July 2011 (Unaudited)				
Mr. Lau Ho Ming, Peter	—	450	13	463
Mr. Ng Kam Seng	—	217	11	228
Mr. Poon Pak Ki, Eric	—	204	10	214
	<u>—</u>	<u>871</u>	<u>34</u>	<u>905</u>

	<u>Fees</u>	<u>Salaries, allowances and benefits in kind</u>	<u>Pension scheme contributions</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Four months ended 31 July 2012				
Mr. Lau Ho Ming, Peter	—	737	13	750
Mr. Ng Kam Seng	—	437	11	448
Mr. Poon Pak Ki, Eric	—	379	11	390
	—	1,553	35	1,588

No emolument was paid or payable to the non-executive directors, namely Ms. Li Man Yee, Stella and Mr. Tang Yu Ming, Nelson and the independent non-executive directors, namely Mr. Leung Po Wing, Bowen Joseph *GBS, JP*, Mr. Chan Siu Wing, Raymond and Mr. Chu, Raymond during the Relevant Periods.

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

The five individuals whose emoluments were the highest in the Group for each of the years ended 31 March 2010, 2011, 2012 and four months ended 31 July 2011 and 2012 included 1, 2, 2, 2 and 3 directors of the Company respectively and their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4, 3, 3, 3 and 2 individuals for each of the years ended 31 March 2010, 2011, 2012 and four months ended 31 July 2011 and 2012 respectively are as follows:

	<u>Year ended 31 March</u>			<u>Four months ended 31 July</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>	
Salaries, allowances and benefits in kind	3,374	2,961	2,679	793	634
Pension scheme contributions	114	90	88	30	21
	3,488	3,051	2,767	823	655

The number of non-director, highest paid employees whose remuneration fell within the bands is as follows:

	<u>Year ended 31 March</u>			<u>Four months ended 31 July</u>	
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(Unaudited)</i>	
Nil to HK\$1,000,000	3	1	2	3	2
HK\$1,000,001 to HK\$1,500,000	1	2	1	0	0
	4	3	3	3	2

During the Relevant Periods, no remuneration was paid by the Group to the directors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office. None of the persons, who were directors, waived or agreed to waive any emoluments during the Relevant Periods.

10. 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 Relevant Periods. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

In accordance with Income Tax Law of the PRC for enterprises with foreign investment and foreign enterprises and various approval documents issued by the Tax Bureau of the PRC, the Group's subsidiary which operates in the PRC was entitled to a 50% relief from the PRC corporate income tax during the period from 1 January 2007 to 31 December 2009. The PRC corporate income tax rate of the Group's subsidiaries operating in the PRC during the Relevant Periods was 25% on its taxable profit.

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

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Current — Hong Kong					
Charge for the year/period	6,059	5,851	10,114	2,512	2,878
Under/(over) provision in prior years/periods	4	(36)	(30)	—	—
	6,063	5,815	10,084	2,512	2,878
Current — PRC					
Charge for the year/periods	251	414	408	93	86
Total tax charge for the year/period	<u>6,314</u>	<u>6,229</u>	<u>10,492</u>	<u>2,605</u>	<u>2,964</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rates to the tax expense at the Group's effective tax rates is as follows:

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				<i>(Unaudited)</i>	
Profit before income tax expense	<u>33,076</u>	<u>15,725</u>	<u>58,168</u>	<u>14,387</u>	<u>8,162</u>
Tax at the applicable tax rates	5,458	2,595	9,598	2,374	1,347
Effect of different tax rate of subsidiary operating in other jurisdiction	(70)	(46)	(139)	(73)	(33)
Tax effect of revenue not taxable for tax purposes	(27)	(209)	(256)	(313)	(186)
Tax effect of expenses not deductible for tax purposes	1,765	3,920	979	174	1,466
Tax effect of share of profits of an associate	(1,015)	—	—	—	—
Tax effect of temporary difference not recognised	199	5	340	443	370
Under/(over) provision in respect of prior years/periods	4	(36)	(30)	—	—
Income tax expenses	<u>6,314</u>	<u>6,229</u>	<u>10,492</u>	<u>2,605</u>	<u>2,964</u>

As at 31 March 2010, 2011, 2012 and as at 31 July 2011 and 2012, no deferred tax asset has been recognised in respect of the deductible temporary differences of HK\$199,000, HK\$5,000, HK\$340,000, HK\$443,000 and HK\$370,000 respectively as the amounts are immaterial to the Group. In addition, no deferred tax liabilities of HK\$1,588,000, HK\$2,797,000, HK\$3,972,000 and HK\$4,276,000 as at 31 March 2010, 2011, 2012 and 31 July 2012 respectively has been recognised for withholding taxes that would be repayable on the unremitted earnings of the Group's subsidiary established in the PRC. It is because in the opinion of the Directors, it is not probable that this subsidiary will distribute its earnings accrued from 1 January 2008 to 31 March 2012 in the foreseeable future. Accordingly no deferred tax liabilities have been recognised as at 31 March 2010, 2011, 2012 and 31 July 2012.

11. DIVIDENDS

No dividends have been declared or paid by the Company since its incorporation.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation and the preparation of the results of the Group for the Relevant Periods on a consolidated basis as disclosed in note 1 above.

13. PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold land and buildings</u>	<u>Leasehold improvements</u>	<u>Plants and machinery</u>	<u>Fixtures, furniture and office equipment</u>	<u>Motor vehicles</u>	<u>Construction in progress</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2010							
Cost:							
At 1 April 2009	9,544	211	52,290	5,242	4,470	—	71,757
Additions	—	—	2,071	83	684	—	2,838
Exchange differences	69	—	5	—	8	—	82
At 31 March 2010	<u>9,613</u>	<u>211</u>	<u>54,366</u>	<u>5,325</u>	<u>5,162</u>	<u>—</u>	<u>74,677</u>
Accumulated depreciation:							
At 1 April 2009	1,036	184	39,324	3,624	3,370	—	47,538
Depreciation charge for the year	311	17	8,420	925	598	—	10,271
Exchange differences	7	—	—	—	4	—	11
At 31 March 2010	<u>1,354</u>	<u>201</u>	<u>47,744</u>	<u>4,549</u>	<u>3,972</u>	<u>—</u>	<u>57,820</u>
Net book value:							
At 31 March 2010	<u>8,259</u>	<u>10</u>	<u>6,622</u>	<u>776</u>	<u>1,190</u>	<u>—</u>	<u>16,857</u>
At 31 March 2009	<u>8,508</u>	<u>27</u>	<u>12,966</u>	<u>1,618</u>	<u>1,100</u>	<u>—</u>	<u>24,219</u>

	Leasehold land and buildings	Leasehold improvements	Plants and machinery	Fixtures, furniture and office equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2011							
Cost:							
At 1 April 2010	9,613	211	54,366	5,325	5,162	—	74,677
Additions	—	—	10,110	25	2,244	—	12,379
Disposals	—	—	(71)	—	(428)	—	(499)
Exchange differences	389	—	31	4	54	—	478
At 31 March 2011	<u>10,002</u>	<u>211</u>	<u>64,436</u>	<u>5,354</u>	<u>7,032</u>	<u>—</u>	<u>87,035</u>
Accumulated depreciation:							
At 1 April 2010	1,354	201	47,744	4,549	3,972	—	57,820
Depreciation charge for the year	434	10	7,277	703	1,110	—	9,534
Disposals	—	—	(71)	—	(428)	—	(499)
Exchange differences	62	—	3	—	32	—	97
At 31 March 2011	<u>1,850</u>	<u>211</u>	<u>54,953</u>	<u>5,252</u>	<u>4,686</u>	<u>—</u>	<u>66,952</u>
Net book value:							
At 31 March 2011	<u>8,152</u>	<u>—</u>	<u>9,483</u>	<u>102</u>	<u>2,346</u>	<u>—</u>	<u>20,083</u>
At 31 March 2010	<u>8,259</u>	<u>10</u>	<u>6,622</u>	<u>776</u>	<u>1,190</u>	<u>—</u>	<u>16,857</u>

	Leasehold land and buildings	Leasehold improvements	Plants and machinery	Fixtures, furniture and office equipment	Motor vehicles	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2012							
Cost:							
At 1 April 2011	10,002	211	64,436	5,354	7,032	—	87,035
Additions	—	—	6,274	212	490	6,249	13,225
Disposals	—	—	(1,276)	—	—	—	(1,276)
Exchange differences	336	—	26	4	46	—	412
At 31 March 2012	<u>10,338</u>	<u>211</u>	<u>69,460</u>	<u>5,570</u>	<u>7,568</u>	<u>6,249</u>	<u>99,396</u>
Accumulated depreciation:							
At 1 April 2011	1,850	211	54,953	5,252	4,686	—	66,952
Depreciation charge for the year	439	—	6,031	106	1,192	—	7,768
Disposals	—	—	(1,276)	—	—	—	(1,276)
Exchange differences	66	—	5	1	31	—	103
At 31 March 2012	<u>2,355</u>	<u>211</u>	<u>59,713</u>	<u>5,359</u>	<u>5,909</u>	<u>—</u>	<u>73,547</u>
Net book value:							
At 31 March 2012	<u>7,983</u>	<u>—</u>	<u>9,747</u>	<u>211</u>	<u>1,659</u>	<u>6,249</u>	<u>25,849</u>
At 31 March 2011	<u>8,152</u>	<u>—</u>	<u>9,483</u>	<u>102</u>	<u>2,346</u>	<u>—</u>	<u>20,083</u>
31 July 2012							
Cost:							
At 1 April 2012	10,338	211	69,460	5,570	7,568	6,249	99,396
Additions	—	—	2,073	484	494	3,461	6,512
Disposals	—	—	—	—	—	—	—
Exchange differences	(76)	—	(6)	(1)	(11)	(50)	(144)
At 31 July 2012	<u>10,262</u>	<u>211</u>	<u>71,527</u>	<u>6,053</u>	<u>8,051</u>	<u>9,660</u>	<u>105,764</u>
Accumulated depreciation:							
At 1 April 2012	2,355	211	59,713	5,359	5,909	—	73,547
Depreciation charge for the year	97	—	2,166	52	405	—	2,720
Disposals	—	—	—	—	—	—	—
Exchange differences	(17)	—	(2)	—	(7)	—	(26)
At 31 July 2012	<u>2,435</u>	<u>211</u>	<u>61,877</u>	<u>5,411</u>	<u>6,307</u>	<u>—</u>	<u>76,241</u>
Net book value:							
At 31 July 2012	<u>7,827</u>	<u>—</u>	<u>9,650</u>	<u>642</u>	<u>1,744</u>	<u>9,660</u>	<u>29,523</u>

The Group's leasehold lands and buildings are located in Hong Kong and the PRC and are held under medium term leases.

As at 31 March 2010, 2011, 2012 and 31 July 2012, certain property, plant and equipment with net carrying amount of approximately HK\$2,441,000, HK\$675,000, HK\$nil and HK\$nil were pledged to the bank for banking facilities granted to the Group (Note 26).

14. PREPAID LAND LEASE PAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments and the movements in their net carrying amounts are analysed as follows:

	<u>At 31 March</u>			<u>At 31 July</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April	7,850	7,725	7,874	7,962
Amortisation	(187)	(191)	(200)	(67)
Exchange differences	62	340	288	(64)
	<u>7,725</u>	<u>7,874</u>	<u>7,962</u>	<u>7,831</u>

The land use rights are located in the PRC and held under medium-term lease.

15. INTEREST-BEARING LOAN

The interest-bearing loan is unsecured, bearing an interest at 3% over annual London Inter-Bank Offered Rate and repayable within 60 months (note 16).

16. AVAILABLE-FOR-SALE INVESTMENTS

	<u>At 31 March</u>			<u>At 31 July</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale investments stated at cost:				
— Unlisted equity investments	—	4,257	—	—
	<u>—</u>	<u>4,257</u>	<u>—</u>	<u>—</u>

Note: On 29 November 2010, the Group entered into a purchase agreement with Catalana De Investigacion Y Desarrollo De Electronica, S.L, a Spanish company ("CIDE") to purchase 208,265 shares of CIDE representing a 19.44% of the then total issued shares of CIDE (the "Shares"). The purchase price was US\$550,000 (equivalent to HK\$4,257,000).

On 10 January 2011, the Group entered into a loan agreement with CIDE by which the Group lent 2 loans (the "Loans") to CIDE amounting to a total of US\$450,000 (equivalent to HK\$3,483,000) (note 15).

On 30 March 2012, the Shares and the Loans were transferred to QM (Hong Kong) Limited, a related company of the Group, which Mr. Lau Ho Ming, Peter and Miss Li Man Yee, Stella are controlling directors. The consideration is US\$1,000,000 (equivalent to HK\$7,740,000).

Available-for-sale investments are stated at cost as there are no quoted market price in an active market and the fair value cannot be reliably measured.

17. INTERESTS IN AN ASSOCIATE

	At 31 March			At 31 July
	2010	2011	2012	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Share of net assets	8,149	—	—	—
Loan to an associate ¹	2,000	—	—	—
	10,149	—	—	—
Current assets				
Loan to an associate ²	3,000	—	—	—

¹ The loan is unsecured, interest free and in the directors' opinion, the amount will not be collectible within 12 months from the Relevant Periods.

² The loan is interest-bearing at 6.25% per annum with fixed repayment terms.

Details of the associate are as follows:

Name	Form of Business structure	Place of incorporation	Principal activity	Percentage of ownership interests
Eagletron Telecommunications Limited ("Eagletron")	Corporation	Hong Kong	Trading and manufacturing of electronic telecommunication products	20%

The Group acquired 20% equity interests of Eagletron on 18 January 2010. On the same day, the Group advanced HK\$5 million loan to Eagletron. Additional loan amounted to HK\$6 million was made to Eagletron on 21 December 2010. However, Eagletron went into liquidation on 29 June 2011. As a result, the directors considered the investment cost and the loans were irrecoverable and therefore impairment of HK\$17.1 million was made in 2011.

The summarised financial information as per management accounts in respect of the Group's associate is set out below:

	At 31 March			At 31 July
	2010	2011	2012	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	183,254	—	—	—
Total liabilities	(142,508)	—	—	—
Net assets	40,746	—	—	—
Group's share of net assets of the associate	8,149	—	—	—
Total revenue	217,181	—	—	—
Total loss for the year/period	(2,127)	—	—	—
Group's share of profits of an associate for the year/period ^(note 1)	6,149	—	—	—

Note 1: The Group acquired 20% equity interests of Eagletron on 18 January 2010 with investment cost of HK\$2 million. As at 31 March 2010, the Group's share of net assets of the associate amounted to HK\$8,149,000. The Group's share of profits of associate for the year was HK\$6,149,000 which arose as a result of the excess of the Group's share of the net asset value of the associate over its cost of investment of HK\$2 million.

18. INVENTORIES

	At 31 March			At 31 July
	2010	2011	2012	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	61,277	86,983	108,440	101,391
Work in progress	22,894	31,037	14,834	14,057
Finished goods	7,392	15,687	38,879	84,295
	<u>91,563</u>	<u>133,707</u>	<u>162,153</u>	<u>199,743</u>

19. TRADE RECEIVABLES

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

	At 31 March			At 31 July
	2010	2011	2012	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current to 30 days	40,021	39,097	41,024	98,758
31 to 60 days	4,603	6,609	15,880	39,975
61 to 90 days	2,986	5,009	15,151	5,994
Over 90 days	12,031	5,521	11,774	11,623
	<u>59,641</u>	<u>56,236</u>	<u>83,829</u>	<u>156,350</u>

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

	At 31 March			At 31 July
	2010	2011	2012	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Neither past due nor impaired	42,358	44,920	52,183	121,328
Less than 1 month past due	5,429	4,140	10,214	21,602
1 to 3 months past due	8,287	4,849	18,043	7,602
Over 3 months past due	3,567	2,327	3,389	5,818
	<u>59,641</u>	<u>56,236</u>	<u>83,829</u>	<u>156,350</u>

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.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	<u>At 31 March</u>			<u>At 31 July</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Prepayments	29	2,186	710	7,232
Deposits	236	117	92	187
Other receivables	3,790	4,137	2,079	1,014
Insurance compensation receivable ¹	16,929	17,683	—	—
	<u>20,984</u>	<u>24,123</u>	<u>2,881</u>	<u>8,433</u>

¹ On 15 January 2009, a fire accident occurred in the processing factory in Foshan, the PRC. In July 2011, the Group received the compensation from the insurance company.

At 31 March 2010, 2011, 2012 and 31 July 2012, the balances of deposits and other receivables were neither past due nor impaired. Financial assets included in the above balances relate to receivables for which there was no recent history of default.

21. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments represent certain RMB/US\$ foreign exchange forward contracts held by the Group, in which the contracts period range from 9 months to 2 years. The Group would sell US Dollars to the bank in exchange for RMB at the agreed forward rate.

As at 31 March 2010, 2011, 2012 and 31 July 2012, the notional amount of the outstanding forward contracts were US\$nil, US\$23.2 million, US\$28.6 million and US\$28.6 million respectively.

The foreign exchange forward contracts were valued by BMI Appraisals Limited at the end of each reporting period. 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 sensitivity analysis on the potential loss resulting from fluctuation of the underlying currencies is set out in Note 34.

The below table reconciled the movement of the derivative financial instruments during the Relevant Periods:

	<u>At 31 March</u>			<u>At 31 July</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance as at 1 April	—	—	3,563	6,191
Gain/(loss) on derivative financial instruments during the year	—	4,094	8,221	(2,717)
Settlement during the year	—	(531)	(5,593)	(2,436)
Balance as at 31 March/31 July	<u>—</u>	<u>3,563</u>	<u>6,191</u>	<u>1,038</u>

22. CASH AND CASH EQUIVALENTS

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents are denominated in:				
HK\$	13,370	5,027	29,797	23,764
Renminbi ("RMB")	6,411	3,189	9,169	4,553
United States dollars ("US\$")	2,414	3,964	1,519	4,452
	22,195	12,180	40,485	32,769

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

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

23. 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 respective reporting periods, based on the invoice date, is as follows:

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 30 days	38,583	39,777	37,318	103,422
31 to 60 days	9,298	10,006	22,357	21,460
61 to 90 days	17,656	24,147	22,240	18,722
Over 90 days	8,764	879	1,110	4,274
	74,301	74,809	83,025	147,878

24. RECEIPTS IN ADVANCE, ACCRUALS AND OTHER PAYABLES

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Receipts in advance	206	3,612	936	542
Accruals and other payables	57,894	42,786	23,710	21,368
Dividend payable	873	—	32,598	27,531
	58,973	46,398	57,244	49,441

25. BALANCES WITH DIRECTOR AND RELATED COMPANIES

(a) Amounts due from a director and related companies

	At 31 March			At 31 July
	2010	2011	2012	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from a director:				
Mr. Poon Pak Ki, Eric	550	419	—	—
Amounts due from related companies:				
Goldrich International Limited	69	—	—	—
King Wealth International Limited	10,234	7,645	—	—
QM (Hong Kong) Limited	—	—	7,740	—
Toplux Capital Development Limited	—	2,300	—	—
	10,303	9,945	7,740	—

Related companies are controlled by the director, Mr. Lau Ho Ming, Peter and his spouse Miss Li Man Yee, Stella.

The amounts are unsecured, interest-free and repayable on demand.

The directors confirmed that the amounts were fully settled as at 31 July 2012.

Amounts due from a director and related companies of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

	At	Maximum	At
	1 April	outstanding	31 March
	2009	during	2010
	HK\$'000	the year	HK\$'000
Amount due from a director:			
Mr. Poon Pak Ki, Eric	—	600	550
Amounts due from related companies:			
Goldrich International Limited	69	69	69
King Wealth International Limited	4,074	14,223	10,234

	At	Maximum	At
	1 April	outstanding	31 March
	2010	during	2011
	HK\$'000	the year	HK\$'000
Amount due from a director:			
Mr. Poon Pak Ki, Eric	550	550	419
Amounts due from related companies:			
Goldrich International Limited	69	6,500	—
King Wealth International Limited	10,234	10,234	7,645
Toplux Capital Development Limited	—	2,300	2,300

	At 1 April 2011	Maximum amount outstanding during the year	At 31 March 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from a director:			
Mr. Poon Pak Ki, Eric	419	419	—
Amounts due from related companies:			
King Wealth International Limited	7,645	7,645	—
QM (Hong Kong) Limited	—	7,740	7,740
Toplux Capital Development Limited	2,300	20,348	—
	<u>2,300</u>	<u>20,348</u>	<u>—</u>
	At 1 April 2012	Maximum amount outstanding during the year	At 31 July 2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amount due from related company:			
QM (Hong Kong) Limited	7,740	7,740	—
	<u>7,740</u>	<u>7,740</u>	<u>—</u>

(b) Amounts due to a director and related parties

Except for the amount due to a related party, Mr. Kwong Ka Wing of HK\$750,000, HK\$750,000, HK\$nil and HK\$nil as at 31 March 2010, 2011, 2012 and 31 July 2012 which is interest bearing at the rate of 10% per annum, the amounts due to related parties and the amount due to a director — Mr. Lau Ho Ming, Peter are unsecured, interest-free and repayable on demand. The directors of the Company confirmed that the amounts were fully settled as at 31 July 2012.

(c) Loan from a director

Loan from a director, Mr. Lau Ho Ming, Peter is unsecured, interest-free and repayable on demand. The directors of the Company confirmed that the loan amount have been fully settled as at 31 July 2012.

26. INTEREST-BEARING BANK BORROWINGS

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current				
Secured				
— bank overdraft	4,674	4,073	658	194
— bank loans due for repayment within one year	6,204	47,587	73,806	124,753
— bank loans due for repayment after one year which contain a repayment on demand clause	5,194	2,900	1,700	1,300
	<u>16,072</u>	<u>54,560</u>	<u>76,164</u>	<u>126,247</u>

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

- (i) the pledge of certain leasehold land and buildings of the Group with net carrying amount of approximately HK\$2,441,000, HK\$675,000, HK\$nil and HK\$nil as at 31 March 2010, 2011, 2012 and 31 July 2012 respectively (Note 13);

- (ii) the pledge of the related companies' (King Wealth International Limited, Goldrich International Limited, and Loyal Gold (Hong Kong) Limited) property, plant and equipment. The related companies are controlled by a director, Mr. Lau Ho Ming, Peter and his spouse Ms. Li Man Yee, Stella;
- (iii) personal guarantee by one of the directors, Mr. Lau Ho Ming, Peter;
- (iv) corporate guarantee by related companies, Goldrich International Limited, Goldrich International Properties Limited, Loyal Gold (Hong Kong) Limited and King Wealth International Limited. The related companies are controlled by a director, Mr. Lau Ho Ming, Peter and his spouse Ms. Li Man Yee, Stella;
- (v) 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;
- (vi) rental assignment of property, plant and equipment owned by related companies, Goldrich International Limited and Loyal Gold (Hong Kong) Limited. The related companies are controlled by a director, Mr. Lau Ho Ming, Peter and his spouse Ms. Li Man Yee, Stella; and
- (vii) the directors of the Company confirmed that the guarantees by the director and related companies in note (ii), (iii), (iv) and (vi) would be replaced by the Company's corporate guarantees upon the listing of the Company's shares.

At 31 March 2010, 2011, 2012 and 31 July 2012, total current and non-current bank loans and overdraft and other borrowings were scheduled to repay as follows:

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
On demand or within one year	10,878	51,660	74,464	124,947
More than one year, but not exceeding two years	2,294	1,200	1,200	1,200
More than two years, but not exceeding five years	2,900	1,700	500	100
	16,072	54,560	76,164	126,247

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 ratios of the Group as are commonly found in lending arrangements with financial institutions. If the Group breached the covenants, the drawn down facilities would 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, is up to date with the scheduled repayments of the term loans 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. Further details of the Group's management of liquidity risk are set out in note 34. As at 31 March 2010, 2011, 2012 and 31 July 2012, none of the covenants relating to drawn down facilities had been breached.

27. SHARE CAPITAL

Group

The Reorganisation was completed on 16 April 2012, hence, share capital as at 31 March 2010, 2011 and 2012 represents the combined share capital of the companies comprising the Group. As at 31 July 2012, share capital represents the Company's issued share capital after elimination of the Company's investments in subsidiaries.

Company

The Company was incorporated in the Cayman Islands on 14 March 2012, with an authorised share capital of US\$50,000 divided into 500,000,000 ordinary shares of US\$0.0001 each. At 31 March 2012 and 31 July 2012, 100,000,000 ordinary shares of US\$0.0001 each were issued.

28. RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity.

29. RELATED PARTY TRANSACTIONS

- (i) In addition to the transactions detailed elsewhere in this report, the Group had the following material transactions with related parties during the Relevant Periods:

Relationship/name of related party	Nature of transaction	Year ended 31 March			Four months ended 31 July	
		2010	2011	2012	2011	2012
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>(Unaudited)</i>						
<i>Companies controlled by</i>						
<i>Mr. Lau Ho Ming, Peter and</i>						
<i>Miss Li Man Yee, Stella</i>						
<i>or their close family member</i>						
King Wealth International Limited	Rental expenses (b), (c)	420	540	600	200	—
Goldrich International Limited	Rental expenses (a), (c)	120	120	232	40	96
First Inventor Limited	Rental expenses (b), (c)	—	140	240	80	—
Loyal Gold (Hong Kong) Limited	Rental expenses (a), (c)	—	—	—	—	392
		<u>540</u>	<u>800</u>	<u>1,072</u>	<u>320</u>	<u>488</u>
<i>Directors</i>						
Mr. Lau Ho Ming, Peter	Rental expenses (a), (c)	42	42	42	14	62
Miss Li Man Yee, Stella	Rental expenses (b), (c)	258	258	258	86	48
		<u>300</u>	<u>300</u>	<u>300</u>	<u>100</u>	<u>110</u>
<i>Key Management</i>						
Mr. Kwong Ka Wing	Interest expense (b), (d)	75	75	75	—	—
<i>Associate</i>						
Eagletron	Interest income (b), (e)	31	203	—	—	—
	Sundry income (b)	40	440	—	—	—
		<u>71</u>	<u>643</u>	<u>—</u>	<u>—</u>	<u>—</u>

- (a) The directors confirmed that the above transactions will continue in the future after the listing of the Company's shares.
- (b) The directors confirmed that the above transactions had been discontinued prior to 31 March 2012.
- (c) The rental expenses paid to King Wealth International Limited, Goldrich International Limited, First Inventor Limited, Loyal Gold (Hong Kong) Limited, Mr. Lau Ho Ming, Peter and his spouse Ms. Li Man Yee, Stella were mutually agreed between the Group and the related parties.
- (d) Interest was paid by the Group at the rate of 10% per annum.
- (e) Interest was charged by the Group at the rate of 6.25% per annum.

- (ii) Compensation of key management personnel of the Group, including directors' remuneration as disclosed in note 8 to the Financial Information, is as follows:

	Year ended 31 March			Four months ended 31 July	
	2010	2011	2012	2011	2012
Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	3,883	4,777	4,564	1,343	2,140
Pension scheme contributions	122	149	154	51	52
	<u>4,005</u>	<u>4,926</u>	<u>4,718</u>	<u>1,394</u>	<u>2,192</u>

- (iii) As at 31 March 2010, 2011, 2012 and 31 July 2012, the banking facilities and interest-bearing bank borrowings of the Group were supported by personal guarantees executed by one of the directors, Mr. Lau Ho Ming, Peter (note 26) and corporate guarantee by related companies (note 26).

- (iv) Details of the Group's balances with related parties are disclosed in note 25 to the Financial Information.

The Group has not made any provision on impairment for bad or doubtful debts in respect of related parties debtors except for the loans to the associate as disclosed in note 17 to the Financial Information, nor has any guarantee been given or received during the Relevant Periods regarding related party balances.

- (v) Details of the transfer of available-for-sale investments to related company are disclosed in note 16 to the Financial Information.

- (vi) As at 31 March 2010, 2011, 2012 and 31 July 2012, the Group has provided financial guarantee to related companies, Loyal Gold (Hong Kong) Limited, Goldrich International Limited, and Goldrich International Properties Limited for obtaining mortgage loans. The related companies are controlled by a director, Mr. Lau Ho Ming, Peter and his spouse Miss. Li Man Yee, Stella. Details are disclosed in note 30 to the Financial Information.

30. CONTINGENT LIABILITIES

As at 31 March 2010, 2011, 2012 and 31 July 2012, the Group has executed financial guarantee in respect of bank loans of related companies of the Group. Pursuant the guarantee agreement, the Group would be liable to repay the bank loans if the loans are irrecoverable. At 31 March 2010, 2011, 2012 and 31 July 2012, the outstanding balances of the bank loans were HK\$796,000, HK\$21,231,000, HK\$21,346,000 and HK\$20,920,000 respectively. The Group's maximum exposure under the financial guarantee contracts was equivalent to the amount outstanding at respective reporting date. No provision for the Group's obligation under the financial guarantee contracts has been made as the directors considered that default in repayment of loans was not probable.

The financial guarantee contracts will be released upon the listing of the Group.

31. OPERATING LEASE ARRANGEMENTS**As lessee**

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

As at 31 March 2010, 2011, 2012 and 31 July 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<u>At 31 March</u>			<u>At 31 July</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	952	1,740	—	2,130
In the second to fifth years, inclusive	—	142	—	3,326
	<u>952</u>	<u>1,882</u>	<u>—</u>	<u>5,456</u>

32. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of each of the reporting period:

	<u>At 31 March</u>			<u>At 31 July</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for, in respect of acquisition of property, plant and equipment	—	14,080	8,351	4,822

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting periods are as follows:

Financial assets

	<u>At 31 March</u>			<u>At 31 July</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Available-for-sale investments	—	4,257	—	—
Held for trading at fair value through profit or loss:				
Derivative financial instruments	—	3,563	6,191	1,521
Loans and receivables:				
Loan to an associate	3,000	—	—	—
Interest-bearing loan	—	3,483	—	—
Trade receivables	59,641	56,236	83,829	156,350
Deposits and other receivables	20,955	21,937	2,171	1,201
Amounts due from related companies	10,303	9,945	7,740	—
Amount due from a director	550	419	—	—
Cash and cash equivalents	22,195	12,180	40,485	32,769
	<u>116,644</u>	<u>112,020</u>	<u>140,416</u>	<u>191,841</u>

Financial liabilities

The Group's financial liabilities as at the end of each reporting periods which are categorised as financial liabilities at amortised cost are as follows:

	At 31 March			At 31 July
	2010	2011	2012	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Financial liabilities measured at amortised cost:				
Trade payables	74,301	74,809	83,025	147,878
Accruals and other payables	58,767	42,786	56,308	48,899
Amounts due to related parties	2,470	3,220	—	—
Amount due to a director	1,313	1,873	52	—
Loan from a director	15,000	15,000	15,000	—
Interest-bearing bank borrowings	16,072	54,560	76,164	126,247
	167,923	192,248	230,549	323,024

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise trade and other receivables, cash and cash equivalents, trade payables, accruals and other payables, and bank borrowings. The Group has various other financial assets and liabilities such as available-for-sale investments, derivative financial instruments, and balances with related parties and a director.

It is, and has been, through the Relevant Periods, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, credit risk, liquidity risk and interest rate risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Substantially all the transactions of the Group's subsidiaries in Hong Kong are carried out in US\$ and HK\$. As HK\$ is linked to US\$, the Group does not have material exchange rate risk on such currency.

The expenses or expenditures incurred in the operations of the Group's subsidiary in the PRC were denominated in RMB, which expose the Group to foreign currency risk.

As at 31 March 2010, 2011, 2012 and 31 July 2012, the carrying amounts of significant monetary assets and monetary liabilities denominated in currencies other than the Group's functional currency are as follow:

	Year ended 31 March			31 July
	2010	2011	2012	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Liabilities				
United States Dollars	10,561	2,962	5,143	8,047
Renminbi	8,720	9,353	15,210	15,651
	<u>19,281</u>	<u>12,315</u>	<u>20,353</u>	<u>23,698</u>
Assets				
United States Dollars	32,334	44,796	58,090	101,516
Renminbi	23,470	20,988	9,723	8,968
	<u>55,804</u>	<u>65,784</u>	<u>67,813</u>	<u>110,484</u>

The RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of RMB against HK\$ and US\$ may have impact on the operating results of the Group.

The following table demonstrates the sensitivity analysis of the carrying amounts of significant monetary assets and monetary liabilities denominated in RMB at the end of reporting period if there was a 5% change in the exchange rate of the HK\$ against RMB, with all other variables held constant, of the Group's profit after tax.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in profit after tax
	%	HK\$'000
2010		
If HK\$ weakens against RMB	5%	616
If HK\$ strengthens against RMB	(5%)	(616)
2011		
If HK\$ weakens against RMB	5%	486
If HK\$ strengthens against RMB	(5%)	(486)
2012		
If HK\$ weakens against RMB	5%	(229)
If HK\$ strengthens against RMB	(5%)	229
2012 July		
If HK\$ weakens against RMB	5%	(279)
If HK\$ strengthens against RMB	(5%)	279

As at 31 March 2011, 2012 and 31 July 2012, the Group has entered into non-deliverable forward contracts to manage the foreign currency risk arising from fluctuation in exchange rates of the RMB against the US\$. The Group has implemented the foreign currency forward contract policy in relation to the foreign currency forward contracts. The Group has performed analysis for entering into and monitoring of the foreign currency forward contracts. As ongoing monitoring and control of the risk exposure, the management would review the existing forward contracts, perform the cash flow analysis and evaluate the gain and loss positions of the forward contracts on a monthly basis in accordance with the Group's risk management policy. The foreign exchange exposure reports would be presented to the Directors for review on a quarterly basis.

The following table demonstrates the sensitivity analysis of the foreign currency forward contracts denominated in US\$ at the end of reporting period if there was 5% change in the exchange rate of the RMB against the US\$, with all other variables held constant, of the Group's profit after tax.

	<u>Increase/ (decrease) in RMB rate</u>	<u>Increase/ (decrease) in profit after tax</u>
	%	HK\$'000
31 March 2011		
If RMB weakens against US\$	(5%)	(13,372)
If RMB strengthens against US\$	5%	7,980
31 March 2012		
If RMB weakens against US\$	(5%)	(46,678)
If RMB strengthens against US\$	5%	8,417
31 July 2012		
If RMB weakens against US\$	(5%)	(49,999)
If RMB strengthens against US\$	5%	9,864

The Group had not recorded any losses from the foreign currency forward contracts during the years ended 31 March 2011, 2012 and period ended 31 July 2012. As at 31 March 2010, 2011, 2012 and 31 July 2012, the aggregated notional amount of these outstanding forward contracts were US\$nil, US\$23.2 million, US\$28.6 million and US\$28.6 million respectively. As at 31 December 2012, the aggregated notional amount of the outstanding forward contracts was US\$10 million.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Ongoing credit evaluation is performed on the financial condition of trade customers and, where appropriate, credit guarantee insurance cover is purchased. Normally, the Group does not obtain collateral from customers. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. As at 31 March 2010, 2011, 2012 and 31 July 2012, the trade receivables from the five largest debtors represented 95%, 86%, 89% and 83% of the total trade receivables respectively, while the largest debtor represented 55%, 46%, 35% and 36% of the total trade receivables respectively. Given the credit worthiness and reputation of the major debtors, management believes the risk arising from concentration is manageable and not significant.

Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of each of the Relevant Periods of the Group's financial liabilities, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay.

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2010			
Trade payables	74,301	74,301	74,301
Accruals and other payables	58,767	58,767	58,767
Amounts due to related parties	2,470	2,470	2,470
Amount due to a director	1,313	1,313	1,313
Loan from a director	15,000	15,000	15,000
Bank overdraft	4,674	4,674	4,674
Interest-bearing bank borrowings subject to a repayment on demand clause	9,118	9,118	9,118
Other bank borrowings	2,280	2,335	2,335
	<u>167,923</u>	<u>167,978</u>	<u>167,978</u>
		Total	Within
	Carrying	contractual	1 year or on
	amount	undiscounted	demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2011			
Trade payables	74,809	74,809	74,809
Accruals and other payables	42,786	42,786	42,786
Amounts due to related parties	3,220	3,220	3,220
Amount due to a director	1,873	1,873	1,873
Loan from a director	15,000	15,000	15,000
Bank overdraft	4,073	4,073	4,073
Interest-bearing bank borrowings subject to a repayment on demand clause	50,487	50,487	50,487
	<u>192,248</u>	<u>192,248</u>	<u>192,248</u>

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 March 2012			
Trade payables	83,025	83,025	83,025
Accruals and other payables	56,308	56,308	56,308
Amount due to a director	52	52	52
Loan from a director	15,000	15,000	15,000
Bank overdraft	658	658	658
Interest-bearing bank borrowings subject to a repayment on demand clause	<u>75,506</u>	<u>75,506</u>	<u>75,506</u>
	<u><u>230,549</u></u>	<u><u>230,549</u></u>	<u><u>230,549</u></u>
31 July 2012			
Trade payables	147,878	147,878	147,878
Accruals and other payables	48,899	48,899	48,899
Bank overdraft	194	194	194
Interest-bearing bank borrowings subject to a repayment on demand clause	<u>126,053</u>	<u>126,053</u>	<u>126,053</u>
	<u><u>323,024</u></u>	<u><u>323,024</u></u>	<u><u>323,024</u></u>

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the above analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

The table that follows summarises the maturity analysis of bank loans with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "within 1 year or on demand" time band in the maturity analysis above. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

**Maturity analysis — bank loans subject to repayment on
demand clause based on scheduled repayments**

	Within 1 year	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 March 2010	<u>4,103</u>	<u>2,356</u>	<u>2,957</u>	<u>9,416</u>
At 31 March 2011	<u>47,754</u>	<u>1,237</u>	<u>1,720</u>	<u>50,711</u>
At 31 March 2012	<u>74,068</u>	<u>1,218</u>	<u>502</u>	<u>75,788</u>
At 31 July 2012	<u>125,088</u>	<u>1,212</u>	<u>100</u>	<u>126,400</u>

Interest rate risk

Interest-bearing financial assets are mainly bank balances which are all short-term in nature. Interest-bearing financial liabilities are mainly bank loans with fixed interest rates which expose the company to fair value interest rate risk. The interest rates and terms of repayment of the bank loans are disclosed in Note 26 to the Financial Information.

Fair values

The financial assets measured at fair value in the statements of financial position in accordance with the fair value hierarchy are described below. The hierarchy groups financial assets into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The Group's derivative financial instruments in the statements of financial position of approximately HK\$ nil, HK\$3,563,000, HK\$6,191,000 and HK\$1,038,000 as at 31 March 2010, 2011, 2012 and 31 July 2012 respectively are grouped into level 2 of the fair value hierarchy.

The fair values of foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates.

Capital management

The capital structure of the Group consists of debts, which includes amount due to a director and related parties and loan from a director disclosed in Note 25, the borrowings disclosed in Note 26, and equity attributable to owners of the Company, comprising share capital and reserves as disclosed in Notes 27 and 28 respectively. The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

	<u>At 31 March</u>			<u>At 31 July</u>
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Debt	<u>34,855</u>	<u>74,653</u>	<u>91,216</u>	<u>126,247</u>
Equity	<u>69,809</u>	<u>80,254</u>	<u>99,810</u>	<u>104,842</u>
Debt to equity ratio	49.9%	93.0%	91.4%	120.4%

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31 July 2012.

Yours faithfully,

BDO Limited

Certified Public Accountants

Li Yin Fan

Practising Certificate Number

P03113

Hong Kong

REPORT ON PRO FORMA FINANCIAL INFORMATION

For illustrative purpose, the unaudited pro forma financial information prepared in accordance with paragraph 29 of Chapter 4 of the Listing Rules is set out here to provide prospective investors with further information about how the financial information of Quali-Smart Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) might be affected by completion of the Global Offering as if the Global Offering had been completed on 31 July 2012. The statement has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the Group’s financial position on the completion of the Global Offering or at any future date.

(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets attributable to the owners of the Company is based on the audited consolidated net assets attributable to the owners of the Company as at 31 July 2012, as shown in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus and adjusted as described below:

	Audited consolidated net tangible assets attributable to the owners of the Company as at 31 July 2012⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share⁽³⁾
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$</i>
Based on the Offer Price of HK\$1.0 per Share	<u>104,842</u>	<u>35,800</u>	<u>140,642</u>	<u>0.59</u>
Based on the Offer Price of HK\$1.5 per Share	<u>104,842</u>	<u>64,000</u>	<u>168,842</u>	<u>0.70</u>

Notes:

- (1) The consolidated net tangible assets attributable to the owners of the Company as at 31 July 2012 is derived from the consolidated net assets attributable to the owners of the Company as at 31 July 2012 as set out in Appendix I to the prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 60,000,000 Offer Shares and the hypothetical Offer Price of HK\$1 and HK\$1.5 per Offer Share, being the lower end and higher end of the stated Offer Price range per Offer Share, assuming no exercise of any option which may be granted under the Share Option Scheme, after deduction of underwriting fees and estimated expenses payable by the Company in connection with the Reorganisation and the Global Offering.
- (3) The unaudited pro forma adjusted net tangible assets per Share is calculated based on 240,000,000 shares in issue immediately following the completion of the Global Offering. Assuming no exercise of any option which may be granted under the Share Option Scheme.

(B) REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from BDO Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



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11 January 2013

The Board of Directors
Quali-Smart Holdings Limited
CIMB Securities Limited

Dear Sirs,

We report on the unaudited pro forma adjusted net tangible assets (“Unaudited Pro Forma Financial Information”) of Quali-Smart Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which have been prepared by the directors of the Company (the “Directors”) for illustrative purposes only, to provide information about how the proposed Global Offering might have affected the financial information presented, for inclusion in Section A of Appendix II of the prospectus dated 11 January 2013 (the “Prospectus”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on Section A of Appendix II to the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the Directors to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountant’s Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial

information with the source documents, considering the evidence supporting the adjustments, and discussing the Unaudited Pro Forma Financial Information with the Directors. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the Directors, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 July 2012 or any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,

BDO Limited

Certified Public Accountants

Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer, in connection with its valuation as at 31 October 2012 of the property interests of the Group.



JONES LANG
LASALLE®

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Jones Lang LaSalle Corporate Appraisal and Advisory Limited
6/F Three Pacific Place 1 Queen's Road East Hong Kong
tel +852 2846 5000 fax +852 2169 6001
Licence No: C-030171

11 January 2013

The Board of Directors
Quali-Smart Holdings Limited

Dear Sirs,

In accordance with your instructions to value the properties in which Quali-Smart Holdings Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) have interests in the People’s Republic of China (the “PRC”) and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 October 2012 (the “date of valuation”).

Our valuation of the property interests represents the market value which we would define as intended to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion”.

We have valued the property interest in Group I by direct comparison approach assuming sale of the property interest in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market. Appropriate adjustments and analysis are considered to the differences in location, size and other characters between the comparable properties and the subject property.

Where, due to the nature of the buildings and structures of the property in Group II and the particular location in which they are located, there are no market sales comparables readily available, the property interests in Group II has been valued by the Cost Approach with reference to their depreciated replacement cost.

Depreciated replacement cost is defined as “the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.” It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In arriving at the value of the land portion, reference has been made to the sales evidence as available in the locality. The depreciated

replacement cost of the property interest is subject to adequate potential profitability of the concerned business. In our valuation, it applies to the whole of the complex or development as a unique interest and no piece meal transaction of the complex development is assumed.

We have attributed no commercial value to the property interests in Group III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have been provided with copies of tenancy agreements relating to the property interests and have caused searches to be made at the Hong Kong Land Registries. However, we have not searched the original documents to verify the ownership or to ascertain any amendment.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Real Estate Title Certificates and official plans relating to the property interest and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — GFE Law Office, concerning the validity of the property interests in the PRC.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation — Professional Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards published by the Hong Kong Institute of Surveyors and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are

satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

The site inspection was carried out in the period between 6 April 2012 and 30 May 2012 by Michael Yu and Mathew Ma. Michael Yu is a qualified China Real Estate Valuer and Mathew Ma is a probationer of HKIS.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HK\$). The exchange rate adopted in our valuations is approximately HK\$1 to RMB0.80 which was approximately the prevailing exchange rate as at the date of valuation.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle Corporate Appraisal and Advisory Limited
Eddie T. W. Yiu
MRICS MHKIS RPS (GP)
Director

Note: Eddie T.W. Yiu is a Chartered Surveyor who has 19 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region.

SUMMARY OF VALUES

Group I — Property interest held and occupied by the Group in Hong Kong

<u>No.</u>	<u>Property</u>	Capital value in existing state as at 31 October 2012 <i>HK\$</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2012 <i>HK\$</i>
1.	Workshop 3 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	4,000,000	100%	4,000,000
	Sub-total:	4,000,000		4,000,000

Group II — Property interest held and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	Capital value in existing state as at 31 October 2012 <i>HK\$</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2012 <i>HK\$</i>
2.	A parcel of land, various buildings and structures No. 38 South Guanhe Road Guanyao, Shishan Town Nanhai District Foshan City Guangdong Province the PRC	50,640,000	100%	50,640,000
	Sub-total:	50,640,000		50,640,000

Group III — Property interests rented and occupied by the Group in Hong Kong

No.	Property	Capital value in existing state as at 31 October 2012 <i>HK\$</i>	Interest attributable to the Group	Capital value attributable to the Group as at 31 October 2012 <i>HK\$</i>
3.	Workshop 2 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	No commercial value	100%	No commercial value
4.	Workshop 4 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	No commercial value	100%	No commercial value
5.	Workshop 5 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	No commercial value	100%	No commercial value
6.	Workshop 5 on 23rd Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	No commercial value	100%	No commercial value
7.	Private Car Parking Space P10 on 2nd Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	No commercial value	100%	No commercial value

<u>No.</u>	<u>Property</u>	<u>Capital value in existing state as at 31 October 2012</u> <i>HK\$</i>	<u>Interest attributable to the Group</u>	<u>Capital value attributable to the Group as at 31 October 2012</u> <i>HK\$</i>
8.	Apartment 2 on 3rd Floor of Block C Park Place No. 7 Tai Tam Reservoir Road Wong Nai Chung Gap Hong Kong	No commercial value	100%	No commercial value
9.	Car Parking Space No. F106 located at Wo Che Estate Shatin New Territories	No commercial value	100%	No commercial value
10.	Flat D on 4th Floor Block 8 City Garden Phase 2 No. 233 Electric Road North Point Hong Kong	No commercial value	100%	No commercial value
11.	Car Parking Space No. 33 on Level 3 (1B) City Garden No. 233 Electric Road North Point Hong Kong	No commercial value	100%	No commercial value
	Sub-total:	<u>Nil</u>		<u>Nil</u>
	Grand-total:	<u><u>54,640,000</u></u>		<u><u>54,640,000</u></u>

VALUATION CERTIFICATE

Group I — Property interest held and occupied by the Group in Hong Kong

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31 October 2012</u> <i>HK\$</i>
1.	Workshop 3 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	The property comprises a factory unit on 19th Floor of a 25-storey industrial building completed in 1993. The unit has a gross floor area of approximately 1,061 sq.ft.	The property is currently occupied by the Group for workshop and ancillary office purpose.	4,000,000 100% interest attributable to the Group: HK\$4,000,000
	43/7,771st shares of Chai Wan Inland Lot Nos. 2 and 4	The property is held under Conditions of Sale Nos. 7229 and 7160 for a common term of 75 years renewable for 75 years commencing from 30 July 1962 and 12 June 1962 respectively. The total annual Government rent payable for the property is HK\$220 per annum.		

Notes:

- The registered owner of the property is "Qualiman Industrial Co. Limited", an indirect wholly-owned subsidiary of the Company, vide Memorial No. UB9248603 dated 4 December 2003.
- The property is subject to a Mortgage in favour of Bank of China (Hong Kong) Limited for all moneys vide Memorial No. UB9090248 dated 4 December 2003.
- According to the Draft Chai Wan Outline Zoning Plan No. S/H20/20 issued on 20 January 2012, the property was zoned under "Other Specified Uses".

VALUATION CERTIFICATE

Group II — Property interest held and occupied by the Group in the PRC

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31 October 2012</u> <i>HK\$</i>
2.	A parcel of land, various buildings and structures No. 38 South Guanhe Road Guanyao, Shishan Town Nanhai District Foshan City Guangdong Province the PRC	<p>The property comprises a parcel of land with a site area of approximately 29,685.1 sq.m. and 7 buildings and various structures erected thereon which were completed in various stages between 2001 and 2006 ("Part A").</p> <p>The buildings of Part A have a total gross floor area of approximately 35,814.56 sq.m.</p> <p>The buildings of Part A comprise 3 industrial buildings, 2 staff-quarter buildings, a staff canteen and a storage house.</p> <p>The structures of Part A mainly include plant area road and guard house.</p> <p>The land use rights of Part A have been granted for a term of 50 years expiring on 5 August 2052 for industrial use.</p> <p>In addition to Part A, the property also comprises an industrial building with a planned gross floor area of approximately 11,261 sq.m. being constructed on the land parcel of Part A ("Part B").</p> <p>As advised by the Group, the industrial building under construction of Part B is scheduled to be completed in September 2013 and the construction cost of such building is estimated to be approximately RMB11,824,000, of which approximately RMB7,123,000 has been paid up to the valuation date.</p>	Part A of the property is currently occupied by the Group for production, office, staff quarter and ancillary purposes, whilst Part B is currently under construction.	50,640,000 100% interest attributable to the Group: HK\$50,640,000

Notes:

For Part A:

1. Pursuant to a State-owned Land Use Rights Certificate — Fo Fu Nan Guo Yong (2011) Di No. 0600457, the land use rights of Part A with a site area of approximately 29,685.1 sq.m. have been granted to Foshan Nanhai Haoda Precision Toys Co., Ltd (佛山市南海浩達精密玩具有限公司, “Foshan Haoda”), an indirect wholly-owned subsidiary of the Company, for a term of 50 years expiring on 5 August 2052 for industrial use.
2. Pursuant to 5 Real Estate Title Certificates (“RETCs”) — Yue Fang Di Zheng Zi Di Nos. C1288251 to C1288253, C4779660 and C6011124, 5 buildings of Part A with a total gross floor area of approximately 33,966.56 sq.m. are owned by Foshan Haoda.
3. For the remaining 2 buildings (the staff canteen and storage house) of Part A with a total gross floor area of approximately 1,848 sq.m., we have not been provided with any RETCs.
4. In the valuation of Part A, we have attributed no commercial value to the buildings which have not obtained any RETCs as mentioned in note 3. However, for reference purpose, we are of the opinion that the aggregate sum of the depreciated replacement cost of the buildings (excluding the land) as at the valuation date would be HK\$598,000, assuming the relevant RETCs had been obtained and the buildings could be freely transferred.

For Part B:

5. Pursuant to a Construction Work Planning Permit — Jian Zi Di No. 440605201160079 in favour of Foshan Haoda, an industrial building with a planned gross floor area of approximately 11,261 sq.m. has been approved for construction.
6. Pursuant to a Construction Work Commencement Permit — No. 440622201106030106 in favour of Foshan Haoda, permission by the relevant local authority was given to commence the construction work.
7. We have been provided with a legal opinion regarding the property interest by the Company’s PRC legal advisers, which contains, *inter alia*, the following:
 - a. Foshan Haoda has obtained the land use rights certificate of the parcel of land as mentioned in note 1 and is the legal user of this parcel of land. The use rights are clear and protected by the PRC laws;
 - b. Within the land use rights terms and the permitted use in accordance with the land use rights certificate, Foshan Haoda owns the legal and valid state-owned land use rights of this parcel of land, and can freely use, transfer, let and mortgage the land parcel without further obtaining the approval, permit and consent of any government authorities, but need to register and record in the relevant state-owned land and real estate administrative departments;
 - c. Foshan Haoda has obtained the real estate title certificates of the 5 buildings as mentioned in note 2 and is the sole legal owner of these buildings, the rights are clear and protected by the PRC laws. Within the land use rights term, Foshan Haoda legal and validly owns the building ownership rights of these buildings, and has the rights to freely use, transfer, let and mortgage those buildings without further obtaining the approval, permit and consent of any government authorities, but need to register and record in the relevant state-owned land and real estate administrative departments; and
 - d. For Part B which is under construction, as confirmed by Foshan Haoda, the construction works have not been completed and therefore have not applied for the relevant real estate title certificate. Foshan Haoda has obtained the requisite construction permits for the construction commencement of this building and upon acceptance of completion in respect of the construction works planning, building completion, fire, environmental aspects, there is no legal impediment for obtaining the real estate title certificate.

8. The property contributes a significant influence on the operation and revenue to the Group and we are of the view that the property is the material property held by the Group:

Details of the material property

- | | | | |
|-----|------------------------------------------------------------------------------------------|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) | General description of location of the property | : | The property is located at Guanhe Road between Heshun Avenue and Guihe Road of Foshan City. The neighboring buildings consist mainly of low to medium rise industrial blocks. |
| (b) | Details of encumbrances, liens, pledges, mortgages against the property | : | Nil |
| (c) | Environmental Issue | : | No environmental study has been carried out. |
| (d) | Details of investigations, notices, pending litigation, breaches of law or title defects | : | Please refer to note nos. 3 and 4 above |
| (e) | Future plans for construction, renovation, improvement or development of the property | : | As advised by the Company, the total construction cost of the industrial building under construction of Part B is estimated to be approximately RMB11,824,000. The estimated amount of the outstanding construction cost of this building is about RMB4,701,000 as at the valuation date and it is scheduled to be completed in September 2013. |

VALUATION CERTIFICATE

Group III — Property interests rented and occupied by the Group in Hong Kong

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31 October 2012</u> <i>HK\$</i>
3.	Workshop 2 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	<p>The property comprises a factory unit on 19th Floor of a 25-storey industrial building completed in 1993.</p> <p>The unit has a gross floor area of approximately 872 sq.ft.</p> <p>The property is rented by Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, from Li Man Yee Stella, (a connected party), for a term of 3 years expiring on 31 March 2015, at a monthly rent of HK\$12,000, exclusive of Government rent, rates, management fees, water and electricity charges.</p>	The property is currently occupied by the Group for workshop purpose.	No commercial value

Note:

- The registered owner of the property is “Li Man Yee Stella” vide Memorial No. 06072801420097 dated 30 June 2006.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	<u>Capital value in existing state as at 31 October 2012</u> <i>HK\$</i>
4.	Workshop 4 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	<p>The property comprises a factory unit on 19th Floor of a 25-storey industrial building completed in 1993.</p> <p>The unit has a gross floor area of approximately 808 sq.ft.</p> <p>The property is rented by Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, from Goldrich International Limited, (a connected party), for a term of 3 years expiring on 31 March 2015, at a monthly rent of HK\$12,000, exclusive of Government rent, rates, management fees, water and electricity charges.</p>	The property is currently occupied by the Group for workshop purpose.	No commercial value

Notes:

1. The registered owner of the property is "Goldrich International Limited" vide Memorial No. UB5831513 dated 30 September 1993.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	Capital value in existing state as at <u>31 October 2012</u>
				<i>HK\$</i>
5.	Workshop 5 on 19th Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	<p>The property comprises a factory unit on 19th Floor of a 25-storey industrial building completed in 1993.</p> <p>The unit has a gross floor area of approximately 832 sq.ft.</p> <p>The property is rented by Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, from Li Man Yee Stella, (a connected party), for a term of 3 years expiring on 31 March 2015, at a monthly rent of HK\$12,000, exclusive of Government rent, rates, management fees, water and electricity charges.</p>	The property is currently occupied by the Group for workshop purpose.	No commercial value

Notes:

1. The registered owner of the property is "Li Man Yee Stella" vide Memorial No. UB8174180 dated 4 August 2000.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	Capital value in existing state as at
				<u>31 October 2012</u> HK\$
6.	Workshop 5 on 23rd Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	<p>The property comprises a factory unit on 23rd Floor of a 25-storey industrial building completed in 1993.</p> <p>The unit has a gross floor area of approximately 832 sq.ft.</p> <p>The property is rented by Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, from Goldrich International Properties Limited, (a connected party), for a term of 3 years expiring on 31 March 2015, at a monthly rent of HK\$12,000, exclusive of Government rent, rates, management fees, water and electricity charges.</p>	The property is currently occupied by the Group for storage purpose.	No commercial value

Notes:

- The registered owner of the property is "Goldrich International Properties Limited" vide Memorial No. 11081002530080 dated 25 July 2011.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	Capital value in existing state as at 31 October 2012
				<i>HK\$</i>
7.	Private Car Parking Space P10 on 2nd Floor Cheung Tat Centre No. 18 Cheung Lee Street Chai Wan Hong Kong	<p>The property comprises a car parking space on 2nd Floor of a 25-storey industrial building completed in 1993.</p> <p>The property is rented by Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, from Lau Ho Ming Peter, (a connected party), for a term of 3 years expiring on 31 March 2015, at a monthly rent of HK\$3,500, exclusive of Government rent, rates, management fees, water and electricity charges.</p>	The property is currently occupied by the Group for car parking purpose.	No commercial value

Notes:

1. The registered owner of the property is "Lau Ho Ming Peter" vide Memorial No. UB7661203 dated 30 December 1998.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	Capital value in existing state as at 31 October 2012
				<i>HK\$</i>
8.	Apartment 2 on 3rd Floor of Block C Park Place No. 7 Tai Tam Reservoir Road Wong Nai Chung Gap Hong Kong	<p>The property comprises a residential unit on 3rd Floor of a 10-storey residential building completed in 1985.</p> <p>The unit has a gross floor area of approximately 2,288 sq.ft.</p> <p>The property is rented by Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, from Loyal Gold (Hong Kong) Limited, (a connected party), for a term of 3 years expiring on 31 March 2015, at a monthly rent of HK\$98,000, exclusive of Government rent, rates, management fees, water and electricity charges.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Notes:

- The registered owner of the property is "Loyal Gold (Hong Kong) Limited" vide Memorial No. 11090202670115 dated 16 August 2011.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	Capital value in existing state as at
				<u>31 October 2012</u> <i>HK\$</i>
9.	Car Parking Space No. F106 located at Wo Che Estate Shatin New Territories	<p>The property comprises a car parking space of a commercial/car park block within a public housing estate completed in 1970s.</p> <p>Pursuant to a Car Parking Pass made between Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, and The Link Properties Limited, an independent third party, the property is leased at a monthly parking charges of HK\$1,650.</p>	The property is currently occupied by the Group for car parking purpose.	No commercial value

Note:

1. The registered owner of the property is "The Link Properties Limited" vide Memorial No. 070608011090089 dated 30 May 2007.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	Capital value in existing state as at 31 October 2012
				<i>HK\$</i>
10.	Flat D on 4th Floor Block 8 City Garden Phase 2 No. 233 Electric Road North Point Hong Kong	<p>The property comprises a residential unit on 4th Floor of a 27-storey residential building completed in 1986.</p> <p>The unit has a gross floor area of approximately 1,097 sq.ft.</p> <p>The property is rented by Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, from Lam Sau Wah, an independent third party, for a term of 2 years expiring on 31 July 2014, at a monthly rent of HK\$28,000, inclusive of Government rent, rates and management fees.</p>	The property is currently occupied by the Group for staff quarter purpose.	No commercial value

Note:

- The registered owner of the property is Lam Sau Wah vide Memorial No. 10072903030017 dated 30 June 2010.

VALUATION CERTIFICATE

<u>No.</u>	<u>Property</u>	<u>Description and tenure</u>	<u>Particulars of occupancy</u>	Capital value in existing state as at
				<u>31 October 2012</u> <i>HK\$</i>
11.	Car Parking Space No. 33 on Level 3 (1B) City Garden No. 233 Electric Road North Point Hong Kong	<p>The property comprises a car parking space on level 3 of a car park block within a residential development completed in 1986.</p> <p>The property is rented by Qualiman Industrial Co. Limited, an indirect wholly-owned subsidiary of the Company, from Chung Lai Ha, an independent third party, for a term of 2 years expiring on 30 July 2014, at a monthly rent of HK\$3,300, inclusive of Government rent, rates and management fees.</p>	The property is currently occupied by the Group for car parking purpose.	No commercial value

Note:

1. The registered owner of the property is Chung Lai Ha vide Memorial No. UB3205484 dated 15 August 1986.

APPENDIX IV SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 14 March 2012 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 3 January 2013. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

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Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the

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board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

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- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-

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employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

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- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

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(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

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The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

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If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the

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Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

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All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

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The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

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The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

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All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

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If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

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(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

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(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

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The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not

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be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has

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complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 24 July 2012.

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The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding

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up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to

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express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND THE SUBSIDIARIES OF OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 14 March 2012. Our Company has established its principal place of business in Hong Kong at Workshop 3 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong and was registered as a non-Hong Kong company in Hong Kong under Part XI of the Companies Ordinance on 13 September 2012. Mr. Lau is appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws and regulations of the Cayman Islands and its constitution which comprises the Memorandum and the Articles. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company**(a) Increase in share capital of our Company**

The authorised share capital of our Company as at the date of incorporation was US\$50,000.00 divided into 500,000,000 Shares. On the same day, the one subscriber Share was transferred to Mr. Lau.

On 23 March 2012, the one Share owned by Mr. Lau was transferred at par to Smart Investor, 67,386,666 new Shares were allotted and issued, nil paid, to Smart Investor and 2,613,333 new Shares were allotted and issued, nil paid, to Abundant Riches. Such 69,999,999 nil paid Shares were subsequently credited as fully paid as more particularly described in the paragraph headed "Reorganisation" below.

On 27 March 2012, 30,000,000 new Shares were allotted and issued, fully paid, to the Pre-IPO Investor at an aggregate subscription price of HK\$25,000,000.

The Capitalisation Issue was approved pursuant to the resolutions in writing of all the Shareholders passed on 3 January 2013 referred to in paragraph 3 below and subject to the conditions contained therein.

Immediately following the completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be granted under the Share Option Scheme), the authorised share capital of the Company will remain the same, i.e. US\$50,000 divided into 500,000,000 Shares, of which 240,000,000 Shares will be issued fully paid or credited as fully paid, and 260,000,000 Shares will remain unissued.

Save as disclosed in this paragraph and in paragraphs 3 and 4 of this appendix, there has been no alteration in the share capital of our Company since its incorporation.

(b) *Founder shares*

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions in writing of all Shareholders passed on 3 January 2013

By resolutions in writing of all the Shareholders passed on 3 January 2013:

- (a) our Company adopted the Articles;
- (b) conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and on the obligations of the Underwriter under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of such agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the Global Offering was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering;
 - (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorized to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorized to allot and issue a total of 80,000,000 Shares, credited as fully paid at par, to the holders of Shares whose names appear on the register of members of our Company at 4:00 p.m. on 3 January 2013 in proportion to their then existing respective shareholdings (save that no Shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of capitalisation of the sum of US\$8,000 standing to the credit of the share premium account of our Company, and the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;
 - (iv) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles or under the Global Offering or the Capitalisation Issue, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue; and (bb) the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority

granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue; until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (vi) the general unconditional mandate mentioned in sub-paragraph (v) above was extended by the addition to the aggregate nominal value of the Shares which may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (v) above.

4. Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on the Stock Exchange. The Reorganisation involved the transfer from:

- (a) Mr. Lau, Madam Li, Gold Grand, Mr. Hau and Mr. Kwong their interest of 50.5%, 10%, 29%, 5.5% and 5% respectively (an aggregate of 100%) in the issued share capital of Qualiman Industrial to Turbo Gain;
- (b) Mr. Lau and Madam Li their interest of 71% and 29% respectively (an aggregate of 100%) in the issued share capital of Qualiman Technology to New Splendid; and
- (c) Mr. Lau, Madam Li and Grandrich their interest of 30%, 10% and 60% respectively (an aggregate total of 100%) in the issued share capital of Sunmart to Next Horizon;

in consideration of and in exchange for which our Company:

- (i) credited as fully paid the 67,386,666 nil paid Shares held by Smart Investor; and
- (ii) credited as fully paid the 2,613,333 nil paid Shares held by Abundant Riches.

In addition to the acquisition of the entire issued share capital of each of Qualiman Industrial, Qualiman Technology and Sunmart as referred to above, our Group also underwent the following corporate restructuring:

- (a) on 20 January 2012, New Splendid was incorporated in the BVI, which is authorized to issue 50,000 shares of US\$1 each. On 23 March 2012, our Company subscribed for one share of New Splendid of US\$1 for cash at par.
- (b) on 2 March 2012, Turbo Gain was incorporated in the BVI, which is authorized to issue 50,000 shares of US\$1 each. On 23 March 2012, our Company subscribed for one share of Turbo Gain of US\$1 for cash at par.
- (c) on 6 March 2012, Next Horizon was incorporated in the BVI, which is authorized to issue 50,000 shares of US\$1 each. On 23 March 2012, our Company subscribed for one share of Next Horizon of US\$1 for cash at par; and
- (d) on 27 March 2012, upon completion of the Subscription Agreement, 30,000,000 new Shares were allotted and issued, fully paid, to the Pre-IPO Investor.

5. Changes in share capital or registered capital of the subsidiaries of our Group

The subsidiaries of our Group are listed in the Accountant's Report set out in Appendix I to this prospectus.

Save as described in paragraph 4 above, there are no other alterations in the share capital of the subsidiaries of our Group which took place within the two years immediately preceding the date of this prospectus.

6. Further information about our Group's PRC establishment

Our Group has interests in the registered capital of one enterprise established in the PRC. A summary of the corporate information of such enterprise is set out as follows:

- | | | |
|-------|-------------------------------------|--------------------------------------------------------------------|
| (i) | Name of the enterprise: | 佛山市南海浩達精密玩具有限公司
(Foshan Nanhai Haoda Precision Toys Co., Ltd.*) |
| (ii) | Economic nature: | Wholly foreign-owned enterprise |
| (iii) | Registered owner: | Sunmart (100%) |
| (iv) | Total investment: | HK\$21,000,000 |
| (v) | Registered capital: | HK\$15,000,000 |
| (vi) | Paid-up capital: | HK\$15,000,000 |
| (vii) | Attributable interest to our Group: | 100% |

* for identification purpose only

- (viii) Term: From 15 March 2001 until 15 March 2051
- (ix) Scope of business: manufacturing of toys, rotating photo frames and hair crimper, alarm clock, emergency light, electric cup and other small household appliances, domestic and export sales.

7. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Group of our own securities.

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Main Board must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by the Shareholders on 3 January 2013, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Main Board or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme. Such mandate is to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own securities on the Main Board for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the laws of the Cayman Islands, any repurchases by our Company may be made out of profits of our Company, out of the Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorized by the Articles and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of profits or the share premium account of our Company or, if authorised by the Articles and subject to the Companies Law, out of capital.

(c) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market

conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and the Shareholders.

(d) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands. On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Group, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(e) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or any of the subsidiaries of our Group.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) of our Company has notified us that he has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

8. Registration under Part XI of the Companies Ordinance

Our Company has established its head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Workshop 3 on 19th Floor, Cheung Tat Centre, No. 18 Cheung Lee Street, Chai Wan, Hong Kong. Our Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance. Mr. Lau has been appointed as the agent of our Company for the acceptance of service of process in Hong Kong.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY**9. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of the subsidiaries of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) (i) the processing agreement dated 18 December 2011 entered into between the Processing Factory and Qualiman Industrial in relation to the provision of processing services by the Processing Factory to Qualiman Industrial for the period from 1 January 2012 to 31 December 2016 and (ii) the supplemental agreement to the processing agreement dated 8 June 2012 made between the Processing Factory and Qualiman Industrial stipulating that the Processing Factory shall not without the written consent of Qualiman Industrial enter into the same or similar processing agreement with any third party or provide processing services to any third party during the subsistence of the processing agreement (together being the Processing Agreement), details of which are summarised in the section headed “Business — Production facilities and processing agreement — Processing Agreements” in this prospectus;
- (b) an agreement dated 30 March 2012 entered into between Qualiman Technology and QM (Hong Kong) Limited, pursuant to which Qualiman Technology disposed of 208,265 shares in CIDE to QM (Hong Kong) Limited at consideration of US\$550,000;
- (c) a deed of assignment entered into between Qualiman Technology, QM (Hong Kong) Limited and CIDE dated 30 March 2012, pursuant to which Qualiman Technology assigned the loans owed by CIDE to Qualiman Technology in the aggregate amount of US\$450,000 to QM (Hong Kong) Limited at a consideration of US\$450,000;
- (d) the subscription agreement dated 23 March 2012 entered into between the Pre-IPO Investor, our Company, Mr. Lau and Smart Investor in respect of the subscription of 30,000,000 new Shares by the Pre-IPO Investor at an aggregate subscription price of HK\$25,000,000 (being the Subscription Agreement);
- (e) the share purchase agreement dated 28 March 2012 entered into between our Company, Mr. Lau, Madam Li, Gold Grand, Grandrich, Mr. Hau and Mr. Kwong pursuant to which our Company (through its wholly-owned subsidiaries) acquired from Mr. Lau, Madam Li, Gold Grand, Grandrich, Mr. Hau and Mr. Kwong the entire issued share capital of each of Qualiman Industrial, Qualiman Technology and Sunmart as more particularly described in the section headed “History, reorganisation and group structure — Reorganisation” in this prospectus (being the Reorganisation Agreement);
- (f) a deed of indemnity dated 10 January 2013 executed by the Controlling Shareholders in favour of our Company for itself and as trustee for the subsidiaries of our Company stated therein containing the indemnities more particularly referred to in the paragraph headed “15. Estate duty, tax and other indemnity” this appendix;

- (g) a deed of non-competition dated 10 January 2013 executed by the Controlling Shareholders in favour of our Company for itself and as trustee for the subsidiaries of our Company stated therein, details of which are set out in the section headed “Connected Transactions and Relationship with the Controlling Shareholders” in this prospectus; and
- (h) the Hong Kong Underwriting Agreement.

10. Intellectual property rights

(a) Trademarks and patents

As at the Latest Practicable Date, we had not registered or sought to make any applications for registration of any trademarks or patents.

(b) Domain names

As at the Latest Practicable Date, our Group had registered the following domain name:

	<u>Domain names</u>	<u>Commencement Date</u>	<u>Expiry date</u>
1.	<u>www.qualiman.com.hk</u>	08-09-1999	not applicable
2.	<u>www.sun-mart.com.hk</u>	03-09-2004	04-09-2013
3.	<u>www.quali-smart.com.hk</u>	14-06-2012	14-06-2017
4.	<u>www.qualismart.com.hk</u>	14-06-2012	14-06-2017

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to our Group’s business.

11. Connected transactions and related party transactions

Save as disclosed in this prospectus and in note 29 to the Accountant’s Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, our Company has not engaged in any other material connected transactions or related party transactions.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

12. Directors

(a) *Disclosure of interests of Directors*

- (i) Mr. Lau and Madam Li are interested in the Reorganisation in their capacity as shareholders of Smart Investor and former shareholders of certain members of our Group, and Mr. Tang Yu Ming Nelson is interested in the Reorganisation in his capacity as a director of each of Silver Pointer Limited, Shikumen Special Situations Fund and Shikumen Capital Management (HK) Limited. For details of the Reorganisation, please refer to the section headed “History, Reorganisation and Group Structure” in this prospectus.
- (ii) Save as disclosed in this prospectus, none of our Directors or their respective associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) *Particulars of Directors’ service agreements*(i) *Executive Directors*

Each of the executive Directors has entered into a service agreement with our Company pursuant to which he agreed to act as a Director for a fixed term of three years with effect from the Listing Date.

Each of the executive Directors is entitled to a basic salary as set out below. In addition, each of our executive Directors is also entitled to a discretionary management bonus. A Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him/her. The current basic annual salaries of the executive Directors are as follows:

<u>Name</u>	<u>Annual salary</u> (HK\$)
Mr. Lau	840,000
Mr. Ng	840,000
Mr. Poon	780,000

In addition, pursuant to the service agreement entered into between the Company and Mr. Lau, during the continuance of his term under the service agreement, the Company shall provide Mr. Lau with a fully-furnished residential apartment in Hong Kong as director’s quarter for use by Mr. Lau and his family members.

(ii) *Non-executive Directors*

Each of our non-executive Directors has been appointed for a fixed term of one year commencing from 3 January 2013 and such term is automatically renewed for a further term of one year unless advance notice is given by our Company to the non-executive Director concerned or vice versa. Each of Madam Li and Mr. Tang Yu Ming, Nelson is entitled to an annual director's fee of HK\$240,000, and HK\$180,000 respectively. Save for directors' fees, none of our non-executive Directors is expected to receive any other remuneration, for holding their office as a non-executive Director.

(iii) *Independent non-executive Directors*

Each of our independent non-executive Directors has been appointed for a fixed term of one year commencing from 5 January 2013 and such term is automatically renewed for a further term of one year unless advance notice is given by our Company to the independent non-executive Director concerned or vice versa. Each of Mr. Chan Siu Wing, Raymond, Mr. Chu, Raymond and Mr. Leung Po Wing, Bowen Joseph is entitled to an annual director's fee of HK\$180,000, HK\$180,000 and HK\$210,000 respectively. Save for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration, for holding their office as an independent non-executive Director.

Save as disclosed above, none of our Directors has or is proposed to have a service agreement with our Company or any of the subsidiaries of our Group other than agreements expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) *Remuneration of Directors*

- (i) The aggregate emoluments paid by our Group to our Directors in respect of the financial year ended 31 March 2012 were approximately HK\$3.0 million.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding the discretionary bonus) payable by our Group to our Directors (including the independent non-executive Directors (in their respective capacity as directors)) for the year ending 31 March 2013, are expected to be approximately HK\$4.3 million.
- (iii) None of our Directors or any past directors of any members of our Group has been paid any sum of money for each of the three years ended 31 December 2012 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any members of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 March 2012.

(d) *Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and associated corporations following the Global Offering and the Capitalisation Issue*

Immediately following completion of the Global Offering and the Capitalisation Issue, the interests or short positions of our Directors in the shares, underlying shares or debentures of our Company and associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

Long positions

<u>Name of Director</u>	<u>Name of Group member/associated corporation</u>	<u>Capacity/nature of Interest</u>	<u>Total number of ordinary Shares</u>	<u>Approximate percentage of interest</u>
Mr. Lau	Our Company	Interest of controlled corporation	115,920,000 ^(Note)	48.3%
Madam Li	Our Company	Interest of spouse	115,920,000 ^(Note)	48.3%

Note: These Shares are registered in the name of Smart Investor, a company owned as to 67.4% by Mr. Lau and 32.6% by Madam Li. As Mr. Lau controls more than one-third of the voting power of Smart Investor, by virtue of the provisions in Part XV of the SFO, Mr. Lau is deemed to be interested in all the Shares held by Smart Investor. Madam Li is the spouse of Mr. Lau. By virtue of the provisions of Part XV of the SFO, Madam Li is deemed to be interested in all the Shares in which Mr. Lau is interested or deemed to be interested.

13. Interest discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering and the Capitalisation Issue (but without taking into account of any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme), other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and associated corporations following the Global Offering and the Capitalisation Issue” above, the persons who will have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of our Shares will be as follows:

Long positions

<u>Name of Person</u>	<u>Name of Group member/associated corporation</u>	<u>Capacity/nature of Interest</u>	<u>Total number of ordinary Shares</u>	<u>Percentage of interest</u>
Smart Investor ^(Note 1)	Our Company	Beneficial owner	115,920,000	48.30%
Pre-IPO Investor	Our Company	Beneficial owner	54,000,000	22.50%
Shikumen Special Situations Fund	Our Company	Interest of controlled corporation	54,000,000 ^(Note 2)	22.50%
Shikumen Capital Management (HK) Limited	Our Company	Investment manager	54,000,000 ^(Note 3)	22.50%
Crosby Capital Limited	Our Company	Interest of controlled corporation	54,000,000 ^(Note 4)	22.50%

Notes:

1. The issued share capital of Smart Investor is owned as to 67.4% by Mr. Lau, an executive Director, and 32.6% by Madam Li, a non-executive Director.
2. These Shares are registered in the name of the Pre-IPO Investor, a company wholly owned by Shikumen Special Situations Fund. By virtue of the provisions of Part XV of the SFO, Shikumen Special Situations Fund is deemed to be interested in all the Shares held by the Pre-IPO Investor.
3. These Shares are registered in the name of the Pre-IPO Investor. As stated in note 2 above, Shikumen Special Situations Fund is deemed to be interested in all the Shares held by the Pre-IPO Investor. Pursuant to an investment management agreement entered into between Shikumen Special Situations Fund and Shikumen Capital Management (HK) Limited, Shikumen Capital Management (HK) Limited is the investment manager of Shikumen Special Situations Fund and the sole voting member of Shikumen Special Situations Fund and

controls 100% of the voting rights of Shikumen Special Situations Fund. By virtue of the provisions of Part XV of the SFO, Shikumen Capital Management (HK) Limited is deemed to be interested in all the Shares in which Shikumen Special Situations Fund is interested or deemed to be interested.

4. These Shares are registered in the name of the Pre-IPO Investor which is wholly owned by Shikumen Special Situations Fund. As stated in Note 3 above, Shikumen Capital Management (HK) Limited is deemed to be interested in all the Shares in which Shikumen Special Situations Fund is interested. Shikumen Capital Management (HK) Limited is wholly-owned by Crosby Capital Limited. By virtue of the provisions of Part XV of the SFO, Crosby Capital Limited is deemed to be interested in all the Shares in which Shikumen Capital Management (HK) Limited is interested.

14. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the Global Offering and the Capitalisation Issue (taking no account of any Shares which may be taken up under the Global Offering upon the exercise of options granted under the Share Option Scheme), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;
- (b) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “Qualifications of experts” of this appendix has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of the subsidiaries of our Group, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in the paragraph headed “Qualifications of experts” of this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group;

- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “Qualifications of experts” of this appendix:
 - (i) is interested legally or beneficially in any securities of any member of our Group;
or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

D. SHARE OPTION SCHEME

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by our Shareholders on 3 January 2013:

(i) *Purposes of the scheme*

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) *Who may join*

Our Directors (which expression shall, for the purpose of this paragraph (a)(ii), include a duly authorized committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time, including any executive Director but excluding any non-executive Director) of our Company, any of the Subsidiaries or any entity (“Invested Entity”) in which any member of our Group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of the Subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of any member of our Group or any Invested Entity;

- (ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group, and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' opinion as to their respective contribution to the development and growth of our Group.

(iii) *Maximum number of Shares*

- (aa) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 30% of the issued share capital of our Company from time to time.
- (bb) The initial total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue at the time dealings in the Shares first commence on the Stock Exchange ("General Scheme Limit") (i.e. 24,000,000 Shares).
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may issue a circular to the Shareholders and seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the refreshed limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously

granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to the Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

- (dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to the Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) *Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised and outstanding options) to each participant who accepts the offer for the grant of an option under the Share Option Scheme in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) *Grant of options to connected persons*

- (aa) Any grant of options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder of our Company or any of their respective associates (as defined under the Listing Rules) must be approved by independent non-executive Directors of our Company (excluding independent non-executive Director who or whose associate is the proposed grantee of the options).
- (bb) Where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate over 0.1% of the Shares in issue; and

- (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the Shareholders in general meeting. Our Company must send a circular to the Shareholders. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a Substantial Shareholder of our Company or an independent non-executive Director or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) *Time of acceptance and exercise of option*

An offer of the grant of the option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

Holders of the options granted under the Share Option Scheme may only exercise their options in the following manner:

Maximum percentage of options under the Share Option Scheme exercisable	Period for exercise of the relevant percentage of options
30% of the total number of underlying Shares under the options granted to such grantee	From the date immediately after the first anniversary of the offer date until the last day of the option period
30% of the total number of underlying Shares under the options granted to such grantee	From the date immediately after the second anniversary of the offer date until the last day of the option period
40% of the total number of underlying Shares under the options granted to such grantee	From the date immediately after the third anniversary of the offer date until the last day of the option period

Outstanding and unexercised options at the end of each vesting period may be rolled over to the next vesting period and exercisable during the option period.

(vii) *Performance targets*

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) *Subscription price for Shares and consideration for the option*

The subscription price for Shares under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

A nominal consideration of HK\$1.00 is payable on acceptance of the grant of an option.

(ix) *Ranking of Shares*

(aa) Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members ("Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, reclassification or re-construction of the share capital of our Company from time to time.

(x) *Restrictions on the time of grant of options*

For so long as the Shares are listed on the Stock Exchange, no offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of our Directors (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the last date on which our Company must publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no offer for grant of option may be made.

Our Directors may not grant any option to a participant who is a Director during the periods or times in which our Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) *Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in subparagraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not. Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) *Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) *Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), such option (to the extent not already exercised) will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) *Rights on breach of contract*

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option Scheme shall lapse, his option will lapse automatically (to the extent not exercised) and will not in any event be exercisable on or after the date on which our Directors have so determined.

(xvi) *Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to the Shareholders, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xvii) *Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) *Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, mutatis mutandis, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in subparagraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) *Adjustments to the subscription price*

In the event of a capitalisation issue, rights issue, consolidation or sub-division of Shares or reduction of capital of our Company whilst an option remains exercisable or the Share Option Scheme remains in effect, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to our Company as fair and reasonable will be made either generally or as regards any particular grantee, to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital of our Company to which he would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (iii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iv) any such adjustment must be made in compliance with Chapter 17 the Listing Rules, the supplemental guidance issued on 5 September 2005 and any future guidance/interpretation of the Listing Rules issued by the Stock Exchange from time to time. In addition, in respect of any such adjustments, other than any adjustment made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

(xx) *Cancellation of options*

Any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by our Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of (aa) the expiry of the option period in respect of such option; (bb) the expiry of the periods or dates referred to in paragraphs (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); or (cc) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Others

- (aa) The Share Option Scheme is conditional on the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, such number, representing the General Scheme Limit, of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees or prospective grantees of the options except with the approval of our Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by our Shareholders in general meeting.

(b) Present status of the Share Option Scheme**(i) Application for approval**

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(ii) Grant of option

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

(iii) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

E. OTHER INFORMATION**15. Estate duty, tax and other indemnity**

The Controlling Shareholders (collectively the “Indemnifiers”) have entered into a Deed of Indemnity with and in favour of our Company (for itself and as trustee for each of our present subsidiaries) (being the material contract referred to in paragraph 9(d) of this appendix) to provide indemnities on a joint and several basis in respect of, among other matters, any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of our Group on or before the date on which the Global Offering becomes unconditional. The Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands, the BVI and the PRC.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities to our Group on a joint and several basis in relation to taxation (which includes estate duty) in whatever part of the world which might be payable by any member of our Group in respect of among other matters any income, profits or gains earned, accrued or received or property received as a result of a transfer by any person on or before the date on which the Global Offering becomes unconditional.

The Deed of Indemnity does not cover any claim and the Indemnifiers shall be under no liability under the Deed of Indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of our Company or any of its subsidiaries up to 31 July 2012; or
- (b) to the taxation falling on any member of our Group in respect of their accounting period commencing on or after 1 August 2012 unless liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) with the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before 31 July 2012; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 July 2012 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other relevant authority coming into force after the date on which the Global Offering becomes unconditional or to the extent such taxation claim arises or is increased by an increase in rates of taxation after such date of the Deed of Indemnity with retrospective effect; or
- (d) to the extent of any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 July 2012 which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied pursuant to the Deed of Indemnity to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the Deed of Indemnity, the Indemnifiers have also given indemnities to our Group, on a joint and several basis, our Group against any penalty, administrative or other charges, levies, fines or payments which may be imposed on any Group Company, or any cost, expense, damages, loss which such Group Company has suffered or may suffer in connection therewith, as a result of:

- (a) the failure of our Group to obtain the relevant construction works planning permits and construction works commencement permits prior to the construction of the two buildings located at No. 38 South Guanhe Road, Guanyao, Shishan Town, Nanhai District, Foshan, Guangdong Province, the PRC occupied by Foshan Haoda as canteen and warehouse respectively and occupying a total gross floor area of approximately 768 sq.m. and 1,080 sq.m. respectively, as more particularly set out in the paragraph headed “Defect in title ownership for certain of our properties may adversely affect our ability to use such properties” under the section headed “Risk factors” in this Prospectus, including the costs of demolition and relocation of the two buildings;
- (b) the failure of our Group to observe relevant laws, regulations or rules concerning housing funds contribution and social security funds contribution or any other laws and regulations in connection with employee welfare and benefits in the PRC; and
- (c) the failure of our Group to duly obtain the relevant certificates or approvals for the construction and operation of the Haoda Factory, as more particularly set out in the paragraph headed “We failed to undertake the environmental impact evaluation procedures for our production capacity” in this prospectus,

provided that such indemnities shall not cover any amounts to the extent that provision has been made for such amounts in the audited accounts of our Company or any of its subsidiaries up to 31 July 2012.

16. Litigation

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Company.

17. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately HK\$20,000 and are borne by our Company.

18. Promoters

- (a) Our Company has no promoter for the purpose of the Listing Rules.
- (b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters in connection with the Global Offering or the related transactions described in this prospectus.

19. Agency fees or commissions received

The Hong Kong Underwriter will receive a commission of 6% of the aggregate Offer Price in respect of all the Hong Kong Public Offer Shares. It is expected that the International Underwriter will receive a commission of 6% of the aggregate Offer Price in respect of all the International Offer Shares. The Underwriter will pay any sub-underwriting commissions and selling concessions out of their commission. The Sole Sponsor will also receive a documentation fee. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Global Offering, which are estimated to amount in aggregate to approximately HK\$25.1 million (assuming an Offer Price of HK\$1.25 per Offer Share), will be borne by our Company.

20. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of options granted under the Share Option Scheme. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

21. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

<u>Name</u>	<u>Qualification</u>
CIMB Securities Limited	Licensed corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO
BDO Limited	Certified Public Accountants
Leung & Lau	Legal adviser as to Hong Kong law
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Conyers Dill & Pearman	Legal adviser as to BVI law
GFE Law Office	Licensed legal adviser as to the PRC law
Nixon Peabody LLP	Legal adviser as to United States law
Nixon Peabody International LLP	Legal adviser as to European law
Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“Jones Lang LaSalle”)	Professional property valuers

22. Consents of experts

Each of the Sole Sponsor, BDO Limited, Leung & Lau, Conyers Dill & Pearman (Cayman) Limited, Conyers Dill & Pearman, GFE Law Office, Nixon Peabody LLP, Nixon Peabody International LLP and Jones Lang LaSalle has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or opinion (as the case may be) and the references to its name or summaries of opinions included herein in the form and context in which they respectively appear.

None of the experts named in the paragraph headed “Qualifications of experts” in this appendix has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

23. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

24. Taxation of holders of Shares

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

25. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

26. No material adverse change

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 July 2012 (being the date to which the latest audited consolidated financial statements of our Group were made up).

27. Miscellaneous

Save as disclosed in this prospectus:

- (i) within the two years preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or of any of the subsidiaries of our Group has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of the subsidiaries of our Group; and
 - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of the subsidiaries of our Group; and
- (ii) no share or loan capital of our Company or any of the subsidiaries of our Group is under option or is agreed conditionally or unconditionally to be put under option.

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) written consents referred to in the paragraph headed “Consents of experts” under the section headed “Other information” of Appendix V to this prospectus; and
- (c) copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Leung & Lau at 3rd Floor, 50 Connaught Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the accountant’s reports prepared by BDO Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the accountant’s report on unaudited pro forma financial information of our Group, the text of which is set out in Part (B) of Appendix II to this prospectus;
- (d) the letter, the summary of values and the valuation certificate relating to the property interests of the Group prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, the text of which is set out in Appendix III to this prospectus;
- (e) letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of the Companies Law referred to in Appendix IV to this prospectus;
- (f) the material contracts referred to in the paragraph headed “Summary of material contracts” under the section headed “Further information about the business of the Company” in Appendix V to this prospectus;
- (g) the written consents referred to in the paragraph headed “Consents of experts” under the section headed “Other information” in Appendix V to this prospectus;
- (h) the legal opinions prepared by GFE Law Office in respect of certain aspects of the Group and the property interests of the Group in the PRC;
- (i) the legal opinion prepared by Nixon Peabody LLP and Nixon Peabody International LLP in respect of certain aspects of the US law and European law;

- (j) various legal opinions prepared by Leung & Lau in respect of certain aspects of Hong Kong law;
- (k) the service contracts referred to in the paragraph headed “Particulars of Directors’ service agreements” under the section headed “Further information about Directors and Shareholders” in Appendix V to this prospectus; and
- (l) the Companies Law.

QUALI-SMART HOLDINGS LIMITED

滙達富控股有限公司*

* For identification purpose only