THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Quali-Smart Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Quali-Smart Holdings Limited.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1348)

(I) PROPOSED SUBSCRIPTION OF NEW SHARES IN THE COMPANY BY THE SUBSCRIBERS; (II) MAJOR AND CONNECTED TRANSACTIONS – PROPOSED ACQUISITIONS OF THE ZTI COMPANIES INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; (III) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY; AND (IV) NOTICE OF EGM

Joint financial advisers to the Company

BALLAS CAPITAL

民銀資本

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

VEDA | CAPITAL
智略資本

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 11 to 41 of this circular. A letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on page 42 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 43 to 82 of this circular.

A notice convening the EGM to be held at Unit 101, First Commercial Building, 33-35 Leighton Road, Causeway Bay, Hong Kong at 10:00 a.m. on Wednesday, 16 January 2019 is set out on pages EGM-1 to EGM-4 of this circular. A form of proxy for use at the EGM is also enclosed. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 10:00 a.m. on Monday, 14 January 2019, or not less than 48 hours before the time appointed for the holding of any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the EGM or any adjournment thereof should you so wish.

* *For identification purpose only*

31 December 2018

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"acting in concert"	has the meaning given to it in the Takeovers Code
"associate(s)"	has the meaning given to it in the Listing Rules
"Audited Interim Accounts"	a consolidated statement of financial position of the Group as at 31 January 2018 prepared by the Company in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and on the same accounting principles and on the same basis as those adopted in the preparation of the consolidated statement of financial position of the Group as at 31 March 2017, which has been audited by the auditors of the Company and certified by an executive Director
"Benefit Global"	Benefit Global Limited, a company incorporated in the British Virgin Islands with limited liability, the CN Holder, and a company ultimately wholly-owned by Mr Chu Sheng Yu, Lawrence, who is a third party independent of the Company, its connected persons and its Concert Parties
"Board"	the board of Directors
"CN Holder"	the holder of the Convertible Notes
"CN Offer"	the possible unconditional mandatory cash offer to be made by Haitong International Securities on behalf of the Offeror to the CN Holder to acquire all the Convertible Notes
"CN Irrevocable Undertakings"	the irrevocable undertakings dated 11 October 2018 given by Benefit Global to the Offeror in relation to the Convertible Notes and where the context so requires, refer to such irrevocable undertakings as varied by the Side Letter
"Company"	Quali-Smart Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the Shares of which are listed and traded on the Main Board of the Stock Exchange (stock code: 1348)
"Completion"	completion of the Subscription, the ZTI Acquisitions and the Share Purchase Agreement
"Completion Date"	date of Completion

"Composite Document"	the composite offer and response document to be issued jointly by the Offeror and the Company to the Shareholders, the Optionholders and the CN Holder in accordance with the Takeovers Code containing, amongst other things, detailed terms of the Offers
"Concert Party(ies)"	party(ies) acting in concert with the person or party as specified and as determined in accordance with the Takeovers Code, and for the purpose of the Offeror, include Subscriber A, Subscriber B and their respective concert parties
"connected person(s)"	has the meaning given to it under the Listing Rules
"Consideration Shares"	an aggregate of 377,142,857 new Shares which the Company has conditionally agreed to allot and issue to the Offeror as, where appropriate, the designated nominee of ZTI Financial pursuant to the ZTI Agreements, which represents approximately 25.58% of the total issued share capital of the Company as at the Latest Practicable Date
"Convertible Note A"	6% convertible note due 2020 in the principal amount of HK$80,000,000 issued by the Company on 11 May 2017, which are convertible into 205,128,205 new Shares
"Convertible Note B"	6% convertible note due 2020 in the principal amount of HK$30,000,000 issued by the Company on 2 June 2017, which are convertible into 76,923,076 new Shares
"Convertible Notes"	the Convertible Note A and the Convertible Note B
"Crosby Asia"	Crosby Asia Limited, being a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Crosby Asset Management"	Crosby Asset Management (Hong Kong) Limited (高誠資產管理(香港)有限公司), a company incorporated in Hong Kong with limited liability and a licensed corporation to conduct Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO, and an indirect wholly-owned subsidiary of the Company
"Crosby Financial Products"	Crosby Financial Products Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Crosby Group"	Crosby Asia, Crosby Asset Management, Crosby Securities and Crosby Financial Products

"Crosby Securities"	Crosby Securities Limited (高誠證券有限公司), a company incorporated in Hong Kong with limited liability and a licensed corporation to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, and an indirect wholly-owned subsidiary of the Company
"Deed of Novation I"	the deed of novation dated 29 November 2018 entered into among the Company, the Original Offeror, Subscriber A, Subscriber B and the Offeror in relation to the Restated Subscription Agreement with effect from 29 November 2018
"Deed of Novation II"	the deed of novation dated 29 November 2018 entered into among the Vendors, the Original Offeror and the Offeror in relation to the Share Purchase Agreement with effect from 29 November 2018
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened and held for the purposes of approving, among other things, the Increase in Authorised Share Capital, the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder including but not limited to the granting of Specific Mandate for the allotment and issue of the Subscription Shares and the Consideration Shares or any adjournment thereof
"Encumbrances"	mortgage, charge, pledge, lien, option, restriction, purchase right, right of first refusal, right of pre-emption, voting trust or agreement, third-party right or interest, other encumbrance or security interest of any kind, or another type of preferential arrangement (including a title transfer or retention arrangement) having similar effect
"Enlarged Group"	the Group as enlarged by the ZTI Acquisitions
"Executive"	the Executive Director of the Corporate Finance Division of the SFC and any of its delegates
"Financial Services Division"	the Group's financial services business operated under the Crosby Group
"Group"	the Company and its subsidiaries
"Haitong International Capital"	Haitong International Capital Limited (海通國際資本有限公司), a company incorporated in Hong Kong with limited liability and a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, being the financial adviser to the Offeror in relation to the Offers

"Haitong International Securities"	Haitong International Securities Company Limited (海通國際證券有限公司), a fellow subsidiary of Haitong International Capital, and a licensed corporation to conduct Type 1 (dealing in securities), Type 3 (leveraged foreign exchange trading) and Type 4 (advising on securities) regulated activities under the SFO, being the agent making the Offers on behalf of the Offeror
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Increase in Authorised Share Capital"	the proposed increase in authorised share capital of the Company from US$75,000 (divided into 3,000,000,000 Shares) to US$150,000 (divided into 6,000,000,000 Shares) by the creation of an additional 3,000,000,000 Shares
"Independent Board Committee"	the independent committee of the Board, comprising Mr. Leung Po Wing, Bowen Joseph GBS, JP, Mr. Chan Siu Wing, Raymond and Mr. Wong Wah On, Edward (representing all the independent non-executive Directors), established for the purposes of (i) advising the Independent Shareholders on the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder; and (ii) making recommendations to the Shareholders, the Optionholders and the CN Holder in relation to the terms of the Offers and as to acceptance of the Offers
"Independent Financial Adviser" or "Veda Capital"	Veda Capital Limited (智略資本有限公司), a licensed corporation to conduct Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders who are not interested in the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder
"Initial Announcement"	the joint announcement of the Company and the Original Offeror dated 25 February 2018 in relation to, among other things, the Subscription and the Previous Offers
"Initial Subscription Agreement"	the initial subscription agreement dated 23 February 2018 entered into between the Subscribers and the Company in relation to the proposed conditional subscription of certain Shares of the Company, the terms of which have been terminated and superseded by the Restated Subscription Agreement

"Issue Price"	HK$0.35 per Consideration Share
"Joint Announcements"	the October Joint Announcement and the announcements jointly issued by the Company and the Offeror dated 29 November 2018 in relation to, among other things, the Subscription, the Share Purchase Agreement, the Offers and the ZTI Acquisitions
"Last Trading Day"	11 October 2018, being the last trading day of the Shares immediately prior to the publication of the October Joint Announcement
"Latest Practicable Date"	28 December 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Lau Options"	the 4,000,000 outstanding Share Options granted to Mr Lau by the Company pursuant to the Share Option Scheme in respect of 4,000,000 Shares at the exercise price of HK$1.02 per Share
"Li Options"	the 1,400,000 outstanding Share Options granted to Madam Li by the Company pursuant to the Share Option Scheme in respect of 1,400,000 Shares at the exercise price of HK$1.02 per Share
"Licensed Subsidiaries"	Crosby Securities and Crosby Asset Management
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	31 January 2019 or such other date as agreed by the Subscribers and the Company
"Madam Li"	Madam Li Man Yee, Stella, a non-executive Director and the spouse of Mr Lau, one of the Vendors
"Mr Lau"	Mr. Lau Ho Ming, Peter, the executive chairman of the Board, an executive Director and the spouse of Madam Li, one of the Vendors
"October Joint Announcement"	the announcement jointly issued by the Company and the Original Offeror dated 12 October 2018 in relation to, among other things, the Subscription, the Share Purchase Agreement, the Offers, the increase in Authorised Share Capital and the ZTI Acquisitions
"Offer Share(s)"	issued Share(s) other than those Shares already owned or agreed to be acquired by the Offeror and any of its Concert Parties at the time when the Share Offer is made
"Offeror" or "Zhongtai Financial International"	Zhongtai Financial International Limited (中泰金融國際有限公司), a company incorporated in Hong Kong with limited liability, which owns the entire issued share capital of the Original Offeror and ZTI Asset Management, and is directly wholly-owned by Zhongtai Securities, as at the Latest Practicable Date

"Offeror Subscription Shares"	an aggregate of 313,672,000 new Shares which the Offeror has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue pursuant to the Restated Subscription Agreement, which represents approximately 21.28% of the issued share capital of the Company as at the Latest Practicable Date
"Offers"	the Share Offer, the Option Offer and the CN Offer
"Option Irrevocable Undertakings"	the irrevocable undertakings given by Smart Investor, Mr Lau and Madam Li to the Offeror in relation to the Lau Options and the Li Options under the Share Purchase Agreement
"Option Offer"	the possible unconditional mandatory cash offer to be made by Haitong International Securities on behalf of the Offeror to the Optionholders for cancellation of the Share Options
"Optionholders"	the registered grantees/holders for the time being of the Share Options
"Original Offeror" or "Zhongtai International Investment"	Zhongtai International Investment Group Limited (中泰國際投資集團有限公司), a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of Zhongtai Financial International as at the Latest Practicable Date
"Overseas CN Holder"	CN Holder whose address is outside Hong Kong
"Overseas Optionholder(s)"	Optionholder(s) whose address(es) is or are outside Hong Kong
"Overseas Shareholder(s)"	Shareholder(s) whose address(es) as stated in the register of members of the Company is or are outside Hong Kong
"PRC"	the People's Republic of China, which for the purpose of this circular only (unless otherwise indicated) excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Previous Offers"	the possible unconditional mandatory cash offers previously proposed to be made for and on behalf of the Original Offeror, particulars of which were set out in the Initial Announcement
"Qualiman Industrial"	Qualiman Industrial Co. Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
"Restated Subscription Agreement"	the amended and restated subscription agreement dated 11 October 2018 entered into between the Original Offeror, Subscriber A, Subscriber B and the Company in relation to the Subscription and where the context so requires, refer to such amended and restated subscription agreement as varied by the Deed of Novation I

"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	an aggregate of 502,064,000 Shares sold by the Vendors to the Offeror pursuant to the terms of the Share Purchase Agreement
"SFC"	the Securities and Futures Commission of Hong Kong
"SFC Licences"	the SFC licences (including licences for Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities) and all other licences, registrations and approvals granted and issued to the relevant members of the Group under the SFO and/or other applicable laws for carrying on the business of the Group
"SFO"	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Shandong SASAC"	the State-owned Assets Supervision and Administration Commission of Shandong Provincial Government (山東省人民政府國有資產監督管理委員會)
"Share Offer"	the possible unconditional mandatory cash offer to be made by Haitong International Securities on behalf of the Offeror to the Shareholders to acquire all the issued Shares (excluding the Shares already owned by or agreed to be acquired by the Offeror and any of its Concert Parties at the time when the Share Offer is made)
"Share Offer Price"	the cash amount of HK$0.71 per Share payable by the Offeror to the Shareholders for each Offer Share accepted under the Share Offer
"Share Option Scheme"	the share option scheme adopted by the Company on 3 January 2013, as amended from time to time
"Share Options"	134,291,600 outstanding share options granted by the Company pursuant to the Share Option Scheme with rights to subscribe for 134,291,600 Shares
"Share Purchase Agreement"	the share sale and purchase agreement dated 11 October 2018 and entered into among the Vendors as the sellers and the Original Offeror as the purchaser in relation to the sale and purchase of the Sale Shares and where the context so requires, refer to such share sale and purchase agreement as varied by the Deed of Novation II
"Share Purchase Conditions"	conditions precedent to completion of the Share Purchase Agreement, further details of which are set out in the section headed "The Share Purchase Agreement - Conditions precedent" of this circular

"Share(s)"	the ordinary share(s) of US$0.000025 each in the share capital of the Company
"Shareholder(s)"	registered holder(s) of the issued Share(s)
"Side Letter"	a side letter dated 29 November 2018 entered into among Benefit Global, the Original Offeror and the Offeror in relation to the CN Irrevocable Undertakings with effect from 29 November 2018
"Smart Investor"	Smart Investor Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which is owned as to approximately 67.4% and 32.6% by Mr Lau and Madam Li respectively as at the Latest Practicable Date, and one of the Vendors
"Specific Mandate"	the specific mandate to be obtained by the Board from the Independent Shareholders at the EGM for the allotment and issue of the Subscription Shares and the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber A"	Taifu Capital Investments Limited (泰富資本投資有限公司), a company incorporated in the British Virgin Islands with limited liability
"Subscriber B"	Great Boom Group Limited (旺佳集團有限公司), a company incorporated in the British Virgin Islands with limited liability
"Subscribers"	the Offeror or the Original Offeror (as the case may be), Subscriber A and Subscriber B
"Subscription"	the proposed subscription of the Subscription Shares by the Subscribers pursuant to the Restated Subscription Agreement
"Subscription Conditions"	conditions precedent to completion of the Subscription, further details of which are set out in the section headed "(I) The Restated Subscription Agreement – Conditions precedent" of this circular
"Subscription Price"	the subscription price of HK$0.35 per Share
"Subscription Shares"	an aggregate of 415,908,000 new Shares which the Subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue pursuant to the Restated Subscription Agreement, which represents approximately 28.21% of the total issued share capital of the Company as at the Latest Practicable Date
"subsidiary(ies)"	has the meaning given to it under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Supplemental ZTI Agreements"	the Supplemental ZTI Asset Management Agreements and the Supplemental ZTI Capital Agreements

"Supplemental ZTI Asset Management Agreements"	the supplemental agreements dated 11 October 2018 and 29 November 2018 entered into between the Company and Zhongtai Financial International in relation to the amendment of the terms of the ZTI Asset Management Agreement
"Supplemental ZTI Capital Agreements"	the supplemental agreements dated 11 October 2018 and 29 November 2018 entered into between the Company and ZTI Financial in respect of the amendment of the terms of the ZTI Capital Agreement
"Takeovers Code"	the Code on Takeovers and Mergers
"Toy Business"	the Group's business of manufacturing and sales of toys operated under Qualiman Industrial
"US$"	United States dollar, the lawful currency of the United States of America
"Vendors"	Smart Investor, Mr Lau and Madam Li
"Zhongtai International Group"	Zhongtai Financial International and its subsidiaries
"Zhongtai Securities"	中泰證券股份有限公司 (Zhongtai Securities Co., Ltd.#), a company incorporated in the PRC with limited liability, which is held as to approximately 69.03% in aggregate by six state-owned enterprises and approximately 30.97% in aggregate by 34 minority corporate shareholders as at the Latest Practicable Date, particulars of which are set out in the section headed "Information on the Subscribers" of this circular
"ZTI Acquisitions"	the ZTI Asset Management Acquisition and the ZTI Capital Acquisition
"ZTI Agreements"	the ZTI Asset Management Agreement and the ZTI Capital Agreement
"ZTI Asset Management"	Zhongtai International Asset Management Limited (中泰國際資產管理有限公司), a company incorporated in Hong Kong with limited liability and is licensed to conduct Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO and is wholly-owned by Zhongtai Financial International as at the Latest Practicable Date
"ZTI Asset Management Acquisition"	the proposed acquisition of all the issued shares in ZTI Asset Management by the Company from Zhongtai Financial International pursuant to the terms and conditions of the ZTI Asset Management Agreement

"ZTI Asset Management Agreement"	the conditional sale and purchase agreement dated 23 February 2018 entered into between the Company and Zhongtai Financial International in respect of the ZTI Asset Management Acquisition, as amended by the Supplemental ZTI Asset Management Agreements
"ZTI Capital"	Zhongtai International Capital Limited (中泰國際融資有限公司), a company incorporated in Hong Kong with limited liability and a licensed corporation to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, and is wholly-owned by ZTI Financial as at the Latest Practicable Date
"ZTI Capital Acquisition"	the proposed acquisition of all the issued shares in ZTI Capital by the Company from ZTI Financial pursuant to the terms and conditions of the ZTI Capital Agreement
"ZTI Capital Agreement"	the conditional sale and purchase agreement dated 23 February 2018 entered into between the Company and ZTI Financial in respect of the ZTI Capital Acquisition as amended by the Supplemental ZTI Capital Agreements
"ZTI Cayman"	Zhongtai International Financial Company Limited (中泰國際金融股份有限公司), a company incorporated in the Cayman Islands with limited liability, which is held as to approximately 97.15% by ZTI Overseas and approximately 2.85% by Subscriber B as at the Latest Practicable Date
"ZTI Companies"	ZTI Asset Management and ZTI Capital
"ZTI Financial"	Zhongtai International Financial Corporation (中泰國際金融有限公司), a company incorporated in the British Virgin Islands with limited liability, which is directly wholly-owned by ZTI Cayman and owns the entire issued share capital of ZTI Capital as at the Latest Practicable Date
"ZTI Overseas"	Zhongtai International Holdings (Overseas) Limited (中泰國際控股(海外)有限公司), a company incorporated in the British Virgin Islands with limited liability, which is directly wholly-owned by Zhongtai Financial International as at the Latest Practicable Date
"%"	per cent

* *For identification purpose only*

\# *The English transliteration of the Chinese name(s) in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1348)

Executive Directors:
Mr. Lau Ho Ming, Peter *(Executive Chairman)*
Mr. Poon Pak Ki, Eric
Mr. Ng Kam Seng
Mr. Chu Raymond

Non-executive Director:
Madam Li Man Yee, Stella

Independent non-executive Directors:
Mr. Leung Po Wing, Bowen Joseph *GBS JP*
Mr. Chan Siu Wing, Raymond
Mr. Wong Wah On, Edward

Registered office:
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Workshop C on 19/F
TML Tower
3 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

31 December 2018

To the Shareholders

Dear Sir or Madam,

(I) PROPOSED SUBSCRIPTION OF NEW SHARES IN THE COMPANY BY THE SUBSCRIBERS;
(II) MAJOR AND CONNECTED TRANSACTIONS – PROPOSED ACQUISITIONS OF THE ZTI COMPANIES INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE;
AND
(III) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL OF THE COMPANY

INTRODUCTION

References are made to the Joint Announcements, the announcements of the Company dated 9 March 2018, 28 March 2018, 3 April 2018, 30 April 2018, 31 May 2018, 29 June 2018, 23 July 2018, 31 August 2018, 31 October 2018 and 30 November 2018 and the joint announcements of the Company and the Original Offeror or the Offeror (as the case may be) dated 25 February 2018, 18 March 2018, 20 April 2018, 18 May 2018, 20 June 2018, 12 July 2018, 14 August 2018 and 2 November 2018 in relation to, among other matters, the Subscription, the Share Purchase Agreement, the Offers, the Increase in Authorised Share Capital and the ZTI Acquisitions.

* *For identification purpose only*

As set out in the Initial Announcement and the Joint Announcements,

(i) on 23 February 2018, the Company, the Original Offeror, Subscriber A and Subscriber B entered into the Initial Subscription Agreement and on 11 October 2018, the Company, the Original Offeror, Subscriber A and Subscriber B entered into the Restated Subscription Agreement to amend and restate the Initial Subscription Agreement. Pursuant to the Restated Subscription Agreement, (i) the Initial Subscription Agreement has been terminated and superseded; (ii) the Company conditionally agreed to allot and issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 415,908,000 Shares, free from all Encumbrances and together with all rights and benefits attaching to them at Completion and thereafter, for an aggregate consideration of HK$145,567,800 at the Subscription Price of HK$0.35 per Subscription Share;

(ii) on 23 February 2018, the Company and ZTI Financial entered into the ZTI Capital Agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and ZTI Financial conditionally agreed to dispose of, all the issued shares of ZTI Capital for a consideration of HK$30,000,000. On 11 October 2018, the Company (as purchaser) and ZTI Financial (as vendor) entered into a supplemental agreement to revise and amend certain terms of the ZTI Capital Agreement;

(iii) on 23 February 2018, the Company and Zhongtai Financial International entered into the ZTI Asset Management Agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and Zhongtai Financial International conditionally agreed to dispose of, all the issued shares of ZTI Asset Management for a consideration of HK$102,000,000. On 11 October 2018, the Company (as purchaser) and Zhongtai Financial International (as vendor) entered into a supplemental agreement to revise and amend certain terms of the ZTI Asset Management Agreement;

(iv) on 29 November 2018, the Company, the Original Offeror, Subscriber A, Subscriber B and the Offeror entered into the Deed of Novation I in relation to the Restated Subscription Agreement, pursuant to which the Original Offeror agreed to assign and novate, and the Offeror agreed to assume and perform, all the rights and obligations of the Original Offeror under the Restated Subscription Agreement with effect from 29 November 2018;

(v) on 29 November 2018, the Company entered into supplemental agreements with ZTI Financial and the Offeror respectively to revise certain terms of the ZTI Agreements, pursuant to which the consideration for the ZTI Acquisitions shall be satisfied by the allotment and issue of Consideration Shares to the Offeror (as, where appropriate, the designated nominee of ZTI Financial);

(vi) pursuant to the ZTI Agreements (as amended by the Supplemental ZTI Agreements), completion of the ZTI Acquisitions will take place simultaneously with completion of the Subscription and the Share Purchase Agreement; and

(vii) the Board proposes to increase the authorised share capital of the Company from US$75,000 (divided into 3,000,000,000 Shares) to US$150,000 (divided into 6,000,000,000 Shares).

For the avoidance of doubt, the Subscription and the ZTI Acquisitions are inter-conditional.

The purpose of this circular is to provide you with, among other things, (i) further information on the Restated Subscription Agreement (including the Specific Mandate), the ZTI Agreements and the transactions contemplated thereunder; (ii) further details of the Increase in Authorised Share Capital; (iii) a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders regarding the terms of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder; and (iv) a letter from Veda Capital containing its advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder.

A notice convening the EGM setting out the details of the resolutions to be proposed at the EGM is set out on pages EGM-1 to EGM-4 of this circular.

(I) THE RESTATED SUBSCRIPTION AGREEMENT

The principal terms of the Restated Subscription Agreement are summarised below.

The original Restated Subscription Agreement

Date	:	11 October 2018
Issuer	:	the Company
Subscribers	:	(i) The Original Offeror
		(ii) Subscriber A
		(iii) Subscriber B

The Restated Subscription Agreement (as varied by the Deed of Novation I)

Date	:	29 November 2018
Issuer	:	the Company
Subscribers	:	(i) The Offeror
		(ii) Subscriber A
		(iii) Subscriber B

As set out in the Joint Announcements, on 11 October 2018, the Company, the Original Offeror, Subscriber A and Subscriber B entered into the Restated Subscription Agreement in relation to the Subscription; and on 29 November 2018, the Company, the Original Offeror, Subscriber A, Subscriber B and the Offeror entered into the Deed of Novation I, pursuant to which the Original Offeror assigned and novated, and the Offeror agreed to assume and perform, all the rights and obligations of the Original Offeror under the Restated Subscription Agreement with effect from 29 November 2018.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subscription Shares

Under the Subscription, (i) the Offeror will subscribe for 313,672,000 Shares (representing approximately 21.28% of the total issued share capital of the Company as at the Latest Practicable Date) for a consideration of HK$109,785,200; (ii) Subscriber A will subscribe for 33,936,000 Shares (representing approximately 2.30% of the total issued share capital of the Company as at the Latest Practicable Date) for a consideration of HK$11,877,600; and (iii) Subscriber B will subscribe for 68,300,000 Shares (representing approximately 4.63% of the total issued share capital of the Company as at the Latest Practicable Date) for a consideration of HK$23,905,000.

The Subscription Shares represent:

(i) approximately 28.21% of the total issued share capital of the Company as at the Latest Practicable Date;

(ii) approximately 22.00% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares only (assuming no outstanding Share Options or Convertible Notes will be exercised or converted and no other Shares will be allotted or issued at or prior to Completion); and

(iii) approximately 18.03% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares only (assuming all of the outstanding Share Options and Convertible Notes will be exercised and converted but no other Shares will be allotted or issued at or prior to Completion).

The aggregate nominal value of the Subscription Shares is US$10,397.70.

The Subscription Shares (when allotted, issued and fully paid), will rank pari passu in all respects with the Shares in issue on the Completion Date, including the right to receive all dividends and other distributions declared, made or paid the record date of which falls on or after the Completion Date.

The Subscription Shares will be allotted and issued under the Specific Mandate which will be subject to the approval of the Independent Shareholders at the EGM. An application will be made by the Company for the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange.

Subscription Price

The Subscription Price, being HK$0.35 per Share, represents:

(i) a discount of approximately 39.7% to the closing price of HK$0.58 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 38.6% to the average of closing prices as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK$0.57 per Share;

(iii) a discount of approximately 39.7% to the average of closing prices as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day of approximately HK$0.58 per Share;

(iv) a discount of approximately 38.6% to the closing price of HK$0.57 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(v) a premium of approximately 20.1% over the audited consolidated net asset value of the Group of approximately HK$0.2915 per Share as at 31 March 2018 (based on the audited consolidated net asset value of the Group as at 31 March 2018 of approximately HK$429,731,000 and 1,474,232,000 Shares in issue as at the Latest Practicable Date); and

(vi) a premium of approximately 23.9% over the unaudited consolidated net asset value of the Company of approximately HK$0.2825 per Share as at 30 September 2018 (based on the unaudited consolidated net asset value of the Group as at 30 September 2018 of approximately HK$416,488,000 and 1,474,232,000 Shares in issue as at the Latest Practicable Date).

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers which had taken into account, among other things, the financial performance of the Group, in particular the continued loss-making position of the Group and the audited consolidated net asset value of the Group as at 31 March 2018.

The total consideration for the Subscription Shares of HK$145,567,800 shall be payable in cash by the Subscribers upon Completion.

Conditions precedent

Pursuant to the Restated Subscription Agreement, completion of the Subscription is conditional upon the Subscription Conditions being satisfied or waived on or before the Long Stop Date, which are set out below:

(a) the Company and the Offeror having issued the Joint Announcements pursuant to the Takeovers Code and the Listing Rules;

(b) save for the approvals set out in paragraph (e) below, any necessary approvals, authorisations, consents, waivers, orders, exemptions and notices from all relevant governmental and regulatory authorities (including but not limited to the China Securities Regulatory Commission and other authorities in the PRC (where applicable)) or any other third parties required for the Offeror and/or its controlling shareholders in respect of the Restated Subscription Agreement and the transactions contemplated thereunder having been obtained, and not having been revoked before the Completion Date;

(c) this circular having been despatched to the Shareholders and the necessary approvals of the Independent Shareholders at the EGM of the Restated Subscription Agreement and the Subscription contemplated thereunder, including without limitation the granting of the Specific Mandate having been obtained in accordance with the Listing Rules, the Company's articles of association and applicable laws (as the case may be);

(d) the approval by the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares having been obtained by the Company, and such approval not having been revoked on or before the Completion Date;

(e) the SFC having granted the necessary consent and/or approval for the Offeror and/or its controlling shareholders to become the substantial shareholders of the Licensed Subsidiaries under the SFO;

(f) the warranties given by the Company under the Restated Subscription Agreement remaining true, accurate, complete and not misleading as given as at the date of the Restated Subscription Agreement and as at the Completion Date, and there being no breach of its obligations and undertakings under the Restated Subscription Agreement;

(g) the SFC Licences remaining valid and effective and not having been revoked, terminated or suspended by the relevant authorities, and no representation, notice or statement in relation to the revocation, termination or suspension of such licences having been received on or before the Completion Date; at Completion, no additional conditions having been imposed by the SFC to the Licensed Subsidiaries on or before the Completion Date which may or will result in material adverse change or material adverse effect on the Group and/or the Licensed Subsidiaries;

(h) the Company having performed and complied with all agreements, obligations and conditions set out in the Restated Subscription Agreement that are required to be performed or complied with by it on or before the Completion Date;

(i) from the date of the Restated Subscription Agreement and up to the Completion Date, each member of the Group having complied with the obligations set out in the Restated Subscription Agreement as applicable;

(j) from the date of the Restated Subscription Agreement and up to the Completion Date, the Shares remaining listed and traded on the Stock Exchange (save for the suspension in connection with the issuance of this circular, or any temporary suspension for no longer than three (3) consecutive trading days (or such other longer period as the Offeror and the Company may agree in writing) for the issuance of announcement pursuant to the Listing Rules and/or the Takeovers Code); and neither the Stock Exchange nor the SFC having indicated on or before the Completion Date that it will cancel or object to such continued listing for reasons related to the transactions contemplated under the Restated Subscription Agreement, other transaction documents and/or other matters;

(k) on or prior to the Completion Date, no binding order, restriction or prohibition having been obtained, applied for or threatened to be obtained by any person (other than a party to the Restated Subscription Agreement) from any competent authorities to restrict or prohibit any party from completing the Restated Subscription Agreement or seeking damages, or which adversely affect any of the Subscribers' legal and beneficial ownership over the Subscription Shares free from any Encumbrances; and the Restated Subscription Agreement and the transactions contemplated thereunder being in compliance with the requirements under applicable laws and regulations;

(l) (i) there being no material adverse effect on the Group's financial position, prospects and operations; and (ii) there being no change in the laws applicable to the Group which may result in material adverse change to the Group as a whole (irrespective of whether such change is effective on or before the Completion Date);

(m) on or before the Completion Date, there being not less than two persons holding valid licence for each of the regulated activities under the SFO in respect of each of the Licensed Subsidiaries, and at least one of which being an executive director as defined under the SFO;

(n) Benefit Global having executed the CN Irrevocable Undertakings to undertake not to convert any Convertible Notes held by it and to accept the CN Offer in respect of all Convertible Notes held by it;

(o) the Company having provided its latest audited consolidated accounts and its latest consolidated management accounts to the Offeror in accordance with the Restated Subscription Agreement;

(p) up to the Completion Date, there being no non-compliance or breach (or any event which would result in potential non-compliance or breach) by the Company or other members of the Group of the terms of any binding agreements, obligations or instruments (including but not limited to any change of control restriction on the Company) or any approvals obtained by them, which result in any material adverse change or material adverse effect to the Group as a whole; and

(q) the conditions precedent set out in the ZTI Capital Agreement, the ZTI Asset Management Agreement and the Share Purchase Agreement, other than the condition precedent requiring the Restated Subscription Agreement to be unconditional, having been fulfilled or waived.

The Subscribers may waive any of the above conditions other than conditions (a) to (e) and (q) set out above.

For the avoidance of doubt, the Subscription and the ZTI Acquisitions are inter-conditional.

As at the Latest Practicable Date, save for conditions (a), (e) and (n), none of the Subscription Conditions has been satisfied.

Other material terms

(a) Subject to compliance with the Listing Rules, the Takeovers Code and the memorandum and articles of association of the Company, the Offeror is entitled, before Completion, to request the Board to consider the appointment of the persons nominated by the Offeror as Directors, effective on the later of the Completion Date and the earliest date permitted under the Takeovers Code.

(b) As at the Completion Date, (i) the unaudited consolidated tangible net asset value of the Group (excluding goodwill and intangible assets and assuming the Convertible Notes have been fully converted) will not be less than the audited consolidated tangible net asset value of the Group (excluding goodwill and intangible assets and assuming the Convertible Notes have been fully converted) as at 31 January 2018 as shown in the Audited Interim Accounts, and (ii) the consolidated cash and bank balance of the Group will not be less than HK$145,000,000. In the event that the unaudited consolidated tangible net asset value and/or the consolidated cash and bank balance of the Group as at the Completion Date fall(s) below the respective guaranteed amounts set out in (i) and (ii) in this paragraph (b) and such shortfall has been made good by Mr Lau and/or Smart Investor by way of top-up arrangement to the Offeror in accordance with the terms and provisions under the Share Purchase Agreement, such shortfall shall not be regarded as a breach of the Restated Subscription Agreement.

(c) The Initial Subscription Agreement dated 23 February 2018 has been terminated and superseded by the Restated Subscription Agreement.

Completion of the Subscription

Completion is expected to take place on the third business day after the day on which the last of the Subscription Conditions (other than the Subscription Conditions which are to be satisfied at Completion) having been fulfilled (or, where applicable, waived).

As completion of the Subscription is subject to fulfilment and/or waiver, as applicable, of the Subscription Conditions, including without limitation, the obtaining of approvals of the Independent Shareholders at the EGM and the approval by the SFC for the change of substantial shareholders of the Licensed Subsidiaries, it is currently contemplated that completion of the Subscription will take place on or before 31 January 2019.

For the avoidance of doubt, pursuant to the Restated Subscription Agreement, completion of the Subscription will take place simultaneously with completion of the ZTI Acquisitions and the Share Purchase Agreement.

The terms of the Restated Subscription Agreement were arrived at after arm's length negotiations between the Company and the Subscribers.

Termination of the Restated Subscription Agreement

(a) If any of the Subscription Conditions is not satisfied or waived on or before the Long Stop Date, any party to the Restated Subscription Agreement may terminate the Restated Subscription Agreement by written notice to the other parties, save for certain surviving clauses relating to confidentiality, notice and other miscellaneous provisions as specified therein and save for any antecedent breach of any provisions therein.

(b) In the event that any party to the Restated Subscription Agreement is unable to comply with any of its obligations in respect of Completion under the Restated Subscription Agreement (regardless of whether such non-compliance constitutes a repudiatory breach), other parties to the Restated Subscription Agreement may terminate the Restated Subscription Agreement by written notice to the other parties, save for certain surviving clauses relating to confidentiality, notice and other miscellaneous provisions as specified therein and save for any antecedent breach of any provisions therein.

Intended use of proceeds

The gross proceeds of the Subscription are HK$145,567,800 and the net proceeds of the Subscription are approximately HK$140 million. The difference of the gross proceeds and net proceeds of the Subscription, which amounts to approximately HK$5,567,800, comprises the estimated expenses of the Company for the Subscription and the Offers, including financial advisory fees, legal fees, audit fees, fees payable to independent financial adviser, printer fees and other miscellaneous expenses which may be incurred by the Company in connection with the Subscription and the Offers. On such basis, the net issue price per Subscription Share is approximately HK$0.34. Following discussions between the Subscribers and the Company, it is intended that the net proceeds from the Subscription will be applied in the manner stated below:

(a) approximately HK$50 million will be used for providing margin financing services to clients;

To develop the margin financing services, the Financial Services Division intends to fully deploy HK$50 million of the net proceeds from the Subscription to provide margin financing services on a secured basis to clients in return for interest income in the first year following Completion. The Company expects that, in relation to the margin financing business, it can charge an interest rate in the range of approximately 8% to 12% per annum, depending on: (i) quality and liquidity of the underlying collateral stocks; (ii) the credit quality of the margin financing clients; and (iii) the prevailing market interest rates. The Company typically requires the underlying collateral stocks to be securities listed on internationally reputable stock exchanges, primarily on the Stock Exchange. The margin financing clients targeted by the Financial Services Division are typically institutional clients such as investment funds and corporates, and individuals such as controlling shareholders of listed issuers or high net-worth trading clients;

(b) approximately HK$10 million will be used to cover the daily payment obligations for settlement with Hong Kong Securities Clearing Company Limited as clearing participant for securities trading operation;

The Financial Services Division mainly provides services to institutional clients in their securities trading activities in both the primary and secondary markets. For this purpose, the Financial Services Division needs to have sufficient working capital to cover the daily payment obligations for settlement with the Hong Kong Securities Clearing Company Limited ("**CCASS**") as clearing participant for securities trading operation. In particular, institutional clients often demand delivery versus payment settlement method which in turn requires the Financial Services Division to first settle with CCASS using its own working capital. The Financial Services Division currently has pledged about HK$60 million in cash to a bank as collateral to secure a banking facility (the "**Bank Facility**") of the same amount to facilitate daily settlement purposes. HK$10 million of the net proceeds from the Subscription will be made available immediately upon Completion as additional capital to facilitate the Financial Services Division's daily settlement obligations with CCASS which will slightly expand the daily trading capacity of the Financial Services Division in servicing its trading clients and may provide the Group with more flexibility in freeing up its cash resources currently used as collateral under the Bank Facility;

(c) approximately HK$50 million will be used to cover the required liquid capital for underwritings and placements in the next 12 months;

The Company intends to increase the underwriting and placements capacity of the Financial Services Division. As such, the Financial Services Division plans to use HK$50 million of the net proceeds from the Subscription to fulfill the liquid capital requirement for its underwriting and placement activities. Under the relevant requirements of the Securities and Futures (Financial Resources) Rules, a licensed corporation needs to maintain sufficient liquid capital as it takes on underwriting commitments. With the injection of the additional HK$50 million into its liquid capital, the underwriting capacity of the Financial Services Division will increase by approximately HK$333 million. This will enhance the Financial Services Division's capability to compete for underwriting mandates as a sole or joint book runner for small to mid-sized initial public offering transactions on the Stock Exchange ("**IPOs**"). It will also allow the Financial Services Division to increase its share in the IPOs' underwriting commissions, in comparison with acting merely as one of the syndicate members in the IPOs. This improvement in underwriting capacity is also expected to create synergy with the business of ZTI Capital post Completion, as the Financial Services Division will be able to take on lead underwriting roles in IPOs sponsored by ZTI Capital, thus further improving the competitiveness of the businesses of both the Financial Services Division and ZTI Capital after Completion as the two entities together will be able to provide one-stop, comprehensive financing solution to clients seeking to list on the Stock Exchange of Hong Kong. Based on the information provided by ZTI Capital, the Company understands that ZTI Capital currently has a pipeline of sponsor mandates of IPOs under negotiations targeting to list on the Stock Exchange in the next 12 months. As such, HK$50 million from the net proceeds of the Subscription that is intended to increase the underwriting capacity of the Company is expected to be fully utilized in the next 12 months; and

(d) approximately HK$30 million will be used for the purchase of raw materials for production for the Toy Business.

The Toy Business has relied on bank facilities to finance its working capital requirements, in particular for the purchase of raw materials to facilitate production requirements from its customers, during peak production season, which is typically the period starting from the summer until Christmas. The amount of outstanding bank loans for the Toy Business had continued to increase during the past few years, from approximately HK$81.3 million as at 30 September 2016 by 26.0% to approximately HK$102.4 million as at 30 September 2017, and by 14.6% to approximately HK$117.4 million as at 30 September 2018. The majority of these bank facilities charge interests with HIBOR-based interest rates and their availability is subject to annual review depending on overall macro market environments and general environments in the toy industry. Some bank facilities may not necessarily be renewed by the banks each year and it is possible that the facility limits might be reduced upon renewal if the banks are of the view that the prospect of the macroeconomic environment or the toy industry may not be as favorable as before. As general interest rate is expected to increase in the foreseeable future and in particular HIBOR has been subject to increased volatility, the interest expenses arising from the bank facilities of the Toy Business are also expected to trend upwards going forward. The availability of HK$30 million of equity funding will help reduce the Group's reliance on the continued availability of bank facilities in supporting the purchase of raw materials to meet its customer orders and lower the interest expenses of the Toy Business of the Group. The HK$30 million raised from the net proceeds of the Subscription is expected to be utilised by the Toy Business of the Group in the first two quarters in the financial year ending 31 March 2020 as it prepares for the next production peak season.

As set out above, the proceeds raised from the Subscription will be used to support the development plans for both the toy business and the financial services businesses of the Company.

EQUITY FUND RAISING ACTIVITIES OF THE COMPANY DURING THE PAST TWELVE MONTHS

The Company has not carried out and completed any equity fund raising activities in the twelve-month period immediately before the Latest Practicable Date.

THE SHARE PURCHASE AGREEMENT

As set out in the Joint Announcements, the Company was informed by the Vendors that, on 11 October 2018, the Vendors and the Original Offeror entered into the Share Purchase Agreement, pursuant to which the Vendors conditionally agreed to sell and the Original Offeror conditionally agreed to purchase the Sale Shares; and on 29 November 2018, the Vendors, the Original Offeror and the Offeror entered into the Deed of Novation II, pursuant to which the Original Offeror assigned and novated, and the Offeror agreed to assume and perform, all the rights and obligations of the Original Offeror under the Share Purchase Agreement with effect from 29 November 2018.

The principal terms of the Share Purchase Agreement (as varied by the Deed of Novation II) are summarised below.

Purchaser : Zhongtai Financial International Limited

Vendors : Please refer to table below for details of the Vendors, including the number of Sale Shares held by each of them immediately before and after Completion:

Vendors	Number of Shares to be sold	Approximate percentage of Shares held as at the Latest Practicable Date	Number of Shares held immediately after Completion	Consideration payable (in HK$)
Smart Investor	482,864,000	32.75%	–	342,833,440
Mr Lau	9,600,000	0.65%	–	6,816,000
Madam Li	9,600,000	0.65%	–	6,816,000
Total:	**502,064,000**	**34.05%**	**–**	**356,465,440**

The Sale Shares represent (i) approximately 34.05% of the total issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 22.14% of the total issued share capital of the Company as enlarged upon Completion (assuming no outstanding Share Options or Convertible Notes will be exercised or converted and no other Shares will be allotted or issued at or prior to Completion); and (iii) for illustration purposes only, approximately 18.71% of the total issued share capital of the Company as enlarged upon Completion (assuming all outstanding Share Options and Convertible Notes will be exercised or converted and no other Shares will be allotted or issued at or prior to Completion). For the avoidance of doubt, none of the Lau Options and the Li Options will be exercised pursuant to the irrevocable undertakings given by Mr. Lau and Madam Li under the Share Purchase Agreement, and the CN Holder has undertaken to the Offeror not to exercise its rights to convert any Convertible Notes into Shares pursuant to the CN Irrevocable Undertakings.

Consideration for the Sale Shares

The total consideration for the Sale Shares under the Share Purchase Agreement is HK$356,465,440 (equivalent to HK$0.71 per Share, which is the same as the Share Offer Price). The consideration will be settled in cash upon completion of the Share Purchase Agreement.

Conditions precedent

Completion is conditional upon the following conditions precedent being satisfied or waived on or before the Long Stop Date:

(a) the warranties given by each of the Vendors under the Share Purchase Agreement remaining true, accurate, complete and not misleading as given as at the date of the Share Purchase Agreement and as at the Completion Date, and there being no breach of the relevant Vendors' obligations and undertakings under the Share Purchase Agreement;

(b) each of the Vendors having performed and complied with all agreements, obligations and conditions set out in the Share Purchase Agreement that are required to be performed or complied with by it on or before the Completion Date;

(c) on or prior to the Completion Date, no binding order, restriction or prohibition having been obtained, applied for or threatened to be obtained by any person (other than a party to the Share Purchase Agreement) from any competent authorities to restrict or prohibit any party from completing the Share Purchase Agreement or seeking damages, or which adversely affect the Offeror's legal and beneficial ownership over the Sale Shares free from any Encumbrances, and the Share Purchase Agreement and the transactions contemplated thereunder being in compliance with the requirements under applicable laws and regulations;

(d) the SFC having granted the necessary consent and/or approval for the Offeror and/or its controlling shareholders to become the substantial shareholders of the Licensed Subsidiaries under the SFO; and

(e) the conditions precedent set out in the ZTI Capital Agreement, the ZTI Asset Management Agreement and the Restated Subscription Agreement, other than the condition precedent requiring the Share Purchase Agreement to be unconditional, having been fulfilled or waived.

If any of the Share Purchase Conditions is not satisfied or waived on or before the Long Stop Date, the Offeror may terminate the Share Purchase Agreement by written notice to the Vendors, and the Share Purchase Agreement shall be terminated save for certain surviving clauses relating to confidentiality, notice and other miscellaneous provisions as specified therein and save for any antecedent breach of any provisions therein.

The Purchaser may waive any of the Share Purchase Conditions in whole or in part other than conditions (d) and (e) above.

As at the Latest Practicable Date, save for condition (d), none of the Share Purchase Conditions has been satisfied.

Completion of the Share Purchase Agreement

The Share Purchase Agreement will be completed simultaneously with completion of the Subscription and the ZTI Acquisitions.

Other material terms

(a) Each of Smart Investor and Mr Lau has undertaken to the Offeror that:

(i) certain corporate guarantees given by the Company (including guarantees executed in favour of banks to secure obligations under facility agreements entered into by members of the Group) will be discharged within 90 days after the Completion Date;

(ii) as at the Completion Date, the consolidated tangible net asset value of the Group (excluding goodwill and intangible assets and assuming the Convertible Notes have been fully converted) will not be less than the consolidated tangible net asset value of the Group (excluding goodwill and intangible assets and assuming the Convertible Notes have been fully converted) as shown in the Audited Interim Account, and the consolidated cash and bank balance of the Group will not be less than HK$145,000,000; and

(iii) as at 31 March 2020 (or in the event of any change in the financial year-end date of the Company, the Company's financial year-end date for the 2019/2020 financial year), the consolidated tangible net asset value of Turbo Gain and Qualiman Industrial (excluding goodwill and intangible assets) will not be less than such amount of consolidated tangible net asset value of Turbo Gain and Qualiman Industrial (excluding goodwill and intangible assets) as at the Completion Date[(Note)].

(b) In the event that the consolidated tangible net asset value and/or the consolidated cash and bank balance of the Group as at the Completion Date fall(s) below the respective guaranteed amounts set out in paragraph (a) (ii) above, Smart Investor and/or Mr Lau shall pay the Offeror an amount equivalent to the aggregate of (i) the shortfall for consolidated tangible net asset value; and (ii) the shortfall for consolidated cash and bank balance (where applicable) in accordance with the terms of the Share Purchase Agreement.

(c) In the event that the consolidated tangible net asset value of Turbo Gain and Qualiman Industrial as at 31 March 2020 (or in the event of any change in the financial year-end date of the Company, the Company's financial year-end date for the 2019/2020 financial year) falls below the guaranteed amount set out in paragraph (a) (iii) above, Smart Investor and/or Mr Lau shall pay the Offeror an amount equivalent to such shortfall.

(d) The parties to the Share Purchase Agreement acknowledge that as a result of the termination of the Initial Subscription Agreement pursuant to the Restated Subscription Agreement, the irrevocable undertakings executed by Smart Investor, Mr Lau and Madam Li in favour of the Original Offeror on 23 February 2018 in respect of the Previous Offers (details of which are set out in the Initial Announcement) has been terminated.

Note: Turbo Gain is the holding company holding all the issued shares of Qualiman Industrial and has no operations, while Qualiman Industrial is currently one of the key operating subsidiaries of the Group and operates its toy division.

INFORMATION ON THE GROUP

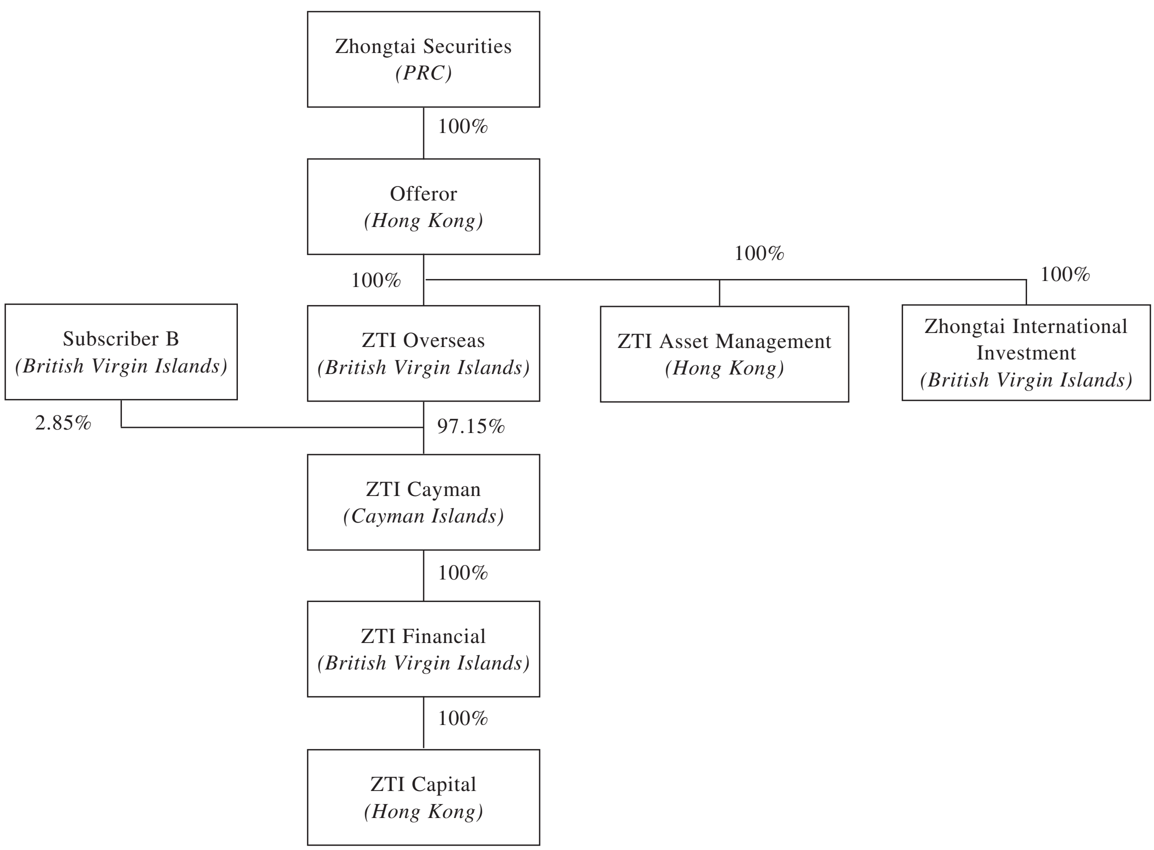
The Company is incorporated in the Cayman Islands with limited liability, whose Shares are listed and traded on the Main Board of the Stock Exchange (stock code: 1348).

The Group is principally engaged in the manufacturing and sales of toys and provision of securities brokerage, securities margin financing, investment advisory, corporate finance advisory and asset management services.

INFORMATION ON THE SUBSCRIBERS

The Offeror

The shareholding structure of the Offeror and the ZTI Companies as at the Latest Practicable Date is set out in the chart below:



The Offeror is an investment holding company established in Hong Kong with limited liability and is directly and wholly-owned by Zhongtai Securities, being a company incorporated in the PRC with limited liability.

As at the Latest Practicable Date, Zhongtai Securities is held as to approximately 69.03% in aggregate by six state-owned enterprises, including as to approximately 45.91% by Laiwu Steel Group Ltd.# (萊蕪鋼鐵集團有限公司) ("**Laiwu Steel**"), as to approximately 7.30% by Yankuang Group Co., Ltd# (兗礦集團有限公司), as to approximately 5.61% by Jigang Group Co. Ltd# (濟鋼集團有限公司), as to approximately 4.43% by Shandong Luxin Investment Holding Co., Ltd# (山東省魯信投資控股集團有限公司), as to approximately 3.85% by Xinwen Mining Group Co., Ltd# (新汶礦業集團有限責任公司), and as to approximately 1.93% by Shandong State-owned Assets Investment Holding Co., Ltd# (山東省國有資產投資控股有限公司). Other than Laiwu Steel, each of the aforementioned state-owned enterprises which holds interest in Zhongtai Securities is in turn ultimately held as to 70% by Shandong SASAC, 20% by Shandong Guohui Investment Co., Ltd# (山東國惠投資有限公司) ("**Shandong Guohui**"), which is in turn ultimately owned by Shandong SASAC, and 10% by Shandong Provincial Council for Social Security Fund (山東省社會保障基金理事會) ("**Shandong SSF**"). Laiwu Steel is held as to 20% by Fujian Xingyin Equity Investment Management Co., Ltd.# (福建興銀股權投資管理有限公司), which is an indirect non-wholly subsidiary of Industrial Bank Co., Ltd. (興業銀行股份有限公司), and 80% by Shandong Iron & Steel Group Co., Ltd.# (山東鋼鐵集團有限公司) ("**Shandong Iron & Steel**"), which is in turn also held as to 70% by Shandong SASAC, 20% by Shandong Guohui and 10% by Shandong SSF. The remaining 30.97% of the issued share capital of Zhongtai Securities is currently held by 34 minority corporate shareholders, each with a shareholding in Zhongtai Securities in the range of approximately 0.02% to 3.85%.

Zhongtai Securities was established on 15 May 2001, and has a registered capital of approximately RMB6,271.76 million as at the Latest Practicable Date. Zhongtai Securities is one of the leading financial service providers in the PRC (based on a number of financial indicators, including revenue and net profit) which offers a wide range of financial services and diversified product portfolio to its clients, including securities and futures brokerage and margin financing, underwriting, financial advisory, private equity, sponsorship, research, asset management, principal investment etc., and is a national securities dealer that is substantially owned by Shandong SASAC. Since 2010, Zhongtai Securities has received securities firm ratings of "A" or above from the China Securities Regulatory Commission.

The Offeror, with a total issued share capital of approximately HK$1,790.98 million as the Latest Practicable Date, is positioned as the overseas investment arm of Zhongtai Securities to capture the growing cross-border business opportunities in international financial markets. Zhongtai International Group is an integrated financial services provider in Hong Kong, offering a full range of financial services, including brokerage and margin financing (e.g. securities, futures and options brokerage, investment advisory, equity research and margin financing), investment banking (e.g. equity and debt financing and corporate finance advisory), asset management, money lending, financial product brokerage, fixed income currencies and commodities, direct investment and proprietary trading.

As at the Latest Practicable Date, the Offeror does not hold any Shares or any other securities of the Company, and the Offeror and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subscriber A

As at the Latest Practicable Date, Subscriber A is an investment holding company incorporated in the British Virgin Islands with limited liability and is owned by 26 individuals as at the Latest Practicable Date. Each of such 26 individuals is an existing employee of Zhongtai International Group and most of them are senior management of Zhongtai International Group. Individuals holding more than 5% of the issued share capital of Subscriber A include Mr. Gao Feng, Mr. Lyu Taojiang, Mr. Zhang Yanfeng, Mr. Ren Yanqing and Mr. Han Dong (being the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer, the Chief Operating Officer, and the Director of Investment and Financing and Chief Executive Officer for China Region of Zhongtai International Group, respectively).

Subscriber B

As at the Latest Practicable Date, Subscriber B is held as to 90% and 10% by Mr. Yu Yusheng and Ms. Yu Nanxing, daughter of Mr. Yu Yusheng. Mr. Yu Yusheng and Ms. Yu Nanxing, through their shareholding interests in Subscriber B, are currently investors of certain subsidiaries of Zhongtai Financial International, namely ZTI Cayman and its subsidiaries. Subscriber B's principal business activity is investment holding.

As at the Latest Practicable Date, each of Subscriber A and Subscriber B does not hold any Shares or any other securities of the Company, and Subscriber A and Subscriber B and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company (i) as at the Latest Practicable Date, (ii) immediately after Completion but before any acceptance of Offers (assuming no outstanding Share Options and Convertible Notes will be exercised or converted at or prior to Completion); and (iii) immediately after Completion but before any acceptance of Offers (assuming all outstanding Share Options (other than the Lau Options and the Li Options) will be exercised but no Convertible Notes will be converted at or prior to Completion):

	(i) As at the Latest Practicable Date		(ii) Immediately after Completion but before any acceptance of Offers (assuming no outstanding Share Options and Convertible Notes will be exercised or converted at or prior to Completion)		(iii) Immediately after Completion but before any acceptance of Offers (assuming all outstanding Share Options (other than the Lau Options and the Li Options) will be exercised but no Convertible Notes will be converted at or prior to Completion) *(Note 3)*	
Name of the Shareholder	*Number of Shares*	*Approximate percentage (%) (Note 1)*	*Number of Shares*	*Approximate percentage (%)*	*Number of Shares*	*Approximate percentage (%)*
Smart Investor	482,864,000	32.75%	–	–	–	–
Mr Lau *(Note 2)*	9,600,000	0.65%	–	–	–	–
Madam Li *(Note 2)*	9,600,000	0.65%	–	–	–	–
Subtotal	502,064,000	34.05%	–	–	–	–
Other major Shareholder						
Silver Pointer Limited	106,880,000	7.25%	106,880,000	4.71%	106,880,000	4.46%
Other Directors						
Mr. Poon Pak Ki, Eric	2,000,000	0.14%	2,000,000	0.09%	14,900,000	0.62%
Mr. Ng Kam Seng	3,200,000	0.22%	3,200,000	0.14%	16,100,000	0.67%
Mr. Chu Raymond	27,448,000	1.86%	27,448,000	1.21%	40,295,800	1.68%
Mr. Leung Po Wing, Bowen Joseph	–	–	–	–	2,800,000	0.12%
Mr. Chan Siu Wing, Raymond	–	–	–	–	2,800,000	0.12%
Mr. Wong Wah On, Edward	–	–	–	–	1,400,000	0.06%
Subtotal	32,648,000	2.22%	32,648,000	1.44%	78,295,800	3.27%
Offeror and its Concert Parties						
Offeror *(Note 4)*	–	–	1,192,878,857	52.61%	1,192,878,857	49.78%
Subscriber A	–	–	33,936,000	1.50%	33,936,000	1.42%
Subscriber B	–	–	68,300,000	3.01%	68,300,000	2.85%
Subtotal	–	–	1,295,114,857	57.12%	1,295,114,857	54.05%
Mr Chu Sheng Yu, Lawrence *(Note 5)*	672,000	0.05%	672,000	0.03%	672,000	0.03%
Other Shareholders	831,968,000	56.43%	831,968,000	36.69%	915,211,800	38.19%
Total	1,474,232,000	100.00%	2,267,282,857	100.00%	2,396,174,457	100.00%

Notes:

1. The approximate percentage of shareholding was calculated based on 1,474,232,000 Shares in issue as at the Latest Practicable Date.

2. Mr Lau and Madam Li are Directors. Pursuant to the Option Irrevocable Undertakings, each of Mr Lau and Madam Li has undertaken to the Offeror that he or she will not exercise his or her rights attaching to any of the Lau Options and the Li Options (as the case may be) prior to the close of the Offers.

3. This scenario is set out for illustration purpose only, assuming that all outstanding Share Options (other than the Lau Options and the Li Options) will be exercised but no Convertible Notes will be converted at or prior to Completion. Pursuant to the CN Irrevocable Undertakings, Benefit Global has undertaken to the Offeror that it will not exercise its rights attaching to any of the Convertible Notes to convert all or any of the Convertible Notes into Shares.

4. The Offeror shall receive the Consideration Shares as, where appropriate, the designated nominee of ZTI Financial pursuant to the ZTI Agreements.

5. As at the Latest Practicable Date, Mr Chu Sheng Yu, Lawrence, being the ultimate sole shareholder of Benefit Global, holds 672,000 Shares.

(II) MAJOR AND CONNECTED TRANSACTIONS – PROPOSED ACQUISITIONS OF THE ZTI COMPANIES INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

THE ZTI AGREEMENTS

On 23 February 2018, the Company and ZTI Financial entered into the ZTI Capital Agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and ZTI Financial conditionally agreed to dispose of, all the issued shares of ZTI Capital at completion of the ZTI Agreements for a consideration of HK$30,000,000.

On 23 February 2018, the Company and Zhongtai Financial International entered into the ZTI Asset Management Agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and Zhongtai Financial International conditionally agreed to dispose of, all the issued shares of ZTI Asset Management at completion of the ZTI Agreements for a consideration of HK$102,000,000.

On 11 October 2018 and 29 November 2018, (i) the Company (as purchaser) and ZTI Financial (as vendor) entered into the Supplemental ZTI Capital Agreements to revise and amend certain terms of the ZTI Capital Agreement; and (ii) the Company (as purchaser) and Zhongtai Financial International (as vendor) entered into the Supplemental ZTI Asset Management Agreements to revise and amend certain terms of the ZTI Asset Management Agreement.

The principal terms of the ZTI Agreements and the Supplemental ZTI Agreements are summarised below.

Conditions precedent

Pursuant to the Supplemental ZTI Agreements, completion of the ZTI Agreements is conditional upon satisfaction or waiver of the conditions precedent of the relevant ZTI Agreements on or before the Long Stop Date, which are amended and restated as follows:

(a) save for the approvals set out in paragraph (e) below, any necessary approvals, authorisations, consents, waivers, orders, exemptions and notices from all relevant governmental and regulatory authorities or any other third parties (including but not limited to the authorities in the PRC (where applicable)) required for the vendor in respect of the relevant ZTI Agreements and the transactions contemplated thereunder having been obtained, and not having been revoked before the Completion Date;

(b) the Company having obtained all necessary Independent Shareholders' approval in accordance with the Listing Rules, the Company's articles of association and applicable laws and regulations in relation to each of the ZTI Agreements and the transaction contemplated thereunder;

(c) the SFC having granted the necessary consent and/or approval for the Company and/or its controlling shareholders to become the substantial shareholders of ZTI Capital or ZTI Asset Management (as the case may be) under the SFO;

(d) the warranties given by ZTI Financial or Zhongtai Financial International (as the case may be) under the respective ZTI Agreements remaining true, accurate, complete and not misleading as given as at the date of the respective ZTI Agreements and as at the Completion Date, and there being no breach of its and/or the relevant ZTI Company's obligations and undertakings under the respective ZTI Agreements;

(e) the warranties given by the Company under each of the ZTI Agreements remaining true, accurate, complete and not misleading as given as at the date of the respective ZTI Agreements and as at the completion date, and there being no breach of its obligations and undertakings under the respective ZTI Agreements;

(f) the licences granted by the SFC to ZTI Capital or ZTI Asset Management (as the case may be) remaining valid and effective and not having been revoked, terminated or suspended by the relevant authorities, and no representation, notice or statement in relation to the revocation, termination or suspension of such licences having been received on or before the date of completion; at completion, no additional conditions having been imposed by the SFC to ZTI Capital or ZTI Asset Management (as the case may be) by way of notice or otherwise on or before completion which may or will result in material adverse change or material adverse effect on ZTI Capital or ZTI Asset Management (as the case may be);

(g) on or prior to the Completion Date, no binding order, injunction or prohibition having been obtained, applied for or threatened to be obtained by any person (other than a party to the relevant ZTI Agreements) at any competent authorities to restrict or prohibit any party to/from complete/completing the relevant ZTI Agreements or seek damages, or which adversely affect the Company's legal and beneficial ownership over the shares to be acquired free from any Encumbrances; and the relevant ZTI Agreements and the transactions contemplated thereunder being in compliance with the requirements under applicable laws and regulations;

(h) (i) there being no material adverse effect on the financial position, prospects and operations of ZTI Capital or ZTI Asset Management (as the case may be); and (ii) there being no change in the laws applicable to ZTI Capital or ZTI Asset Management (as the case may be) which may result in material adverse change to it as a whole (irrespective of whether such change is effective on or before the Completion Date);

(i) on or before the Completion Date, there being not less than two persons holding valid licence for each of the regulated activities under the SFO in respect of ZTI Capital or ZTI Asset Management (as the case may be), and at least one of which being an executive director as defined under the SFO;

(j) the conditions precedent set out in the Restated Subscription Agreement and the Share Purchase Agreement, other than the condition precedent requiring the ZTI Agreements to be unconditional, having been fulfilled or waived;

(k) (in respect of ZTI Asset Management Agreement only) the conditions precedent as set out in ZTI Capital Agreement, other than the conditions precedent requiring the ZTI Asset Management Agreement, the Restated Subscription Agreement and the Share Purchase Agreement to be unconditional, having been fulfilled or waived; (in respect of ZTI Capital Agreement only) the conditions precedent as set out in ZTI Asset Management Agreement, other than the conditions precedent requiring the ZTI Capital Agreement, the Restated Subscription Agreement and the Share Purchase Agreement to be unconditional, having been fulfilled or waived; and

(l) the approval by the Stock Exchange for the listing of, and permission to deal in, the relevant Consideration Shares having been obtained by the Company, and such approval not having been revoked on or before the Completion Date.

The Company may waive any of the above conditions in whole or in part other than conditions (a) to (c), (j) to (l) as set out above. ZTI Financial or Zhongtai Financial International (as the case may be) may waive conditions (e) and (g) (other than in respect of such prohibition which adversely affects the Company's legal and beneficial ownership over the shares to be acquired) above in whole or in part.

For the avoidance of doubt, the Subscription and the ZTI Acquisitions are inter-conditional.

If any of the above conditions is not satisfied or waived on or before the Long Stop Date, one party to the ZTI Agreements may terminate the ZTI Agreements by written notice to the other party, save for certain surviving clauses as specified therein and save for any antecedent breach of any provisions therein.

As at the Latest Practicable Date, save for condition (c), none of the above conditions precedent has been satisfied.

Consideration

The consideration for the ZTI Capital Acquisition, being HK$30,000,000, shall be satisfied by the allotment and issue, credited as fully paid, by the Company to the Offeror (as the designated nominee of ZTI Financial) 85,714,286 Consideration Shares, credited as fully paid, at the Issue Price of approximately HK$0.35 per Consideration Share, at completion of the ZTI Capital Agreement.

The consideration for the ZTI Asset Management Acquisition, being HK$102,000,000, shall be satisfied by the allotment and issue, credited as fully paid, by the Company to the Offeror 291,428,571 Consideration Shares, credited as fully paid, at the Issue Price of approximately HK$0.35 per Consideration Share, at completion of the ZTI Asset Management Agreement.

The consideration for each of the ZTI Acquisitions was determined after arm's length negotiations between the Company and the relevant vendors to the ZTI Agreements with reference to, among other things, the unaudited and audited net asset value ("**NAV**") of each of the ZTI Companies as at 31 December 2017. When the parties entered into the ZTI Capital Agreement and the ZTI Asset Management Agreement on 23 February 2018, the consideration for each of the ZTI Acquisitions was determined with reference to and equivalent to the then available unaudited NAV of each of the ZTI Companies as at 31 December 2017. Subsequent to the signing of the ZTI Capital Agreement and the ZTI Asset Management Agreement, the audited NAV of each of the ZTI Companies as at 31 December 2017 became available and the Company noted that due to the difference between the audited and unaudited NAV of each of the ZTI Companies, the aggregate consideration for the ZTI Acquisitions became approximately 1.17 times of the aggregate NAVs of the ZTI Companies. However, the consideration remained unchanged taking into account that each of the vendors to the ZTI Acquisitions had warranted to the Company that the unaudited net asset value of the ZTI Companies as at Completion Date shall not be less than the relevant consideration paid by the Company, which is a condition to the completion of the ZTI Agreements. As such, even if there is any shortfall in the NAV of the ZTI Companies at Completion, the relevant vendors will recapitalize the ZTI Companies such that the NAV of the ZTI Companies shall not be less than the consideration paid, effectively adjusting the implied price to book ratio of the ZTI Acquisitions at Completion of being 1.00, and enabling the Group to purchase the ZTI Companies at their respective net asset value at Completion.

The Company considered the acquisition of ZTI Capital and ZTI Asset Management as a whole. In determining the consideration and reasons and benefits of the ZTI Acquisitions, the Company has also considered the historical financial performance of the ZTI Companies on a combined basis. On a combined basis, the ZTI Companies reported an aggregate profit of about HK$37.4 million for 2015 and an aggregate loss of HK$37.6 million and HK$3.6 million for 2016 and 2017, respectively. The change in position from 2015 to 2016 was mainly due to (i) a decrease in revenue for ZTI Capital in 2016 arising from a decrease in placing and underwriting commission due to decreased number of IPO sponsorship engagements of ZTI Capital; (ii) an increase in total expenses for ZTI Capital and ZTI Asset Management in 2016 due to an increase in staff-related costs as total number of employees increased significantly in 2016; and (iii) a decrease in other income and gain for ZTI Asset Management in 2016 due to a fair value change of investments in a subsidiary. The narrowing of loss from 2016 to 2017 was mainly due to (i) a substantial increase in revenue for ZTI Asset Management in 2017 resulting from a growth in assets under management and advisory income; and (ii) a decrease in expenses for ZTI Capital in 2017 due to a decrease in performance-based staff-related costs. Despite the ZTI Companies being loss-making for the years ended 31 December 2016 and 2017, the Company noted that the trend of loss is decreasing substantially by approximately 90.6% in 2017 and in fact the ZTI Companies turned a profit of approximately HK$9.7 million for the six months ended 30 June 2018. This was mainly due to the decrease in net loss for ZTI Capital arising from an increase in its revenue from placing and underwriting commission and advisory fees and the increase in net profit of ZTI Asset Management due to the increase in its revenue arising from a growth in assets under management when compared with the same period in the previous financial year. The Company also noted that in the year ended 31 December 2015, the ZTI Companies recorded a net profit of HK$37.4 million on an aggregate basis, a year in which each of the ZTI Companies was also profitable on its own.

Furthermore, the ZTI Acquisitions would allow the Group to expand its services in the Financial Services Division. The ZTI Acquisitions would allow the Financial Services Division to provide listing sponsorship and financial advisory services for transactions falling within the ambit of the Takeovers Code, both of which are currently not available under the Financial Services Division due to licensing restrictions. The ability to offer such services would substantially enhance the Group's ability to compete more effectively in the underwriting business as it would be able to provide comprehensive, one-stop services to IPO clients covering sponsorship, underwriting and post-listing compliance and financial advisory services. The ZTI Acquisitions would also allow the Financial Services Division to rapidly build up its assets under management as ZTI Asset Management had total assets under management of about HK$2.1 billion as at 30 June 2018. Such assets under management are expected to generate stable fund management fee revenues for the Group. In determining the consideration of the ZTI Acquisitions, although the Company has also considered an income approach based on a price to earnings ratio on the historical financial performance of the ZTI Companies, due to the fact that the historical financial performance of the ZTI Companies fluctuated from profit to loss during the track record period, it will not be straight forward to agree upon a reasonable price to earnings ratio. Therefore, the Company considers that it is appropriate to determine the consideration for the ZTI Acquisitions with reference to the NAVs of each of the ZTI Companies.

Apart from the aforesaid, the Group also took into account the factors as set out in the paragraph headed "Reasons for and Benefits of the Subscription and the ZTI Acquisitions" in this letter from the Board, in determining the consideration and reasons and benefits of the ZTI Acquisitions.

Consideration Shares

The Consideration Shares to be issued, being an aggregate of 377,142,857 Shares, represent (i) approximately 25.58% of the total issued share capital of the Company as at the Latest Practicable Date; (ii) approximately 20.37% of the total issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares only (assuming no outstanding Share Options or Convertible Notes will be exercised or converted and no other Shares will be allotted or issued at or prior to Completion); and (iii) approximately 16.63% of the total issued share capital of the Company as enlarged upon Completion (assuming no outstanding Share Options or Convertible Notes will be exercised or converted and no other Shares will be allotted or issued at or prior to Completion).

The Issue Price of HK$0.35 per the Consideration Share was determined by the Board after arm's length negotiations with the ZTI Financial and ZTI Financial International and equivalent to the Subscription Price. For comparison of the Issue Price with the recent closing prices of the Shares and the consolidated net asset value of the Group per Share, please refer to the paragraph headed "(I) The Restated Subscription Agreement - Subscription Price" of this circular.

The Consideration Shares (when allotted, issued and fully paid), will rank *pari passu* in all respects with the Shares in issue on the Completion Date, including the right to receive all dividends and other distributions declared, made or paid the record date of which falls on or after the Completion Date.

The Consideration Shares will be allotted and issued under the Specific Mandate which will be subject to the approval of the Independent Shareholders at the EGM. An application will be made by the Company for the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange.

Completion

Completion of each of the ZTI Agreements is expected to take place on the third business day after the day on which all the conditions precedent of the relevant ZTI Agreements have been fulfilled (or, where applicable, waived). Upon completion of the ZTI Acquisitions, each of ZTI Capital and ZTI Asset Management will become a wholly-owned subsidiary of the Company.

Pursuant to the ZTI Agreements (as amended by the Supplemental ZTI Agreements), completion of the ZTI Acquisitions will take place simultaneously with completion of the Subscription and the Share Purchase Agreement.

Information on ZTI Financial

ZTI Financial is a company incorporated in the British Virgin Islands with limited liability. It is an investment holding company and its subsidiaries are principally engaged in provision of brokerage of securities, futures and options, margin financing, equity and debt financing and corporate finance advisory services. ZTI Financial is wholly-owned by ZTI Cayman, which is in turn held as to approximately 97.15% by ZTI Overseas (a wholly-owned subsidiary of Zhongtai Financial International) and approximately 2.85% by Subscriber B as at the Latest Practicable Date.

Information on Zhongtai Financial International

Zhongtai Financial International is a company incorporated in Hong Kong with limited liability. Please refer to the section headed "Information on the Offeror" of this circular for further details.

Information on the ZTI Companies

ZTI Capital

ZTI Capital is a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. It is principally engaged in the provision of corporate finance advisory and capital markets services, including sponsorship, merger and acquisition, corporate and asset reorganisation and equity capital raising.

Set out below is the financial information of ZTI Capital as extracted from its audited financial statements for the three financial years ended 31 December 2017 and for the six months ended 30 June 2018 prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 December			For the six months ended 30 June
	2015	**2016**	**2017**	**2018**
	(audited)	**(audited)**	**(audited)**	**(audited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	51,830	28,076	14,219	18,106
Profit/(Loss) before taxation	25,116	(31,217)	(24,934)	(1,857)
Profit/(Loss) after taxation	21,516	(31,251)	(25,071)	(1,857)

The audited net asset value of ZTI Capital as at 31 December 2017 was approximately HK$15,479,000.

ZTI Asset Management

ZTI Asset Management is a company incorporated in Hong Kong with limited liability and a licensed corporation under the SFO to conduct Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO. It is principally engaged in the provision of asset management services.

Set out below is the financial information of ZTI Asset Management as extracted from its audited financial statements for the three financial years ended 31 December 2017 and for the six months ended 30 June 2018 prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 December			For the six months ended 30 June
	2015	**2016**	**2017**	**2018**
	(audited)	**(audited)**	**(audited)**	**(audited)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	23,844	26,693	57,480	30,340
Profit/(Loss) before taxation	15,839	(6,348)	25,245	13,604
Profit/(Loss) after taxation	15,839	(6,348)	21,521	11,555

The audited net asset value of ZTI Asset Management as at 31 December 2017 was approximately HK$97,362,000.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Offeror and ZTI Financial and their ultimate beneficial owners are third parties independent of the Company and its connected persons. Upon Completion, the Offeror will become a controlling shareholder and thus a controller of the Company. As ZTI Financial is a non-wholly owned subsidiary of the Offeror, it is an associate of the proposed controller. As such, the ZTI Acquisitions under the ZTI Agreements constitute connected transactions for the Company pursuant to Rule 14A.28 of the Listing Rules. As one or more of the applicable percentage ratios of the ZTI Acquisitions in aggregate exceeds 5% and the aggregate consideration is more than HK$10,000,000, the entering into of the ZTI Agreements and the ZTI Acquisitions contemplated thereunder are subject to reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios of the ZTI Acquisitions in aggregate exceeds 25% but all of them are less than 100%, the entering into of the ZTI Agreements and the ZTI Acquisitions contemplated thereunder also constitute major transactions for the Company and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As the Vendors are parties to the Share Purchase Agreement and completion of the Share Purchase Agreement is conditional upon completion of the Subscription and the ZTI Acquisitions, the Vendors are regarded as having material interest in the Subscription and the ZTI Acquisitions. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, save for the Vendors, no Shareholder (or its associates) has any material interest in the ZTI Acquisitions and is required to abstain from voting in relation to the resolutions concerning the ZTI Acquisitions.

As Mr Lau and Madam Li are considered to have a material interest in the ZTI Agreements, Mr Lau and Madam Li abstained from voting on the board resolutions approving the Supplemental ZTI Agreements. Save as disclosed above, none of the Directors has any material interest in the ZTI Agreements and the transactions contemplated thereunder, none of the Directors is required to abstain from voting on the board resolutions approving the ZTI Acquisitions. The Directors (including all the independent non-executive Directors, after taking into account the advice from the Independent Financial Adviser) are of the view that the ZTI Agreements and the transactions contemplated thereunder are on normal commercial terms or better, and the terms of the ZTI Acquisitions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION AND THE ZTI ACQUISITIONS

Despite the recent corrections and volatilities in the Hong Kong securities markets which saw the decline of the Hang Seng Index from its peak closing of 33,154.12 on 26 January 2018 to 24,979.69 as at 31 October 2018, the average daily turnover of the Stock Exchange nonetheless still increased by about 35% from about HK$83.3 billion for the first 10 months of 2017 to about HK$112.7 billion for the first 10 months of 2018, and there were 185 newly listed companies for the first 10 months of 2018, an increase of 41% when compared with 131 for the same period last year, based on the statistics provided by the Stock Exchange. As set out in the Company's interim report for the six months ended 30 September 2018, the expansion capabilities of the Financial Services Division is limited particularly for those operations requiring a wider capital base or more extensive deployment of capital, including participating in underwritings of bigger-scale transactions and securities margin financings. The Subscription will substantially increase the capital base of the Company, and thus increase its capabilities to participate in more principal-based and underwriting activities.

The Group, through Crosby Securities and Crosby Asset Management, is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. As set out in the information relating to the intentions of the Offeror in relation to the Group in the Joint Announcements, the Offeror intends to expand the business scale and product offerings of the Financial Services Division. Following the ZTI Capital Acquisition, the services offered by the Financial Services Division will be broadened to engaging in new listing sponsorship and financial advisory services for transactions falling within the ambit of the Takeovers Code. Following the ZTI Asset Management Acquisition, the team of the asset management business of the Financial Services Division will be strengthened and there will be synergy between the asset management business of the Financial Services Division and ZTI Asset Management.

Upon the completion of the Acquisitions, the financial resources of the existing Financial Services Division and the ZTI Companies will be combined and shared.

The proposed acquisition of ZTI Asset Management by the Group will create synergy with the asset management business of the Financial Services Division of the Group as it is expected to allow the Group to achieve a substantial scale in assets under management of about HK$2 billion immediately after Completion. For any asset management company, an increase in size of assets under management could potentially improve its market competitiveness, market credibility and distribution effectiveness. Furthermore, the investment products offered by ZTI Asset Management may provide the clients of the Financial Services Division with a broader array of choice of in-house products, which in turn might generate commissions, advisory fees or fund management fees for the Group.

In terms of the proposed acquisition of ZTI Capital, the synergy will be reflected through the expansion in the range of services that the enlarged corporate finance operation of the Group can provide to its clients, including acting as a sponsor for IPOs, providing financial advisory and independent financial advisory services (including those falling within the ambit of the Takeovers Code) and compliance services after listing. Combined with the existing underwriting and placing capabilities of the Financial Services Division, the proposed acquisition of ZTI Capital will allow the Group to provide one-stop comprehensive services to issuer clients in both fund raising and financial advisory in order to achieve better market reputation and competitiveness. Furthermore, an increased participation in sponsorship and underwriting of IPO transactions may improve the securities trading business of the Financial Services Division in relation to subsequent secondary trading of the issuers' stocks.

In addition, the ZTI Acquisitions will minimise any potential competition and conflicts of interest between the Group and Zhongtai International Group. Crosby Securities is principally engaged in securities brokerage, securities margin financing, provision of investment advisory, corporate finance advisory, capital markets services and asset management services to mainly institutional and corporate clients and Crosby Asset Management is principally engaged in provision of investment advisory and fund management services to mainly institutional and corporate clients, while ZTI Capital is principally engaged in the provision of corporate finance advisory and capital markets services, including sponsorship, merger and acquisition, corporate and asset reorganisation, equity and debt capital raising and ZTI Asset Management is principally engaged in provision of asset management services. Given the similar natures of principal businesses of these companies, it is for the benefits of and in the interests of the Company and its Shareholders to inject ZTI Capital and ZTI Asset Management into the Group.

Upon Completion, the ZTI Companies will become wholly-owned subsidiaries of the Company, and the assets, liabilities and results of the ZTI Companies will be consolidated into the financial statements of the Group. Based on the unaudited pro forma financial information of the Enlarged Group set out in Appendix IV to this circular, upon Completion, the unaudited consolidated total assets of the Enlarged Group would have been increased to approximately HK$1.2 billion on a pro forma basis; and its unaudited consolidated total liabilities would have been increased to approximately HK$487.7 million on a pro forma basis. Accordingly, the unaudited pro forma consolidated net assets of the Enlarged Group as at 30 June 2018 would be increased by approximately HK$335.9 million to approximately HK$752.4 million. Details of the unaudited pro forma financial information of the Enlarged Group are set out in "Appendix IV – Unaudited Pro Forma Financial Information of the Enlarged Group" to this circular.

Taking into consideration the reasons for and benefits of the Subscription and the ZTI Acquisitions to the Group set out above and the following factors:

(a) the gross proceeds of the Subscription of HK$145,567,800, will be settled in cash upon the Completion, which will increase the Group's capital base and will be crucial for the future growth of its businesses;

(b) the basis for determination of the Subscription Price as set out in the section headed "(I) The Restated Subscription Agreement – Subscription Price" above;

(c) Completion will lead to the Offers which will be extended to all Shareholders, Optionholders and CN Holder (other than the Offeror and its Concert Parties) and the share offer price of HK$0.71 per Share under the Share Offer represents (i) a premium of approximately 143.6% over the audited consolidated net asset value of the Company of approximately HK$0.2915 per Share as at 31 March 2018; and (ii) a premium of approximately 151.3% over the unaudited consolidated net asset value of the Company of approximately HK$0.2825 per Share as at 30 September 2018; and

(d) the dilution effect on the shareholding interests of the existing Shareholders is acceptable in view of the aforesaid reasons and factors,

the Directors (including all the independent non-executive Directors, after taking into account the advice from the Independent Financial Adviser) are of the view that the terms of the Restated Subscription Agreement (including the Subscription Price and the number of Subscription Shares) and the ZTI Agreements (including the Issue Price and the number of Consideration Shares) are on normal commercial terms, fair and reasonable and the Subscription and the ZTI Acquisitions are in the interests of the Company and the Shareholders as a whole.

BUSINESS PLAN OF THE COMPANY IN THE COMING 24 MONTHS

As disclosed in the paragraph headed "Intentions of the Offeror in relation to the Group" in the October Joint Announcement, following the close of the Offers, the Offeror intends to continue the operation of the toy division of the Group as one of the core business divisions of the Group as it has been a stable profit and cashflow generating division of the Group and the Offeror does not have any plan to expand or reduce the current scale of the Toy Business. As for the Financial Services Division, with the enlarged capital base by the Subscription, the Offeror intends to expand the business scale and product offerings of the Financial Services Division through leveraging on the reputation, financial resources and business network of Zhongtai Securities and Zhongtai Financial International.

The Company intends that the Toy Business will continue to focus on providing OEM toy manufacturing services for its customers in accordance with their requirements in the coming 24 months after Completion. The Toy Business will focus on servicing customers of internationally reputable toy brands that are considered to be more reliable in order placing and credit worthiness and higher transparency on its business background in general.

Through the vast office and client networks of Zhongtai Securities, which has over 250 offices in 28 provinces, cities or autonomous regions in China, the Toy Business will seek to get business introductions and opportunities in China to enhance its marketing efforts there. The Greater China market represented about 9.7% and 10.8% of the Group's revenues from the Toy Business for the year ended 31 March 2018 and 2017, respectively, while the North American and Western European markets represented about 77.3% and 77.0% of the Group's revenues from the Toy Business for the same respective periods. The Group believes that there is room to increase the weightings of the Greater China markets in the revenues of the Toy Business and the Toy Business of the Group intends to work closely with Zhongtai Securities to seek to improve its exposure in the Greater China markets and diversify away from the traditional North American and Western European markets, especially in view of the uncertainties arising from the ongoing trade wars between the United States and China.

In the coming 24 months, the Company also expects to grow and develop various segments of the financial services business via the utilization of the proceeds from the Subscription. The Financial Services Division intends to expand and develop a portfolio of clients for its securities margin financing business. With the completion of the acquisition of ZTI Capital, the Group will also be able to commence IPO sponsorship activities and increase its participation in underwriting activities, benefiting from the current transaction pipeline of ZTI Capital. The Financial Services Division is also expected to increase its activities in providing financial advisory services falling within the ambit of the Takeovers Code and the Listing Rules in general. The Company also intends to steadily grow its asset management business after the completion of the acquisition of ZTI Asset Management by further improving its assets under management and expanding its investment product offerings.

Immediately after the close of the Offers, the Offeror will conduct a review of the financial position and operations of the Group in order to formulate a long-term strategy for the Group and explore other business/investment opportunities for enhancing its future development and strengthening its revenue bases. Subject to the results of such review and depending on the development of the Financial Services Division as set out above, should any suitable investment or business opportunities arise, the Offeror may consider acquisition of assets and/or business relating to the Financial Services Division by the Group, including but not limited to the acquisitions of any other subsidiaries of Zhongtai Financial International other than ZTI Capital and ZTI Asset Management, so as to enhance the business development and financial conditions of the Group. Nevertheless, as at Latest Practicable Date, save for the ZTI Acquisitions, there was no existing plan, arrangement, agreement, understanding or negotiation in connection therewith by the Offeror.

Save as disclosed above, as at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, and based on the information provided by the Offeror, there is no intention, agreement, arrangement, negotiation, understanding or undertaking (whether formal or informal and whether express and implied) for the Company to dispose of, scale down, downsize, or expand its business operation including the Toy Business and the Financial Services Division.

As disclosed in the announcement of the Company dated 21 March 2017, the Company has entered into several continuing connected transactions in relation to the lease of properties from or to its connected persons and these continuing connected transactions will expire on 31 March 2019. The Company will assess and determine whether or not to renew these continuing connected transactions closer to 31 March 2019. If the continuing connected transactions are renewed by the Company upon expiry, the Company shall comply with the Listing Rules accordingly.

Save as disclosed above, as at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, and based on the information provided by the Offeror, there are no other notifiable transaction, connected transaction, fundraising activity or corporate action the Company intends, plans, agrees, undertakes, or is negotiating to conduct in the coming 24 months. In the event that any notifiable transaction, connected transaction, or fundraising activities or corporate actions arises in the coming 24 months, the Company will comply with the Listing Rules accordingly.

(III) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the existing authorised share capital of the Company is US$75,000 divided into 3,000,000,000 Shares of which 1,474,232,000 Shares are in issue and fully paid or credited as fully paid. In order to accommodate future expansion and growth of the Company and to provide the Company with greater flexibility to raise funds by allotting and issuing Shares in the future as and when necessary, the Board proposes to increase the authorised share capital of the Company from US$75,000 (divided into 3,000,000,000 Shares) to US$150,000 (divided into 6,000,000,000 Shares) by the creation of an additional 3,000,000,000 Shares which shall rank pari passu in all respects with the existing Shares in issue. The Increase in Authorised Share Capital is conditional upon the passing of an ordinary resolution by the Shareholders at the EGM. For the avoidance of doubt, the Increase in Authorised Share Capital will not be conditional upon completion of the Subscription or the ZTI Acquisitions.

(IV) EGM

The EGM will be convened and held at 10:00 a.m. on Wednesday, 16 January 2019 at Unit 101, First Commercial Building, 33-35 Leighton Road, Causeway Bay, Hong Kong to consider and, if thought fit, to approve the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder, including but not limited to the Specific Mandate for the allotment and issue of the Subscription Shares and the Consideration Shares, and the Increase in Authorised Share Capital.

As the Vendors are parties to the Share Purchase Agreement and completion of the Share Purchase Agreement is conditional upon completion of the Subscription and the ZTI Acquisitions, the Vendors are regarded as having material interest in the Subscription and the ZTI Acquisitions. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, save for the Vendors, no Shareholder has a material interest in such matters and is required to abstain from voting in relation to the resolutions concerning the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder, including but not limited to the Specific Mandate for the allotment and issue of the Subscription Shares and the Consideration Shares, and the Increase in Authorised Share Capital to be proposed at the EGM.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder as at the Latest Practicable Date whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use thereat is also enclosed. Whether or not you are able to attend and vote at the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event no later than 10:00 a.m. on Monday, 14 January 2019, or not less than 48 hours before the time appointed for the holding of any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from subsequently attending and voting at the meeting or any adjournment thereof (as the case may be), should you so wish.

(V) RECOMMENDATION

The Directors are of the view that the terms of the Restated Subscription Agreement (including the Subscription Price and the number of Subscription Shares) are on normal commercial terms, fair and reasonable and the Subscription are in the interests of the Company and the Shareholders as a whole.

The Directors (including all independent non-executive Directors after taking into account the advice from the Independent Financial Adviser) are of the view that the terms of the ZTI Agreements (including the Issue Price and number of Consideration Shares) are on normal commercial terms, fair and reasonable, and the ZTI Acquisitions are in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to the letter from the Independent Board Committee to the Independent Shareholders as set out on page 42 of this circular and the letter from Veda Capital to the Independent Board Committee and the Independent Shareholders as set out on pages 43 to 82 of this circular in respect of the Subscription and the ZTI Acquisitions. The Independent Board Committee, having taken into account the advice from Veda Capital, considers that the terms of the Restated Subscription Agreement and the ZTI Agreements are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders/Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Restated Subscription Agreement, the ZTI Acquisitions and the transactions contemplated thereunder, including but not limited to the granting of the Specific Mandate and the Increase in Authorised Share Capital.

(VI) ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular and the notice of the EGM.

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

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1348)

31 December 2018

To the Independent Shareholders

Dear Sir or Madam,

(I) PROPOSED SUBSCRIPTION OF NEW SHARES IN THE COMPANY BY THE SUBSCRIBERS; AND (II) MAJOR AND CONNECTED TRANSACTIONS – PROPOSED ACQUISITIONS OF THE ZTI COMPANIES INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

We refer to the circular of the Company to the Shareholders dated 31 December 2018 (the "**Circular**") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires. We have been appointed by the Board as members to constitute the Independent Board Committee and to advise the Independent Shareholders in respect of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder.

We wish to draw your attention to the letter from the Board as set out on pages 11 to 41 of the Circular, which sets out details of the Restated Subscription Agreement and the ZTI Agreements. We also wish to draw your attention to the letter from the Independent Financial Adviser as set out on pages 43 to 82 of the Circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Restated Subscription Agreement and the ZTI Agreements.

Having taken into account the terms of the Restated Subscription Agreement and the ZTI Agreements, and the advice and recommendation of the Independent Financial Adviser, we consider that the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder are on normal commercial terms or better, and the terms of the Restated Subscription Agreement and the ZTI Agreements are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee
Leung Po Wing, Bowen Joseph ***GBS, JP*** **Chan Siu Wing, Raymond** **Wong Wah On, Edward**
Independent non-executive Directors

* *For identification purpose only*

The following is the full text of a letter of advice from Veda Capital to the Independent Board Committee and the Independent Shareholders in respect of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.

Room 1106, 11/F.
Wing On Centre
111 Connaught Road Central
Hong Kong

31 December 2018

To the Independent Board Committee and the Independent Shareholders of
Quali-Smart Holdings Limited

Dear Sirs,

(I) PROPOSED SUBSCRIPTION OF NEW SHARES IN THE COMPANY BY THE SUBSCRIBERS; AND (II) MAJOR AND CONNECTED TRANSACTIONS – PROPOSED ACQUISITIONS OF THE ZTI COMPANIES INVOLVING THE ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the "**Board Letter**") contained in this circular (the "**Circular**") dated 31 December 2018 issued by the Company, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

References are made to the Initial Announcement, the Joint Announcements, the announcements of the Company dated 9 March 2018, 28 March 2018, 3 April 2018, 30 April 2018, 31 May 2018, 29 June 2018, 23 July 2018, 31 August 2018, 31 October 2018 and 30 November 2018, and the joint announcements of the Company and the Original Offeror dated 18 March 2018, 20 April 2018, 18 May 2018, 20 June 2018, 12 July 2018, 14 August 2018 and 2 November 2018 in relation to, among other matters:

(i) on 23 February 2018, the Company, the Original Offeror, Subscriber A and Subscriber B entered into the Initial Subscription Agreement and on 11 October 2018, the Company, the Original Offeror, Subscriber A and Subscriber B entered into the Restated Subscription Agreement to amend and restate the Initial Subscription Agreement. Pursuant to the Restated Subscription Agreement, (i) the Initial Subscription Agreement has been terminated and superseded; (ii) the Company conditionally agreed to allot and issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 415,908,000 Shares, free from all Encumbrances and together with all rights and benefits attaching to them at Completion and thereafter, for an aggregate consideration of HK$145,567,800 at the Subscription Price of HK$0.35 per Subscription Share;

(ii) on 23 February 2018, the Company (as purchaser) and ZTI Financial (as vendor) entered into the ZTI Capital Agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and ZTI Financial conditionally agreed to dispose of, all issued shares of ZTI Capital for a consideration of HK$30,000,000.

(iii) on 23 February 2018, the Company (as purchaser) and the Offeror (as vendor) entered into the ZTI Asset Management Agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and the Offeror conditionally agreed to dispose of, all issued shares of ZTI Asset Management for a consideration of HK$102,000,000;

(iv) on 29 November 2018, the Company, the Original Offeror, Subscriber A, Subscriber B and the Offeror entered into Deed of Novation I in relation to the Restated Subscription Agreement, pursuant to which the Original Offeror agreed to assign and novate, and the Offeror agreed to assume and perform, all the rights and obligations of the Original Offeror under the Restated Subscription Agreement with effect from 29 November 2018; and

(v) on 29 November 2018, the Company entered into supplemental agreements with ZTI Financial and the Offeror respectively to revise certain terms of the ZTI Agreements, pursuant to which the consideration for the ZTI Acquisitions shall be satisfied by the allotment and issue of Consideration Shares to the Offeror (as, where appropriate, the designated nominee of ZTI Financial).

For the avoidance of doubt, the Subscription and the ZTI Acquisitions are inter-conditional.

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Offeror, ZTI Financial and each of the Subscribers and their ultimate beneficial owners are third parties independent to the Company and its connected persons. Upon Completion, the Offeror will become a controlling Shareholder and thus a controller of the Company. As ZTI Financial is a non-wholly owned subsidiary of the Offeror, it is an associate of the proposed controller. As such, the ZTI Acquisitions under the ZTI Agreements constitute connected transactions for the Company pursuant to Rule 14A.28 of the Listing Rules. As one or more of the applicable percentage ratios of the ZTI Acquisitions in aggregate exceeds 5% and the aggregate consideration is more than HK$10,000,000, the entering into of the ZTI Agreements and the ZTI Acquisitions are subject to reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. In this connection, the Company will seek the Independent Shareholders' approval for the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder at the EGM.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Leung Po Wing, Bowen Joseph GBS, JP, Mr. Chan Siu Wing, Raymond and Mr. Wong Wah On, Edward, has been established to advise the Independent Shareholders as to whether the terms of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and whether the Subscription and the ZTI Acquisitions are in the interests of the Company and the Shareholders as a whole, and to give a recommendation to the Independent Shareholders in respect of the voting on the resolutions to be proposed at the EGM. We, Veda Capital, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in the same regard.

As at the Latest Practicable Date, we were not aware of any relationships or interests between (a) Veda Capital and (b) the Company, the Offeror, ZTI Financial or any other parties that could be reasonably be regarded as hindrance to Veda Capital's independence as defined under Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder. We are not associated with the Company, its subsidiaries, its associates or their respective substantial shareholders or associates, and accordingly, are eligible to give independent advice and recommendations on the terms of the Restated Subscription Agreement, the ZTI Agreements and the transactions contemplated thereunder. In the last two years, there has been no engagement between the Group and Veda Capital. Apart from normal professional fees payable to us in connection with this appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, no arrangement exists whereby we will receive any fees from the Company, its subsidiaries, its associates or their respective substantial shareholders or associates.

BASIS OF OUR OPINION

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained in the Circular and information provided to us by the Company, the Directors and the management of the Company. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them. The Company will notify the Shareholders of any material changes during the offer period (as defined under the Takeovers Code) as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be notified of any material changes to such information provided and our opinion as soon as possible after the Latest Practicable Date and throughout the offer period (as defined under the Takeovers Code). We consider that the information we have received is sufficient for us to reach our opinion and advice as set out in this letter. We have no reason to doubt the truth and accuracy of the information provided to us or to believe that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied. We have also assumed that all representations contained or referred to in the Circular are true at the time they were made and at the date of the Circular and Shareholders will be notified of any material changes as soon as possible, if any.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, 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 statements herein or in the Circular misleading. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and management of the Company.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the ZTI Acquisitions, the Subscription and the Specific Mandate, we have taken into account the following principal factors and reasons:

1. Business and financial information of the Group and the ZTI Companies

The Company is principally engaged in investment holding. The Group is principally engaged in the manufacturing and sales of toys and provision of securities brokerage, securities margin financing, investment advisory, corporate finance advisory and asset management services.

Financial performance of the Group

Set out below are the audited consolidated financial information of the Group for the financial years ended 31 March 2017 and 31 March 2018 as extracted from the annual report of the Company for the year ended 31 March 2018 (the "**2018 Annual Report**") and the unaudited consolidated financial information of the Group for the six months ended 30 September 2017 and 2018 as extracted from the interim report of the Company for the six months ended 30 September 2018 (the "**2018 Interim Report**").

Table 1: Consolidated income statement of the Group

	For the year ended		For the six months ended	
	31 March 2017	31 March 2018	30 September 2017	30 September 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited) (Re-presented)	(unaudited)
Revenue	784,871	774,929	558,412	459,238
Loss before income tax expenses for the years/periods	(43,925)	(28,365)	(1,630)	(11,628)
Loss attributable to the owners of the Company for the years/periods	(94,143)	(47,169)	(19,950)	(15,895)

Table 2: Consolidated financial position of the Group

	As at 31 March		As at 30 September
	2017	2018	2018
	HK$'000	*HK$'000*	*HK$'000*
	(audited)	(audited)	(unaudited)
Non-current assets	242,125	231,428	235,374
Current assets	552,731	417,649	612,107
Non-current liabilities	5,763	74,096	80,870
Current liabilities	367,234	145,250	350,123
Net assets attributable to owners of the Company	421,269	429,731	416,488

As stated in the 2018 Annual Report, the Group recorded a revenue of approximately HK$774.9 million for the year ended 31 March 2018, representing a decrease of approximately 1.3% as compared with a revenue of approximately HK$784.9 million for the year ended 31 March 2017. Such decrease in revenue was due to a mild decrease in sales to some of the Toy Business's top 5 customers.

The loss attributable to owners of the Company for the year ended 31 March 2018 was approximately HK$47.2 million compared with a loss of approximately HK$94.1 million for the year ended 31 March 2017. Such decrease in net loss was mainly due to (i) a significant improvement in the segment profit of the Toy Business by approximately HK$10.1 million or 43.3% as a result of an increase in the gross profit margin of this segment; (ii) a decrease in segment loss of the Financial Services Division by approximately of HK$9.0 million or 26.3% as a result of an increase in the revenue of this segment and a decrease in its employee benefits expenses; (iii) a decrease in costs of approximately HK$17.1 million or 55.9% arising from the non-cash, equity settled share-based payment expenses related to the share options granted as a result of a decrease in the number of remaining years of vesting period for the granted share options for the year ended 31 March 2018 as compared to the year ended 31 March 2017; (iv) a decrease in fair value loss on derivative financial asset of approximately HK$5.1 million for the year ended 31 March 2018 following the full redemption of the convertible bonds issued in 2014; and (v) a decrease in segment loss of the IT Division, a discontinued operation, of approximately HK$34.4 million from approximately HK$49.5 million for the year ended 31 March 2017 to approximately HK$15.1 million for the year ended 31 March 2018 as a result of a shorter period of consolidation of its results following the disposal of the IT Division by the Group at the end of December 2017, a decrease in impairment loss on goodwill and the intangible assets of approximately HK$25.9 million and a gain of disposal of subsidiaries of approximately HK$2.0 million.

As set out in the 2018 Interim Report, the Group recorded a revenue of approximately HK$459.2 million for the six months ended 30 September 2018, representing a decrease of approximately 17.8% as compared with the revenue of approximately HK$558.4 million for the six months ended 30 September 2017. The decrease in the Group's revenue for the six months ended 30 September 2018 of approximately HK$99.2 million was mainly attributable to the decrease in revenue contributed by the Toy Business of approximately HK$90.5 million and the Financial Services Division of approximately HK$8.7 million, representing a decrease of approximately 16.5% and 73.8%, respectively as compared to that for the six months ended 30 September 2017.

The loss attributable to owners of the Company for the six months ended 30 September 2018 amounted to approximately HK$15.9 million, representing a reduction of loss of approximately 20.3% when compared to the loss of approximately HK$20.0 million for the six months ended 30 September 2017. The decrease in loss for the six months ended 30 September 2018 was mainly attributable to (i) the absence of the loss incurred by the discontinued IT business segment of the Group which was disposed of in December 2017 and which accounted for approximately HK$13.5 million of the loss for the six months ended 30 September 2017 (of which approximately HK$11.7 million was due an impairment loss on intangible assets of the IT Division); (ii) a decrease in selling expenses of approximately HK$4.6 million attributable to the Toy Division in line with the decrease in its revenue; and (iii) a decrease in costs of approximately HK$4.5 million and HK$4.4 million arising from a reduction in salaries expenses and the non-cash, equity settled share-based payment expenses related to the share options granted as a result of a decrease in the number of remaining years of vesting period for the granted share options, respectively, for the six months ended 30 September 2018 as compared to the six months ended 30 September 2017.

Based on the 2018 Annual Report, the Group recorded net assets attributable to owners of the Company of approximately HK$429.7 million as at 31 March 2018. The current assets of the Group mainly comprised cash and bank balances of approximately HK$141.2 million, pledged bank deposits of approximately HK$60.4 million, cash and bank balances held on behalf of customers of approximately HK$66.3 million and inventories of approximately HK$94.6 million, while the non-current assets of the Group comprised goodwill of approximately HK$184.8 million as at 31 March 2018.

As at 31 March 2018, the current liabilities of the Group comprised trade payables of approximately HK$111.1 million, while the non-current liabilities of the Group mainly consisted of the Convertible Notes of approximately HK$74.0 million.

The Group currently holds the licences of Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO to carry out its business activities in the Financial Services Division. As set out in the 2017 Annual Report, the financial results of the Financial Services Division had been fully accounted for in the year ended 31 March 2017 during which the Financial Services Division actively participated in rendering service as bookrunners and underwriters in several fund raising exercises in the primary issue markets for initial public offerings and bond issuances for listed issuers. On the other hand, contributions from securities margin financings remained relatively immaterial as a substantial amount of the capital in the Financial Services Division remained secured for settlement purposes, thus limiting its capabilities to expand rapidly in areas requiring a more extensive deployment of capital. The Company planned to expand its capital base in order to provide the Financial Services Division with more capital flexibility not only to improve the performance of the Group's institutional brokerage platform but also to free up more capital to pursue more lucrative principal-based activities, including securities margin financing and principal finance/investments opportunities.

Financial performance of the ZTI Companies

ZTI Capital is a company incorporated in Hong Kong with limited liability which is licensed under the SFO to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities. It is principally engaged in the provision of corporate finance advisory and capital markets services, including sponsorship, merger and acquisition, corporate and asset reorganisation, equity capital raising. ZTI Capital is wholly-owned by ZTI Financial as at the Latest Practicable Date. As at the Latest Practicable Date, ZTI Financial is wholly-owned by ZTI Cayman, which is in turn held as to approximately 97.15% by ZTI Overseas and approximately 2.85% by Subscriber B. ZTI Overseas is directly wholly-owned by the Offeror as at the Latest Practicable Date.

ZTI Asset Management is a company incorporated in Hong Kong with limited liability which is licensed under the SFO to conduct Type 4 (advising on securities) and Type 9 (asset management) regulated activities. It is principally engaged in the provision of asset management services. ZTI Asset Management is wholly-owned by the Offeror as at the Latest Practicable Date.

The table below sets forth a summary of the key financial information of the ZTI Companies extracted from their audited financial statements for the financial years ended 31 December 2015, 2016, 2017 and for the six months end 30 June 2018 as set out in the Board Letter:

Table 3: Financial information of ZTI Capital prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 December			For the six months ended 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Revenue	51,830	28,076	14,219	18,106
Profit/(Loss) before taxation	25,116	(31,217)	(24,934)	(1,857)
Profit/(Loss) after taxation	21,516	(31,251)	(25,071)	(1,857)

The audited net asset value of ZTI Capital as at 31 December 2017 and 30 June 2018 were approximately HK$15.5 million and approximately HK$13.6 million respectively.

The revenue of ZTI Capital was mainly generated from its underwriting and placing commission, sponsor fees and financial advisory fees. The revenue of ZTI Capital dropped from approximately HK$51.8 million for the year ended 31 December 2015 to approximately HK$28.1 million for the year ended 31 December 2016, and further decreased to approximately HK$14.2 million for the year ended 31 December 2017. As advised by the Company (whose information is based on information provided by ZTI Capital), a decline in revenue of approximately 45.8% from the year ended 31 December 2015 to 2016, and 49.4% from the year ended 31 December 2016 to 2017 was mainly due to the decrease in placing and underwriting commission as a result of a decrease in the number of sizeable equity offerings participated by ZTI Capital in 2016 and 2017.

ZTI Capital recorded a net profit of approximately HK$21.5 million for the year ended 31 December 2015 and a net loss of approximately HK$31.3 million and approximately HK$25.1 million for the years ended 31 December 2016 and 2017 respectively. As advised by the Company (whose information is based on information provided by ZTI Capital), the change from net profit to net loss in the year ended 31 December 2016 was mainly due to a decrease in revenue coupled with an increase in operating expenses and staff costs. The decrease in net loss for the year ended 31 December 2017 was mainly due to the substantial decrease in management fee paid to a fellow subsidiary for the sharing of operating costs of the supporting units and a decrease in performance-based staff costs.

The net assets of ZTI Capital as at 30 June 2018 amounted to approximately HK$13.6 million. The assets of ZTI Capital mainly comprised cash and bank balances of approximately HK$22.4 million and accounts receivables of approximately HK$12.5 million, while the liabilities of ZTI Capital mainly comprised amount due to fellow subsidiaries and immediate holding companies of approximately HK$19.6 million. Upon completion of the ZTI Capital Acquisition, ZTI Capital shall become a wholly-owned subsidiary of the Company and the financial results of ZTI Capital will be consolidated into the consolidated financial statements of the Company.

Table 4: Financial information of ZTI Asset Management prepared in accordance with Hong Kong Financial Reporting Standards:

	For the year ended 31 December			For the six months ended 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	(audited)	(audited)	(audited)
Revenue	23,844	26,693	57,480	30,340
Profit/(Loss) before taxation	15,839	(6,348)	25,245	13,604
Profit/(Loss) after taxation	15,839	(6,348)	21,521	11,555

The audited net asset value of ZTI Asset Management as at 31 December 2017 and 30 June 2018 were approximately HK$97.4 million and approximately $108.9 million respectively.

The revenue of ZTI Asset Management was mainly generated from its advisory fee income and asset management fee income. The revenue of ZTI Asset Management increased from approximately of HK$23.8 million for the year ended 31 December 2015 to approximately HK$26.7 million for the year ended 31 December 2016 and increased significantly to approximately HK$57.5 million for the year ended 31 December 2017. As advised by the Company (whose information is based on information provided by ZTI Asset Management), the increase in revenue of approximately 11.9% from the year ended 31 December 2015 and the substantial increase of approximately 115.3% from the year ended 31 December 2016 to 2017 were mainly due to the substantial increase in revenue of advisory fee income and asset management fee income.

ZTI Asset Management recorded a net profit of approximately HK15.8 million for the year ended 31 December 2015, a net loss of approximately HK$6.3 million for the year ended 31 December 2016 and a net profit of approximately HK$21.5 million for the years ended 31 December 2017. As advised by the Company (whose information is based on information provided by ZTI Asset Management), the change from a net profit position in 2015 to a net loss position in 2016 was mainly due to an increase in total expenses and a decrease in other income and gain due to a fair value change of investments in a subsidiary in 2016. The reversal of loss to a net profit position in 2017 was mainly the result of the substantial increase in the revenue and an increase in fair value change in investment in a subsidiary as the net asset value of the subsidiary increased, which was partially offset by a corresponding increase in total expenses.

The net assets of ZTI Asset Management as at 30 June 2018 amounted to approximately HK$108.9 million. The assets of ZTI Asset Management mainly comprised bank balance of approximately HK$70.0 million, trade receivables of approximately HK$25.4 million, while the liabilities of ZTI Asset Management mainly comprised amount due to immediate holding company and a fellow subsidiary of approximately HK$16.2. Upon completion of the ZTI Asset Management Acquisition, ZTI Asset Management shall become a wholly-owned subsidiary of the Company and the financial results of ZTI Asset Management will be consolidated into the consolidated financial statements of the Company.

The Offeror owns the entire issued share capital of ZTI Asset Management, and is directly wholly-owned by Zhongtai Securities as at the Latest Practicable Date. Zhongtai Securities is currently held as to approximately 69.03% in aggregate by six state-owned enterprises and approximately 30.97% in aggregate by 34 minority corporate shareholders. Details of which are set out in the section headed "Information on the Subscribers" in the Board Letter.

As noted from the Joint Announcements and the Board Letter, Zhongtai Securities is a financial conglomerate in the PRC with over 250 offices in 28 provinces, cities or autonomous regions. The Offeror believes there would be synergy between the long history and well-established brand and reputation of Crosby Group and the strong presence in the PRC and the financial resources of Zhongtai Securities and the Offeror when they explore business opportunities in the PRC and overseas markets. We further noted from the Zhongtai International Group's official website, Zhongtai Securities is actively exploring the brokerage, credit, investment banks, over-the-counter markets, asset management, financial innovation licenses business in the PRC with more than 5,000 employees in the PRC. Zhongtai Securities assists companies in the PRC to explore methods of financing with IPO listing, refinancing, debt financing, asset securitisation and other integrated services, and maintain investor relationships with institutional investors for cooperation. Zhongtai Securities also carries out business as the sponsor in the National Equities Exchange and Quotations market# (新三板) and provides high-quality and efficient services for businesses listed in the National Equities Exchange and Quotations market#, securities and futures dealing and margin financing services as well as the provision of consultancy services in relation to the transfer of listing.

With the enlarged capital base by the Subscription, the Offeror intends to expand the business scale and product offerings of the Financial Services Division through leveraging on the reputation, financial resources and business network of Zhongtai Securities and the Offeror. The Offeror intends to continue the Financial Services Division. With the enlarged capital base following Completion, the Financial Services Division will have more capital flexibility to increase its business scale and explore other principal-based activities.

The ZTI Capital Acquisition will broaden the product offerings of corporate finance business of the Financial Services Division. Although Crosby Securities can conduct Type 6 (advising on corporate finance) regulated activity under SFO, licensing conditions are imposed on Crosby Securities that it shall not act as sponsor in respect of an application for the listing on a recognised stock market of any securities, including the Stock Exchange, and it shall not advise on matters/transactions falling within the ambit of the Takeovers Code. As ZTI Capital is permitted to advise on matters/transactions falling within the ambit of the Takeovers Code and is eligible to act as sponsor in respect of an application for the listing on the Stock Exchange, upon completion of the ZTI Capital Acquisition, ZTI Capital will be under the Financial Services Division and, hence, the Financial Services Division shall be able to commence engagements in relation to sponsorship and the Takeovers Code, complementing the current product offerings of the Financial Services Division.

2. Reasons for and benefits of the ZTI Acquisitions

The Group, through Crosby Securities and Crosby Asset Management, is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO. As set out in the information relating to the intentions of the Offeror in relation to the Group in the Joint Announcements, the Offeror intends to expand the business scale and product offerings of the Financial Services Division. Following the ZTI Capital Acquisition, the services offered by the Financial Services Division will be broadened to engaging in new listing sponsorship and financial advisory services for transactions falling within the ambit of the Takeovers Code. Following the ZTI Asset Management Acquisition, the team of the asset management business of the Financial Services Division will be strengthened and there will be synergy between the asset management business of the Financial Services Division and ZTI Asset Management.

Upon the completion of the Acquisitions, the financial resources of the existing Financial Services Division and the ZTI Companies will be combined and shared.

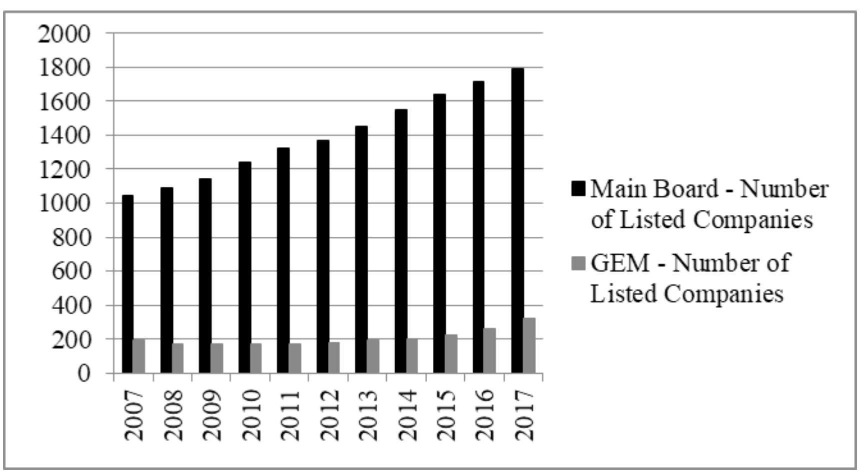
The proposed acquisition of ZTI Asset Management by the Group will create synergy with the asset management business of the Financial Services Division of the Group as it is expected to allow the Group to achieve a substantial scale in assets under management of about HK$2 billion immediately after Completion. For any asset management company, an increase in size of assets under management could potentially improve its market competitiveness, market credibility and distribution effectiveness. Furthermore, the investment products offered by ZTI Asset Management may provide the clients of the Financial Services Division with a broader array of choice of in-house products, which in turn might generate commissions, advisory fees or fund management fees for the Group.

In terms of the proposed acquisition of ZTI Capital, the synergy will be reflected through the expansion in the range of services that the enlarged corporate finance operation of the Group can provide to its clients, including acting as a sponsor for IPOs, providing financial advisory and independent financial advisory services (including those falling within the ambit of the Takeovers Code) and compliance services after listing. Combined with the existing underwriting and placing capabilities of the Financial Services Division, the proposed acquisition of ZTI Capital will allow the Group to provide one-stop comprehensive services to issuer clients in both fund raising and financial advisory in order to achieve better market reputation and competitiveness. Furthermore, an increased participation in sponsorship and underwriting of IPO transactions may improve the securities trading business of the Financial Services Division in relation to subsequent secondary trading of the issuers' stocks.

As further set out in the Board Letter in relation to the business plan of the company in the coming 24 months, the Offeror intends to continue the operation of the toy division of the Group as one of the core business divisions of the Group as it has been a stable profit and cashflow generating division of the Group and the Offeror does not have any plan to expand or reduce the current scale of the Toy Business. As for the Financial Services Division, with the enlarged capital base by the Subscription, the Offeror intends to expand the business scale and product offerings of the Financial Services Division through leveraging on the reputation, financial resources and business network of Zhongtai Securities and Zhongtai Financial International. In the coming 24 months, the Company also expects to grow and develop various segments of the financial services business via the utilization of the proceeds from the Subscription. The Financial Services Division intends to expand and develop a portfolio of clients for its securities margin financing business. With the completion of the acquisition of ZTI Capital, the Group will also be able to commence IPO sponsorship activities and increase its participation in underwriting activities, benefiting from the current transaction pipeline of ZTI Capital. The Financial Services Division is also expected to increase its activities in providing financial advisory services falling within the ambit of the Takeovers Code and the Listing Rules in general. The Company also intends to steadily grow its asset management business after the completion of the acquisition of ZTI Asset Management by further improving its assets under management and expanding its investment product offerings. Further details please refer to the section head "Business Plan of the Company in the coming 24 months" in the Board Letter.

As noted from "Market Capitalisation of the World's Top Stock Exchanges" on the website of the SFC, as at 30 September 2018, the Stock Exchange had a market capitalisation of approximately US$4,111.11 billion making it the seventh largest stock exchange in the world and third in Asia in terms of market capitalisation. As further noted in the report of "Market Statistics 2017" issued by the Stock Exchange on 20 December 2017, the Stock Exchange recorded an average daily turnover of approximately HK$66.92 billion for 2016, and approximately HK$88.25 billion for 2017.

Chart 1: Number of listed companies on the Stock Exchange



Source: SFC website

Furthermore, in terms of the growth of the number of listed companies on the Stock Exchange, the above chart sets out the number of companies listed on the Stock Exchange (both Main Board and GEM of the Stock Exchange) as at the respective year ends from 2007 to 2017. As illustrated above, since 2013, there were more than 100 newly listed companies in each year and the number of listed companies in Hong Kong has reached 2,118 in 2017. The number of newly listed companies has been on an increasing trend which the compound annual growth rate from 2007 to 2017 is approximately 5.49%. The increasing trend of the newly listed companies, together with the launching of the Shanghai-Hong Kong Stock Connect in 2014 and Shenzhen-Hong Kong Stock Connect in 2016, creates increasing opportunities for the securities and corporate finance advisory business of ZTI Capital, and that the long-term prospect of the Group is positive. ZTI Capital's businesses will be highly complementary to the existing financial advisory services of the Group, and allow the Group to provide one-stop financial services to its customers. Through the ZTI Capital Acquisition, the Group will have immediate access to ZTI Capital's established platforms and networks for the securities brokerage business as well as the financial advisory business, and will expand its scope of services. Leveraging on the expertise, customer base and business network of ZTI Capital in Hong Kong and the PRC where the synergies will be created between the Group and ZTI Capital, which in turn will enhance the Group's profitability and benefit the Group's business development in the long-term.

As further noted from the Joint Announcements, the Offeror intends to strengthen the team of the asset management business of the Financial Services Division through the ZTI Asset Management Acquisition. ZTI Asset Management (currently with a team comprising 12 licensed persons) currently provides various asset management services, including but not limited to active management services, investment advisory services and RMB Qualified Foreign Institutional Investor (RQFII) business, to its clients. The Offeror believes the synergy between the asset management business of the Financial Services Division and ZTI Asset Management shall enhance the development of the asset management business.

With reference to the "Asset and Wealth Management Activities Survey 2017" published by the SFC in July 2018 (the "**AWAS Report**"), the Survey covers the asset and wealth management activities of few types of firms in Hong Kong which includes corporations licensed by the SFC engaging in asset management and fund advisory business. As noted from the subsection headed "Asset and Wealth Management Business" in the AWAS Report, asset management is the core component of the asset and wealth management business in Hong Kong. In 2017, total asset management and fund advisory business in Hong Kong recorded a year-on-year increase of 23% to HK$17,511 billion. Licensed corporations, which is corporations licensed by the SFC which engage in asset management and fund advisory business, continued to play a dominant part in the asset management and fund advisory business in Hong Kong. Their aggregate asset management and fund advisory business registered a year-on-year increase of 22% to HK$15,631 billion in 2017. Reflecting Hong Kong's status as a key sales and distribution centre in Asia, overseas investors continued to be the main source of assets. Overseas investors' assets increased to HK$15,928 billion in 2017 from HK$11,996 billion in the previous year, representing 66% of the asset and wealth management business. Asset management is a growth sector in Hong Kong, as evidenced by the increasing numbers of corporations and personnel over the past few years. By the end of 2017, the number of corporations licensed for asset management (i.e., Type 9 regulated activity under SFO) grew by 14% to 1,477 corporations from 1,300 a year earlier. During 2017, the number of individuals licensed for asset management also increased 10% to 10,530 from 9,543 in the preceding year. Moreover, assets managed in Hong Kong made up more than 65% of the asset management business which the amount of assets managed in Hong Kong has increased substantially to HK$8,579 billion in 2017 from HK$7,027 billion in 2016 reflecting the growing capabilities and skillset of fund managers in Hong Kong. The proportion of the overall assets being managed in Hong Kong accounted for 54.8% in 2016. Despite the slight year-on-year decrease in the amount of assets managed in Hong Kong by approximately 0.5% from approximately HK$6,856 billion in 2014 to approximately HK$6,823 billion in 2015, there has been a general upward trend since 2013 that recorded approximately HK$5,827 billion, which represents a compound annual growth rate of approximately 10.15% from 2013 to 2017.

On the other hand, AWAS Report states the SFC actively develops new regulatory initiatives to ensure Hong Kong remains a major international asset management centre by building market infrastructure for the development of the asset management industry in Hong Kong. SFC introduced the Open-ended fund companies regime ("**OFCs**") which aims to broaden the choice of investment fund vehicles. An OFC is an open-ended collective investment scheme which is structured in corporate form with limited liability and variable share capital. The main purpose of an OFC is to serve as an investment fund and manage investments for the benefit of its shareholders. Following the implementation of MRF with the Mainland, the SFC concluded similar arrangements with overseas jurisdictions and is discussing potential arrangements with a number of others. SFC signed a memorandum of understanding allows eligible French and Hong Kong public funds to be distributed in the other market through a streamlined vetting process that opens up the opportunity for Hong Kong funds to be sold directly to retail investors in a leading European Union market and under the Switzerland-Hong Kong MRF arrangement, four SFC-authorised funds were approved by the Swiss Financial Market Supervisory Authority for distribution to retail investors in Switzerland as of 31 March 2018. Meanwhile, The Renminbi investment products scheme allows greater flexibility for SFC-authorised Undertakings for Collective Investment in Transferable Securities funds to offer renminbi share classes to investors directly or through a Hong Kong-domiciled feeder fund structure to broaden investor choice.

Having considered the above, including, among other things, the businesses of the Group and its development strategy, recent development and future development plans by the Offeror and the prospects of the financial services industry, we concur with the Directors that long-term prospects of the Group seem encouraging and the ZTI Acquisitions will strengthen the Group's business presence in the financial services industry and is in line with its development strategy.

3. Principal terms of the ZTI Agreements

Principal terms of the ZTI Agreements are summarised below. Further details of the principal terms of the ZTI Agreements are set out in the section headed "The ZTI Agreements" in the Board Letter.

Assets to be acquired

On 23 February 2018, the Company and ZTI Financial entered into the ZTI Capital Agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and ZTI Financial conditionally agreed to dispose of, all issued shares of ZTI Capital for a consideration of HK$30,000,000.

On 23 February 2018, the Company and the Offeror entered into the ZTI Asset Management Agreement pursuant to which the Company conditionally agreed to acquire or procure one of its wholly-owned subsidiaries to acquire, and the Offeror conditionally agreed to dispose of, all issued shares of ZTI Asset Management for a consideration of HK$102,000,000.

On 11 October 2018 and 29 November 2018, (i) the Company (as purchaser) and ZTI Financial (as vendor) entered into the Supplemental ZTI Capital Agreements to revise and amend certain terms of the ZTI Capital Agreement; and (ii) the Company (as purchaser) and the Offeror (as vendor) entered into the Supplemental ZTI Asset Management Agreements to revise and amend certain terms of the ZTI Asset Management Agreement.

Consideration

As set out in the sub-section headed "Consideration" under the section headed "The ZTI Agreements" in the Board Letter, the consideration for the ZTI Capital Acquisition and the ZTI Asset Management Acquisition pursuant to the ZTI Capital Agreement and ZTI Asset Management Agreement is HK$30,000,000 and HK$102,000,000, respectively which (i) the consideration for the ZTI Capital Acquisition, being HK$30,000,000, shall be satisfied by the allotment and issue by the Company to the Offeror 85,714,286 Consideration Shares, credited as fully paid, at the Issue Price of approximately HK$0.35 per Consideration Share, at completion of the ZTI Capital Agreement; and (ii) the consideration for the ZTI Asset Management Acquisition, being HK$102,000,000, shall be satisfied by the allotment and issue by the Company to the Offeror 291,428,571 Consideration Shares, credited as fully paid, at the Issue Price of approximately HK$0.35 per Consideration Share, at completion of the ZTI Asset Management Agreement.

Each of the vendors to the ZTI Acquisitions had warranted to the Company that the net asset value of the ZTI Companies as at Completion Date shall not be less than the relevant consideration paid by the Company, which is a condition precedent to completion of the ZTI Agreements. As such, the relevant vendors will have to make whole any shortfall in the net asset value at Completion. Therefore, the Board is of the view that the consideration for the ZTI Acquisitions continues to be fair and reasonable.

The consideration for each of the ZTI Acquisitions was determined after arm's length negotiations between the Company and the relevant vendors to the ZTI Agreements with reference to, among other things, the unaudited and the audited net asset value ("**NAV**") of each of the ZTI Companies as at 31 December 2017. When the parties entered into the ZTI Capital Agreement and the ZTI Asset Management Agreement on 23 February 2018, the consideration for each of the ZTI Acquisitions was determined with reference to and equivalent to the then available unaudited NAV of each of the ZTI Companies as at 31 December 2017. Subsequent to the signing of the ZTI Capital Agreement and the ZTI Asset Management Agreement, the audited NAV of each of the ZTI Companies as at 31 December 2017 became available and the Company noted that due to the difference between the audited and unaudited NAV of each of the ZTI Companies, the aggregate consideration for the ZTI Acquisitions became approximately 1.17 times of the aggregate NAVs of the ZTI Companies. However, the consideration remained unchanged taking into account that each of the vendors to the ZTI Acquisitions had warranted to the Company that the unaudited net asset value of the ZTI Companies as at Completion Date shall not be less than the relevant consideration paid by the Company, which is a condition to the completion of the ZTI Agreements. As such, even if there is any shortfall in the NAV of the ZTI Companies at Completion, the relevant vendors will recapitalize the ZTI Companies such that the NAV of the ZTI Companies shall not be less than the consideration paid, effectively adjusting the implied price to book ratio of the ZTI Acquisitions at Completion of being 1.00, and enabling the Group to purchase the ZTI Companies at their respective NAV at Completion.

The Company considered the acquisition of ZTI Capital and ZTI Asset Management as a whole. In determining the consideration and reasons and benefits of the ZTI Acquisitions, the Company also considered the historical financial performance of the ZTI Companies on a combined basis. On a combined basis, the ZTI Companies reported an aggregate profit of about approximately HK$37.4 million for 2015 and aggregate loss of approximately HK$37.6 million and approximately HK$3.6 million for

2016 and 2017, respectively. The change in position from 2015 to 2016 was mainly due to (i) a decrease in revenue for ZTI Capital in 2016 arising from a decrease in placing and underwriting commission due to decreased number of IPO sponsorship engagements of ZTI Capital; (ii) an increase in total expenses for ZTI Capital and ZTI Asset Management in 2016 due to an increase in staff-related costs as total number of employees increased significantly in 2016; and (iii) a decrease in other income and gain for ZTI Asset Management in 2016 due to a fair value change of investments in a subsidiary. The narrowing of loss from 2016 to 2017 was mainly due to (i) a substantial increase in revenue for ZTI Asset Management in 2017 resulting from a growth in assets under management and advisory income; and (ii) a decrease in expenses for ZTI Capital in 2017 due to a decrease in performance-based staff-related costs. Despite the ZTI Companies being loss-making for the years ended 31 December 2016 and 2017, the Company noted that the trend of loss is decreasing substantially by approximately 90.6% in 2017 and in fact the ZTI Companies turned a profit of approximately HK$9.7 million for the six months ended 30 June 2018. This was mainly due to the decrease in net loss for ZTI Capital arising from an increase in its revenue from placing and underwriting commission and advisory fees and the increase in net profit of ZTI Asset Management due to the increase in its revenue arising from a growth in assets under management when compared with the same period in the previous financial year. The Company also noted that in the year ended 31 December 2015, the ZTI Companies recorded net profit of approximately HK$37.4 million on an aggregate basis, a year in which each of the ZTI Companies was also profitable on its own.

Furthermore, the ZTI Acquisitions would allow the Group to expand its services in the Financial Services Division. The ZTI Acquisitions would allow the Financial Services Division to provide listing sponsorship and financial advisory services for transactions falling within the ambit of the Takeovers Code, both of which are currently not available under the Financial Services Division due to licensing restrictions. The ability to offer such services would substantially enhance the Group’s ability to compete more effectively in the underwriting business as it would be able to provide comprehensive, one-stop services to IPO clients covering sponsorship, underwriting and post-listing compliance and financial advisory services. The ZTI Acquisitions would also allow the Financial Services Division to rapidly build up its assets under management as ZTI Asset Management had total assets under management of about HK$2.1 billion as at 30 June 2018. Such assets under management are expected to generate stable fund management fee revenues for the Group. In determining the consideration of the ZTI Acquisitions, although the Company has also considered an income approach based on a price to earnings ratio on the historical financial performance of the ZTI Companies, due to the fact that the historical financial performance of the ZTI Companies fluctuated from profit to loss during the track record period, it will not be straight forward to agree upon a reasonable price to earnings ratio. Therefore, the Company considers that it is appropriate to determine the consideration for the ZTI Acquisitions with reference to the NAVs of each of the ZTI Companies.

Apart from the aforesaid, the Group also took into account the factors as set out in the paragraph headed “Reasons for and Benefits of the Subscription and the ZTI Acquisitions” in this letter from the Board, in determining the consideration and reason and benefits of the ZTI Acquisitions.

Pursuant to the Supplemental ZTI Agreements, completion of the ZTI Agreements is conditional upon, among other things, the ZTI Agreements having become unconditional and the conditions precedent set out in the Restated Subscription Agreement and the Share Purchase Agreement, other than the condition precedent requiring the ZTI Agreements to be unconditional, having been fulfilled or waived. Details of the conditions precedent to the completion of the ZTI Agreements are set out under the sub-section headed "Conditions precedent" under the section head "The ZTI Agreements" in the Board Letter.

For the avoidance of doubt, the Subscription and the ZTI Acquisitions are inter-conditional.

Comparable analysis on the consideration for the ZTI Acquisitions

In order to assess the fairness and reasonableness of the consideration for the ZTI Capital Acquisition and the ZTI Asset Management Acquisition, we have considered various valuation approaches, including the measures of price-to-sales multiple (the "**P/S Ratio**"), price-to-earnings ("**P/E**") ratio, price-to-book ("**P/B**") ratio and enterprise value-to-earnings before interest and tax (the "**EV/EBIT Multiple**") ratio. However, taking into account that both the Company and ZTI Capital were loss making for the year ended 31 March 2018 and 2017, it is impracticable to use P/E Ratio and EV/EBIT Multiple ratio to value the Company with other companies engaged in similar industry and historical earnings of the ZTI Companies may not be stable. As such, by applying P/E ratio and EV/EBIT Multiple ratio on the historical earnings of the ZTI Companies would not have captured the full valuation potential of the ZTI Companies as stated in the above section headed "Reasons for and benefits of the ZTI Acquisitions". On the other hand, the reason of not using the P/S Ratio is because it is unable to capture the differences in cost structure between the acquisition targets of the comparable transactions and the ZTI Companies. Nevertheless, P/B ratio is one of the most widely used and accepted methods for valuing a business and is commonly used benchmarks in valuing a company. The P/B Ratio is calculated based on the net asset values attributable to the owners of the company from the most recent financial year and therefore we have attempted to conduct an analysis with reference to the P/B Ratio. Also, the consideration of the ZTI Acquisitions is based on the respective net asset value of the ZTI Companies, we adopt to compare the P/B ratios of the ZTI Companies to the comparable companies (the "**Comparable Company(ies)**"). We have attempted to identify the Comparable Companies which (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in the business similar to the ZTI Companies, in particular, with the licences to carry out the provision of financial services in Hong Kong including securities brokerage and asset management businesses which is similar to the principal business regulated activities under the SFO; (iii) have a market capitalisation up to approximately HK$3 billion based on the market capitalisation of the respective share closing prices on 11 October 2018 (or, if suspended, the respective share closing price on the last trading day before 11 October 2018) (which is the date of the Supplemental ZTI Capital Agreement) and the number of issued shares of the Comparable Companies on 11 October 2018. Companies with the issue of H-shares have been excluded as these are foreign shares issued by enterprises incorporated in the PRC that are listed in Hong Kong. These enterprises may also issue RMB denominated ordinary shares in the PRC, which are known as A-shares. A-shares and H-shares are not interchangeable and they are often priced differently (with H-shares at a discount in most cases) due to different valuations between the bourses in the PRC and Hong Kong which may give an extraordinary and not relevant result for comparison.

Although the market capitalisation of the Comparable Companies varies and is different from that of the ZTI Companies, the range of market capitalisations of the Comparable Companies was set at such values so as to ensure that the sample size is sufficient for a meaningful comparison. Therefore, we are of the opinion that the Comparables Companies are fair, sufficient and representative samples which are relevant in assessing whether the consideration for the ZTI Capital Acquisition and the ZTI Asset Management Acquisition is fair and reasonable. 14 Comparable Companies are identified, which are exhaustive under our selection criteria. Details of our analysis are listed below:

Table 5: Summary of the Comparable Companies for the ZTI Acquisitions

Stock Code	Company	Market Capitalisation *(HK$)* *(Note 1)*	Net assets attributable to the owners of the companies *(HK$)*	P/B ratio (Approximate times) *(Note 2)*
111	Cinda International Holdings Limited	333,426,912	802,627,000	0.42
188	Sunwah Kingsway Capital Holdings Limited	427,901,128	1,005,466,000	0.43
218	Shenwan Hongyuan (H.K.) Limited	1,162,362,486	2,165,516,000	0.54
227	First Shanghai Investments Limited	567,589,205	2,756,726,000	0.21
231	Ping An Securities Group (Holdings) Limited	1,368,953,696	1,237,382,000	1.11
279	Freeman FinTech Corporation Limited	674,315,761	4,303,741,000	0.16
290	China Fortune Financial Group Limited	304,701,391	5,011,355,000	0.06
510	CASH Financial Services Group Limited	337,036,396	675,407,000	0.50
619	South China Financial Holdings Limited	180,766,242	1,050,378,000	0.17
717	Emperor Capital Group Limited	2,359,296,003	5,403,057,000	0.44
812	Southwest Securities International Securities Limited	334,447,196	150,609,000	2.22
821	Value Convergence Holdings Limited	671,924,805	840,128,000	0.80
1469	Get Nice Financial Group Limited	2,050,000,000	3,999,185,000	0.51
2680	Innovax Holdings Limited	232,000,000	46,696,000	4.97
	Maximum			4.97
	Minimum			0.06
	Average			0.89
	Implied P/B Offer Ratio (as defined below)			2.51

	Consideration	Net asset value	Implied P/B Ratio *(Notes 3 and 4)*	Adjusted P/B ratio (Approximate times)
ZTI Capital	30,000,000	13,622,000	2.20	1.00
ZTI Asset Management	102,000,000	108,917,000	0.94	0.94

Sources: website of the Stock Exchange (http://www.hkex.com.hk) & Bloomberg

Notes:

1. The market capitalisation is based on the closing price as quoted on the Stock Exchange on 11 October 2018, being the date of the Supplemental ZTI Agreements and the number of issued shares of the Comparable Companies on 11 October 2018.

2. The P/B ratio is calculated based on the market capitalisations of the respective Comparable Companies as at 11 October 2018 (or, if suspended, the respective share closing prices on the last trading day before 11 October 2018) and the number of issued shares of the Comparable Companies on 11 October 2018 divided by the latest published net assets attributable to shareholders of the respective Comparable Companies as extracted from their respective latest published financial results or prospectuses.

3. The implied P/B ratio of ZTI Capital is calculated based on the consideration and the audited net asset value attributable to owners of ZTI Capital as at 31 December 2017.

4. The implied P/B ratio of ZTI Asset Management is calculated based on the consideration and the audited net asset value attributable to owners of ZTI Asset Management as at 31 December 2017.

As illustrated in the analysis above, the P/B ratios of the Comparable Companies range from the minimum of approximately 0.06 times to the maximum of approximately 4.97 times with an average of approximately 0.89 times. Since the acquisitions of the ZTI Companies is the package as a whole, in order to have a more accurate and comprehensive comparison between the implied P/B Ratio of the ZTI Acquisitions and the P/B ratios of the Comparable Companies, we have taken into account of (i) the proportion of the consideration of the ZTI Capital and the ZTI Asset Management to the aggregate amount of the consideration of the ZTI Acquisitions which are 22.7% and 77.3% respectively; and (ii) each of the vendors to the ZTI Acquisitions had warranted to the Company that the net asset value of the ZTI Companies as at Completion Date shall not be less than the relevant consideration paid by the Company, which is a condition precedent to completion of the ZTI Agreements. As such, the relevant vendors will have to make whole any shortfall in the net asset value at Completion and the net asset value of ZTI Capital shall be adjusted to at least equal to the consideration of HK30,000,000. By multiplying their respective proportion to their respective implied P/B ratios (the "**Adjusted Average Implied P/B Ratio of the ZTI Acquisitions**"), the Adjusted Average Implied P/B Ratio of the ZTI Acquisitions will be 0.95 and hence it is within the range of the P/B ratios of the Comparable Companies and only slightly higher than the average of the Comparable Companies' P/B ratios.

In addition, we have also compared the P/B Ratio of the Company as implied by the Share Offer Price (the "**Implied P/B Offer Ratio**"), with reference to the Share Offer Price of HK$0.71 under the Share Offer and the equity attributable to owners of the Company per Share of approximately HK$0.28 as at 30 September 2018 (based on the equity attributable to the owners of the Company as disclosed in its latest unaudited financial statements for the six months ended 30 September 2018 of approximately HK$416.49 million divided by the number of Shares as at the Latest Practicable Date), the Group's Implied P/B Offer Ratio is approximately 2.51 times, which is within the range of the Comparable Companies' P/B ratios and much higher than the average of the Comparable Companies' P/B ratios. Hence, we consider that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

On the other hand, with reference to the respective audited net assets of the ZTI Companies as at 31 December 2017, we found that the total assets of ZTI Capital mainly consisted of cash and bank balances and the total assets of ZTI Asset Management mainly consisted of cash and bank balances, interest in an associate and trade receivables, which have high liquidity. Hence, we are of the opinion that the consideration for the ZTI Capital Acquisition and the ZTI Asset Management Acquisition is determined based on normal commercial terms, is fair and reasonable as far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. For the analysis of the Issue Price, please refer to the below analysis of the Subscription Price sub-section headed "Comparison of recent issues of subscription shares by other listed issuers" as the Issue Price is equivalent to the Subscription Price.

Other terms of the ZTI Agreements

We have also reviewed other terms of the ZTI Agreements including, among others, the conditions under the ZTI Agreements, and noted that other clauses of the ZTI Agreements are just normal commercial terms.

As set out above, to assess whether the ZTI Acquisitions are on normal commercial terms, we have analysed the business and financial information of the Group and the ZTI Companies and the reasons for and benefits of the ZTI Acquisitions as well as reviewing the terms of the ZTI Agreements and conducted comparable analysis on the consideration for the ZTI Acquisitions. In particular, we have taken into account (i) the ZTI Acquisitions are in line with the Group's strategic business development direction which will strengthen the Group's business presence in the financial services industry; (ii) there is an immediate synergic effect in terms of provision of financial services business between the Company and the Offeror. With the enlargement of income bases from a long term perspective, the Offeror intends to expand the business scale and product offerings of the Financial Services Division including but not limited to engaging in new listing sponsorship and financial advisory services for transactions falling within the ambit of the Takeovers Code and the team of the asset management business of the Financial Services Division will be strengthened; (iii) the solid background of Zhongtai Securities, which is a state-owned financial conglomerate in the PRC with over 250 offices in 28 provinces, cities or autonomous region with its strong presence and financial resources in the PRC to facilitate collaboration with and new opportunities for the Group in the PRC and overseas markets; (iv) the ZTI Acquisitions will not hinder the operation of the Group; (v) the Adjusted Average Implied P/B Ratio of the ZTI Acquisitions is 0.95 which is within the range of the P/B ratios of the Comparable Companies and only slightly higher than the average of the Comparable Companies' P/B ratios which the total assets of ZTI Capital mainly consisted of cash and bank balances and the total assets of ZTI Asset Management mainly consisted of cash and bank balances, interest in an associate and trade receivables, which both the ZTI Companies' assets have high liquidity. Upon Completion, that provides the Company with the financial flexibility necessary for the expansion of the Group's existing business and the capability to capture any prospective business opportunities as and when they arise; and (vi) each of the vendors to the ZTI Acquisitions had warranted to the Company that the unaudited net asset value of the ZTI Companies as at Completion Date shall not be less than the relevant consideration paid by the Company, which is a condition to the completion of the ZTI Agreements. As such, the warranty is favourable to the Company in that the relevant vendors will recapitalize the ZTI Companies such that the NAV of the ZTI Companies shall not be less than the consideration. Based on the work done and the factors discussed above, we concur with the Directors' view that the ZTI Acquisitions, including the consideration for the ZTI Acquisitions, are on normal commercial terms, fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

4. The Restated Subscription Agreement

The principal terms of the Restated Subscription Agreement are summarised below

The original Restated Subscription Agreement

Date:	11 October 2018	
Issuer:	the Company	
Subscribers:	(i)	The Original Offeror;
	(ii)	Subscriber A; and
	(iii)	Subscriber B

The Restated Subscription Agreement (as varied by the Deed of Novation I)

Date:	29 November 2018	
Issuer:	the Company	
Subscribers:	(i)	The Offeror;
	(ii)	Subscriber A; and
	(iii)	Subscriber B

Pursuant to the Deed of Novation I, the Original Offeror agreed to assign and novate, and the Offeror agreed to assume and perform, all the rights and obligations of the Original Offeror under the Restated Subscription Agreement with effect from 29 November 2018.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Subscribers and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subscription Shares

Under the Subscription, (i) the Offeror will subscribe for 313,672,000 Shares (representing approximately 21.28% of the total issued share capital of the Company as at the Latest Practicable Date) for a consideration of HK$109,758,200; (ii) Subscriber A will subscribe for 33,936,000 Shares (representing approximately 2.30% of the total issued share capital of the Company as at the Latest Practicable Date) for a consideration of HK$11,877,600; and (iii) Subscriber B will subscribe for 68,300,000 Shares (representing approximately 4.63% of the total issued share capital of the Company as at the Latest Practicable Date) for a consideration of HK$23,905,000.

The Subscription Shares represent:

(i) approximately 28.21% of the total issued share capital of the Company as at the Latest Practicable Date;

(ii) approximately 22.00% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares only (assuming no outstanding Share Options or Convertible Notes will be exercised or converted and no other Shares will be allotted or issued at or prior to Completion); and

(iii) approximately 18.03% of the total issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares only (assuming all of the outstanding Share Options and Convertible Notes will be exercised and converted but no other Shares will be allotted or issued at or prior to Completion).

The aggregate nominal value of the Subscription Shares is US$10,397.70.

The Subscription Shares (when allotted, issued and fully paid), will rank pari passu in all respects with the Shares in issue on the Completion Date, including the right to receive all dividends and other distributions declared, made or paid the record date of which falls on or after the Completion Date.

The Subscription Shares will be allotted and issued under the Specific Mandate which will be subject to the approval of the Independent Shareholders at the EGM. An application will be made by the Company for the listing of, and permission to deal in, the Subscription Shares on the Stock Exchange.

Subscription Price

The Subscription Price, being HK$0.35 per Share, represents:

(i) a discount of approximately 39.7% to the closing price of HK$0.58 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 38.6% to the average of closing prices as quoted on the Stock Exchange for the five consecutive trading days up to and including the Last Trading Day of approximately HK$0.57 per Share;

(iii) a discount of approximately 39.7% to the average of closing prices as quoted on the Stock Exchange for the ten consecutive trading days up to and including the Last Trading Day of approximately HK$0.58 per Share;

(iv) a discount of approximately 38.6% to the closing price of HK$0.57 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;

(v) a premium of approximately 20.1% over the audited consolidated net asset value of the Group of approximately HK$0.2915 per Share as at 31 March 2018 (based on the audited consolidated net asset value of the Group as at 31 March 2018 of approximately HK$429,731,000 and 1,474,232,000 Shares in issue as at the Latest Practicable Date); and

(vi) a premium of approximately 23.9% over the unaudited consolidated net asset value of the Group of approximately HK$0.2825 per Share as at 30 September 2018 (based on the unaudited consolidated net asset value of the Group as at 30 September 2018 of approximately HK$416,488,000 and 1,474,232,000 Shares in issue as at the Latest Practicable Date)

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers which had taken into account, among other things, the financial performance of the Group, in particular the continued loss-making position of the Group and the audited consolidated net asset value of the Group as at 31 March 2018.

The total consideration for the Subscription Shares of HK$145,567,800 shall be payable in cash by the Subscribers upon Completion.

Conditions precedent

Pursuant to the Restated Subscription Agreement, completion of the Subscription is conditional upon the Subscription Conditions being satisfied or waived on or before the Long Stop Date, details of which are set out in the sub-section headed "Conditions precedent" under the section headed "The Restated Subscription Agreement" in the Board Letter.

Other material terms

(a) Subject to compliance with the Listing Rules, the Takeovers Code and the memorandum and articles of association of the Company, the Offeror is entitled, before Completion, to request the Board to consider the appointment of the persons nominated by the Offeror as Directors, effective on the later of the Completion Date and the earliest date permitted under the Takeovers Code.

(b) As at the Completion Date, (i) the unaudited consolidated tangible net asset value of the Group (excluding goodwill and intangible assets and assuming the Convertible Notes have been fully converted) will not be less than the audited consolidated tangible net asset value of the Group (excluding goodwill and intangible assets and assuming the Convertible Notes have been fully converted) as at 31 January 2018 as shown in the Audited Interim Accounts, and (ii) the consolidated cash and bank balance of the Group will not be less than HK$145,000,000. In the event that the unaudited consolidated tangible net asset value and/or the consolidated cash and bank balance of the Group as at the Completion Date fall(s) below the respective guaranteed amounts set out in (i) and (ii) in this paragraph (b) and such shortfall has been made good by Mr. Lau and/or Smart Investor by way of top-up arrangement to the Offeror in accordance with the terms and provisions under the Share Purchase Agreement, such shortfall shall not be regarded as a breach of the Restated Subscription Agreement.

(c) The Initial Subscription Agreement dated 23 February 2018 has been terminated and superseded by the Restated Subscription Agreement.

Completion of the Subscription

Completion is expected to take place on the third business day after the day on which the last of the Subscription Conditions (other than the Subscription Conditions which are to be satisfied at Completion) having been fulfilled (or, where applicable, waived).

As completion of the Subscription is subject to fulfilment and/or waiver, as applicable, of the Subscription Conditions, including without limitation, the obtaining of approvals of the Independent Shareholders at the EGM and the approval by the SFC for the change of substantial shareholders of the Licensed Subsidiaries, it is currently contemplated that completion of the Subscription will take place on or before 31 January 2019.

For the avoidance of doubt, pursuant to the Restated Subscription Agreement, completion of the Subscription will take place simultaneously with completion of the ZTI Acquisitions and the Share Purchase Agreement.

The terms of the Restated Subscription Agreement were arrived at after arm's length negotiations between the Company and the Subscribers.

Termination of the Restated Subscription Agreement

(a) If any of the Subscription Conditions is not satisfied or waived on or before the Long Stop Date, any party to the Restated Subscription Agreement may terminate the Restated Subscription Agreement by written notice to the other parties, save for certain surviving clauses relating to confidentiality, notice and other miscellaneous provisions as specified therein and save for any antecedent breach of any provisions therein.

(b) In the event that any party to the Restated Subscription Agreement is unable to comply with any of its obligations in respect of Completion under the Restated Subscription Agreement (regardless of whether such non-compliance constitutes a repudiatory breach), other parties to the Restated Subscription Agreement may terminate the Restated Subscription Agreement by written notice to the other parties, save for certain surviving clauses relating to confidentiality, notice and other miscellaneous provisions as specified therein and save for any antecedent breach of any provisions therein.

Intended use of proceeds

The gross proceeds of the Subscription are HK$145,567,800 and the net proceeds of the Subscription are approximately HK$140 million. The difference of the gross proceeds and net proceeds of the Subscription, which amounts to approximately HK$5,567,800, comprises the estimated expenses of the Company for the Subscription and the Offers, including financial advisory fees, legal fees, audit fees, fees payable to independent financial adviser, printer fees and other miscellaneous expenses which may be incurred by the Company in connection with the Subscription and the Offers. On such basis, the net issue price per Subscription Share is approximately HK$0.34. Following discussions between the Subscribers and the Company, it is intended that the net proceeds from the Subscription will be applied in the manner stated below:

(a) approximately HK$50 million will be used for providing margin financing services to clients;

To develop the margin financing services, the Financial Services Division intends to fully deploy HK$50 million of the net proceeds from the Subscription to provide margin financing services on a secured basis to clients in return for interest income in the first year following Completion. The Company expects that, in relation to the margin financing business, it can charge an interest rate in the range of approximately 8% to 12% per annum, depending on: (i) quality and liquidity of the underlying collateral stocks; (ii) the credit quality of the margin financing clients; and (iii) the prevailing market interest rates. The Company typically requires the underlying collateral stocks to be securities listed on internationally reputable stock exchanges, primarily on the Stock Exchange. The margin financing clients targeted by the Financial Services Division are typically institutional clients such as investment funds and corporates, and individuals such as controlling shareholders of listed issuers or high net-worth trading clients;

(b) approximately HK$10 million will be used to cover the daily payment obligations for settlement with Hong Kong Securities Clearing Company Limited as clearing participant for securities trading operation;

The Financial Services Division mainly provides services to institutional clients in their securities trading activities in both the primary and secondary markets. For this purpose, the Financial Services Division needs to have sufficient working capital to cover the daily payment obligations for settlement with the Hong Kong Securities Clearing Company Limited ("**CCASS**") as clearing participant for securities trading operation. In particular, institutional clients often demand delivery versus payment settlement method which in turn requires the Financial Services Division to first settle with CCASS using its own working capital. The Financial Services Division currently has pledged about HK$60 million in cash to a bank as collateral to secure a banking facility (the "**Bank Facility**") of the same amount to facilitate daily settlement purposes. HK$10 million of the net proceeds from the Subscription will be made available immediately upon Completion as additional capital to facilitate the Financial Services Division's daily settlement obligations with CCASS which will slightly expand the daily trading capacity of the Financial Services Division in servicing its trading clients and may provide the Group with more flexibility in freeing up its cash resources currently used as collateral under the Bank Facility;

(c) approximately HK$50 million will be used to cover the required liquid capital for underwritings and placements in the next 12 months;

The Company intends to increase the underwriting and placements capacity of the Financial Services Division. As such, the Financial Services Division plans to use HK$50 million of the net proceeds from the Subscription to fulfill the liquid capital requirement for its underwriting and placement activities. Under the relevant requirements of the Securities and Futures (Financial Resources) Rules, a licensed corporation needs to maintain sufficient liquid capital as it takes on underwriting commitments. With the injection of the additional HK$50 million into its liquid capital, the underwriting capacity of the Financial Services

Division will increase by approximately HK$333 million. This will enhance the Financial Services Division's capability to compete for underwriting mandates as a sole or joint book runner for small to mid-sized initial public offering transactions on the Stock Exchange ("**IPOs**"). It will also allow the Financial Services Division to increase its share in the IPOs' underwriting commissions, in comparison with acting merely as one of the syndicate members in the IPOs. This improvement in underwriting capacity is also expected to create synergy with the business of ZTI Capital post Completion, as the Financial Services Division will be able to take on lead underwriting roles in IPOs sponsored by ZTI Capital, thus further improving the competitiveness of the businesses of both the Financial Services Division and ZTI Capital after Completion as the two entities together will be able to provide one-stop, comprehensive financing solution to clients seeking to list on the Stock Exchange of Hong Kong. Based on the information provided by ZTI Capital, the Company understands that ZTI Capital currently has a pipeline of sponsor mandates of IPOs under negotiations targeting to list on the Stock Exchange in the next 12 months. As such, HK$50 million from the net proceeds of the Subscription that is intended to increase the underwriting capacity of the Company is expected to be fully utilized in the next 12 months; and

(d) approximately HK$30 million will be used for the purchase of raw materials for production for the Toy Business.

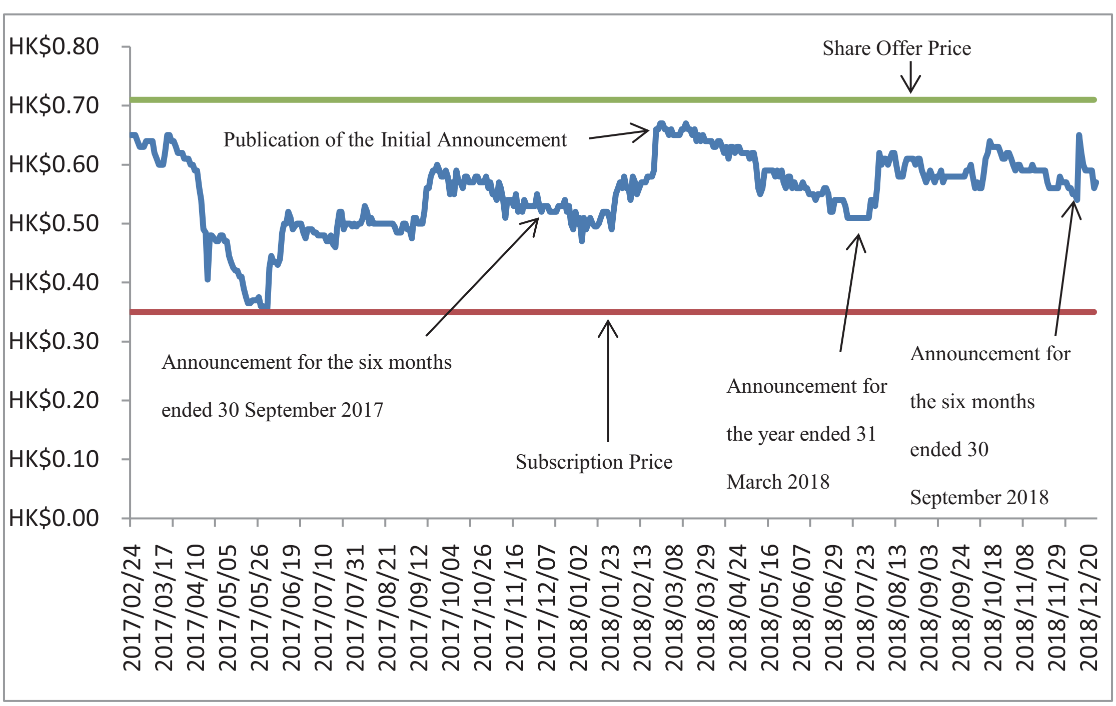
The Toy Business has relied on bank facilities to finance its working capital requirements, in particular for the purchase of raw materials to facilitate production requirements from its customers, during peak production season, which is typically the period starting from the Summer until Christmas. The amount of outstanding bank loans for the Toy Business had continued to increase during the past few years, from approximately HK$81.3 million as at 30 September 2016 by 26.0% to approximately HK$102.4 million as at 30 September 2017, and by 14.6% to approximately HK$117.4 million as at 30 September 2018. The majority of these bank facilities charge interests with HIBOR-based interest rates and their availability is subject to annual review depending on overall macro market environments and general environments in the toy industry. Some bank facilities may not necessarily be renewed by the banks each year and it is possible that the facility limits might be reduced upon renewal if the banks are of the view that the prospect of the macroeconomic environment or the toy industry may not be as favorable as before. As general interest rate is expected to increase in the foreseeable future and in particular HIBOR has been subject to increased volatility, the interest expenses arising from the bank facilities of the Toy Business are also expected to trend upwards going forward. The availability of HK$30 million of equity funding will help reduce the Group's reliance on the continued availability of bank facilities in supporting the purchase of raw materials to meet its customer orders and lower the interest expenses of the Toy Business of the Group. The HK$30 million raised from the net proceeds of the Subscription is expected to be utilised by the Toy Business of the Group in the first two quarters in the financial year ending 31 March 2020 as it prepares for the next production peak season.

As set out above, the proceeds raised from the Subscription will be used to support the development plans for both the toy business and the financial services businesses of the Company.

Historical price performance of the Shares

Set out below is a chart reflecting movements in the closing prices of the Shares from 24 February 2017 up to and including the Latest Practicable Date (the "**Review Period**"). Such review period covers (i) the period commencing on 24 February 2017, being the date which is 12 months prior to 23 February 2018, the last trading day of the Shares immediately before the issue of the Initial Announcement, and ending on 23 February 2018 (the "**Pre-Initial Announcement Period**"); and (ii) the period commencing on 26 February 2018, being the first trading day of the Shares after the issue of the Initial Announcement, up to and including the Latest Practicable Date (the "**Post-Initial Announcement Period**"). The Review Period is selected on the basis that it is a reasonable time frame given that it covers a period encompassing the general trend and level of movement of the closing prices of the Shares for the Pre-Initial Announcement Period and the Post-Initial Announcement Period, which is sufficient for us to carry out our analysis on the historical share price performance as well as reflecting the Company's fundamental financial performance and the business cycle in the corresponding period to illustrate the recent price movement of the Shares for conducting a reasonable comparison among the historical closing prices of the Shares and the Subscription Price before and after entering into of the Initial Subscription Agreement. Besides, we consider that such time frame is long enough to avoid any short-term fluctuation which may distort our analysis and that it also reflects the recent share price performance of the Company as well as its recent trading volume of the Shares:

Chart 2: Historical price performance of the Shares



Source: the website of the Stock Exchange (www.hkex.com.hk)

Pre-Initial Announcement Period

As shown in the chart above, during the Pre-Initial Announcement Period, the average closing price was approximately HK$0.52 per Share (the "**Average Closing Price of the Pre-Initial Announcement Period**"). The daily closing price ranged from HK$0.35 per Share (the "**Lowest Closing Price of the Pre-Initial Announcement Period**") to HK$0.65 per Share (the "**Highest Closing Price of the Pre-Initial Announcement Period**") during the Pre-Initial Announcement Period.

The Subscription Price of HK$0.35 per Share represents (i) the same value as the Lowest Closing Price of the Pre-Initial Announcement Period; (ii) a discount of approximately 32.69% over the Average Closing Price of the Pre-Initial Announcement Period; and (iii) a discount of approximately 46.15% to the Highest Closing Price of the Pre-Initial Announcement Period.

Since 24 February 2017, we noted that the closing prices of the Shares dropped from the Highest Closing Price of the Pre-Initial Announcement Period of HK$0.65 and reached the Lowest Closing Price of the Pre-Initial Announcement Period of HK$0.35 on 2 June 2017. As advised by the Directors, save for the transaction of the issue and subscription of the Convertible Notes as announced by the Company on 2 May 2017, 11 May 2017, 22 May 2017 and 2 June 2017, the profit warning announcement dated 8 June 2017 and annual and interim results announcements released during the Pre-Initial Announcement Period, they were not aware of any other matters which might have impact on the Share price. After reaching the Lowest Closing Price of the Pre-Initial Announcement Period, the Share price rebounded to approximately HK$0.50 per Share on 14 June 2017. Prior to the release of the Initial Announcement, the Share prices of the Company hovered between approximately HK$0.50 per Share and HK$0.60 per Share for an extended period of time until settling at about HK$0.59 per Share immediately prior to the release of the Initial Announcement.

Post-Initial Announcement Period

Shortly after the release of the Initial Announcement, we noted that there was a dramatic increase in the Share prices of the Company which, as advised by the Directors, was most probably due to the announcement of the Share Offer Price of HK$0.71 per Share in the possible unconditional mandatory cash offers as stated in the Initial Announcement, which might have influenced market participants to react to the news of the possible Offers.

As shown in the chart above, during the Post-Initial Announcement Period, the average closing price was approximately HK$0.59 per Share (the "**Average Closing Price of the Post-Initial Announcement Period**"). The daily closing price ranged from HK$0.51 per Share (the "**Lowest Closing Price of the Post-Initial Announcement Period**") to HK$0.67 per Share (the "**Highest Closing Price of the Post-Initial Announcement Period**") during the Post-Initial Announcement Period.

The Subscription Price of HK$0.35 represents (i) a discount of approximately 40.68% over the Average Closing Price of the Post-Initial Announcement Period; (ii) a discount of approximately 47.76% to the Highest Closing Price of the Post-Initial Announcement Period; and (iii) a discount of approximately 31.37% to the Lowest Closing Price of the Post-Initial Announcement Period.

After the release of the Initial Announcement, the Share prices of the Company continued to trade lower and reached HK$0.51 on 11 July 2018 during the Post-Initial Announcement Period. After the publication of the annual results for the year ended 31 March 2018 by the Company on 19 June 2018, the Share prices hovered at the price of approximately HK$0.50 per Share. The Share prices then traded at the range of approximately HK$0.51 to approximately HK$0.62. The Company issued the interim results for the six months ended 30 September 2018 on 30 November 2018, the Share prices continued to stay at the level of approximately HK$0.56. We noted that the range of the Share prices of the Company during the Post-Initial Announcement Period is generally higher than that in the Pre-Initial Announcement Period and the discounts of the Subscription Price to the Share prices of the Company during the Post-Initial Announcement Period are deeper than those for the Pre-Initial Announcement Period as well. As mentioned above, due to the Share Offer Price of HK$0.71 per Share in the possible unconditional mandatory cash offers as stated in the Initial Announcement, market participants were most probably influenced by the news of the possible Offers reacted to the news.

Having considered that, save for the announcements issued by the Company in relation to the Subscription, the Share Purchase Agreement, the Offers, the increase in Authorised Share Capital and the ZTI Acquisitions during the Post-Initial Announcement Period, the Company did not announce any other significant news during the Post-Initial Announcement Period, we are of the view that the closing prices of the Shares during the Post-Announcement Period was likely due to the Share Offer Price of HK$0.71 per Share in the possible unconditional mandatory cash offers as stated in the Initial Announcement, which market participants were influenced by the news and reacted to the news of the possible Offers. In this connection, we consider that in the absence of any other significant positive events and the Offers, there is no assurance that the closing prices of the Shares would remain at the level during the Post-Announcement Period. Accordingly, we consider the price trend prior to the publication of the Initial Announcement in the Pre-Initial Announcement Period more appropriately reflects the general price trend of the Company relevant to the assessment of the Subscription Price.

Despite a discount represented by the Subscription Price to the Average Closing Price of the Pre-Initial Announcement Period, we note that the Subscription Price is still within the range of the closing prices in the Pre-Initial Announcement Period, and represents a premium of approximately 23.9% over the unaudited consolidated net asset value of the Company of approximately HK$0.2825 per Share as at 30 September 2018 and a premium of approximately 20.1% over the audited net asset value of the Group of approximately HK$0.2915 as at 31 March 2018.

Historical trading volumes of the Shares

Set out in the table below are the monthly average daily trading volumes of the Shares and the percentages of such average daily trading volumes to the issued share capital or the public float of the Company during the Review Period as illustrated in the table below:

Table 6: Summary of the monthly average daily trading volumes to the issued share capital or the public float of the Company during the Review Period

Month	**No. of trading days in each month**	**The monthly average daily trading volume**	**Percentage of the average daily trading volume to the total number of issued Shares** *(Note 1)* *(approx.)* %	**Percentage of the average daily trading volume to the total number of issued Shares held by the public Shareholders** *(Note 2)* *(approx.)* %
2017				
February *(Note 3)*	3	423,333	0.03	0.05
March	23	1,644,522	0.11	0.18
April	17	3,429,412	0.23	0.37
May	20	2,633,000	0.18	0.28
June	22	1,782,364	0.12	0.19
July	21	657,238	0.04	0.07
August	22	232,909	0.02	0.02
September	21	825,048	0.06	0.09
October	20	406,192	0.03	0.04
November	22	388,727	0.03	0.04
December	19	373,158	0.03	0.04
2018				
January	22	551,364	0.04	0.06
February	18	3,860,111	0.26	0.41
March	21	3,366,190	0.23	0.36
April	19	443,684	0.03	0.05
May	21	631,048	0.04	0.07
June	20	684,200	0.05	0.07
July	21	291,338	0.02	0.03
August	23	634,000	0.04	0.07
September	19	223,895	0.02	0.02
October	21	1,481,333	0.10	0.16
November	22	586,273	0.04	0.06
December	18	1,687,556	0.11	0.18

Sources: website of the Stock Exchange (http://www.hkex.com.hk) & Bloomberg

Notes:

1. The calculation is based on the average daily trading volume of the Shares divided by the total issued share capital of the Company at the end of each calendar month.

2. The calculation is based on the average daily trading volume of the Shares divided by the number of Shares held by the public Shareholders, excluding the Shares held by the Directors, at the end of each calendar month.

3. The monthly average daily trading volume of February 2017 is from 24 February 2017, being the 12-month period prior to the release of the Initial Announcement.

As illustrated in the table above, during the Review Period, the average daily trading volume of the Shares ranged between 223,895 and 3,860,111. In addition, the percentage of average daily trading volume of the Shares during the Review Period ranged from approximately 0.02% to approximately 0.26% of the total number of Shares in issue as at the end of each calendar month. We note that the trading of Shares did not appear to be active during the Review Period. Notwithstanding the relatively low historical trading volume of the Shares, we consider the average daily trading volume of the Shares during the Review Period was thin during most of the time in the Review Period. The relatively low liquidity of the Shares would generally hinder investors from buying and/or selling Shares at desired prices and may imply that the Share price may not be indicative of the underlying value of the Company, hence setting the Subscription Price at a discount could help mitigate the risks of lack of liquidity of the Shares and encourage more interests for the Subscribers to participate in the Subscription, as such, we are of the view that it is reasonable to set the Subscription Price at discount to the latest Share prices to balance the low liquidity of the Shares during the Review Period.

Comparison of recent issues of subscription shares by other listed issuers

To further assess the fairness and reasonableness of the Subscription Price, we have conducted a comparable analysis through identifying companies listed on the Main Board of the Stock Exchange (excluding companies under prolonged suspension or debt restructuring) which involve subscription of new shares and/or placing of new shares (excluding the issue of A shares) using specific mandate (the "**Subscription Comparables**") and such issue was not terminated or lapsed during the last six months commencing from 11 April 2018 to the Last Trading Day as we consider that six months are appropriate benchmarks to reflect the recent market sentiment, provide a general reference of this type of transaction in Hong Kong equity capital market, the risk appetite of the investment community and the adopted time span can cover sufficient number of comparable subscriptions to reflect the prevailing market trends. We have excluded transactions involving companies with extreme maximum, minimum and average of their respective subscription price to/over the average of the share price of the Comparable Companies on their respective last trading day more than at least 10 times to the average of the discount rate of the Subscription Comparables (i.e. 6.47 x 10 = 64.7%), given the majority of the premium and discount of the Comparable Transactions fall in the range from a premium of approximately 30% over their respective last trading day to a discount of approximately 50% to their respective last trading day, we consider those with such 10 times to the average of the premium or discount rate of the Subscription Comparables are inappropriate outliers which would have significantly skewed the average figure and we consider that would be extraordinary and not relevant for comparison.

It should be noted that the Subscription Comparables may have different principal businesses, market capitalisations, profitability and financial positions as compared to those of the Company. However, as the Subscription Comparables can provide a general understanding of the pricing mechanism for transactions involving subscription of new shares and/or placing of new shares using specific mandate in Hong Kong under current market environment, we consider them to be relevant in assessing the fairness and reasonableness of the Subscription Price. We have identified 26 Subscription Comparables and believe that provides a reasonable number of comparable transactions for comparison purposes. We consider such list an exhaustive list of relevant comparable issues of new shares under specific mandate based on the said criteria above. We compared the premium/(discount) of its issue price/placing price over/(to) (a) the respective closing price on the last trading day; and (b) the average closing price for the last five consecutive trading days prior to the date of the corresponding initial announcement summarised in the following table:

Table 7: Summary of the Subscription Comparables for the Subscription

Date of initial announcement	Stock code	Company name	Subscription/ Issue Price *(HK$)*	Premium/ (Discount) of the issue price over/to the closing price on last trading day *(%)* *(approx.)* *(Note 1)*	Premium/ (Discount) of the issue price over/to the average closing price over the last 5 consecutive trading days up to and including the last trading day *(%)* *(approx.)* *(Note 1)*	Theoretical dilution value *(%)* *(approx.)* *(Note 2)*
5/10/2018	362	China Zenith Chemical Group Limited	0.315	-1.59	-2.54	0.99
21/9/2018	910	China Sandi Holdings Limited	0.412	-9.50	-9.80	3.17
19/9/2018	2768	Jiayuan International Group Limited	13.73	-5.31	-4.25	0.11
16/9/2018	943	eForce Holdings Limited	0.154	-6.10	-4.23	1.10
28/8/2018	2309	Birmingham Sports Holdings Limited	0.095	-6.20	-7.90	0.56
28/8/2018	698	Tongda Group Holdings Limited	1.60	30.08	22.89	N/A *(Note 4)*
20/8/2018	30	Ban Loong Holdings Limited	0.18	0.00	-1.21	0.19
13/8/2018	772	China Literature Limited	80.00	19.40	19.49	N/A *(Note 4)*

Date of initial announcement	Stock code	Company name	Subscription/ Issue Price *(HK$)*	Premium/ (Discount) of the issue price over/to the closing price on last trading day *(%)* *(approx.)* *(Note 1)*	Premium/ (Discount) of the issue price over/to the average closing price over the last 5 consecutive trading days up to and including the last trading day *(%)* *(approx.)* *(Note 1)*	Theoretical dilution value *(%)* *(approx.)* *(Note 2)*
10/8/2018	3313	Artgo Holdings Limited	0.45	8.43	11.94	N/A *(Note 4)*
7/8/2018	1310	HKBN Ltd.	11.6	-5.38	-5.48	1.72
31/7/2018	732	Truly International Holdings Limited	1.18	-6.35	-4.84	0.25
30/7/2018	1699	China Putian Food Holding Limited	0.14	-27.10	-24.70	4.14
30/7/2018	1328	International Elite Ltd.	0.1193	-33.30	-23.30	6.93
24/7/2018	697	Shougang Concord International Enterprises Company Limited	0.25	28.87	30.21	N/A *(Note 4)*
11/7/2018	729	FDG Electric Vehicles Limited	0.06	-52.38	-50.17	28.89
3/7/2018	1141	CMBC Capital Holdings Limited	0.363	-18.40	-19.50	0.90
25/6/2018	2688	ENN Energy Holdings Limited	80.00	-1.23	4.49	0.11
5/6/2018	2768	Jiayuan International Group Limited	14.18	-3.54	-5.79	0.05
1/6/2018	512	China Grand Pharmaceutical and Healthcare Holdings Limited	5.2	-15.90	-20.20	1.84
30/5/2018	108	GR Properties Limited	0.80	2.56	-2.44	N/A *(Note 4)*
24/5/2018	512	China Grand Pharmaceutical and Healthcare Holdings Limited *(Note 3)*	4.20	-33.80	-33.00	3.97

Date of initial announcement	Stock code	Company name	Subscription/ Issue Price *(HK$)*	Premium/ (Discount) of the issue price over/to the closing price on last trading day *(%)* *(approx.)* *(Note 1)*	Premium/ (Discount) of the issue price over/to the average closing price over the last 5 consecutive trading days up to and including the last trading day *(%)* *(approx.)* *(Note 1)*	Theoretical dilution value *(%)* *(approx.)* *(Note 2)*
24/5/2018	512	China Grand Pharmaceutical and Healthcare Holdings Limited *(Note 3)*	5.00	-21.14	-20.26	3.97
24/5/2018	3966	China Baofeng (International) Limited	2.6	-13.33	-13.91	2.30
9/5/2018	596	Inspur International Limited	2.65	-2.93	-2.21	0.48
30/4/2018	118	Cosmos Machinery Enterprises Limited	0.55	11.10	6.80	N/A *(Note 4)*
17/4/2018	872	TUS International Limited	0.537	-11.97	-9.90	6.17
		Maximum discount/Maximum dilution effect		-52.38	-50.17	28.89
		Maximum premium/Minimum dilution effect		30.08	30.21	0.05
		Average discount/Average dilution effect		-6.73	-6.53	3.39
		The Subscription Shares		-39.70	-38.60	13.87

Source: the website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. The premium/discounts refer to the figures as disclosed in the respective announcements.

2. Under Listing Rule 7.27B, theoretical dilution effect of an issue refers to the discount of the "theoretical diluted price" to the "benchmarked price" of shares. The "theoretical diluted price" means the sum of (i) the issuer's total market capitalization (by reference to the "benchmarked price" and the number of issued shares immediately before the issue) and (ii) the total funds raised and to be raised from the issue, divided by the total number of shares as enlarged by the issue. The "benchmarked price" means the higher of the closing price on the date of the agreement involving the issue; and the average closing price in the 5 trading days immediately prior to the earlier of (1) the date of announcement of the issue; (2) the date of the agreement involving the issue; and (3) the date on which the issue price is fixed.

3. China Grand Pharmaceutical and Healthcare Holdings Limited (stock code:512) had two transactions involving issue of consideration shares under specific mandate and subscription of shares under specific mandate on the same day which had different issue prices.

4. No theoretical value dilution has been identified for these cases.

We noted that issue prices of the Subscription Comparables represent from a range of premium of approximately 30.08% to a discount of approximately 52.38% as compared with the respective closing prices, with an average discounts of approximately 6.73%. The discount of approximately 39.70%, represented by the Subscription Price to the closing price of HK$0.58 per Share as quoted on the Stock Exchange on the Last Trading Day, is higher than the average discounts of the Subscription Comparables but falls within the range of discounts represented by the Subscription Comparables. Although the discount of approximately 39.70% was close to the lower end of the Subscription Comparables, we noted that since the Subscription, the ZTI Acquisitions and the Share Purchase Agreement are inter-conditional, the completion of the Subscription will lead to the making of the Offers and the Share Offer Price of HK$0.71 per Share payable by the Offeror to the Shareholders for each Offer Share accepted under the Share Offer provides an alternative way for the Shareholders to realise their investments in the Shares (especially those with relatively sizeable shareholdings) at a price substantially higher than the Subscription Price, as the Share Offer Price of HK$0.71 per Share represents a premium of 102.86% over the Subscription Price for the Shareholders. Moreover, as compared to the historical price performance of the Shares, the Share Offer Price of HK$0.71 per Share represents a premium of 36.54% over the Average Closing Price of the Pre-Initial Announcement Period of HK$0.52 and a premium of 9.23% and 102.86% over the Highest Closing Price of the Pre-Initial Announcement Period of HK$0.65 and the Lowest Closing Price of the Pre-Initial Announcement Period of HK$0.35, respectively.

Analysis of the Share Offer Price

(a) Historical price performance of the Shares

As shown in *Chart 2: Historical price performance of the Shares*, the lowest closing price of the Shares during the Review Period was HK$0.35 on 2 June 2017 and the highest closing price of the Shares during the Review Period was HK$0.67 on 28 February 2018, 1 March 2018 and 16 March 2018 respectively. The average daily closing price of the Shares during the Review Period is approximately HK$0.55. The Share Offer Price (i) is higher than the Share closing price during the entire Review Period; (ii) represents a premium of approximately 102.86% and 5.97% over the lowest and highest Share closing price respectively during the Review Period; and (iii) a premium of approximately 29.09% over the average daily closing price of the Share during the Review Period.

(b) Liquidity of the Shares

As illustrated in the *Table 6: Summary of the monthly average daily trading volumes to the issued share capital or the public float of the Company* during the Review Period above, the average daily trading volume of Shares during the Review Period ranged from approximately 223,895 Shares in September 2018 to approximately 3,860,111 Shares in February 2018, representing approximately 0.02% to approximately 0.26% of the total number of issued Shares as at the end of the corresponding calendar month, or approximately 0.02% to approximately 0.41% of the total number of issued Shares held by the public Shareholders as at the end of the corresponding calendar month. Given the average daily trading volume as a percentage of the total number of issued Shares or as a percentage of the total number of issued Shares held by the public Shareholders as at the end of each calendar month during the Review Period was relatively low, we considered that the Shares are highly illiquid and the disposal of a significant number of Shares held by the Shareholders in the open market would likely to trigger price slump of the Shares.

For the above reason, there is no guarantee that the surge in Share price after the publication of the Initial Announcement as highlighted under the sub-section headed "Historical price performance of the Shares" of this letter of advice will sustain and that the Independent Shareholders will be able to realise their investments in the Shares (especially those with relatively sizeable shareholdings) at a price higher than the Share Offer Price. We, therefore, consider that the Share Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares.

(c) Comparison with other comparable companies

As referred to the subsection headed "Comparable analysis on the consideration for the ZTI Acquisitions", in assessing the fairness and reasonableness of the Share Offer Price, we have also compared the P/B Ratio of the Company as implied by the Share Offer Price (the "**Implied P/B Offer Ratio**"), with reference to the Share Offer Price of HK$0.71 under the Share Offer and the equity attributable to owners of the Company per Share of approximately HK$0.28 as at 30 September 2018 (based on the equity attributable to the owners of the Company as disclosed in its latest unaudited financial statements for the six months ended 30 September 2018 of approximately HK$416.49 million divided by the number of issued Shares as at the Latest Practicable Date), the Group's Implied P/B Offer Ratio is approximately 2.51 times, which is within the range towards the high end of the Comparable Companies' P/B ratios and much higher than the average of the Comparable Companies' P/B ratios. Hence, we consider that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

(d) Comparison with NAV of the Group

According to the 2018 Annual Report, the NAV of the Group as at 31 March 2018 was approximately HK$429.73 million as at 31 March 2018 and, based on the total issued share capital of the Company as at the Latest Practicable Date (i.e. 1,474,232,000 Shares), the NAV per Share of the Group as at 31 March 2018 was approximately HK$0.2915 per Share (the "**Audited NAV per Share**"). The Share Offer Price represents a premium of approximately 143.57% over the Audited NAV per Share.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix IV to the Circular, resulting from the inclusion of the Target Group's assets and the net proceeds generated by the Subscription, the NAV of the Enlarged Group as at 30 June 2018 would be approximately HK$752.39 million. The unaudited pro forma NAV per Shares would be approximately HK$0.3318 per Share (the "**Pro Forma NAV per Share**") based on the total issued share capital of the Company as enlarged by the issue and allotment of the Subscription Shares and the Consideration Shares (i.e. 2,267,282,857 Shares). The Share Offer Price represents a premium of approximately 113.98% over the Pro Forma NAV per Share. Therefore, we are of the view that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

As (i) the Share Offer Price is higher than the Share closing price during the entire Review Period and represents a premium of approximately 102.86% and 5.97% over the lowest and highest Share closing prices respectively during the Review Period, and a premium of approximately 29.09% over the average daily closing price of the Share during the Review Period; (ii) the historical trading volume of the Shares is relatively thin which we consider that the Share Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares; (iii) the Implied P/B Offer Ratio calculated based upon the Share Offer Price is within the range towards the high end of the Comparable Companies' P/B ratios and much higher than the average of the Comparable Companies' P/B ratios; (iv) the Share Offer Price represents premium over both of the Audited NAV per Share and the Pro Forma NAV per Share; and (v) the unsatisfactory historical performances of the Group as discussed in the section headed "Business and financial information of the Group and the ZTI Companies", we consider that the Share Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.

Furthermore, the Subscription Price represents a premium of approximately 23.9% over the unaudited consolidated net asset value of the Company of approximately HK$0.2825 per Share as at 30 September 2018 and a premium of approximately 20.1% over the audited net asset value of the Group of approximately HK$0.2915 as at 31 March 2018. As noted in the 2018 Annual Report, the non-current assets of the Group as at 31 March 2018 comprised a material amount of goodwill of approximately HK$184.78 million, which represents approximately 79.84% of the total non-current assets of the Group. Excluding the intangible assets of the Group as at 31 March 2018, the audited net tangible asset value of the Group would be approximately HK$244.39 million and the audited net tangible asset value of the Group per Share would be approximately HK$0.166 per Share, and the Subscription Price represents a premium of approximately 110.84% over the audited net tangible asset value of the Group per Share as at 31 March 2018. Nevertheless, the above comparable analysis serves only as a general reference in relation to the discount represented by the issue price in a consideration issue (given that the companies of the Consideration Comparables may be engaged in different businesses and have different financial performances or the nature of issuance of shares are not the same as the Company), and is not the only factor in considering the fairness and reasonableness of the Subscription Price. As the Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers which had taken into account that the unsatisfactory financial performances of the Group that it has been loss making since the financial year ended 31 March 2015, we consider that the Subscription Price with a deeper discount is justifiable. Therefore, we are of the view that the Subscription Price is fair and reasonable.

Having considered that

(i) the average daily trading volume of the Shares during the Review Period was thin during most of the time in the Review Period. The relatively low liquidity of the Shares would generally hinder investors from buying and/or selling Shares at desired prices and may imply that the Share price may not be indicative of the underlying value of the Company, hence setting the Subscription Price at a discount could encourage more interests for the Subscribers to participate in the Subscription;

(ii) taking into account of the Subscription, the ZTI Acquisitions and the Share Purchase Agreement are inter-conditional, the completion of the Subscription will lead to the making of the Offers and the Share Offer Price of HK$0.71 per Share payable by the Offeror to the Shareholders for each Offer Share accepted under the Share Offer provides an alternative way for the Shareholders to realise their investments in the Shares (especially those with relatively sizeable shareholdings);

(iii) the Share Offer Price is higher than the Share closing price during the entire Review Period and represents a premium of approximately 102.86% and 5.97% over the lowest and highest Share closing prices respectively during the Review Period, and a premium of approximately 29.09% over the average daily closing price of the Share during the Review Period; the historical trading volume of the Shares is relatively thin which we consider that the Share Offer provides an exit alternative for the Independent Shareholders who would like to realise their investments in the Shares;

(iv) the Share Offer Price is higher than both of the Audited NAV per Share and the Pro Forma NAV per Share;

(v) the Implied P/B Offer Ratio is within the range towards the high end of the Comparable Companies' P/B ratios and much higher than the average of the Comparable Companies' P/B ratios;

(vi) the Subscription Price represents a premium of approximately 23.9% over the unaudited consolidated net asset value of the Company of approximately HK$0.2825 per Share as at 30 September 2018 and a premium of approximately 20.1% over the audited net asset value of the Group of approximately HK$0.2915 as at 31 March 2018 and the Subscription Price represents a premium of approximately 110.84% over the audited net tangible asset value of the Group per Share as at 31 March 2018;

(vii) the discount of the Subscription Price to the closing price on the Last Trading Day is still within the range although it is closer to the lower end of the Subscription Comparables;

(viii) as the Subscription Price was arrived at after arm's length negotiations between the Company and the Subscribers which had taken into account that the unsatisfactory financial performances of the Group that it has been loss making since the financial year ended 31 March 2015; and

(ix) taking into account of the "Reasons for and benefits of the ZTI Acquisitions" as a whole, including but not limited to, the synergic effects in terms of the expansion of the provision of financial services business of the Group as a result of the ZTI Acquisitions and the solid background of Zhongtai Securities, which is a state-owned financial conglomerate in the PRC with over 250 offices in 28 provinces, cities or autonomous regions,

we are of the view that the Subscription Price is fair and reasonable and in the interest of the Company and Independent Shareholders as a whole.

Theoretical value dilution

As stated in the above Summary of the Subscription Comparables for the Subscription", the theoretical value dilution of the ZTI Acquisitions and the Subscription, calculated in accordance with Listing Rule 7.27B, is approximately 13.87% which is calculated by dividing (i) the sum of (a) Shares in issue as at the date of the Initial Subscription Agreement of 1,474,232,000 multiplied by the closing price of HK$0.58 per Share on the Last Trading Day, (b) 415,908,000 Subscription Shares multiplied by the Subscription Price of HK$0.35, and (c) 377,142,857 Consideration Shares multiplied by the Issue Price of HK$0.35; with (ii) the sum of Shares in issue as at the Latest Practicable Date of 1,474,232,000, the Subscription Shares of 415,908,000 and the Consideration Shares of 377,142,857.

The theoretical value dilution of the Subscription Comparables as shown in Table 7, the Summary of the Subscription Comparables for the Subscription, ranges from approximately 0.05% to approximately 28.89% with an average of approximately 3.39%. The theoretical value dilution effect of the ZTI Acquisitions and the Subscription of approximately 13.87% is within the range of the theoretical value dilution of the Subscription Comparables, and is also well within the limit of 25% as permitted under Listing Rule 7.27B.

Although there will be a dilution of shareholding to the Independent Shareholders, the Independent Shareholders should note that (i) they are offered an opportunity to exit their investments in the Company at the Share Offer Price of HK$0.71 per Share which represents a premium of 102.86% over the Subscription Price; (ii) the Company will benefit from the ZTI Acquisitions after taking into account the reasons as stipulated in the paragraph headed ''Reasons for and benefits of the ZTI Acquisitions'' above. Accordingly, we consider that the shareholding dilution effects for the issuance of the Subscription Shares and the Consideration Shares is acceptable so far as the Independent Shareholders are concerned. On the other hand, the public float will not be less than 25% immediately following the issue and allotment of the Subscription Shares and the Consideration Shares. The shareholdings held by existing public Shareholders as at the Latest Practicable Date was still more than 25.0%, we consider that there will be no material dilution effect to the public shareholding under the current circumstances.

Financial effects of the ZTI Acquisitions

Upon completion of the ZTI Acquisitions, the ZTI Companies will become subsidiaries of the Company and their earnings, assets and liabilities will be consolidated into the accounts of the Group.

Working capital

Since the consideration will be satisfied in full by the allotment and issue of the Consideration Shares by the Company, the Acquisition would not have material adverse effect on the cash level and working capital of the Group immediately upon completion of the ZTI Acquisitions while the cash of the Company will be increased by the net proceeds generated by the Subscription.

Earnings

Upon completion, the financial results of the ZTI Companies will be consolidated into the Enlarged Group's consolidated accounts. The Directors believe that the ZTI Companies would be able to contribute to the revenue stream of the Group. Taking into consideration the benefits that the Acquisition can bring to the Group as discussed above in the section headed "Reasons for and benefits of the Acquisition", the Directors are of the view that the Acquisition would likely to have a positive impact on the turnover and earnings of the Enlarged Group in the near future and we also concur with the view of the Directors that the Acquisition would likely to have a positive impact on the future turnover and earnings of the Enlarged Group.

Net Asset Value

According to the 2018 Annual Report, the net asset value of the Group as at 31 March 2018 was approximately HK$429.73 million. Upon completion of the ZTI Acquisitions and the Subscription, the net asset value of the Group will be increased resulting from the inclusion of the Target Group's assets and the net proceeds generated by the Subscription.

RECOMMENDATION

Having taken into account, in particular, (i) reasons for and benefits of the ZTI Acquisitions as discussed above, (ii) the basis of determination of the consideration of the ZTI Acquisitions and the Issue Price and/or Subscription Price, and (iii) the positive financial effects of the ZTI Acquisitions, we are of the opinion that although the Subscription and the ZTI Acquisitions are not in the ordinary and usual course of business of the Company, (i) the Subscription and the ZTI Acquisitions are in line with the business strategy of the Group; and (ii) the terms of the Restated Subscription Agreement and the ZTI Agreements and the transactions contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend and we also recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Restated Subscription Agreement and the ZTI Agreements and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of
Veda Capital Limited
Hans Wong — *Chairman*
Julisa Fong — *Managing Director*

Notes:

Mr. Hans Wong is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 23 years of experience in investment banking and corporate finance.

Ms. Julisa Fong is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 22 years of experience in investment banking and corporate finance.

\# *The English transliteration of the Chinese name(s) in this circular, where indicated, is included for information purpose only, and should not be regarded as the official English name(s) of such Chinese name(s).*

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 March 2016, 2017 and 2018 and for the six months ended 30 September 2018 are disclosed in the following documents:

- annual report of the Company for the year ended 31 March 2016 published on 28 July 2016 (pages 40 to 133);
- annual report of the Company for the year ended 31 March 2017 published on 28 July 2017 (pages 44 to 135);
- annual report of the Company for the year ended 31 March 2018 published on 25 July 2018 (pages 48 to 143); and
- interim report of the Company for the six months ended 30 September 2018 published on 21 December 2018 (pages 21 to 62).

The said annual reports and interim report of the Company are available on the Company's website at http://www.quali-smart.com.hk/ and website of the Stock Exchange at http://www.hkexnews.hk/ through the links below:

http://www.hkexnews.hk/listedco/listconews/SEHK/2016/0728/LTN20160728734.pdf
http://www.hkexnews.hk/listedco/listconews/SEHK/2017/0728/LTN20170728209.pdf
http://www.hkexnews.hk/listedco/listconews/SEHK/2018/0725/LTN20180725480.pdf
http://www3.hkexnews.hk/listedco/listconews/sehk/2018/1221/LTN20181221313.pdf

2. INDEBTEDNESS STATEMENT

At the close of business on 31 October 2018, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the indebtedness of the Enlarged Group was as follows:

(i) The Group

The Group had aggregate guaranteed bank borrowings of approximately HK$100,039,000 comprising (i) unsecured bank borrowings of approximately HK$17,354,000; and (ii) bank borrowings of approximately HK$82,685,000 secured by certain properties owned by a subsidiary of the Company and Mr. Lau, Madam Li and their associates respectively. The Group's bank borrowings were primarily used as working capital for its Toy Business. The Group had Convertible Note A and Convertible Note B with aggregate carrying amount of approximately HK$81,996,000 as at 31 October 2018.

(ii) ZTI Asset Management

ZTI Asset Management had aggregate unsecured and unguaranteed amount due to its related companies of approximately HK$9,700,000. The aforesaid amount will be eliminated upon Completion.

(iii) ZTI Capital

ZTI Capital had aggregate unsecured and unguaranteed amount due to its related companies of approximately HK$27,388,000. The aforesaid amount will be eliminated at the Enlarged Group upon Completion.

Except as disclosed above and apart from intra-group liabilities, the Enlarged Group did not have any other debt securities issued and outstanding, and authorized or otherwise created but unissued, terms loans, other borrowings and indebtedness, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchases commitments, finance lease obligation, mortgages, charges, guarantees or other material contingent liabilities as at 31 October 2018.

3. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account (i) completion of the Offers, the ZTI Acquisitions and the Subscription; (ii) the internal resources and the existing credit facilities available to the Enlarged Group and the net proceeds from the Subscription, the Enlarged Group has sufficient working capital for its requirements for at least twelve months from the date of publication of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

While both the Hong Kong and global securities markets are expected to remain highly volatile and likely to head towards substantial correction during the second half of the current financial year, the Group remains cautiously optimistic in the business prospects of the Financial Services Division and will continue to focus on the primary equity and debt market transactions in the small to mid-cap sectors. We believe the recent correction in the markets is just part of the normal cycles which have been seen in the financial services industry in the past and we continue to believe in the long-term prospects of the financial services markets in Hong Kong and Greater China given the unique position played by the Hong Kong capital markets in providing a wide array of international capital, products and services for corporates and clients in the Greater China markets. Currently, the expansion capabilities of the Financial Services Division are limited particularly for those operations requiring a wider capital base or more extensive deployment of capital, including participating in underwritings of bigger-scale transactions and securities margin financings. The Offeror intends to expand the business scale and product offerings of the Financial Services Division.

Upon completion of the ZTI Acquisitions, the services offered by the Financial Services Division will be broadened to engaging in new listing sponsorship and financial advisory services for transactions falling within the ambit of the Takeovers Code. The team of the asset management business of the Financial Services Division will be strengthened and there will be synergy between the asset management business of the Financial Services Division and ZTI Asset Management.

In terms of the Toy Business, in view of the ongoing multilateral trade wars between the US and China as well as the US and its adjacent territories and some of the European countries, it is expected that the business outlook for the toy industry in the western markets will remain highly challenging and uncertain. This may further impact the purchase orders placed by customers located in such territories leading to potential volatility in the performance of the Toy Business. Going forward, the Toy Business will continue to enhance its lean production approach by working closely with its sub-contractors and maintain a tight but flexible cost control. Focus will be maintained in exploring business opportunities on products involving a technology component and potentially higher margin with existing customers or reliable, potential new customers.

Set out below is the text of a report received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, which has been prepared for the purpose of incorporation in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF QUALI-SMART HOLDINGS LIMITED

Introduction

We report on the historical financial information of Zhongtai International Asset Management Limited ("ZTI Asset Management") set out on pages IIA-4 to IIA-39, which comprises the statements of financial position as at 31 December 2015, 2016 and 2017 and 30 June 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages IIA-4 to IIA-39 forms an integral part of this report, which has been prepared for inclusion in the circular of Quali-Smart Holdings Limited (the "Company") dated 31 December 2018 (the "Circular") in connection with the proposed acquisition of the entire equity interest in ZTI Asset Management.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of ZTI Asset Management's financial position as at 31 December 2015, 2016 and 2017 and 30 June 2018 and of ZTI Asset Management's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of Stub Period Comparative Historical Financial Information

We have reviewed the stub period comparative historical financial information of ZTI Asset Management which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2017 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the

HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIA-4 have been made.

BDO Limited
Certified Public Accountants
Lam Tsz Ka
Practising Certificate no. P06838

Hong Kong
31 December 2018

HISTORICAL FINANCIAL INFORMATION OF ZTI ASSET MANAGEMENT

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of ZTI Asset Management for the Track Record Period, on which the Historical Financial Information is based, were audited by the BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2015	**2016**	**2017**	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Revenue	7	23,844	26,693	57,480	26,994	30,340
Other income, gains or losses	8	7,993	(6,006)	2,959	1,166	210
Staff costs		(8,932)	(12,828)	(12,336)	(5,908)	(4,636)
Other operating expenses		(6,893)	(14,207)	(22,808)	(11,586)	(12,125)
Finance costs	9	(173)	–	(50)	(25)	(185)
Profit/(loss) before income tax	10	15,839	(6,348)	25,245	10,641	13,604
Income tax expense	12	–	–	(3,724)	(1,550)	(2,049)
Profit/(loss) for the year/period and total comprehensive income/(expense) for the year/period		15,839	(6,348)	21,521	9,091	11,555

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2015	2016	2017	2018
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	13	–	140	89	63
Investment in a subsidiary	14	41,554	35,545	–	–
Investment in an associate	15	–	–	38,078	38,285
		41,554	35,685	38,167	38,348
Current assets					
Accounts receivable	16	17,389	10,373	20,840	25,440
Prepayment and other receivables	17	906	1,497	1,894	1,948
Amount due from an immediate holding company	18	16,200	–	–	–
Amount due from a fellow subsidiary	18	–	–	667	669
Cash and cash equivalents		13,018	45,804	60,449	69,986
		47,513	57,674	83,850	98,043
Current liabilities					
Accrual, deposits received and receipt in advance	19	4,430	874	7,414	5,447
Amount due to a fellow subsidiary	18	3,475	16,387	10,251	15,020
Amount due to an immediate holding company	18	–	257	3,266	1,234
Tax payable		–	–	3,724	5,773
		7,905	17,518	24,655	27,474
Net current assets		39,608	40,156	59,195	70,569
Total assets less current liabilities		81,162	75,841	97,362	108,917
Net assets		81,162	75,841	97,362	108,917
EQUITY					
Share capital	20	80,000	80,000	80,000	80,000
Reserves		1,162	(4,159)	17,362	28,917
Total equity		81,162	75,841	97,362	108,917

STATEMENTS OF CHANGES IN EQUITY

	Share capital	(Accumulated losses)/ retained earnings	Shareholder's contribution	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	60,000	(14,677)	–	45,323
Shares issued during the year	20,000	–	–	20,000
Profit for the year and total comprehensive income for the year	–	15,839	–	15,839
At 31 December 2015 and 1 January 2016	80,000	1,162	–	81,162
Shareholder's contribution for the year *(note 21)*	–	–	1,027	1,027
Loss for the year and total comprehensive expense for the year	–	(6,348)	–	(6,348)
At 31 December 2016 and 1 January 2017	80,000	(5,186)	1,027	75,841
Profit for the year and total comprehensive income for the year	–	21,521	–	21,521
At 31 December 2017 and 1 January 2018	80,000	16,335	1,027	97,362
Profit for the period and total comprehensive income for the period	–	11,555	–	11,555
At 30 June 2018	80,000	27,890	1,027	108,917
At and 1 January 2017	80,000	(5,186)	1,027	75,841
Profit for the period and total comprehensive income for the period (Unaudited)	–	9,091	–	9,091
At 30 June 2017 (Unaudited)	80,000	3,905	1,027	84,932

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit/(loss) before income tax	15,839	(6,348)	25,245	10,641	13,604
Adjustments for:					
Finance costs	173	–	50	25	185
Interest income	(1)	(3)	(4)	(2)	(3)
Depreciation on property, plant and equipment	–	13	51	26	26
Share-based payment expenses	–	1,027	–	–	–
Fair value change on the investment in a subsidiary	(7,992)	6,009	(959)	(905)	–
Fair value change on the investment on an associate	–	–	(1,574)	–	(207)
Operating cash flows before working capital changes	8,019	698	22,809	9,785	13,605
(Increase)/decrease in accounts receivable	(17,045)	7,016	(10,467)	10,373	(4,600)
Increase in prepayment and other receivables	(512)	(591)	(397)	(19,601)	(54)
Increase/(decrease) in accruals, deposits received and receipt in advance	2,605	(3,556)	6,540	19,015	(1,967)
Net cash flows (used in)/generated from operating activities	(6,933)	3,567	18,485	19,572	6,984
Cash flows from investing activities					
Purchase of property, plant and equipment	–	(153)	–	–	–
Acquisition of an associate	–	–	(36,504)	–	–
Proceeds on disposal of a subsidiary	–	–	36,504	–	–
Decrease/(increase) in amount due from a fellow subsidiary	2,019	–	(667)	–	(2)
(Increase)/decrease in amount due from an immediate holding company	(16,200)	16,200	–	–	–
Interest received	1	3	4	2	3
Net cash flows (used in)/generated from investing activities	(14,180)	16,050	(663)	2	1

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cash flows from financing activities					
Increase/(decrease) in amount due to a fellow subsidiary	3,475	12,912	(6,136)	(13,942)	4,769
(Decrease)/increase in amount due to an immediate holding company	(3,206)	257	2,959	1,981	(2,217)
Proceeds from issue of shares	20,000	–	–	–	–
Net cash flows generated from/(used in) financing activities	20,269	13,169	(3,177)	(11,961)	2,552
Net (decrease)/increase in cash and cash equivalents	(844)	32,786	14,645	7,613	9,537
Cash and cash equivalents at the beginning of year/period	13,862	13,018	45,804	45,804	60,449
Cash and cash equivalents at the end of year/period	13,018	45,804	60,449	53,417	69,986

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

ZTI Asset Management was incorporated in Hong Kong on 18 May 2012 with limited liabilities. The address of registered office and principal place of business is 19/F., Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

In the opinion of the directors of ZTI Asset Management (the "Directors"), the immediate holding company and the ultimate holding company are Zhongtai Financial International Limited (previously known as Qilu International Holding Limited) ("Zhongtai Financial International") and Zhongtai Securities Company Limited (previously known as Qilu Securities Company Limited) ("Zhongtai Securities") as at 31 December 2015, 2016 and 2017 and 30 June 2018, which are the limited liability companies incorporated in Hong Kong and the People Republic of China ("PRC") respectively.

ZTI Asset Management is a licensed corporation under the Securities and Futures Ordinance ("SFO"), registered to conduct Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO. It is principally engaged in provision of asset management services.

2. BASIS OF PREPARATION AND PRESENTATION

The Historical Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Historical Financial Information have been prepared under the historical cost convention, except for investments in a subsidiary and an associate, which are measured at fair values as explained in the accounting policies set out below.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying ZTI Asset Management's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

3. NEW/REVISED HKFRSs

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on 1 January 2018, are consistently applied to ZTI Asset Management for the Track Record Period, except for HKFRS 9.

HKFRS 15, "Revenue from contracts with customers" are effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted, and has been applied adopted throughout the Track Record Period.

(a) New and amended standards adopted by ZTI Asset Management

The impact of the adoption of HKFRS 9 and HKFRS 15 is not material to ZTI Asset Management. The other standards did not have any impact on ZTI Asset Management's accounting policies and did not require retrospective adjustments.

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

The following new/revised HKFRS, potentially relevant to the Historical Financial Information, have been issued, but not yet effective and have not been early adopted by ZTI Asset Management. ZTI Asset Management's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 No mandatory effective date yet determined but is available for early adoption.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendment clarifies that the income tax consequences (if any) of dividends as defined in HKFRS 9 (ie distributions of profits to holders of equity instruments in proportion to their holdings) must be recognised:

- at the same time as the liability to pay those dividends is recognised; and
- in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

ZTI Asset Management is not yet in a position to state whether these new pronouncements will result in substantial changes to ZTI Asset Management's accounting policies and financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements. A structured entity often has restricted activities and a narrow and well defined objective, such as to provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity. Consequently, investment funds are considered as "structured entities".

A subsidiary (i.e. a structured entity) is an investee over which ZTI Asset Management is able to exercise control. ZTI Asset Management controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

ZTI Asset Management, which is qualified as an investment entity, shall not consolidate its subsidiary. Instead, it shall measure an investment in a subsidiary at fair value through profit or loss.

(b) Associate

An associate is an entity over which ZTI Asset Management has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

As an investment manager, ZTI Asset Management has invested in investment fund that it manages or advises and therefore had power over them. However, in the opinion of the Directors, they assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of the investment fund that indicates ZTI Asset Management can exercise significant influence on the financial and operating policy decision of the investment fund. ZTI Asset Management has applied the measurement exemption within HKAS 28 "Investments in Associates and Joint Ventures" for mutual funds, unit trusts and similar entities and such investments are classified as financial assets at fair value through profit or loss.

(c) Property, plant and equipment

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 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, ZTI Asset Management 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:

Office equipment	33%

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

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.

(d) Impairment of assets (other than financial assets)

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than 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 statement of profit or loss 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 statement of income in the period in which it arises.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit, 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 or cash generating unit.

(e) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

ZTI Asset Management as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(f) Financial instruments

(i) Financial assets

Before 1 January 2018, the accounting policy of ZTI Asset Management is as follows:

ZTI Asset Management classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. 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

Financial assets at fair value through profit or loss are those being designated in accordance with the measurement exemption within HKAS 28 and the consolidation exemption within HKFRS 10.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial assets at fair value through profit or loss being designated in accordance with the measurement exemption within HKAS 28 and the consolidation exemption within HKFRS 10 are included in non-current assets unless management intends to dispose of the financial assets within 12 months of the end of the reporting period.

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

ZTI Asset Management assesses, at the end of each reporting period, 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; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans 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.

From 1 January 2018, the accounting policy of ZTI Asset Management is as follows:

Classification

ZTI Asset Management classifies its financial assets in the following measurement categories:

– Fair value through profit or loss ("FVTPL")

– Fair value through other comprehensive income ("FVTOCI"); or

– Amortised cost.

The classification depends on ZTI Asset Management's business model for managing the financial assets and the contractual terms of the cash flows.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

• It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVTOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

• It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that meet the solely payments of principal and interest ("SPPI") criterion.

For investments in equity instruments that are not held for trading, this will depend on whether ZTI Asset Management has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

Measurement

At initial recognition, ZTI Asset Management measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on ZTI Asset Management's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which ZTI Asset Management classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

ZTI Asset Management subsequently measures all equity investments at fair value. Where the management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when ZTI Asset Management's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of ZTI Asset Management's financial assets as at 1 January 2018:

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39** *HK$'000*	**Carrying amount as at 1 January 2018 under HKFRS 9** *HK$'000*
Investment in an associate	FVTPL	FVTPL	38,078	38,078
Account receivables	Loans and receivables	Amortised cost	20,840	20,840
Other receivables	Loans and receivables	Amortised cost	1,864	1,864
Amount due from a fellow subsidiary	Loans and receivables	Amortised cost	667	667
Cash and cash equivalents	Loans and receivables	Amortised cost	60,449	60,449

Impairment

From 1 January 2018, ZTI Asset Management assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable, ZTI Asset Management applies the simplified approach permitted by HKFRS 9 to measure the expected credit losses ("ECL"), which requires expected lifetime losses to be recognised from initial recognition of the receivables. For other debt financial assets, ZTI Asset Management applies a general approach to measure ECL.

Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rates to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, ZTI Asset Management assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. ZTI Asset Management considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due from the entity in accordance with the contract and the cash flows that ZTI Asset Management expects to receive); and

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated further cash flows.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12 months ECL.

Derecognition

ZTI Asset Management derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which ZTI Asset Management neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(ii) Financial liabilities

ZTI Asset Management classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including accruals and other payables, amount due to a fellow subsidiary and amount due to immediate holding company, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(iii) 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 Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iv) Share capital

Ordinary shares issued by ZTI Asset Management are classified as equity.

(g) Revenue recognition

ZTI Asset Management recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customers.

Control of the services may be transferred over time or at point in time. Control of the services is transferred over time if:

– The customer simultaneously receives and consumes the benefits provided by ZTI Asset Management's performance as ZTI Asset Management performs;

– ZTI Asset Management's performance creates and enhances an asset that the customer controls as ZTI Asset Management performs; or

– ZTI Asset Management's performance does not create an asset with an alternative use to ZTI Asset Management and ZTI Asset Management has an enforceable right to payment for performance completed to date.

If control of the services transfer over time, revenue is recognised over the period of the contract by reference to the progress complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services.

Consultation and advisory fee income are recognised over time based on contractual terms specified in the underlying agreements, as the customer simultaneously receives and consumes the benefits provided by ZTI Asset Management performance as ZTI Asset Management performs and the revenue can be measured reliably.

Investment management fee income from provision of investment management services is recognised over time based on contractual terms specified in the underlying investment management agreement, as the customer simultaneously receives and consumes the benefits providing by ZTI Asset Management's performance as ZTI Asset Management performs and the revenue can be measured reliably.

Performance fee income based on the performance of the investment company is a form of variable consideration in its contract with the customer to provide investment management services. Performance fee income is earned based on the performance of the investment company during the period, subject to the achievement of high water mark, in accordance with the respective terms set out in the investment management agreement. Performance fee income will not be recognised as revenue until (a) it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur, or (b) the uncertainty associated with the variable consideration is subsequently resolved.

Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on the initial recognition.

(h) Income taxes

Income taxes for the year/period comprise current tax and deferred tax.

Current tax is based on 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 the 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. 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.

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 or when they related to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(i) Cash and Cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash at bank.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when ZTI Asset Management 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.

(k) Employee benefits

(i) Defined contribution retirement plan

Retirement benefits to employees are provided through a defined contribution plan.

ZTI Asset Management 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 statement of profit or loss 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 ZTI Asset Management in an independently administered fund. ZTI Asset Management's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(l) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the options at the date of grant. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

(m) Foreign currency

The financial statements are presented in HK$, which is also the functional currency of ZTI Asset Management.

Transactions entered into by ZTI Asset Management in currencies other than the currency of the primary economic environment in which it/they operate(s) (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.

(n) Related parties

(a) A person or a close member of that person's family is related to ZTI Asset Management if that person:

- (i) has control or joint control over ZTI Asset Management;
- (ii) has significant influence over ZTI Asset Management; or
- (iii) is a member of key management personnel of ZTI Asset Management or ZTI Asset Management's parent.

(b) An entity is related to ZTI Asset Management if any of the following conditions applies:

- (i) The entity and ZTI Asset Management 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 ZTI Asset Management or an entity related to ZTI Asset Management.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (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).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to ZTI Asset Management or to the parent of ZTI Asset Management.

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.

(o) Fair value measurement

A number of assets and liabilities included in ZTI Asset Management's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of ZTI Asset Management's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs;

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

ZTI Asset Management measures a number of items at fair value:

– Investment in a subsidiary *(note 14)*

– Investment in an associate *(note 15)*

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of ZTI Asset Management's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associate assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Investment funds managed by ZTI Asset Management

ZTI Asset Management acts as an investment manager to investment funds and has invested in the investment funds.

Management makes significant judgment on whether ZTI Asset Management controls over its investment funds. The decision outcome affects accounting treatment and the financial results of ZTI Asset Management.

The principle of control sets out the following three elements of control: 1) power over the investee; 2) exposure, or rights, to variable returns from involvement with the investee; and 3) the ability to use power over the investee to affect the amount of the investor's returns.

When assessing whether there is control over the investment funds, ZTI Asset Management also considers whether the decisions it makes are as a principal or as an agent. Aspects of considerations normally include the decision-making scope over the investment funds, substantive rights of third parties, reward of ZTI Asset Management, and the risk of undertaking variable returns from owning other benefits of the investment funds.

(b) Fair value of investment funds

ZTI Asset Management holds investment funds that are not traded or quoted in active markets. ZTI Asset Management uses its judgment to select the appropriate methods and make assumptions based on market conditions existing at the end of each reporting period to estimate the fair value of such financial instruments and classifies them as level 2 in the fair value hierarchy. Although best estimate is used in estimating fair value, there are inherent limitations in any valuation technique. Estimated fair value may differ from the value that would have been used if a readily available market existed.

6. SEGMENT INFORMATION

ZTI Asset Management has identified its operating segment based on the regular internal financial information reported to the chief decision makers about allocation of resources to assess the performance of ZTI Asset Management's business.

The principal activity of ZTI Asset Management is provision of asset management service in Hong Kong. The Directors consider that this is the only component for internal reporting to the chief decision makers and, accordingly, the only one operating segment under the requirements of HKFRS 8 "Operating Segments".

All the segment assets and liabilities are located in Hong Kong.

Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of ZTI Asset Management's revenue for the Track Record Period, is set out below:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Customer A	16,866	–	–	–	–
Customer B	–	6,653	21,599	10,033	10,665
Customer C	–	–	23,610	9,859	15,020
Customer D	–	5,507	7,060	3,447	–
	16,866	12,160	52,269	23,339	25,685

7. REVENUE

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Consultation income	16,866	505	–	–	–
Advisory fee income	–	6,653	21,599	10,033	10,665
Asset management fee income and performance fee income	6,978	19,535	35,881	16,961	19,675
	23,844	26,693	57,480	26,994	30,340

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Timing of revenue recognition					
Services transferred over time	23,844	26,693	57,480	26,994	30,340

8. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Exchange gain	–	–	422	259	–
Fair value changes of a subsidiary	7,992	(6,009)	959	905	–
Fair value changes of an associate	–	–	1,574	–	207
Bank interest income	1	3	4	2	3
	7,993	(6,006)	2,959	1,166	210

9. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Interest expense to an immediate holding company	173	–	50	25	185

10. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging/(crediting):

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Directors' remuneration					
– as fees	–	–	–	–	–
– other emoluments	2,478	1,186	2,248	1,289	1,300
– share-based payment expenses	–	627	–	–	–
– retirement benefit scheme contribution	3	18	18	9	18
Other staff costs					
– salaries, wages and other benefits	6,339	10,385	9,808	4,468	3,181
– share-based payment expenses	–	400	–	–	–
– retirement benefit scheme contribution	112	212	262	142	137
Auditor's remuneration	40	40	80	–	–
Depreciation on property plant and equipment	–	13	51	26	26
Operating lease rentals and rates on buildings	756	1,503	2,848	1,978	1,151
Management fee to an immediate holding company	2,669	6,546	6,957	3,479	4,731
Exchange losses/(gains)	469	29	(422)	(259)	79

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

(a) Directors' remuneration

Details of the Directors' remuneration during the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Directors' fee	–	–	–	–	–
Other emolument	2,478	1,186	2,248	1,289	1,300
Share-based payment expenses	–	627	–	–	–
Pension scheme contributions	3	18	18	9	18
	2,481	1,831	2,266	1,298	1,318

(b) Five highest paid employees

The five highest individuals whose emoluments were the highest in ZTI Asset Management for the Track Record Period included 1, 2, 1, 1 and 2 Directors and their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4, 3, 4, 4 and 3 individuals for the Track Record Period respectively are as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Salaries, allowances and benefits in kind	4,503	4,594	4,866	2,614	1,262
Pension scheme contributions	62	54	72	30	27
	4,565	4,648	4,938	2,644	1,289

The number of non-directors, highest paid employees whose remuneration fell within the bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017** (Unaudited)	**2018**
Nil to HK$1,000,000	2	1	2	1	3
HK$1,000,001 to HK$1,500,000	2	2	2	3	–

During the Track Record Period, no remuneration was paid by ZTI Asset Management to the Directors or any of the five highest paid employees as an inducement to join or upon joining ZTI Asset Management or as compensation for loss of office. None of the persons, who were Directors, waived or agreed to waive any emoluments during the Track Record Period.

12. INCOME TAX EXPENSE

Hong Kong Profits Tax were calculated at 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017; and at 8.25% on the first HK$2 million of estimated assessable profits and at 16.5% for the portion of the estimated assessable profits above HK$2 million for the six months ended 30 June 2018.

Tax on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which ZTI Asset Management operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong Profits Tax:					
– Current tax	–	–	3,724	1,540	2,049

The income tax expense can be reconciled to the profit/(loss) per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit/(Loss) before income tax	15,839	(6,348)	25,245	10,641	13,604
Tax calculated at Hong Kong Profits Tax rate	2,613	(1,047)	4,165	1,756	2,080
Tax effect of temporary difference not recognised	–	(23)	8	4	4
Tax effect of income not taxable for tax purpose	(1,318)	(1)	(419)	(150)	(35)
Tax effect of expenses not deductible for tax purpose	–	1,161	–	–	–
Utilisation of tax losses previously not recognised	(1,295)	(90)	(30)	(30)	–
Others	–	–	–	(30)	–
Income tax expense	–	–	3,724	1,550	2,049

No provision for deferred taxation has been made during the Track Record Period as there were no material temporary differences at the end of each of the reporting date.

13. PROPERTY, PLANT AND EQUIPMENT

	Office equipment
	HK$'000
Cost	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Additions	153
At 31 December 2016 and 2017 and 30 June 2018	153
Accumulated depreciation	
At 1 January 2015, 31 December 2015 and 1 January 2016	–
Charge for the year	13
At 31 December 2016 and 1 January 2017	13
Charge for the year	51
At 31 December 2017 and 1 January 2018	64
Charge for the period	26
At 30 June 2018	90
Net book value	
At 30 June 2018	63
At 31 December 2017	89
At 31 December 2016	140
At 31 December 2015	–

14. INVESTMENT IN A SUBSIDIARY

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted fund investment, at fair value	41,554	35,545	–	–

As at 31 December 2015 and 2016, ZTI Asset Management held 66.9% equity interests of Qilu Stable Growth Fund Segregate Portfolio ("Qilu Stable Growth"). For the an investment fund where ZTI Asset Management involved as investment manager and also as an investor, ZTI Asset Management assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of Qilu Stable Growth that is of such significance that it indicates that ZTI Asset Management is a principal. Qilu Stable Growth shall be considered as the investment in a subsidiary measured at fair value as ZTI Asset Management acts in the role of principal.

Pursuant to a resolution of Qilu Stable Growth's Board of the Directors on 21 May 2017, Qilu Stable Growth was terminated. All of the participating shares were redeemed on 30 June 2017 (note 23).

Particulars of the subsidiary are as follows:

Company name	Place of incorporation	Class of share held	Proportion of ownership interest held by ZTI Asset Management As at 31 December 2015	2016	2017	As at 30 June 2018	Principal activities
Qilu Stable Growth	Cayman Islands	Management shares and participating shares	66.9%	66.9%	–	–	Investment

15. INVESTMENT IN AN ASSOCIATE

	As at 31 December 2015	2016	2017	As at 30 June 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted fund investment, at fair value	–	–	38,078	38,285

During the year ended 31 December 2017, ZTI Asset Management acquired 31.3% equity interests in Qilu Dynamic Select Fund Segregate Portfolio ("Qilu Dynamic Select") at a consideration of HK$36,504,000. As at 31 December 2017 and 30 June 2018, ZTI Asset Management held 31.1% and 27.26% equity interests of Qilu Dynamic Select respectively. For the investment fund where ZTI Asset Management involved as an investment manager and also as investor, ZTI Asset Management assesses the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of Qilu Dynamic Select, it indicates that ZTI Asset Management can exercise significant influence on the financial and operating policy decision of Qilu Dynamic Select. ZTI Asset Management accounts for this investment as the investment in an associate measured at fair value.

Particulars of an associate are as follows:

Name	Place of Incorporation	Class of share held	Proportion of ownership held by ZTI Asset Management As at 31 December 2015	2016	2017	As at June 2018
Qilu Dynamic Select	Cayman Islands	Management shares and participating shares	–	–	31.1%	27.26%

Summarised financial information in respect of Qilu Dynamic Select is set out below:

Qilu Dynamic Select

	As at 31 December 2017	As at 30 June 2018
	HK$'000	*HK$'000*
Net asset value	122,437	140,444
	Year ended 31 December 2017	**Six months ended 30 June 2018**
	HK$'000	*HK$'000*
Profit/(loss) for the year/period and total comprehensive income/(expense) for the year/period	8,765	(2,384)

16. ACCOUNTS RECEIVABLE

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accounts receivable arising from management services				
– third parties	168	710	44	34
– an associate	–	–	410	572
– a subsidiary	237	269	–	–
– fellow subsidiaries	16,984	9,394	16,901	17,030
	17,389	10,373	17,355	17,636
Accounts receivable arising from advisory and consultant services				
– third parties	–	–	3,485	7,804
	17,389	10,373	20,840	25,440

Management and performance fee receivable from investment management activities are mainly due at the end of the relevant valuation period of the investment funds. However, some of these fees receivable are only due after the relevant valuation period as a result of credit periods granted to certain investment funds which are generally within one month.

The ageing analysis of accounts receivable (net of impairment losses) prepared with reference to due date, is as follows:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current	16,212	2,978	6,938	9,693
Less than 1 month past due	336	1,304	2,949	4,053
1 to 2 months past due	162	1,338	2,925	2,804
2 to 3 months past due	161	1,344	2,917	2,854
More than 3 months but less than 12 months past due	518	3,409	5,111	6,036
	17,389	10,373	20,840	25,440

There was no impairment provision on those fee receivables as at 31 December 2015, 2016 and 2017 and 30 June 2018.

17. PREPAYMENT AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayment	29	106	30	6
Other receivables	877	1,391	1,864	1,942
	906	1,497	1,894	1,948

18. AMOUNTS DUE FROM/TO AN IMMEDIATE HOLDING COMPANY/A FELLOW SUBSIDIARY

For the amount due to its immediate holding company, the balances as at 31 December 2015, 2016 and 2017 and 30 June 2018 were unsecured, carried interest at 6.25% per annum in 2015, at 3.44% per annum in 2016, 3.06% per annum in 2017 and 3.56% per annum for the six months ended 30 to June 2018 respectively.

For the amount due from an immediate holding company, amount due from a fellow subsidiary and amount due to a fellow subsidiary, they were unsecured, interest-free and repayable on demand.

19. ACCRUALS, DEPOSIT RECEIVED AND RECEIPT IN ADVANCE

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Deposit received	3	50	–	–
Accruals	4,427	824	7,414	5,447
	4,430	874	7,414	5,447

20. SHARE CAPITAL

	Number of shares	Amounts
	'000	*HK$'000*
Ordinary shares of HK$1 each, issued and fully paid:		
At 1 January 2015	60,000	60,000
Issued on 14 December 2015 *(note)*	20,000	20,000
At 31 December 2015, 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017 and 30 June 2018	80,000	80,000

Note:

Pursuant to the shareholders' resolution dated 14 December 2015, the issued share capital of ZTI Asset Management was increased from HK$60,000,000 to HK$80,000,000 in aggregated by allotment of 20,000,000 additional ordinary shares for total consideration of HK$20,000,000. All the new shares rank pari passu in all respects with the existing shares of ZTI Asset Management.

21. SHARE-BASED PAYMENT TRANSACTIONS

On 16 December 2015, the shareholder of the immediate holding company approved the adoption of the Pre-IPO shares and option scheme (the "Pre-IPO Share and Option Scheme"), by an immediate holding company, Zhongtai International Financial Company Limited ("ZT FCL"), which shall be valid and effective for a period of 10 years (commencing from the approval of the scheme). A summary of the principle terms of the Pre-IPO Share and Option Scheme, is set out as follows:

The maximum number of shares of ZT FCL which may be issued upon exercise of all outstanding options granted and yet to be exercised and any shares of ZT FCL subscribed under the Pre-IPO Share and Option Scheme, in aggregate, shall not exceed 30% of the total number of shares of ZT FCL in issue from time to time.

On 28 January 2016, ZT FCL offered eligible participants, including the Directors and key employees of ZTI Asset Management, the opportunity to participate in Pre-IPO Share Scheme. For each of the shares subscribed by the Directors and key employees on 28 January 2016, participants received three options under the Share Option Scheme of ZT FCL.

(i) Pre-IPO Share Scheme

The shares subscribed by the Directors and key employees of ZTI Asset Management are as follows:

	2016	
	Subscription price in HK$ per share	**Number of shares issued**
At beginning of the year	–	–
Subscribed on 28 January 2016	0.963	5,493,000
At end of the year	0.963	5,493,000

Included in the 66,200,000 shares of ZT FCL, 5,493,000 shares were subscribed by the Directors and key employees and the remaining 60,707,000 shares were subscribed by the Directors and key employee of ZTI Asset Management's fellow subsidiaries. No shares were subscribed for the year ended 31 December 2015. The weighted average fair value of shares of ZT FCL subscribed during the period determined at the subscription date by independent valuer, was approximate to HK$1.15 per share, For the year ended 31 December 2016, share-based payment expenses of HK$1,027,000, which represented the difference between the fair value of shares subscribed by the Directors and employees of ZTI Asset Management with a corresponding increase in equity (shareholder's contribution).

(ii) Pre-IPO Option Scheme

The exercise price of the granted options is fixed at HK$0.963 per option. Each option gives the holder the right to subscribe for one share of ZTI Asset Management.

Options vest only on an exit event, the date of listing of ZT FCL. Options are conditional on the employee completing service from the granted date to one to three years after the date of listing (the vesting period) of ZT FCL. 35% of the options are to be vested and become exercisable one year after listing date, a further 35% are to be vested and become exercisable two years after the listing date, and the remaining 30% are to be vested and become exercisable three years after the listing date. The options have a contractual option term of ten years. ZT FCL has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016	
	Subscription price in HK$ per share	**Number of options issued**
At beginning of the year	–	–
Granted on 28 January 2016	0.963	16,479,000
Transferred of respective staff to a fellow subsidiary	0.963	(10,056,000)
At end of the year	0.963	6,423,000

For the year ended 31 December 2016, 198,600,000 shares options of ZT FCL were granted to the Pre-IPO Shares and Option Scheme Participants. Included in the 198,600,000 shares options of ZT FCL, 16,479,000 share options of ZT FCL were granted to directors and employees of ZTI Asset Management and remaining 182,121,000 shares options of ZT FCL were granted to directors and employees of its fellow subsidiaries. Included in 194,286,000 share options of ZT FCL, 10,056,000 share options of ZT FCL were granted to employee of a fellow subsidiary, who was transferred to a ZTI Asset Management during 2016. No share options were granted for the year ended 31 December 2015.

The value of the options of ZT FCL granted to the Directors and key employees of ZTI Asset Management on 28 January 2016 is approximately HK$10,496,000, based on the Binomial option pricing valuation model and the weighted average fair value of options granted during the period was ranging from HK$0.54 to HK$0.71 per option. The inputs into the model were as follow:

Option life	10 years
Expected volatility	59%
Risk-free interest rate	1.55%
Expected dividend yield	0%

As at 31 December 2016 and 2017 and 30 June 2018, no expense was recognised in the profit or loss for share options of ZT FCL granted to directors and employees of ZTI Asset Management on the grounds that the exit event are not probable. Management's assessment is constantly reviewed and expenses are recognised if it becomes probable that a successful IPO will occur.

22. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information during the Track Record Period, ZTI Asset Management entered into the following transactions with its related parties as follows:

		Year ended 31 December			Six months ended 30 June	
		2015	**2016**	**2017**	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Interest expense paid to an immediate holding company	(a)	173	–	50	25	185
Management fee paid to an immediate holding company	(a)	2,669	–	–	–	–
Management fee paid to a fellow subsidiary	(a)	–	6,546	6,957	3,479	4,731
Consultation income received from a fellow subsidiary	(a)	16,866	505	–	–	–
Asset management fee income received from a subsidiary	(b)	654	656	309	266	–
Asset management fee income received from an associate	(c)	–	–	679	–	1,473
Asset management fee income received from fellow subsidiaries	(d)	3,938	14,652	33,983	15,392	18,203

Notes:

a) These fees were charged or received in accordance with the terms mutually agreed by both parties.

b) On April 2014, an investment management agreement was entered into by ZTI Asset Management and Qilu Stable Growth, which was approved by the shareholders of ZTI Asset Management. Under the Investment Management Agreement, ZTI Asset Management agreed to assist the Fund to achieve stable medium to long-term capital growth and income through investment in a variety of financial instruments from 1 January 2015 to 31 December 2017. ZTI Asset Management is entitled to a monthly management fee equal to 1% per annum of the Net Asset Value of the Fund as at each valuation point and payable monthly in arrears.

c) On August 2014, an investment management agreement was entered into by ZTI Asset Management and Qilu Dynamic Select, which was approved by the shareholders of ZTI Asset Management. Under the Investment Management Agreement, ZTI Asset Management agreed to assist the Fund to achieve stable medium to long-term capital growth and income through investment in a variety of financial instruments from 1 January 2017 to 30 June 2018. ZTI Asset Management is entitled to a monthly management fee equal to 1% per annum of the Net Asset Value of the Fund as at each valuation point and payable monthly in arrears. In addition, ZTI Asset Management is entitled to receive a Performance Fee calculated on share-by-share basis which equates as nearly as reasonably practicable with that Share's performance.

d) ZTI Asset Management provides day to day management to 5 investment funds in 2015, 7 investment funds in 2016, 2017 and 6 investment funds in 2018. As an investment fund manager, ZTI Asset Management is entitled to receive management fee ranging from 0.5% to 2% per annum of Net Asset Value.

Compensation of key management personnel

Remuneration for key management personnel of ZTI Asset Management, including amounts paid to the Directors as disclosed in note 11(a) and certain highest paid employees as disclosed in note 11(b).

23. DISPOSAL OF A SUBSIDIARY

For the year ended 31 December 2017

Pursuant to a resolution of Qilu Stable Growth's board of the Directors on 21 May 2017, Qilu Stable Growth was terminated. All of the participating shares were redeemed at a consideration of HK$36,503,858 on 30 June 2017.

The net assets of Qilu Stable Growth being redeemed of as at the date of disposal were as follows:

	HK$'000
Consideration received	36,504
Fair value of the subsidiary	(36,504)
Gain on disposal	–

24. CATEGORIES OF FINANCIAL INSTRUMENTS

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Non-current assets				
FVTPL				
Investment in a subsidiary	41,554	35,545	–	–
Investment in an associate	–	–	38,078	38,285
	41,554	35,545	38,078	38,285
Current assets				
Loans and receivables as at 31 December 2015, 2016 and 2017; Amortised cost as at 30 June 2018:				
Accounts receivables	17,389	10,373	20,840	25,440
Other receivables	877	1,391	1,864	1,942
Amount due from an immediate holding company	16,200	–	–	–
Amount due from a fellow subsidiary	–	–	667	669
Cash and Cash equivalents	13,018	45,804	60,449	69,986
	47,484	57,568	83,820	98,037
	89,038	93,113	121,898	136,322
Financial liabilities				
Amortised cost:				
Accrual	4,427	824	7,414	5,447
Amount due to a fellow subsidiary	3,475	16,387	10,251	15,020
Amount due to an immediate holding company	–	257	3,266	1,234
	7,902	17,468	20,931	21,701

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

ZTI Asset Management's principal financial instruments include cash and cash equivalents, accounts receivable, other receivables, amounts due from a fellow subsidiary and an immediate holding company, and accrual, amounts due to a fellow subsidiary and an immediate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

ZTI Asset Management's principal financial assets are bank balance, accounts receivable, other receivables and amounts due from related parties which represents ZTI Asset Management's maximum exposure to credit risk in relation to financial assets.

ZTI Asset Management's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at the end of each reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. In order to minimise the credit risk, ZTI Asset Management reviews the recoverable amount on the accounts receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that ZTI Asset Management's credit risk is significantly reduced.

ZTI Asset Management applies the simplified approach to providing for ECL prescribed by HKFRS 9 since 1 January 2018, which permits the use of the lifetime expected loss provision for accounts receivable.

Accounts receivable at the end of each reporting period were asset management fee due from third parties and related parties, and advisory and consultancy fee from third parties. ZTI Asset Management is fund manager or fund adviser of each fund that it has advance financial information and performance of each fund. In view of the historical of cooperation with the funds and the fund managers, the Directors believe that the credit risk inherent in ZTI Asset Management's accounts receivables is low.

As at the end of each reporting period, ZTI Asset Management has assessed that the expected credit losses for other receivables, amounts due from an immediate holding company and a fellow subsidiary are not material under 12 months expected losses method. Thus, no loss allowance provision was recognised during the Track Record Period.

The credit risk on bank balance is limited because the counterparty is a bank with high credit-ratings assigned by international credit-ratings agencies.

The Directors considered that the credit risk associated with amounts due from a fellow subsidiary and an immediate holding company is limited as it is continuously monitored by the management.

None of ZTI Asset Management's financial assets are secured by collateral or other credit enhancements.

(b) Liquidity risk

ZTI Asset Management has sufficient funds to finance its ongoing working capital requirements.

The Directors have given careful consideration on the measures currently undertaken in respect of ZTI Asset Management's liquidity position. All financial liabilities, except for the amount due to an immediate holding, are non-interest bearing and are repayable either on demand or within one year.

(c) Market risk

Foreign currency risk

ZTI Asset Management undertakes certain transactions denominated in foreign currencies, which exposes ZTI Asset Management to foreign currency risk. Since the fluctuation of HK$ against United States dollar ("USD") are minimal under the Linked Exchange Rate System, the management consider ZTI Asset Management mainly exposes to the currency risk arising from Renminbi ("RMB"). ZTI Asset Management has established policies and procedures for monitoring these risks arising from its operation.

ZTI Asset Management manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. ZTI Asset Management currently has not entered into any foreign currency forward contacts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

The carrying amount of ZTI Asset Management's foreign currency denominated monetary assets, including bank balance, prepayments and other receivables and accruals and deposit received, the end of each reporting date is as follows:

	Assets				**Liabilities**			
	As at 31 December			**As at 30 June**	**As at 31 December**			**As at 30 June**
	2015	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RMB	20,662	16,300	13,061	21,278	263	15,077	250	344

Foreign currency sensitivity

The following table details ZTI Asset Management's sensitively to a 5% changes in Hong Kong dollars against in RMB. The 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitively analysis of ZTI Asset Management's exposure to foreign currency risk at each reporting period and held constant throughout on the change taking place at the beginning of the financial period and held constant throughout the financial period. A positive number below indicates an increase in post-tax profit where Hong Kong dollars weakening against the RMB.

	Foreign currency impact			
	Year ended 31 December			Six months ended 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase in post-tax profit/decrease in post-tax loss	852	51	535	874

Interest rate risk

ZTI Asset Management has no significant long-term interest hearing assets and liabilities and thus exposure to interest rate risk is minima.

(d) Fair value

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statements of financial position approximate their fair values.

Some of ZTI Asset Management's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation techniques(s) and inputs used).

	Fair Value					
	As at 31 December			As at 30 June		
Financial assets	**2015**	**2016**	**2017**	**2018**	**Fair value hierarchy**	**Valuation technique(s) and significant input(s)**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		
Investment in a subsidiary (investment fund)	41,554	35,545	–	–	Level 2	Net asset value provided by fund administrator
Investment in an associate (investment fund)	–	–	38,078	38,285	Level 2	Net asset value provided by fund administrator

These investment funds classified in level 2 were fair valued based on the net asset values as reported by the respective fund administrators. These values were observable as there are the prices at which subscription or redemption can be transacted upon by the investment funds as at the end of each reporting date. ZTI Asset Management uses its judgement to select the appropriate method and make assumptions based on market conditions existing at the end of each reporting period.

There were no transfers between levels of the fair value measurement hierarchy during the Track Record Period.

26. CAPITAL RISK MANAGEMENT

ZTI Asset Management's capital management objectives are to ensure ZTI Asset Management's ability to continue as a going concern and to provide an adequate return to shareholders through the optimisation of the debt and equity balances. The overall strategy remained unchanged throughout the Track Record Period.

The capital structure of ZTI Asset Management consists of bank balance, debts which included amounts due to related parties, share capital and reserve.

ZTI Asset Management manages the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, ZTI Asset Management may adjust the amount of dividend paid to shareholder, return capital to shareholder, issue new shares, raise new debts or sell assets to reduce debt.

ZTI Asset Management is licensed with Securities and Futures Commission of Hong Kong ("SFC"). It is subject to liquid capital requirements under Securities and Futures (Financial Resources) Rules ("SF (FR) R") (Chapter 571N of the Laws of Hong Kong) adopted by the SFC. The management closely monitors the liquid capital level of that licensed subsidiary to ensure compliance with the minimum liquid capital requirements under the SF (FR) R.

The management monitors the capital structure on a regular basis by using a net debt-to-equity ratio. ZTI Asset Management's policy is to maintain the net debt-to-equity ratio at a reasonable level. The net debt-to-equity ratio as at the end of the Track Record Period are as follows:

	As at 31 December			**As at 30 June**
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Debt *(Note (i))*	–	257	3,266	1,234
Cash and cash equivalents	(13,018)	(45,804)	(60,449)	(69,986)
Net debt	(13,018)	(45,547)	(57,183)	(68,752)
Equity *(Note (ii))*	81,162	75,841	97,362	108,917
Net debt-to-equity ratio	N/A	N/A	N/A	N/A

Note:

(i) Debt includes amount due to an immediate holding company.

(ii) Equity includes all capital and reserves attributable to owners of ZTI Asset Management.

27. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

	Amount due to an immediate holding company (note 18) HK$'000	Amount due to a fellow subsidiary (note 18) HK$'000
At 1 January 2015	3,033	–
Changes from financing cash flows:		
Repayment to immediate holding companies	(3,206)	–
Advance from a fellow subsidiary	–	3,475
Total changes from financing cash flows	(3,206)	3,475
Non-cash changes:		
Interest expenses	173	–
At 31 December 2015 and 1 January 2016	–	3,475
Changes from financing cash flows:		
Advance from immediate holding companies	257	–
Advance from a fellow subsidiary	–	12,912
Total changes from financing cash flows	257	12,912
At 31 December 2016 and 1 January 2017	257	16,387
Changes from financing cash flows:		
Advance from immediate holding companies	2,959	–
Repayment to a fellow subsidiary	–	(6,136)
Total changes from financing cash flows	2,959	(6,136)
Non-cash changes:		
Interest expenses	50	–
At 31 December 2017	3,266	10,251

	Amount due to an immediate holding company (note 18) HK$'000	Amount due to a fellow subsidiary (note 18) HK$'000
At 1 January 2018	3,266	10,251
Changes from financing cash flows:		
Repayment to immediate holding companies	(2,217)	–
Advance from a fellow subsidiary	–	4,769
Total changes from financing cash flows	(2,217)	4,769
Non-cash changes:		
Interest expenses	185	–
At 30 June 2018	1,234	15,020
At 1 January 2017	257	16,387
Changes from financing cash flows:		
Advance from immediate holding companies	1,981	–
Repayment to a fellow subsidiary	–	(13,942)
Total changes from financing cash flows	1,981	(13,942)
Non-cash changes:		
Interest expenses	25	–
At 30 June 2017	2,263	2,445

28. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by ZTI Asset Management in respect of any period subsequent to 30 June 2018 and up to the date of this report.

Set out below is the text of a report received from the Company's reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong, which has been prepared for the purpose of incorporation in this circular.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF QUALI-SMART HOLDINGS LIMITED

Introduction

We report on the historical financial information of Zhongtai International Capital Limited ("ZTI Capital") set out on pages IIB-4 to IIB-36, which comprises the statements of financial position as at 31 December 2015, 2016 and 2017 and 30 June 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for each of the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together the "Historical Financial Information"). The Historical Financial Information set out on pages IIB-4 to IIB-36 forms an integral part of this report, which has been prepared for inclusion in the circular of Quali-Smart Holdings Limited (the "Company") dated 31 December 2018 (the "Circular") in connection with the proposed acquisition of the entire equity interest in ZTI Capital.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of ZTI Capital's financial position as at 31 December 2015, 2016 and 2017 and 30 June 2018 and of ZTI Capital's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Review of Stub Period Comparative Historical Financial Information

We have reviewed the stub period comparative historical financial information of ZTI Capital which comprises the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the six months ended 30 June 2017 and other explanatory information (together the "Stub Period Comparative Historical Financial Information"). The directors the Company are responsible for the preparation and presentation of the Stub Period Comparative Historical Financial Information in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Historical Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Historical Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information and the Stub Period Comparative Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IIB-4 have been made.

BDO Limited
Certified Public Accountants
Lam Tsz Ka
Practising Certificate no. P06838

Hong Kong
31 December 2018

HISTORICAL FINANCIAL INFORMATION OF ZTI CAPITAL

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of ZTI Capital for the Track Record Period, on which the Historical Financial Information is based, were audited by BDO Limited in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December			Six months ended 30 June	
		2015	**2016**	**2017**	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	7	51,830	28,076	14,219	4,299	18,106
Other income and gains	8	14	13	170	43	4
Staff costs		(14,318)	(28,189)	(26,680)	(9,351)	(12,495)
Other operating expenses		(12,216)	(30,904)	(12,565)	(5,046)	(6,908)
Finance cost	9	(194)	(213)	(78)	(39)	(564)
Profit/(loss) before income tax	10	25,116	(31,217)	(24,934)	(10,094)	(1,857)
Income tax expense	12	(3,600)	(34)	(137)	(137)	–
Profit/(loss) and total comprehensive income/ (expenses) for the year/period		21,516	(31,251)	(25,071)	(10,231)	(1,857)

STATEMENTS OF FINANCIAL POSITION

		As at 31 December			As at 30 June
		2015	**2016**	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSET AND LIABILITIES					
Current assets					
Accounts receivable	13	16,268	38,918	14,040	12,500
Prepayment and other receivables	14	–	1,577	897	3,723
Amount due from an intermediate holding company	17	3,903	–	–	–
Amounts due from fellow subsidiaries	17	–	–	61	42
Tax recoverable		–	–	4,162	4,162
Cash and cash equivalents		43,923	45,117	62,290	22,404
Total current assets		64,094	85,612	81,450	42,831
Current liabilities					
Contract liabilities	16	–	1,600	5,400	4,620
Other payables and accrual expenses	15	5,861	1,405	6,253	5,032
Amounts due to fellow subsidiaries	17	13,101	50,143	52,866	17,541
Amounts due to intermediate holding companies	17	–	8,280	1,452	2,016
Tax payable		3,600	3,634	–	–
Total current liabilities		22,562	65,062	65,971	29,209
Net current assets		41,532	20,550	15,479	13,622
Net assets		41,532	20,550	15,479	13,622
EQUITY					
Share Capital	18	20,000	30,000	50,000	50,000
Reserve		21,532	(9,450)	(34,521)	(36,378)
Total equity		41,532	20,550	15,479	13,622

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Shareholder's contribution	Retained earnings/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	20,000	–	(3,356)	16,644
Profit and total comprehensive income for the year	–	–	21,516	21,516
Shareholder's contribution for the year *(note 20(c))*	–	3,372	–	3,372
At 31 December 2015 and 1 January 2016	20,000	3,372	18,160	41,532
Loss and total comprehensive expense for the year	–	–	(31,251)	(31,251)
Shares issued during the year	10,000	–	–	10,000
Shareholder's contribution for the year *(note 20)*	–	269	–	269
At 31 December 2016 and 1 January 2017	30,000	3,641	(13,091)	20,550
Loss and total comprehensive expense for the year	–	–	(25,071)	(25,071)
Shares issued during the year	20,000	–	–	20,000
At 31 December 2017 and 1 January 2018	50,000	3,641	(38,162)	15,479
Loss and total comprehensive expense for the period	–	–	(1,857)	(1,857)
At 30 June 2018	50,000	3,641	(40,019)	13,622
At and 1 January 2017	30,000	3,641	(13,091)	20,550
Loss and total comprehensive expense for the period (Unaudited)	–	–	(10,231)	(10,231)
At 30 June 2017 (Unaudited)	30,000	3,641	(23,322)	10,319

STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit/(loss) before income tax	25,116	(31,217)	(24,934)	(10,094)	(1,857)
Adjustments for:					
Interest expense	194	213	78	39	564
Bank interest income	(14)	(11)	(10)	(5)	(4)
Share-based payment expense	–	269	–	–	–
Operating cash flows before working capital changes	25,296	(30,746)	(24,866)	(10,060)	(1,297)
Decrease/(increase) in accounts receivable	(16,268)	(22,650)	24,878	38,275	1,539
Decrease/(increase) in prepayment and other receivables	177	(1,577)	680	(1,757)	(2,825)
Increase in contract liabilities	–	1,600	3,800	4,800	(780)
Increase/(decrease) in other payables and accrual expenses	4,352	(4,456)	4,848	(872)	(1,221)
Cash generated from/(used in) operations	13,557	(57,829)	9,340	30,386	(4,584)
Bank interest income received	14	11	10	5	4
Income taxes paid	–	–	(7,933)	(7,933)	–
Net cash flows generated from/(used in) operating activities	13,571	(57,818)	1,417	22,458	(4,580)
Cash flows from investing activities					
Decrease/(increase) in amounts due from fellow subsidiaries	4,916	–	(61)	(4,064)	19
Decrease in amounts due from an intermediate holding company	–	3,903	–	–	–
Net cash flows generated from/(used in) investing activities	4,916	3,903	(61)	(4,064)	19

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Cash flows from financing activities					
(Decrease)/increase in amounts due to intermediate holding companies	(5,090)	8,067	(6,906)	(8,280)	–
Increase/(decrease) in amounts due to fellow subsidiaries	13,101	37,042	2,723	8,154	(35,325)
Proceeds from issue of shares	–	10,000	20,000	–	–
Net cash flow generated from/(used in) financing activities	8,011	55,109	15,817	(126)	(35,325)
Net increase/(decrease) in cash and cash equivalents	26,498	1,194	17,173	18,268	(39,886)
Cash and cash equivalents at the beginning of year/period	17,425	43,923	45,117	45,117	62,290
Cash and cash equivalents at the end of year/period	43,923	45,117	62,290	63,385	22,404

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

ZTI Capital was incorporated in Hong Kong on 18 May 2012 with limited liabilities. The address of registered office and principal place of business is 19/F., Li Po Chun Chambers, 189 Des Voeux Road Central, Hong Kong.

In the opinion of the directors of ZTI Capital (the "Directors), the immediate holding company and ultimate holding company are Zhongtai International Financial Corporation and Zhongtai Securities Company Limited (previously known as Qilu Securities Company Limited) ("Zhongtai Securities") as at 31 December 2015, 2016 and 2017 and 30 June 2018, which are the limited liability companies incorporated in British Virgin Islands and the People Republic of China ("PRC") respectively.

ZTI Capital is a licensed corporation under the Securities and Futures Ordinance ("SFO"), registered to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO. It is principally engaged in provision of corporate finance services.

2. BASIS OF PREPARATION AND PRESENTATION

The Historical Financial Information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), HKASs and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Historical Financial Information have been prepared under the historical cost convention.

The preparation of Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying ZTI Capital's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 5.

3. NEW/REVISED HKFRSs

(a) New and amended standards adopted by ZTI Capital

All effective standards, amendments to standards and interpretations, which are mandatory for the financial year beginning on 1 January 2018, are consistently applied to ZTI Capital for the Track Record Period, except for HKFRS 9.

HKFRS 15, "Revenue from contracts with customers" are effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted, and has been applied throughout the Track Record Period.

The impact of the adoption of HKFRS 9 is not material to ZTI Capital. The impact of HKFRS 15 is disclosed in note 4(c). The other standards did not have any impact on ZTI Capital's accounting policies and did not require retrospective adjustments.

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

The following new/revised HKFRS, potentially relevant to the Historical Financial Information, have been issued, but not yet effective and have not been early adopted by ZTI Capital. ZTI Capital's current intention is to apply these changes on the date they become effective.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]

1 Effective for annual periods beginning on or after 1 January 2019

2 No mandatory effective date yet determined but is available for early adoption.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the Interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if specified conditions are met – instead of at fair value through profit or loss.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendment clarifies that the income tax consequences (if any) of dividends as defined in HKFRS 9 (ie distributions of profits to holders of equity instruments in proportion to their holdings) must be recognised:

- at the same time as the liability to pay those dividends is recognised; and
- in profit or loss, other comprehensive income, or the statement of changes in equity according to where the entity originally recognised the past transactions or events that generated the distributable profits from which the dividends are being paid.

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

ZTI Capital is not yet in a position to state whether these new pronouncements will result in substantial changes to ZTI Capital's accounting policies and financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

ZTI Capital as lessee

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

(b) Financial instruments

(i) Financial assets

Before 1 January 2018, the accounting policy of ZTI Capital is as follows:

ZTI Capital classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. 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.

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

ZTI Capital assesses, at the end of each reporting period, 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; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans 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.

From 1 January 2018, the accounting policy of ZTI Capital is as follows:

Classification

ZTI Capital classifies its financial assets in the following measurement categories:

– Fair value through profit or loss ("FVTPL")

– Fair value through other comprehensive income ("FVTOCI"); or

– Amortised cost.

The classification depends on ZTI Capital's business model for managing the financial assets and the contractual terms of the cash flows.

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVTOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the solely payments of principal and interest ("SPPI") criterion.

For investments in equity instruments that are not held for trading, this will depend on whether ZTI Capital has made an irrevocable election at the time of initial recognition to account for the equity investment at FVTOCI.

Measurement

At initial recognition, ZTI Capital measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on ZTI Capital's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

FVTOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVTOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

FVTPL: Assets that do not meet the criteria for amortised cost or FVTOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

ZTI Capital subsequently measures all equity investments at fair value. Where the management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when ZTI Capital's right to receive payments is established.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVTOCI are not reported separately from other changes in fair value.

The following table summarizes the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of ZTI Capital's financial assets as at 1 January 2018:

Financial assets	**Original classification under HKAS 39**	**New classification under HKFRS 9**	**Carrying amount as at 1 January 2018 under HKAS 39**	**Carrying amount as at 1 January 2018 under HKFRS 9**
			HK$'000	*HK$'000*
Account receivables	Loans and receivables	Amortised cost	14,040	14,040
Other receivables	Loans and receivables	Amortised cost	838	838
Amount due from a fellow subsidiary	Loans and receivables	Amortised cost	61	61
Cash and cash equivalents	Loans and receivables	Amortised cost	62,290	62,290

Impairment

From 1 January 2018, ZTI Capital assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For accounts receivable, ZTI Capital applies the simplified approach permitted by HKFRS 9 to measure the expected credit losses ("ECL"), which requires expected lifetime losses to be recognised from initial recognition of the receivables. For other debt financial assets, ZTI Capital applies a general approach to measure ECL.

Under the general approach, financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Stage 2: Lifetime ECL – not credit-impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit-impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rates to the amortised cost (net of provision) rather than the gross carrying amount.

At each reporting date, ZTI Capital assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. ZTI Capital considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due from the entity in accordance with the contract and the cash flows that ZTI Capital expects to receive); and

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated further cash flows.

If, in a subsequent period, credit quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision for doubtful debts reverts from lifetime ECL to 12 months ECL.

Derecognition

ZTI Capital derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which ZTI Capital neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(ii) Financial liabilities

ZTI Capital classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including accrual expenses and other payables, amounts due to fellow subsidiaries and amounts due to intermediate holding companies, are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

(iii) 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 Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(iv) Share capital

Ordinary shares issued by ZTI Capital are classified as equity.

(c) Revenue recognition

ZTI Capital recognised revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the services underlying the particular performance obligation is transferred to the customers.

Control of the services may be transferred over time or at point in time. Control of the services is transferred over time if:

– The customer simultaneously receives and consumes the benefits provided by ZTI Capital's performance as ZTI Capital performs;

– ZTI Capital's performance creates and enhances an asset that the customer controls as ZTI Capital performs; or

– ZTI Capital's performance does not create an asset with an alternative use to ZTI Capital and ZTI Capital has an enforceable right to payment for performance completed to date.

If control of the services transfer over time, revenue is recognised over the period of the contract by reference to the progress complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the services.

Advisory fee income from providing specified financial advisory and acing as independent financial adviser are recognised at a point in time when the services for the transactions are completed under the terms of each engagement and the revenue can be measured reliably, as only that time ZTI Capital has a present right to payment from the customers for the service performed.

Advisory fee income from provision of services under retainers is recognised over time based on contractual terms specified in the underlying agreements, as the customer simultaneously receives and consumes the benefit providing by the entity performs and revenue can be measured reliably.

Commission based and other services are recognised at a point in time when the services for the transactions are completed under the terms of each engagement and the revenue can be measured reliably, as only that time ZTI Capital has a present right to payment from the customers for the service performed.

ZTI Capital has adopted HKFRS 15 using the cumulative effect method without practical expedients. As no contract with customer is open under HKAS 18 as at 31 December 2014, there was no adjustment to opening balance of accumulated losses at the date of initial application (that is, 1 January 2015).

Interest income from a financial asset is accrued on a time basis using the effective interest method, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on the initial recognition.

(d) Income taxes

Income taxes for the year/period comprise current tax and deferred tax.

Current tax is based on 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 the 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. 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.

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 or when they related to items recognised directly in equity in which case the taxes are also recognised directly in equity.

(e) Cash and Cash equivalents

Cash and cash equivalents in the statements of financial position comprise cash at bank.

(f) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when ZTI Capital 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.

(g) Employee benefits

(i) Defined contribution retirement plan

Retirement benefits to employees are provided through a defined contribution plan.

ZTI Capital 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 statement of profit or loss 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 ZTI Capital in an independently administered fund. ZTI Capital's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(h) Share-based payments

Where share options are awarded to employees and others providing similar services, the fair value of the services received is measured by reference to the fair value of the options at the date of grant. Such fair value is recognised in profit or loss over the vesting period with a corresponding increase in the share option reserve within equity. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at the end of each reporting period so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all non-market vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also recognised in profit or loss over the remaining vesting period.

(i) Foreign currency

The financial statements are presented in HK$, which is also the functional currency of ZTI Capital.

Transactions entered into by ZTI Capital in currencies other than the currency of the primary economic environment in which it/they operate(s) (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.

(j) Related parties

(a) A person or a close member of that person's family is related to ZTI Capital if that person:

(i) has control or joint control over ZTI Capital;

(ii) has significant influence over ZTI Capital; or

(iii) is a member of key management personnel of ZTI Capital or ZTI Capital's parent.

(b) An entity is related to ZTI Capital if any of the following conditions applies:

(i) The entity and ZTI Capital 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 ZTI Capital or an entity related to ZTI Capital.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to ZTI Capital or to the parent of ZTI Capital.

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.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of ZTI Capital's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associate assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment allowances on financial assets

Before 31 December 2017, the measurement for impairment allowances under HKAS 39 on trade receivables of ZTI Capital is based on the evaluation of recoverability and outstanding period of accounts and on management 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 customers.

From 1 January 2018, the measurement of impairment losses under HKFRS 9 across all categories of financial assets required judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. At reporting date, ZTI Capital assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. ZTI Capital considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

6. SEGMENT INFORMATION

ZTI Capital has identified its operating segment based on the regular internal financial information reported to the chief decision makers about allocation of resources to assess the performance of ZTI Capital's business.

The principal activity of ZTI Capital is provision of corporate finance services in Hong Kong. The Directors consider that this is the only component for internal reporting to the chief decision makers and, accordingly, the only one operating segment under the requirements of HKFRS 8 "Operating Segments".

All the segment assets and liabilities are located in Hong Kong.

Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of ZTI Capital's revenue for the Track Record Period, is set out below:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Customer A	14,872	21,702	10,730	3,789	7,675
Customer B	12,354	–	–	–	–
Customer C	7,862	–	–	–	–
Customer D	–	–	–	–	3,000
Customer E	–	–	–	–	1,800
	35,088	21,702	10,730	3,789	12,475

7. REVENUE

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Advisory fee	8,941	2,199	3,489	510	10,431
Placing and underwriting commission	42,889	25,877	10,730	3,789	7,675
	51,830	28,076	14,219	4,299	18,106

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Timing of revenue recognition					
Services transferred at a point in time	51,484	27,102	12,468	3,889	16,815
Services transferred over time	346	974	1,751	410	1,291
	51,830	28,076	14,219	4,299	18,106

8. OTHER INCOME AND GAINS

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Net exchange gain	–	–	82	38	–
Bank interest income	14	11	10	5	4
Other income	–	2	78	–	–
	14	13	170	43	4

9. FINANCE COSTS

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Interest expenses to the intermediate holding company	194	213	78	39	564

10. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(loss) before income tax is arrived at after charging:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Directors' remuneration					
– as fees	–	–	–	–	–
– salary	2,134	4,103	5,336	1,500	2,826
– other bonus	1,117	4,391	530	5	90
– retirement benefit scheme contribution	18	29	39	9	18
Other staff costs					
– salaries, wages and other benefits	10,896	18,963	20,403	7,655	9,315
– share-based payment expenses	–	269	–	–	–
– retirement benefit scheme contribution	153	434	372	182	246
Auditor's remuneration	150	150	80	–	–
Management fee to an intermediate holding company	5,910	–	–	–	–
Management fee to a fellow subsidiary	–	21,664	3,158	1,579	2,671
Operating lease rentals in respect of office premises	3,389	3,487	3,899	1,322	2,182

11. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' remuneration

Details of the Directors' remuneration during the Track Record Period are as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Directors' fee	–	–	–	–	–
Other emolument:					
Salaries and bonus	3,251	8,494	5,866	1,505	2,916
Pension scheme contributions	18	29	39	9	18
	3,269	8,523	5,905	1,514	2,934

(b) Five highest paid employees

The five highest individuals whose emoluments were the highest in ZTI Capital for the Track Record Period included 1, 2, 3, 1 and 2 Directors respectively and their emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 4, 3, 2, 4 and 3 individuals for the Track Record Period respectively are as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Salaries, allowances and benefits in kind	4,781	5,748	3,510	3,652	2,932
Pension scheme contributions	68	47	36	33	27
	4,849	5,795	3,546	3,685	2,959

The number of non-directors, highest paid employees whose remuneration fell within the bands is as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Nil to HK$1,000,000	2	–	–	3	1
HK$1,000,001 to HK$1,500,000	2	3	2	1	2

During the Track Record Period, no remuneration was paid by ZTI Capital to the Directors or any of the five highest paid employees as an inducement to join or upon joining ZTI Capital or as compensation for loss of office. None of the persons, who were directors, waived or agreed to waive any emoluments during the Track Record Period.

12. INCOME TAX EXPENSE

Hong Kong Profits Tax were calculated at 16.5% on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2017; and at 8.25% on the first HK$2 million of estimated assessable profits and at 16.5% for the portion of the estimated assessable profits above HK$2 million for the six months ended 30 June 2018.

According to "Tentative Measures for the Administration of Taxation on Representative offices of Foreign Enterprises" (Guoshuifa 2011 No.18 (Circular 18)), the PRC representative offices are subject to PRC Enterprise Income Tax at 25% during the Track Record Period.

Tax on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which ZTI Capital operates, based on existing legislation, interpretations and practices in respect thereof.

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong Profits Tax					
– Current tax	3,600	–	–	–	–
– Under-provision in respect of prior year	–	34	–	–	–
PRC Enterprise Income Tax					
– Current tax	–	–	137	137	–
	3,600	34	137	137	–

The income tax expense can be reconciled to the profit/(loss) per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit/(Loss) before income tax	25,116	(31,217)	(24,934)	(10,094)	(1,857)
Tax calculated at Hong Kong Profits Tax rate	4,144	(5,151)	(4,114)	(1,666)	(306)
Tax effect of expenses not deductible for tax purpose	18	336	1	–	–
Tax effect of income not taxable for tax purpose	(2)	(2)	(1)	–	–
Tax effect of tax losses not recognised	–	4,817	4,114	1,666	306
Tax at PRC Enterprise Income Tax rate of 25%	–	–	137	137	–
Utilisation of tax losses previously not recognised	(487)	–	–	–	–
Others	(73)	–	–	–	–
Under-provision of tax in prior years	–	34	–	–	–
Taxation expense	3,600	34	137	137	–

As at 31 December 2016, 31 December 2017 and 30 June 2018, ZTI Capital had unused tax losses of approximately HK$29,194,000, HK$54,127,000 and HK$55,982,000 respectively available for offset against future profits. No deferred tax asset has been recognised in respect of tax loss due to the unpredictability of future profit stream. The losses may be carried indefinitely.

13. ACCOUNTS RECEIVABLES

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accounts receivable arising from ordinary course of business in corporate advisory, underwriting and placing and sponsorship:				
– third parties	116	977	2,960	4,825
– fellow subsidiaries	16,152	37,941	11,080	7,675
	16,268	38,918	14,040	12,500

In respect of the accounts receivable arising from ordinary course of business in corporate advisory, underwriting and placing and sponsorship from third parties, the ageing analysis of accounts receivable (net of impairment losses), prepared with reference to invoice dates, is as follows:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1-30 days	25	150	149	1,784
31-60 days	–	227	43	1,191
61-90 days	1	–	200	–
Over 90 days	90	600	2,568	1,850
	116	977	2,960	4,825

The ageing analysis of accounts receivable (net of impairment losses) from third parties, prepared with reference to due date, is as follows:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current	25	377	192	2,974
Less than 1 month past due	1	–	200	–
1 to 3 months past due	9	–	697	1,800
More than 3 months but less than 12 months past due	81	600	1,871	51
	116	977	2,960	4,825

The movements in the allowance for impairment losses for ZTI Capital are as follows:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	–	–	–	–
Impairment losses recognised	–	–	–	(308)
Amounts written off as uncollectible	–	–	–	308
As at 31 December/30 June	–	–	–	–

At 31 December 2015, 2016, 2017 and 30 June 2018, accounts receivable of HK$25,000, HK$377,000, HK$192,000 and HK$2,974,000 were neither past due nor impaired. These related to a number of diversified customers for whom there was no recent history of default and no collateral pledged with ZTI Capital.

Accounts receivable from fellow subsidiaries are unsecured, interest-free and repayable on demand. The management has assessed that the balances to be recoverable.

14. PREPAYMENT AND OTHER RECEIVABLES

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Prepayment	–	188	59	10
Other receivables	–	1,389	838	3,713
	–	1,577	897	3,723

15. OTHER PAYABLES AND ACCRUAL EXPENSES

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Salary and bonus payables	5,650	1,255	6,026	4,715
Other payables and accrual expenses	211	150	227	317
	5,861	1,405	6,253	5,032

16. CONTRACT LIABILITY

ZTI Capital has recognised the following revenue-related contract liabilities.

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Contract liabilities	–	1,600	5,400	4,620

The timing of revenue recognition, progress billings to customers and payments received from customers would affect the amount of accounts receivable contract assets and contract liabilities recognised as at the reporting date on the statement of financial position.

The contract liabilities mainly relate to the advance consideration received from customers.

Movement in the contract liabilities during the Track Record Period are as follow:

	As at 31 December			As at 30 June
	2015	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance as at 1 January	–	–	1,600	5,400
Revenue recognised that was included in the contract liabilities balance at beginning of year/period	–	–	–	(4,650)
Increases due to cash received, excluding amount recognised as revenue during the year/period	–	1,600	3,800	3,870
Balance at 31 December/30 June	–	1,600	5,400	4,620

17. AMOUNTS DUE FROM/TO AN INTERMEDIATE HOLDING COMPANIES/FELLOW SUBSIDIARIES

For the amount due to an intermediate holding company, the balances as at 31 December 2015, 2016 and 2017 and 30 June 2018 were unsecured, carried interest at 6.25% per annum in 2015, at 3.44% per annum in 2016, 3.06% per annum in 2017 and 3.56% per annum for the six months ended 30 June 2018 respectively.

For the amount due from an intermediate holding company, amounts due from fellow subsidiaries, amounts due to fellow subsidiaries the amount due to an intermediate holding company, they were unsecured, interest-free and repayable on demand.

18. SHARE CAPITAL

	Number of shares	Amounts
	'000	*HK$'000*
Ordinary shares of HK$1 each issued and fully paid:		
At 1 January 2015, 31 December 2015 and 1 January 2016	20,000	20,000
Issued on 30 August 2016 *(note i)*	10,000	10,000
As at 31 December 2016	30,000	30,000
Issued on 30 August 2017 *(note ii)*	10,000	10,000
Issued on 28 December 2017 *(note iii)*	10,000	10,000
As at 31 December 2017 and 30 June 2018	50,000	50,000

Notes:

(i) On 30 August 2016, ZT Capital issued a total of 10,000,000 ordinary shares in ZTI Capital for HK$10,000,000 in aggregate to the shareholder. These shares rank pari passu in all respects with the existing shares of ZTI Capital.

(ii) On 30 August 2017, ZT Capital issued a total of 10,000,000 ordinary shares in ZTI Capital for HK$10,000,000 in aggregate to the shareholder. These shares rank pari passu in all respects with the existing shares of ZTI Capital.

(iii) On 28 December 2017, ZT Capital issued a total of 10,000,000 ordinary shares in ZTI Capital for HK$10,000,000 in aggregate to the shareholder. These shares rank pari passu in all respects with the existing shares of ZTI Capital.

19. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information and the Comparative Financial Information, during the Track Record Period, ZTI Capital entered into the following significant transactions with its related parties:

		Year ended 31 December			Six months ended 30 June	
		2015	2016	2017	2017	2018
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(Unaudited)	
Compliance consultancy fee received from a fellow subsidiary	(i)	218	450	–	–	–
Interest expenses paid to intermediate holding company	(ii)	194	213	77	39	564
Placing and underwriting commission received from a fellow subsidiary	(iii)	14,872	21,702	10,730	3,789	7,675
Shares granted by an intermediate holding company to the employees of the Company *(note 21)*		–	269	–	–	–
Management fee paid to an intermediate holding company	(iv)	5,910	–	–	–	–
Management fee paid to a fellow subsidiary	(v)	–	21,664	3,158	1,579	2,671
Advisory fee received from its intermediate holding company	(vi)	–	–	–	–	1,800

Note:

(i) For the years ended 31 December 2015 and 2016, ZTI Capital has entered into an agreement with Luzheng Futures Company Limited, a fellow subsidiary of ZTI Capital to act as a compliance consultant after its listing on The Hong Kong Stock Exchange in return for a consultancy fee income.

(ii) During the year, ZTI Capital obtained advance from Zhongtai Financial International Limited ("ZT FIL") (formerly known as Qilu International Holdings Limited), its intermediate holding company. The advances are chargeable at an interest rate of 6.25% per annum in 2015, 3.44% per annum in 2016, 3.06% per annum in 2017 and 3.56% per annum for the six months ended 30 June 2018 on the outstanding balance at the end of each month.

(iii) For the year ended 31 December 2015, ZTI Capital and Zhongtai International Securities Limited (formerly known as Qilu International Securities Limited) have entered into an agreement with Luzheng Futures Company Limited, fellow subsidiaries of ZTI Capital to as a bookrunner and underwriter respectively for its initial global offering on The Hong Kong Stock Exchange in return for an underwriting and sponsors income.

For the years ended 31 December 2016 and 2017 and six months ended 30 June 2018, ZTI Capital has entered into an agreement with Zhongtai International Securities Limited, a fellow subsidiary of ZTI Capital, to work on various placing projects for Zhongtai International Securities Limited. Placing commission income is received from Zhongtai International Securities Limited.

(iv) ZTI Capital entered into a master services agreement with ZT FIL, its intermediate holding company, and the fellow subsidiaries of ZTI Capital which took effect from 1 January 2014. ZTI Capital agreed to pay ZT FIL an annual fee for the provision of management services in accordance with the terms of the Agreement. Management services pursuant to the master services agreement include general corporate management, administrative, treasury, financial support and information technology support transactions.

During the year ended 31 December 2015, ZT FIL, its intermediate holding company had fixed assets for daily operation use and recharged the depreciation amounts to its subsidiaries based on headcount.

(v) ZT FIL has transferred management service business to Zhongtai International Management Limited, a fellow subsidiary of ZTI Capital, on 31 December 2015. Zhongtai International Management Limited entered into a master services agreement with ZTI Capital, which took effect from 1 January 2016. Pursuant to the master service agreement, Zhongtai International Management Limited agreed to provide services to ZTI Capital. Services pursuant to the master services agreement include general corporate management, administrative, treasury, financial support and information technology support transactions.

(vi) For the six months ended 30 June 2018, ZTI Capital has entered into an agreement on 5 February 2018 with ZT FIL, its intermediate holding company to act as joint financial adviser in relation to the proposed subscription of new shares in Quali-Smart Holdings Limited by Zhongtai Financial International Limited.

Compensation of key management personnel

Remuneration for key management personnel of ZTI Capital, including amounts paid to the Directors as disclosed in note 11(a) and certain highest paid employees as disclosed in note 11(b).

20. MAJOR NON-CASH TRANSACTIONS

a) On 31 December 2015, Zhongtai International Management Limited, a fellow subsidiary of ZTI Capital, has entered into a transfer of business agreement pursuant to which ZT FIL, the immediate holding company, would transfer to Zhongtai International Management Limited certain management, administrative and support services, at a consideration, being the net asset value of the management services business as at 31 December 2015. For management fee payable to and depreciation recharged by ZT FIL, outstanding balance totaling Hk$8,518,305 as at 31 December 2015 included in "Amount due to immediate holding company' is then transferred to "Amount due to a fellow subsidiary".

b) On 31 December 2015, ZT FIL transferred its entire interest in Zhongtai International Capital Limited (formerly known as Qilu International Capital Limited) to Zhongtai International Financial Corporation (formerly known as Qilu International Financial Corporation) at a consideration, being the net asset value of ZTI Capital as at 31 December 2015. For advance from ZT FIL, outstanding balance of HK$3,903,055 as at 31 December 2015 included in "Amount due from immediate holding company" is then transferred to "Amount due from intermediate holding company".

c) On 31 December 2015, Zhongtai International Financial Company Limited ("ZT FCL") (formerly known as Qilu International Financial Company Limited), the intermediate holding company of ZTI Capital, allotted and issued certain shares to Zhongtai International Holdings (Overseas) Limited (formerly known as Qilu International Holdings (Overseas) Limited), the intermediate holding company of ZTI Capital, for the capitalization of the shareholder's loan amounting to HK$3,371,843 due to ZT FIL, at the direction of ZT FIL.

21. SHARE-BASED PAYMENT TRANSACTIONS

Pre-IPO Share and Option Scheme

On 16 December 2015, the shareholder of the immediate holding company approved the adoption of the Pre-IPO shares and option scheme (the "Pre-IPO Share and Option Scheme"), by an intermediate holding company, ZT FCL, which shall be valid and effective for a period of 10 years (commencing from the approval of the scheme). A summary of the principle terms of the Pre-IPO Share and Option Scheme, is set out as follows:

The maximum number of shares of ZT FCL which may be issued upon exercise of all outstanding options granted and yet to be exercised and any shares of ZT FCL subscribed under the Pre-IPO Share and Option Scheme, in aggregate, shall not exceed 30% of the total number of shares of ZT FCL in issue from time to time.

On 18 January 2016, ZT FCL offered eligible participants, including the Directors and key employees of ZTI Capital, the opportunity to participate in Pre-IPO Share Scheme. For each of the shares subscribed by the Directors and key employees on 18 January 2016, participants received three options under the Share Option Scheme of ZT FCL.

(i) Pre-IPO Share Scheme

The shares subscribed by the Directors and key employees of ZTI Capital are as follows:

	2016	
	Subscription price in HK$ per share	**Number of shares issued**
At beginning of the year	–	–
Subscribed on 18 January 2016	0.963	1,438,000
At end of the year	0.963	1,438,000

Included in the 66,200,000 shares of ZT FCL, except for the shares held by the Directors 1,438,000 shares were subscribed by the key employees of ZTI Capital and the remaining 64,762,000 shares were subscribed by the Directors and key employee of ZTI Capital's fellow subsidiaries. No shares were subscribed for the year ended 31 December 2015. The weighted average fair value of shares of ZT FCL subscribed during the period determined at the subscription date by independent valuer, was approximate to HK$1.15 per share, For the year ended 31 December 2016, share-based payment expenses of HK$269,000, which represented the difference between the fair value of shares subscribed and the subscription price per share, was recognised in the profit or loss for shares subscribed by the Directors and employees of ZTI Capital with a corresponding increase in equity (shareholder's contribution).

(ii) Pre-IPO Option Scheme

The exercise price of the granted options is fixed at HK$0.963 per option. Each option gives the holder the right to subscribe for one share of ZTI Capital.

Options vest only on an exit event, the date of listing of ZT FCL. Options are conditional on the employee completing service from the granted date to one to three years after the date of listing (the vesting period) of ZT FCL. 35% of the options are to be vested and become exercisable one year after listing date, a further 35% are to be vested and become exercisable two years after the listing date, and the remaining 30% are to be vested and become exercisable three years after the listing date. The options have a contractual option term of ten years. ZT FCL has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016	
	Subscription price in HK$ per share	**Number of options issued**
At beginning of the year	–	–
Granted on 18 January 2016	0.963	4,314,000
Transferred of respective staff from a fellow subsidiary	0.963	10,056,000
At end of the year	0.963	14,370,000

For the year ended 31 December 2016, 198,600,000 shares options of ZT FCL were granted to the Pre-IPO Shares and Option Scheme Participants. Included in the 198,600,000 shares options of ZT FCL, 4,314,000 share options of ZT FCL were granted to employees of ZTI Capital and remaining 194,286,000 shares options, 10,056,000 share options of ZT FCL were granted to employees of its fellow subsidiaries. Included in 194,286,000 share options of ZT FCL, 10,056,000 share options of ZT FCL were granted to employee of a fellow subsidiary, who was transferred to a ZTI Capital during 2016. No share options were granted for the year ended 31 December 2015.

The value of the options of ZT FCL granted to the Directors and key employees of ZTI Capital on 28 January 2016 is approximately HK$10,496,000, based on the Binomial option pricing valuation model and the weighted average fair value of options granted during the period was ranging from HK$0.54 to HK$0.71 per option. The inputs into the model were as follow:

Option life	10 years
Expected volatility	59%
Risk-free interest rate	1.55%
Expected dividend yield	0%

As at 31 December 2016 and 2017 and 30 June 2018, no expense was recognised in the profit or loss for share options of ZT FCL granted to directors and employees of ZTI Capital on the grounds that the exit event are not probable. Management's assessment is constantly reviewed and expenses are recognised if it becomes probable that a successful IPO will occur.

22. CATEGORIES OF FINANCIAL INSTRUMENTS

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Loans and receivables as at 31 December 2015, 2016 and 2017; Amortised cost as at 30 June 2018:				
Accounts receivable	16,268	38,918	14,040	12,500
Other receivables	–	1,389	2,297	3,713
Amount due from an intermediate holding company	3,903	–	–	–
Amounts due from fellow subsidiaries	–	–	61	42
Cash and cash equivalents	43,923	45,117	62,290	22,404
	64,094	85,424	78,688	38,659
Financial liabilities				
Amortised cost:				
Contract liabilities	–	1,600	5,400	4,620
Other payables and accrual expenses	5,861	1,405	6,253	5,032
Amounts due to fellow subsidiaries	13,101	50,143	52,866	17,541
Amounts due to intermediate holding companies	–	8,280	1,452	2,016
	18,962	61,428	65,971	29,209

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

ZTI Capital's principal financial instruments include cash and cash equivalents, accounts receivable, other receivables, amount due from an intermediate holding company, amounts due from fellow subsidiaries, other payables and accrual expenses, amounts due to fellow subsidiaries, amounts due to intermediate holding companies.

ZTI Capital's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. ZTI Capital's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on ZTI Capital's financial performance.

(a) Market risk

Foreign exchange risk

ZTI Capital undertakes certain transactions denominated in foreign currencies, which exposes ZTI Capital to foreign currency risk. Since the fluctuation of HK$ against United States dollar ("USD") are minimal under the Linked Exchange Rate System, the management consider ZTI Capital mainly expose to the currency risk arising from Renminbi ("RMB"). ZTI Capital has established policies and procedures for monitoring these risks arising from its operation.

ZTI Capital manages its foreign currency risk by closely monitoring the movements of foreign currency exchange rates. ZTI Capital currently has not entered into any foreign currency forward contacts to hedge against foreign currency risk. Management will consider hedging foreign currency exposure should the need arise.

The carrying amount of ZTI Capital's foreign currency denominated monetary assets, mainly representing bank balances, at the end of each reporting date is as follows:

	Assets			
	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
RMB	1,150	1,099	1,179	1,170

Foreign currency sensitivity

The following table details ZTI Capital's sensitivity to a 5% changes in Hong Kong dollars against in RMB. The 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitively analysis of ZTI Capital's exposure to foreign currency risk at each reporting period has been determined based on the change taking place at the beginning of the financial period and held constant throughout the reporting period. A positive number below indicates a decrease in post-tax loss where Hong Kong dollars weakening against the RMB.

	Foreign currency impact			
	Year ended 31 December			Six months ended 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Increase in post-tax profit/decrease in post-tax loss	48	46	49	49

Interest rate risk

ZTI Capital has no significant long-term interest bearing assets and liabilities and thus exposure to interest rate risk is minimal.

(b) Credit risk

ZTI Capital's principal financial assets are bank balance, accounts receivable, amounts due from fellow subsidiaries and amount due from an intermediate holding company which represents ZTI Capital's maximum exposure to credit risk in relation to financial assets.

ZTI Capital applies the simplified approach to providing for ECL prescribed by HKFRS 9 since 1 January 2018, which permits the use of the lifetime expected loss provision for accounts receivable.

Accounts receivable at the end of each reporting period were service fee arising from ordinary course of business in corporate advisory, underwriting and placing and sponsorship. Expected loss rate of accounts receivables is assessed to be 0.1%, 5%, 10% and 20% for amounts less than 30 day, 60 days, 90 days past due and over 90 days past due respectively. Hence, the provision for expected credit losses for accounts receivable was assessed to be immaterial.

As at the end of each reporting period, ZTI Capital has assessed that the expected credit losses for other receivables, amounts due from an intermediate holding company and fellow subsidiaries are not material under 12 months expected losses method. Thus, no loss allowance provision was recognised during the Track Record Period.

The credit risk on bank balance is limited because the counterparty is a bank with high credit-ratings assigned by international credit-ratings agencies.

The Directors considered that the credit risk in relation to the amounts due from fellow subsidiaries and amount due from an intermediate holding company are minimal.

None of ZTI Capital's financial assets are secured by collateral or other credit enhancements.

(c) Liquidity risk

ZTI Capital has sufficient funds to finance its ongoing working capital requirements.

The Directors have given careful consideration on the measures currently undertaken in respect of ZTI Capital's liquidity position. All financial liabilities, except for the amount due to intermediate holding company, are non-interest bearing and are repayable on demand.

(d) Fair value

The management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approxiamate their fair values.

24. CAPITAL RISK MANAGEMENT

ZTI Capital's capital management objectives are to ensure ZTI Capital's ability to continue as a going concern and to provide an adequate return to shareholders through the optimisation of the debt and equity balances. The overall strategy remained unchanged throughout the Track Record Period.

The capital structure of ZTI Capital consists of bank balance, debts which included amounts due to related parties, share capital and reserve.

ZTI Capital the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, ZTI Capital may adjust the amount of dividend paid to shareholder, return capital to shareholder, issue new shares, raise new debts or sell assets to reduce debt.

ZTI Capital is licensed with Securities and Futures Commission of Hong Kong ("SFC"). It is subject to liquid capital requirements under Securities and Futures (Financial Resources) Rules ("SF (FR) R") (Chapter 571N of the Laws of Hong Kong) adopted by the SFC. The management closely monitors the liquid capital level of that licensed subsidiary to ensure compliance with the minimum liquid capital requirements under the SF (FR) R.

The management monitors the capital structure on a regular basis by using a net debt-to-equity ratio. ZTI Capital's policy is to maintain the net debt-to-equity ratio at a reasonable level. The net debt-to-equity ratio as at the end of the Track Record Period are as follows:

	As at 31 December			As at 30 June
	2015	**2016**	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Debt *(Note (i))*	–	6,780	78	641
Cash and cash equivalents	(43,923)	(45,117)	(62,290)	(22,404)
Net debt	(43,923)	(38,337)	(62,212)	(21,763)
Equity *(Note (ii))*	41,532	20,550	15,479	13,622
Net debt-to-equity ratio	N/A	N/A	N/A	N/A

Note:

(i) Debts includes amount due to an intermediate holding company.

(ii) Equity includes all capital and reserves attributable to owners of ZTI Capital.

25. NOTES TO THE STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities:

	Amount due to intermediate holding companies *(note 17)* *HK$'000*	**Amounts due to fellow subsidiaries** *(note 17)* *HK$'000*
At 1 January 2015	4,896	–
Changes from financing cash flows:		
(Repayment to)/advance from intermediate holding companies/fellow subsidiaries	(5,090)	13,101
Total changes from financing cash flows	(5,090)	13,101
Non-cash changes:		
Interest expenses	194	–
At 31 December 2015 and 1 January 2016	–	13,101
Changes from financing cash flows:		
Advance from intermediate holding companies/fellow subsidiaries	8,067	37,042
Total changes from financing cash flows	8,067	37,042
Non-cash changes:		
Interest expenses	213	–
At 31 December 2016 and 1 January 2017	8,280	50,143
Changes from financing cash flows:		
(Repayment to)/advance from intermediate holding companies/fellow subsidiaries	(6,906)	2,723
Total changes from financing cash flows	(6,906)	2,723
Non-cash changes:		
Interest expenses	78	–
At 31 December 2017	1,452	52,866

	Amount due to intermediate holding companies *(note 16)* *HK$'000*	Amounts due to fellow subsidiaries *(note 16)* *HK$'000*
At 1 January 2018	1,452	52,866
Changes from financing cash flows:		
Repayment to fellow subsidiaries	–	(35,325)
Total changes from financing cash flows	–	(35,325)
Non-cash changes:		
Interest expenses	564	–
At 30 June 2018	2,016	17,541
At 1 January 2017	8,280	50,143
Changes from financing cash flows:		
(Repayment to)/advance from an intermediate holding company/fellow subsidiaries	(8,280)	8,154
Total changes from financing cash flows	(8,280)	8,154
Non-cash changes:		
Interest expenses	39	–
At 30 June 2017	39	58,297

26. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by ZTI Capital in respect of any period subsequent to 30 June 2018 and up to the date of this report.

Set out below are the management discussion and analysis on ZTI Asset Management and ZTI Capital for each of the three years ended 31 December 2017 and the six months ended 30 June 2018.

1. MANAGEMENT DISCUSSION AND ANALYSIS OF ZTI ASSET MANAGEMENT

BUSINESS REVIEW

ZTI Asset Management is a company incorporated under the laws of Hong Kong with limited liability. It is a corporation licensed by the Securities and Futures Commission to conduct Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

ZTI Asset Management provides comprehensive asset management service including investment consulting services to corporate clients and manages private funds of diversified investment themes and strategies for individual, corporate and institutional clients. ZTI Asset Management receives asset management fee, advisory fee and consultation fee for its products and services delivered.

The revenue of ZTI Asset Management increased steadily, from approximately HK$23,844,000 in 2015 to approximately HK$26,693,000 in 2016 and approximately HK$57,480,000 in 2017. Revenue has increased by 12.4% from approximately HK$26,994,000 for the six months ended 30 June 2017 to approximately HK$30,340,000 for the six months ended 30 June 2018. ZTI Asset Management recorded profit after tax for the years 2015, 2017, the six months ended 30 June 2017 and the six months ended 30 June 2018, while there was a loss after tax for the year 2016.

As at 30 June 2018, ZTI Asset Management managed two umbrella funds comprising eight sub-funds. The total amount of assets under management as at 30 June 2018 was approximately HK$2,105,000,000, representing an increase of 4.5% from approximately HK$2,014,000,000 as at 31 December, 2017.

FINANCIAL REVIEW

Revenue

ZTI Asset Management's revenue primarily consists of (i) asset management fee derived from managing certain private funds for professional investors, corporate and institutional clients, (ii) advisory fee from providing investment advisory services and (iii) consultation fee earned from providing consultation services to a fellow subsidiary. Asset management fee income accounted for 64.8%, 62.4%, 73.2% and 29.3% for the six months ended 30 June 2018, and the three years ended 31 December 2017, 2016 and 2015, respectively. Advisory fee income accounted for 35.2%, 37.6%, 24.9% and nil for the six months ended 30 June 2018, and the three years ended 31 December 2017, 2016 and 2015, respectively. Consultation fee income accounted for nil, nil, 1.9% and 70.7% for the six months ended 30 June 2018, and the three years ended 31 December 2017, 2016 and 2015, respectively.

The total revenue of ZTI Asset Management increased by approximately HK$3,346,000 or 12.4% from approximately HK$26,994,000 for the first half in 2017 to approximately HK$30,340,000 for the first half in 2018. The increase was attributable to a surge of asset management fee income of HK$2,714,000 and an increase of advisory fee of approximately HK$632,000, which was due to the growth in size of the assets under management.

The total revenue for 2017 was approximately HK$57,480,000 which represented a substantial increase of approximately HK$30,787,000 or 115.3% from approximately HK$26,693,000 in 2016. The increase was primarily due to (i) growth of asset management fee income of HK$16,346,000 as the assets under management has increased from approximately HK$19,535,000 as of 31 December 2016 to approximately HK$35,881,000 as of 31 December 2017 and (ii) an increase of HK$14,946,000 in advisory fee income, due to the fact that ZTI Asset Management has provided investment advisory services to sizeable portfolios for more clients and (iii) a drop of consultation income of approximately HK$505,000 as the consultation service was no longer provided to a fellow subsidiary in the year.

The total revenue for 2016 was approximately HK$26,693,000 which represented an increase of approximately HK$2,849,000 or 11.9% from approximately HK$23,844,000 in 2015. The increase was primarily due to a significant increase of asset management fee income of approximately HK$12,557,000 and an increase in advisory fee income of approximately HK$6,653,000. However, the increase was partly offset by the decrease in consultation income of approximately HK$16,361,000 earned from a fellow subsidiary as the consultation service was terminated in early 2016.

Other income, gain or losses

Other income, gain or loss consists of (i) fair value changes of investment in a subsidiary, (ii) fair value changes of investment in an associate, (iii) foreign exchange difference and (iv) bank interest income.

The total other income and gain for the first half of 2018 was approximately HK$210,000 which represented a decrease of approximately HK$956,000 or 82.0% from approximately HK$1,166,000 in the first half of 2017. The decrease was mainly due to (i) a decrease of approximately HK$259,000 in foreign exchange gain, (ii) a decrease of approximately HK$905,000 in fair value changes of a subsidiary as no fair value movement in net assets of the subsidiary was recorded since its disposal in July 2017, but partly offset by an increase of approximately HK$207,000 in fair value changes of an associate company since its net assets value increased.

The total other income and gain for 2017 was approximately HK$2,959,000, an increase of approximately HK$8,965,000 from the total other income and loss of approximately HK$6,006,000 in 2016. The increase was mainly attributable to (i) an increase in foreign exchange gain of approximately HK$422,000 due to favourable foreign exchange movement, (ii) a fair value gain of investment in a subsidiary of approximately HK$959,000 when compared to a fair value loss of investment in a subsidiary of approximately HK$6,009,000 as the net assets value of the subsidiary increased, and (iii) a fair value gain of investment in an associate of approximately HK$1,574,000.

The total other income and loss for 2016 was approximately HK$6,006,000, decreased by approximately HK$13,999,000 from a total other income and gain of approximately HK$7,993,000 in 2015. The decrease was due to a fair value change of investments in a subsidiary from gain of approximately HK$7,992,000 in 2015 to a loss of approximately HK$6,009,000 in 2016 as the net assets value of the subsidiary decreased.

Total expenses

Total expenses include staff costs, other operating expenses and finance costs.

Total expenses slightly decreased by approximately HK$573,000 or 3.3% from approximately HK$17,519,000 for the six months ended 30 June 2017 to approximately 16,946,000 for the six months ended 30 June 2018.

Total expenses increased by approximately HK$8,159,000 or 30.2% from approximately HK$27,035,000 in 2016 to approximately HK$35,194,000 in 2017, mainly due to a surge in consultancy expense paid to referrers for the sourcing and directing of advisory business of approximately HK$6,727,000 included in other operating expenses.

Total expenses increased by approximately HK$11,037,000 or 69.0% from approximately HK$15,998,000 in 2015 to approximately HK$27,035,000 in 2016, primarily due to an increase of management fee expense paid to a fellow subsidiary for the sharing of operating costs of supporting units and an increase of staff cost as more staff were recruited for the developing of business in 2016.

Income tax expense

The income tax expense for the first half of 2018 was approximately HK$2,049,000, which represented an increase of approximately HK$499,000 from approximately HK$1,550,000 in the first half of 2017. Such increase was consistent with the increase in assessable profits under the Hong Kong profits tax. The income tax expense for 2017 was HK$3,724,000 while there were no income tax expense in 2016 and 2015 as there were unutilized tax losses in 2016 and 2015.

Profit/(loss) for the year/period

ZTI Asset Management's net profit increased by approximately HK$2,464,000 or 27.1% from approximately HK$9,091,000 for the first half of 2017 to approximately HK11,555,000 for the first half of 2018, due to an increase in revenue coupled with a slight decrease in total expenses, but partly offset by a decrease in other income.

ZTI Asset Management recorded a net profit of approximately HK$21,521,000 in 2017 while recorded a net loss of approximately HK$6,348,000 in 2016, which was primarily due to the surge in revenue by 115.3% and an increase in fair value change in investment in a subsidiary as the net assets value of the subsidiary increased, despite the contribution to increase in bottom line was partly offset by a corresponding increase in total expenses.

ZTI Asset Management recorded a net loss of approximately HK$6,348,000 in 2016 when compared to a net profit of approximately HK$15,839,000 in 2015, as the increase in total expenses and the decrease in other income and gain were higher than the increase in revenue.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018, 31 December 2017, 2016 and 2015, the current assets of the ZTI Asset Management were approximately HK$98,043,000, HK$83,850,000, HK$57,674,000 and HK$47,513,000, respectively, which were composed of (i) cash and bank balances of approximately HK$69,986,000, HK$60,449,000, HK$45,804,000 and HK$13,018,000, respectively; (ii) accounts receivables of approximately HK$25,440,000, HK$20,840,000, HK$10,373,000 and HK$17,389,000, respectively; (iii) prepayment and other receivables of approximately HK$1,948,000, HK$1,894,000, HK$1,497,000 and HK$906,000, respectively; (iv) amount due from a fellow subsidiary of approximately HK$669,000, HK$667,000, nil and nil, respectively; and (v) amount due from immediate holding company of nil, nil, nil and approximately HK$16,200,000, respectively.

As at 30 June 2018, 31 December 2017, 2016 and 2015, the current liabilities of ZTI Asset Management were approximately HK$27,474,000, HK$24,655,000, HK$17,518,000 and HK$7,905,000, respectively, which were composed of (i) accrual and other payables of approximately HK$5,447,000, HK$7,414,000, HK$874,000 and HK$4,430,000, respectively; (ii) amount due to a fellow subsidiary of approximately HK$15,020,000, HK$10,251,000, HK$16,387,000 and HK$3,475,000, respectively; (iii) amount due to immediate holding company of approximately HK$1,234,000, HK$3,266,000, HK$257,000 and nil, respectively; (iv) tax payable of approximately HK$5,773,000, HK$3,724,000, nil and nil, respectively. The aforesaid amount due to its related companies are interest-bearing at fixed interest rate and will be eliminated upon Completion.

As at 30 June 2018, 31 December 2017, 2016 and 2015, the current ratio as calculated by current assets divided by current liabilities were approximately 3.57, 3.40, 3.29 and 6.01 times. ZTI Asset Management has a healthy and sound financial position and it does not have any outstanding bank loans as at 30 June 2018, 31 December 2017, 2016 and 2015.

ZTI Asset Management had a gearing ratio of approximately 20.1%, 20.2%, 18.8% and 8.9% as at 30 June 2018, 31 December 2017, 2016 and 2015, which are calculated as the total liabilities divided by total assets.

The share capital stood at HK$80,000,000 as at 30 June 2018, 31 December 2017, 31 December 2016 and 31 December 2015. Total equity attributable to owners of the company amounted to approximately HK$108,917,000 as at 30 June 2018 and approximately HK$97,362,000 as at 31 December 2017 (2016: approximately HK$75,841,000, 2015: approximately HK$81,162,000).

For the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, ZTI Asset Management conducted its business in Hong Kong, with the major assets and liabilities items being dominated in Hong Kong dollars. ZTI Asset Management had no formal treasury policy and did not observe any particular trend of seasonality from its borrowing requirements.

SIGNIFICANT INVESTMENT HELD

ZTI Asset Management had an investment in a subsidiary in 2016 and 2015. It provided seed money to subscribe for the participating shares of a managed private fund which was classified as a subsidiary because ZTI Asset Management had obtained control of the fund. The fair value of the subsidiary amounted to approximately HK$35,545,000 and HK$41,554,000 in 2016 and 2015, respectively. On 30 June 2017, ZTI Asset Management entered into an agreement to dispose of all management shares and participating shares of the fund and therefore it did not have investment in a subsidiary as at 31 December 2017.

ZTI Asset Management had an investment in an associate company that is a managed private fund with a fair value amounted to approximately HK$38,285,000 and HK$38,078,000 as at 30 June 2018 and 31 December 2017, respectively. ZTI Asset Management had a significant influence on the fund and classified it as an associate company. The operating and financial performance of the aforesaid associate company has been stable and is expected to continue meeting expectation.

CHARGE ON ASSETS

ZTI Asset Management did not have any charge on assets as at 30 June 2018, 31 December 2017, 2016 and 2015.

MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisition and disposal for the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, except for the disposal of a subsidiary in June 2017 and the investment in an associate company in 2017, please refer to the section headed "Significant Investment Held" for further details.

EXCHANGE RISK EXPOSURE AND HEDGING ARRANGEMENT

The revenue and operating costs of ZTI Asset Management were principally denominated in Hong Kong dollars, United States dollars or Renminbi. ZTI Asset Management was mainly exposed to currency risks in Renminbi volatility against the Hong Kong dollars and did not enter into any hedging arrangement. The management may consider to enter into hedging arrangement should the needs arise.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2018, 31 December 2017, 2016 and 2015, ZTI Asset Management had 17, 16, 20 and 12 employees, respectively.

ZTI Asset Management recruits, employs and remunerates its employees based on their qualifications, experience, skills, performances and contributions. Remuneration is also determined with reference to, among others, the market level. Discretionary bonuses given to the employees of ZTI Asset Management have been determined after taking into account the financial results and the performance of the employees. For the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, the total staff costs amounted to approximately HK$4,636,000, HK$12,336,000, HK$12,828,000 and HK$8,932,000, respectively, which mainly consist of salaries, discretionary bonuses, allowance, staff welfare, pension and recruitment expenditures. The remuneration packages for employees and directors were in line with the market level in the industry.

In general, training programs provided by ZTI Asset Management are qualified for claiming Continuous Professional Training ("CPT") hours for the licensed employees. To retain their professional licenses and fulfil the fit and proper requirements as required by the SFC, licensed employees must undertake a minimum of 5 CPT hours per calendar year for each regulated activity they engage in. ZTI Asset Management provides CPT courses related to regulated activities, included but not limited to anti-money laundering/counter-terrorist financing, code of conduct, updated regulations and relevant industry knowledge to the employees. ZTI Asset Management ensures licensed employees fulfil SFC's requirement by recording all training courses materials and number of hours (CPT hours) attended by the licensed employees as well as keeping the record for at least three years, so as to be able to provide relevant records upon request by the SFC or other relevant authorities under the SFO.

FUTURE PLAN

ZTI Asset Management has been engaged in the business of asset management. It is expected that the completion of the Acquisition would not have any significant impact to the daily operation and administration of the ZTI Asset Management. It will continue its existing model after Completion.

CONTINGENT LIABILITIES

As at 30 June 2018, 31 December 2017, 2016 and 2015, ZTI Asset Management had no material contingent liabilities.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF ZTI CAPITAL

BUSINESS HIGHLIGHTS

ZTI Capital is a company incorporated under the laws of Hong Kong with limited liability. It is a corporation licensed by the Securities and Futures Commission to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO.

ZTI Capital provides comprehensive corporate finance and underwriting services to its corporate clients. In terms of its corporate finance arm, it focuses on the development and execution of IPO projects as the sponsor, and acting as the financial advisor, independent financial advisor and compliance advisor for its corporate clients. In addition, ZTI Capital has been actively engaging in various financial advisory projects so as to establish its market position in the sector. In terms of its underwriting arm, it engages in provision of placing and underwriting services to corporate clients for their fund raising activities in equity and debt markets.

The revenue of ZTI Capital decreased from approximately HK$51,830,000 in 2015 to approximately HK$28,076,000 in 2016 and continue to decrease to approximately HK$14,219,000 in 2017. Revenue has increased significantly from approximately HK$4,299,000 for the six months ended 30 June 2017 to approximately HK$18,106,000 for the six months ended 30 June 2018. ZTI Capital generated a profit after tax for 2015, but suffered losses after tax for the years 2016, 2017, the six months ended 30 June 2017 and the six months ended 30 June 2018.

FINANCIAL REVIEW

Revenue

ZTI Capital's revenue primarily consists of placing and underwriting commission income, IPO sponsorship and financial advisory fees. For the six months ended 30 June 2018, and the three years ended 31 December 2017, 2016 and 2015, placing and underwriting commission income accounted for 42.4%, 75.5%, 92.2% and 82.7%, respectively. Financial advisory fee accounted for 57.6%, 24.5%, 7.8% and 17.3% for the same periods, respectively.

The total revenue of ZTI Capital increased by approximately HK$13,807,000 or 321.2% from approximately HK$4,299,000 in the first half of 2017 to approximately HK$18,106,000 in the first half of 2018, primarily due to (i) increase in placing and underwriting commission of approximately HK$3,886,000 as there was a comparatively larger amounts of shares placed and underwritten in the equity market for corporate clients and (ii) increase in advisory fee income as ZTI Capital was engaged in an increased number of advisory projects.

Total revenue of ZTI Capital for 2017 was approximately HK$14,219,000 which represented a decrease of approximately HK$13,857,000 or 49.4% from approximately HK$28,076,000 in 2016. The decrease was primarily attributable to a decrease of approximately HK$15,147,000 in placing and underwriting commission due to a decrease in the number of sizeable equity offering participated by ZTI Capital in 2017.

The total revenue of ZTI Capital for 2016 was approximately HK$28,076,000 which represented a decrease of approximately HK$23,754,000 or 45.8% from approximately HK$51,830,000 in 2015. The decrease was mainly caused by (i) a decrease of approximately HK$17,012,000 in placing and underwriting commission; in tandem with (ii) a decrease of approximately HK$6,742,000 from financial advisory fee primarily due to a less active stock market in Hong Kong resulting in decreased number of IPO sponsorship engagements participated in 2016 as compared to 2015.

Other income

Other income mainly included bank interest income and foreign exchange gain. The amount of other income and its fluctuation were insignificant for the six months ended 30 June 2018 and the three years ended 31 December 2017.

Total expenses

Total expenses include staff costs, other operating expenses and finance costs.

Total expenses increased by approximately HK$5,531,000 or 38.3% from approximately HK$14,436,000 for the six months ended 30 June 2017 to approximately HK$19,967,000 for the six months ended 30 June 2018. The increase was mainly caused by an increase in staff costs of approximately HK$3,144,000 as a result of the increase in the number of employees. The arrangement was in line with the growth of revenue and its future business development.

Total expenses decreased by approximately HK$19,983,000 or 33.7% from HK$59,306,000 in 2016 to HK$39,323,000 in 2017, mainly due to a decrease in management fee expense paid to a fellow subsidiary for the sharing of operating costs of the supporting units and a decrease in performance-based staff costs.

Total expenses increased by approximately HK$32,578,000 or 121.9% from approximately HK$26,728,000 in 2015 to approximately HK$59,306,000 in 2016, mainly due to an increase in management fee expense paid to a fellow subsidiary for the sharing of operating costs of the supporting units and an increase in staff costs as the total number of employees more than doubled by the end of 2016 when comparing to the end of 2015.

Profit/(loss) for the year/period

ZTI Capital's net loss decreased by approximately HK$8,374,000 or 81.8% from approximately HK$10,231,000 for the first half of 2017 to approximately HK1,857,000 for the first half of 2018, due to an increase in revenue of approximately HK$13,807,000 with an offset effect of the increase in total expenses of approximately HK$5,531,000.

ZTI Capital's net loss narrowed by approximately HK$6,180,000 or 19.8% from approximately HK$31,251,000 in 2016 to approximately HK$25,071,000 in 2017, primarily due to better cost control with the total expenses decreased by approximately HK$19,983,000 which overcame the decrease in revenue of approximately HK$13,857,000 during the same year.

ZTI Capital recorded a net loss of approximately HK$31,251,000 in 2016 while it recorded a net profit of approximately HK$21,516,000 in 2015. The main reasons were (i) a decrease in revenue of approximately HK$23,754,000 coupled with (ii) an increase in total expenses of approximately HK$32,578,000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2018 and 31 December 2017, 2016 and 2015, the current assets of the ZTI Capital were approximately HK$42,831,000, HK$81,450,000, HK$85,612,000 and HK$64,094,000, respectively, which comprised (i) cash and bank balances of approximately HK$22,404,000, HK$62,290,000, HK$45,117,000 and HK$43,923,000, respectively; (ii) accounts receivables of approximately HK$12,500,000, HK$14,040,000, HK$38,918,000 and HK$16,268,000, respectively; (iii) prepayment and other receivables of approximately HK$3,723,000, HK$897,000, HK$1,577,000 and nil, respectively; (iv) amount due from a fellow subsidiary of approximately HK$42,000, HK$61,000, nil and nil, respectively; (v) amount due from intermediate holding company of nil, nil, nil and approximately HK$3,903,000, respectively, and (vi) tax recoverable of approximately HK$4,162,000, HK$4,162,000, nil and nil, respectively.

As at 30 June 2018, 31 December 2017, 2016 and 2015, the current liabilities of ZTI Capital were approximately HK$29,209,000, HK$65,971,000, HK$65,062,000 and HK$22,562,000, respectively, which comprised of (i) contract liabilities of approximately HK$4,620,000, HK$5,400,000, HK$1,600,000, and nil, respectively, (ii) accrual and other payables of approximately HK$5,032,000, HK$6,253,000, HK$1,405,000 and HK$5,861,000, respectively; (iii) amount due to a fellow subsidiaries of approximately HK$17,541,000, HK$52,866,000, HK$50,143,000 and HK$13,101,000, respectively; (iv) amount due to intermediate holding companies of approximately HK$2,016,000, HK$1,452,000, HK$8,280,000 and nil, respectively; and (v) tax payable of nil, nil, approximately HK$3,634,000, HK$3,600,000, respectively. The aforesaid amount due to its related companies are interest-bearing at fixed interest rate and will be eliminated upon Completion.

As at 30 June, 2018, 31 December 2017, 2016 and 2015, the current ratio as calculated by current assets divided by current liabilities were approximately 1.47, 1.23, 1.32 and 2.84 times, respectively. ZTI Capital has a healthy and sound financial position and it does not have any outstanding bank loans for the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015.

ZTI Capital had a gearing ratio of approximately 68.2%, 81.0%, 76.0% and 35.2% as at 30 June, 2018, 31 December 2017, 2016 and 2015, respectively, which are calculated as the total liabilities divided by total assets.

The share capital stood at HK$50,000,000 as at 31 December 2017 and 30 June 2018. The issued capital was increased by HK$20,000,000 from HK$30,000,000 as at 31 December 2016 due to the fact that ZTI Capital issued HK$10,000,000 worth of shares to its shareholder on 30 August 2017 and issued HK$10,000,000 worth of shares to its shareholder on 28 December 2017.

On 30 August 2016, ZTI Capital issued HK$10,000,000 worth of shares to its shareholder, therefore, the issued shares was increased by HK$10,000,000 from HK$20,000,000 as at 31 December 2015 to HK$30,000,000 as at 31 December 2016.

For the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, ZTI Capital conducted its business in Hong Kong, with the major assets and liabilities items being dominated in Hong Kong dollar. ZTI Capital had no formal treasury policy and did not observe any particular trend of seasonality from its borrowing requirements.

SIGNIFICANT INVESTMENT HELD

For the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, ZTI Capital had no significant investment held.

CHARGE ON ASSETS

ZTI Capital did not have any charge on assets as at 30 June 2018, 31 December 2017, 2016 and 2015.

MATERIAL ACQUISITION AND DISPOSAL

There were no material acquisition and disposal for the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015.

EXCHANGE RISK EXPOSURE AND HEDGING ARRANGEMENT

The revenue and operating costs of were principally denominated in Hong Kong dollars, United States dollars or Renminbi. ZTI Capital was mainly exposed to currency risks in Renminbi volatility against the Hong Kong dollars and did not enter into any hedging arrangement. The management may consider to enter into hedging arrangement should the needs arise.

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2018, 31 December 2017, 2016 and 2015, ZTI Capital had 32, 28, 33 and 16 employees, respectively.

ZTI Capital recruits, employs and remunerates its employees based on their qualifications, experience, skills, performances and contributions. Remuneration is also determined with reference to, among others, the market level. Discretionary bonuses given to the employees of ZTI Capital have been determined after taking into account the financial results and the performance of the employees. For the six months ended 30 June 2018 and the years ended 31 December 2017, 2016 and 2015, the total staff costs amounted to approximately HK$12,495,000, HK$26,680,000, HK$28,189,000 and HK$14,318,000, respectively, which mainly consist of salaries, discretionary bonuses, allowance, staff welfare, pension and recruitment expenditures. The remuneration packages for employees and directors were in line with the market level in the industry.

In general, training programs provided by ZTI Capital are qualified for claiming Continuous Professional Training ("CPT") hours for the licensed employees. To retain their professional licenses and fulfil the fit and proper requirements as required by the SFC, licensed employees must undertake a minimum of 5 CPT hours per calendar year for each regulated activity they engage in. ZTI Capital provides CPT courses related to regulated activities, included but not limited to anti-money laundering/counter-terrorist financing, code of conduct, updated regulations and relevant industry knowledge to the employees. ZTI Capital ensures licensed employees fulfil SFC's requirement by recording all training courses materials and number of hours (CPT hours) attended by the licensed employees as well as keeping the record for at least three years, so as to be able to provide relevant records upon request by the SFC or other relevant authorities under the SFO.

FUTURE PLAN

ZTI Capital has been engaged in the business of corporate finance advisory. It is expected that the completion of the Acquisition would not have any significant impact to the daily operation and administration of the ZTI Capital. It will continue its existing model after Completion.

CONTINGENT LIABILITIES

As at 30 June 2018, 31 December 2017, 2016 and 2015, ZTI Capital had no material contingent liabilities.

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, set out in Appendix II to this circular, and is included herein for illustrative purpose only.

(I) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction

The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") has been prepared in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") 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, for the purpose of illustrating the financial impact of the proposed acquisition of the entire equity interest in Zhongtai International Asset Management Limited ("ZTI Asset Management") and Zhongtai International Capital Limited ("ZTI Capital") (collectively referred to as the "Target Companies") by Quali-Smart Holdings Limited (the "Company") and its subsidiaries (the "Group") (the "Proposed Acquisitions") on the assets and liabilities of the Group as if the Proposed Acquisitions had been completed on 30 June 2018. The Group and the Target Companies are collectively referred to as the Enlarged Group.

The basis of preparation of the Unaudited Pro Forma Financial Information of the Enlarged Group is set out below:

(a) The unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group has been prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2018 as set out in the published interim report of the Company for the six months ended 30 September 2018; and (ii) the statements of financial position of the Target Companies as at 30 June 2018 as extracted from the accountants' reports as set out in Appendixes IIA and IIB to this circular (the "Circular").

(b) After taking into account of the unaudited pro forma adjustments, which are directly attributable to the Proposed Acquisitions and factually supportable, as described in the notes thereto to demonstrate how the Proposed Acquisitions might have affected the assets and liabilities of the Group as if the Proposed Acquisitions had taken place on 30 June 2018.

The Unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group contained in the published interim report of the Company for the six months ended 30 September 2018 and the accountants' reports of the Target Companies as set out in Appendixes IIA and IIB to the Circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group has been prepared by the directors of the Company based on a number of assumptions, estimates, uncertainties, currently available information and are prepared for illustrative purpose only. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Enlarged Group that would have been attained had the Proposed Acquisitions been completed on 30 June 2018 or any other date.

(2) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 30 September 2018	ZTI Capital as at 30 June 2018	ZTI Asset Management as at 30 June 2018	Pro forma adjustments			Pro forma Enlarged Group as at 30 June 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
NON-CURRENT ASSETS							
Property, plant and equipment	25,876	–	63				25,939
Investment property	6,700	–	–				6,700
Intangible assets	554	–	–				554
Goodwill	184,783	–	–		57,197		241,980
Investment in an associate	–	–	38,285				38,285
Statutory deposit for financial service business	1,313	–	–				1,313
Promissory notes	4,551	–	–				4,551
Financial assets through other comprehensive income	11,597	–	–				11,597
Total non-current assets	235,374	–	38,348				330,919
CURRENT ASSETS							
Inventories	106,155	–	–				106,155
Trade receivables	257,710	12,500	25,440				295,650
Promissory notes	4,045	–	–				4,045
Financial assets at fair value through profit or loss	9,841	–	–				9,841
Prepayments, deposits and other receivables	9,823	3,723	1,948				15,494
Amounts due from fellow subsidiaries	–	42	669				711
Tax recoverable	–	4,162	–				4,162
Cash and bank balances held on behalf of customers	62,466	–	–				62,466
Pledged bank deposits	60,752	–	–				60,752
Cash and bank balances	101,315	22,404	69,986	145,568	16,378	(5,781)	349,870
Total current assets	612,107	42,831	98,043				909,146

	The Group as at 30 September 2018	ZTI Capital as at 30 June 2018	ZTI Asset Management as at 30 June 2018	Pro forma adjustments			Pro forma Enlarged Group as at 30 June 2018
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Note 1	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	
CURRENT LIABILITIES							
Trade payables	203,445	–	–				203,445
Contract liabilities	–	4,620	–				4,620
Deposits received, accruals and other payables	25,169	5,032	5,447				35,648
Amounts due to intermediate holding companies	–	2,016					2,016
Amount due to an immediate holding company	–	–	1,234				1,234
Amounts due to fellow subsidiaries	–	17,541	15,020				32,561
Interest-bearing bank borrowings	117,411	–	–				117,411
Tax payables	4,098	–	5,773				9,871
Total current liabilities	350,123	29,209	27,474				406,806
NET CURRENT ASSETS	261,984	13,622	70,569				502,340
TOTAL ASSETS LESS CURRENT LIABILITIES	497,358	13,622	108,917				833,259
NON-CURRENT LIABILITIES							
Convertible notes	80,758	–	–				80,758
Deferred tax liabilities	112	–	–				112
Total non-current liabilities	80,870	–	–				80,870
NET ASSETS	416,488	13,622	108,917				752,389

Notes to the Unaudited Pro Forma Financial Information

(1) The balances were extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 September 2018 as set out in the published interim report for the six months ended 30 September 2018.

(2) The balances were extracted from the statement of financial position of the Target Companies as at 30 June 2018 as set out in Appendixes IIA and IIB to this circular.

(3) On 23 February 2018, (a) the Company and (b) Zhongtai International Investment Group Limited (the "Original Offeror"), Taifu Capital Investments Limited and Great Boom Group Limited (together, the "Subscribers") entered into a subscription agreement (the "Subscription Agreement") pursuant to which the Company conditionally agreed to allot and issue, and the Subscribers conditionally agreed to subscribe for, an aggregate of 2,283,848,000 new shares of the Company, for an aggregate consideration of HK$799,346,800 in cash at the subscription price of HK$0.35 per subscription share. On 11 October 2018, the Company and the Subscribers entered the Restated Subscription Agreement pursuant to which the Company conditionally agreed to allot and issue, and the Subscribers conditionally agreed to subscribe for an aggregate of 415,908,000 new shares of the Company, for an aggregate consideration of HK$145,567,800 in cash at the subscription price of HK$0.35 per subscription share. The initial Subscription Agreement dated 23 February 2018 has been terminated and superseded by the Restated Subscription Agreement.

(4) On 23 February 2018, the Company, as purchaser, and Zhongtai International Financial Corporation ("ZTI Financial"), as vendor, entered into a sale and purchase agreement (the "ZTI Capital Agreement") pursuant to which the Company conditionally agreed to acquire or procure Zhongtai International Capital Limited ("ZTI Capital"), and ZTI Financial conditionally agreed to dispose of, all issued shares of Zhongtai International Capital Limited for a consideration of HK$30,000,000.

On the same date, the Company, as purchaser, and Zhongtai Financial International Limited ("Zhongtai Financial International"), as vendor, entered into a sale and purchase agreement (the "ZTI Asset Management Agreement") pursuant to which the Company conditionally agreed to acquire or procure Zhongtai International Asset Management Limited ("ZTI Asset Management"), and Zhongtai Financial International conditionally agreed to dispose of, all issued shares of Zhongtai International Asset Management Limited for a consideration of HK$102,000,000.

On 11 October 2018, (i) the Company and ZTI Financial entered into the Supplemental ZTI Capital Agreement to revise and amend certain terms of the ZTI Capital Agreement; (ii) the Company and Zhongtai Financial International entered into the Supplemental ZTI Asset Management Agreement to revise and amend certain terms of the ZTI Asset Management Agreement.

The consideration for ZTI Capital Acquisition, being HK$30,000,000, shall be satisfied by the allotment and issue by the Company to the Original Offeror 85,714,286 new shares of the Company, credited as fully paid, at an issue price of HK$0.35 per share, at completion of the ZTI Capital Agreement.

The consideration for ZTI Asset Management Acquisition, being HK$102,000,000, shall be satisfied by the allotment and issue by the Company to the Original Offeror 291,428,571 new shares of the Company, credited as fully paid, at an issue price of HK$0.35 per share, at completion of the ZTI Asset Management Agreement.

ZTI Financial and Zhongtai Financial International had warranted to the Company that the net asset values of ZTI Capital and ZTI Asset Management as at completion date shall not less than HK$30,000,000 and HK$102,000,000 respectively, which is a condition precedent to completion of the ZTI Capital Agreement and the ZTI Asset Management Agreement. If the net asset values of ZTI Capital and ZTI Asset Management were less than HK$30,000,000 and HK$102,000,000 respectively, the Original Offeror will have additional capital injection to ZTI Capital and ZTI Asset Management.

The Company was informed by Smart Investor Holdings Limited, Mr. Lau Ho Ming and Madam Li Man Yee, Stella (together, the "Vendors"), being the substantial shareholders of the Company, that on 11 October 2018, the Vendors and the Original Offeror entered into the share purchase agreement, pursuant to which the Vendors conditionally agreed to sell and the Original Offeror conditionally agreed to purchase an aggregate of 502,064,000 shares of the Company ("Share Purchase Agreement").

On 29 November 2018, the Company, the Original Offeror, the Subscribers and Zhongtai Financial International Limited (the "Offeror") entered into the Deed of Novation I in relation to the Restated Subscription Agreement, pursuant to which the Original Offeror agreed to assign and novate, and the Offeror agreed to assume and perform, all the rights and obligations of the Original Offeror under the Restated Subscription Agreement with effect from 29 November 2018.

On the same date, the Company entered into supplemental agreements with ZTI Financial and the Offeror, respectively, to revise certain terms of the ZTI Capital Agreement and the ZTI Asset Management Agreement, respectively, pursuant to which the consideration for the ZTI Acquisitions shall be satisfied by the allotment and issuance of the consideration shares to the Offeror (as where appropriate, the designated nominee of ZTI Financial).

On the same date, the Vendors, the Original Offeror and the Offeror entered into the Deed of Novation II in relation to the Share Purchase Agreement, pursuant to which the Original Offeror agreed to assign and novate, and the Offeror agreed to assume and perform, all the rights and obligations of the Original Offeror under the Share Purchase Agreement with effect from 29 November 2018.

The pro forma adjustment reflects the followings:

Upon completion of the Restated Subscription Agreement and Share Purchase Agreement, the Company, ZTI Capital and ZTI Asset Management shall be under common control of the Offeror, and given that the business combinations of ZTI Capital and ZTI Asset Management have substance from the perspective of the Company, they have been accounted for using acquisition accounting under Hong Kong Financial Reporting Standard 3 (Revised) "Business Combinations" ("HKFRS 3"). The identifiable assets and liabilities of the Target Companies in the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group will be accounted for at fair value under the purchase method of accounting in accordance with HKFRS 3.

For the purpose of the preparation of the Unaudited Pro Forma Financial Information and for illustrative purpose, the recognition of goodwill arising from the Proposed Acquisitions is analysed as follows as if the Proposed Acquisitions had taken place on 30 June 2018:

	ZTI Capital	**ZTI Asset Management**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Fair value of the identified net asset as at 30 June 2018 *(note i)*	13,622	108,917	
Capital injection	16,378	–	
Adjusted net assets at completion	30,000	108,917	
Consideration *(note ii)*	44,571	151,543	
Less: Adjusted net assets at completion	30,000	108,917	
Goodwill arising from the Proposed Acquisitions *(note iii)*	14,571	42,626	57,197

Notes:

i. The fair values of the identifiable assets and liabilities of the Target Companies as at 30 June 2018 are estimated by the directors of the Company with reference to a valuation performed by BMI Appraisal Limited. The directors of the Company had assessed that the carrying amounts of the identifiable assets and liabilities of the Target Companies approximated their fair values based on the valuation reports, which will be reassessed on the completion date of the Proposed Acquisitions together with the fair value assessment of the deferred tax impact in relation to any fair value adjustments.

ii. The consideration for ZTI Capital Acquisition and ZTI Asset Management Acquisition shall be satisfied by the allotment and issue by the Company to the Offeror 85,714,286 and 291,428,571 new shares of the Company respectively. Assuming the fair value of the share of the Company as at 30 June 2018 is HK$0.52, which was the closing price of the shares of the Company as quoted on the Stock Exchange of Hong Kong Limited as at 30 June 2018, the consideration for ZTI Capital Acquisition and ZTI Asset Management Acquisition shall be approximately HK$44,571,000 and HK$151,543,000 respectively.

iii. The estimated goodwill arising from the Proposed Acquisitions is recognised and no impairment charge concerning the above estimated goodwill is considered necessary under the requirements of Hong Kong Accounting Standard 36 "Impairment of Assets" ("HKAS 36"). After the completion of Proposed Acquisitions, the Group will determine at each reporting date whether the goodwill is impaired in accordance with HKAS 36.

The directors of the Company confirm that consistent accounting policies and principal assumptions will be applied to assess impairment of goodwill and intangible assets if any, in subsequent reporting periods in accordance with the requirements under HKAS 36.

Since the fair value of the identifiable assets and liabilities of the Target Companies used in the preparation of this unaudited pro forma consolidated statement of assets and liabilities may be different from their far values on the date when the Target Companies became subsidiaries of the Group, the goodwill or additional intangible assets, if any, and relevant deferred tax impact to be recognised in connection with the Proposed Acquisitions on the completion date could be different from the estimated amounts stated herein and is subject to change upon the finalisation of the completion date valuation.

(5) The adjustment represents the estimated legal and professional fees and other direct expenses in relation to the Proposed Acquisitions of approximately HK$5,781,000. This adjustment is not expected to have a continuing financial effect on the Enlarged Group.

(6) The directors of the Company confirm that the basis used in the preparation of the Unaudited Pro Forma Financial Information will be consistent with the accounting policies of the Group, including the principal accounting policies and assumptions of the valuation of the identified assets and liabilities of the Target Companies to be consistently adopted in the first set of the financial statements of the Group after the completion of the Proposed Acquisitions.

(7) Saved as aforesaid, no other adjustments have been made to reflect any trading result or other transactions of the Enlarged Group entered into subsequent to 30 June 2018. Unless otherwise stated, the adjustments above are not expected to have a continuing effect on the Enlarged Group.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong

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II. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the directors of Quali-Smart Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Quali-Smart Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2018 and related notes as set out on pages IV-1 to IV-6 of Appendix IV to the Company's circular dated 31 December 2018 (the "Circular"), in connection with the Group's proposed acquisitions of the entire equity interests in Zhongtai International Asset Management Limited and Zhongtai International Capital Limited pursuant to the formal sale and purchase agreements dated 23 February 2018 and the supplemental agreements dated 11 October 2018 (the "Proposed Acquisitions"). The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are set out in Section I of Appendix IV of the Circular.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Proposed Acquisitions on the Group's assets and liabilities as at 30 June 2018 as if the Proposed Acquisitions had taken place at 30 June 2018. As part of this process, information about the Group's assets and liabilities as at 30 September 2018 has been extracted by the directors of the Company from the Company's interim condensed consolidated financial statements for the six months ended 30 September 2018, on which no audit or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the 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" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) 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.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Proposed Acquisitions as at 30 June 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the entity, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company 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 4.29(1) of the Listing Rules.

BDO Limited
Certified Public Accountants
Hong Kong

31 December 2018

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporations

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, were as follows:

Long position in the Shares and underlying Shares

Name of Director	**Capacity**	**Number of Shares/underlying Shares held**	**Approximate percentage of total issued share capital of the Company** *(Note 1)*
Lau Ho Ming, Peter	Beneficial owner	13,600,000 *(Note 2)*	
	Interest of a controlled corporation	482,864,000 *(Note 3)*	
	Interest of spouse	11,000,000 *(Notes 4 and 5)*	
	Total:	**507,464,000**	34.42%
Li Man Yee, Stella	Beneficial owner	11,000,000 *(Note 5)*	
	Interest of spouse	496,464,000 *(Notes 2, 3 and 6)*	
	Total:	**507,464,000**	34.42%

Name of Director	Capacity	Number of Shares/underlying Shares held	Appropriate percentage of total issued share capital of the Company *(Note 1)*
Poon Pak Ki, Eric	Beneficial owner	14,900,000 *(Note 7)*	1.01%
Ng Kam Seng	Beneficial owner	16,100,000 *(Note 8)*	1.09%
Chu Raymond	Beneficial owner	40,295,000 *(Note 9)*	2.73%
Leung Po Wing, Bowen Joseph	Beneficial owner	2,800,000 *(Note 10)*	0.19%
Chan Siu Wing, Raymond	Beneficial owner	2,800,000 *(Note 10)*	0.19%
Wong Wah On, Edward	Beneficial owner	1,400,000 *(Note 10)*	0.09%

Note:

1. The total number of 1,474,232,000 Shares in issue as at the Latest Practicable Date has been used for the calculation for the approximate percentage.

2. 9,600,000 Shares are registered in the name of Mr Lau and 4,000,000 Shares are the underlying Shares in respect of Share Options granted by the Company to Mr Lau as beneficial owner.

3. 482,864,000 Shares are registered in the name of Smart Investor, which is owned as to approximately 67.4% by Mr Lau and approximately 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.

4. Madam Li is the spouse of Mr Lau. By virtue of the provisions of Part XV of the SFO, Mr Lau is deemed to be interested in all the Shares in which Madam Li is interested in or deemed to be interested in.

5. 9,600,000 Shares are registered in the name of Madam Li and 1,400,000 Shares are the underlying Shares in respect of Share Options granted by the Company to Madam Li as beneficial owner.

6. Mr Lau is the spouse of Madam Li. 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 in or deemed to be interested in.

7. 2,000,000 Shares are registered in the name of Mr. Poon Pak Ki, Eric and 12,900,000 Shares are the underlying Shares in respect of Share Options granted by the Company to Mr. Poon Pak Ki, Eric as beneficial owner.

8. 3,200,000 Shares are registered in the name of Mr. Ng Kam Seng and 12,900,000 Shares are the underlying Shares in respect of Share Options granted by the Company to Mr. Ng Kam Seng as beneficial owner.

9. 27,448,000 Shares are registered in the name of Mr. Chu Raymond and 12,847,800 Shares are the underlying Shares in respect of Share Options granted by the Company to Mr Chu Raymond as beneficial owner.

10. This interest represents the interests in the underlying Shares in respect of Share Options granted by the Company to the Director as beneficial owner.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provision of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules.

Substantial Shareholders' interests and short positions in Shares and underlying Shares

So far as is known to the Directors, as at the Latest Practicable Date, the following persons (not being Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity	Number of Shares/underlying Shares held	Approximate percentage of total issued share capital of the Company *(Note 1)*
Smart Investor	Beneficial owner	482,864,000 *(Note 2)*	32.75%
Silver Pointer Limited	Beneficial owner	106,880,000 *(Note 3)*	7.25%
Benefit Global	Beneficial owner	282,051,281 *(Note 4)*	19.13%
Clearfield Global Limited	Interest of controlled corporation	282,051,281 *(Note 4)*	19.13%
BlackPine Private Equity Partners G.P. Limited	Interest of controlled corporation	282,051,281 *(Note 4)*	19.13%
Chu Sheng Yu Lawrence	Interest of controlled corporation	282,051,281 *(Note 4)*	19.13%
	Beneficial owner	672,000 *(Note 5)*	0.05%

Name of Shareholder	Capacity	Number of Shares/underlying Shares held	Approximate percentage of total issued share capital of the Company *(Note 1)*
Zhongtai Financial International Limited (中泰金融國際有限公司) (Offeror)	Beneficial owner	1,192,878,857 *(Notes 6 and 7)*	80.92%
Zhongtai Securities Co., Ltd.# (中泰證券股份有限公司)	Interest of controlled corporation	1,192,878,857 *(Notes 6 and 7)*	80.92%
Laiwu Steel Group Ltd.# (萊蕪鋼鐵集團有限公司)	Interest of controlled corporation	1,192,878,857 *(Notes 6 and 7)*	80.92%
Shandong Iron & Steel Group Co., Ltd.# (山東鋼鐵集團有限公司)	Interest of controlled corporation	1,192,878,857 *(Notes 6 and 7)*	80.92%
Shandong SASAC	Interest of controlled corporation	1,192,878,857 *(Notes 6 and 7)*	80.92%

Notes:

1. The total number of 1,474,232,000 Shares in issue as at the Latest Practicable Date has been used for the calculation for the approximate percentage.

2. These Shares are registered in the name of Smart Investor, a company owned as to approximately 67.4% by Mr Lau and approximately 32.6% by Madam Li.

3. These Shares are registered in the name of Silver Pointer Limited.

For identification only

4. 282,051,281 Shares are the underlying Shares representing the total number of conversion Shares convertible under the Convertible Notes issued by the Company to Benefit Global, a company wholly owned by Clearfield Global Limited, which is in in turn wholly owned by BlackPine Private Equity Partners G.P. Limited and ultimately wholly owned by Mr Chu Sheng Yu, Lawrence.

5. 672,000 Shares are registered in the name of Mr Chu Sheng Yu, Lawrence in his personal capacity.

6. On 11 October 2018, the Company, the Original Offeror, Subscriber A and Subscriber B entered into the Restated Subscription Agreement to amend and restate the Initial Subscription Agreement. Pursuant to the Restated Subscription Agreement, (i) the Initial Subscription Agreement has been terminated and superseded; (ii) the Company conditionally agreed to allot and issue, and the Original Offeror, Subscriber A and Subscriber B conditionally agreed to subscribe for, an aggregate of 415,908,000 Shares, free from all Encumbrances and together with all rights and benefits attaching to them at Completion and thereafter, for an aggregate consideration of HK$145,567,800 at the Subscription Price of HK$0.35 per Share. Pursuant to the Deed of Novation I, the Original Offeror assigned and novated, and the Offeror agreed to assume and perform, all the rights and obligations of the Original Offeror under the Restated Subscription Agreement with effect from 29 November 2018. Under the Subscription, (i) the Offeror will subscribe for 313,672,000 Shares for a consideration of HK$109,785,200; (ii) Subscriber A will subscribe for 33,936,000 Shares for a consideration of HK$11,877,600; and (iii) Subscriber B will subscribe for 68,300,000 Shares for a consideration of HK$23,905,000. Pursuant to the Share Purchase Agreement, the Offeror conditionally agreed to purchase from the Vendors 502,064,000 Shares at the consideration of HK$356,465,440 (equivalent to HK$0.71 per Share). Pursuant to the ZTI Agreements, the consideration for the ZTI Acquisitions, being an aggregate of HK$132,000,000, shall be satisfied by allotment and issue by the Company to the Offeror 377,142,857 Consideration Shares, at the Issue Price of approximately HK$0.35 per Consideration Share.

7. The Offeror became interested in 1,192,878,857 underlying Shares pursuant to the Restated Subscription Agreement, the Share Purchase Agreement and the ZTI Agreements. The Offeror is wholly controlled by Zhongtai Securities. Zhongtai Securities is in turn controlled as to approximately 45.91% by Laiwu Steel which is further controlled as to 80% by Shandong Iron & Steel which is further controlled as to 70% by Shandong SASAC. As Laiwu Steel controls more than one-third of the voting power of Zhongtai Securities and Shandong Iron & Steel controls more than one-third of the voting power of Laiwu Steel and Shandong SASAC controls more than one-third of the voting power of Shandong Iron & Steel, by virtue of the provisions in Part XV of the SFO, Laiwu Steel, Shandong Iron & Steel and Shandong SASAC are all deemed to be interested in all the underlying Shares which Zhongtai Securities is interested in.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was 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 any member of the Group.

Save as disclosed above, as at the Latest Practicable Date, no other person had interests which were recorded in the register required to be kept under section 336 of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company with a term of 3 years which shall be terminated by either party by serving no less than three months' notice in writing subject to the terms and conditions of such service contract.

Each of the non-executive Directors, including the independent non-executive Directors, has signed an appointment letter with a fixed appointment term of 1 year subject to an automatic renewal of a further period of 1 year which shall be terminated by either party by serving no less than one month' notice in writing subject to the terms and conditions of such service contract.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors nor their respective close associates (as defined in the Listing Rules) had an interest in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group, other than those businesses where the Directors or his or her close associates were appointed to represent the interests of the Company and/or the Group.

5. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial position or trading position of the Group since 31 March 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up.

6. DIRECTORS' INTERESTS IN ASSETS, CONTRACTS OR ARRANGEMENTS

Interests in Assets

Since 31 March 2018, being the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date, Mr Lau, the executive chairman of the Board, and Madam Li, a non-executive Director and the spouse of Mr Lau, have direct or indirect interests in the following assets which had been leased to the Company or any member of the Enlarged Group:

Commencement date of agreement	Expiry date of agreement	Description of transactions	Connected persons	Annual Rental *(HK$)*
1 April 2017	31 March 2019	Leasing of the Company's headquarters by Qualiman Industrial Limited, a wholly-owned subsidiary of the Group, from a connected person	Gold Prospect Capital Resources Limited *(Note 1)*	3,432,000 *(Note 3)*

Commencement date of agreement	Expiry date of agreement	Description of transactions	Connected persons	Annual Rental *(HK$)*
1 April 2017	31 March 2019	Leasing of a premise and car parking space from a connected person as director's quarter	Goldrich International Limited *(Note 2)*	2,016,000 *(Note 4)*

Notes:

(1) Gold Prospect Capital Resources Limited is a company incorporated in Hong Kong which is ultimately owned as to 50% by Mr Lau and 50% by Madam Li and the property leased by Qualiman Industrial Limited is Workshop C on 19/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, Hong Kong with a net floor area of 7,530.50 square feet.

(2) Goldrich International Limited is a company incorporated in Hong Kong which is owned as to 70% by Mr Lau and 30% by Madam Li and the property leased is Unit A, House No. 3 with garden and car parking space No.1, Evergreen Garden, 18 Shouson Hill Road, Hong Kong with a net floor area of 3,668.35 square feet.

(3) Annual rental is exclusive of management fees and utility charges but inclusive of government rates and rents, leasehold improvements, furniture and office equipment.

(4) Annual rental is exclusive of utility charges but inclusive of management fees, government rates and rents, furnitures and leasehold improvement and major home appliances.

Save as disclosed above, none of the Directors had any interest, direct or indirect, in any assets which have been acquired or disposed of by, or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by, or leased to any member of the Enlarged Group since 31 March 2018, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

Interests in contracts or arrangements

Since 31 March 2018, being the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date, Mr Lau, the executive chairman of the Board, and Madam Li, a non-executive Director and the spouse of Mr Lau, were materially interested, directly or indirectly, in the following subsisting contracts or arrangements which were significant in relation to the business of the Enlarged Group:

By facility letters dated 29 June 2018, 21 August 2018 and 19 September 2018 (the "**Facility Letters**") issued by certain banks licensed in Hong Kong to Qualiman Industrial, bank facilities with a total aggregate limit of HK$142,070,000 were granted by these banks in favour of Qualiman Industrial. These facilities are secured by, among other collaterals, legal charges over certain properties in Hong Kong owned by Mr Lau, Madam Li and their associates and a personal guarantee by Mr Lau in favour of the banks.

As at the Latest Practicable Date, save as disclosed herein and other than the service contracts of the executive Directors, the appointment letters of the non-executive Directors and the Facility Letters, there is no other contract or arrangement subsisting as at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Enlarged Group.

7. LITIGATION

As at the Latest Practicable Date, there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Enlarged Group.

8. EXPERTS AND CONSENTS

The following are the qualifications of the experts whose letters are contained in this circular:

Name	Qualifications
BDO Limited	Certified Public Accountants
Veda Capital	A licensed corporation authorised to conduct Type 6 (advising on corporate finance) regulated activity under the SFO

Each of the BDO Limited and Veda Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of BDO Limited and Veda Capital has no shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of BDO Limited and Veda Capital has no direct or indirect interests in any assets which had been, since 31 March 2018 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group.

9. MATERIAL CONTRACTS

Save as disclosed below, there were no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Enlarged Group within the two years immediately preceding the date of this circular:

(a) the subscription agreement dated 2 May 2017 entered into between the Company and Benefit Global for issuance of Convertible Note A, details of which are set out in the announcement of the Company dated 2 May 2017 and 11 May 2017;

(b) the subscription agreement dated 22 May 2017 entered into between the Company and Benefit Global for issuance of Convertible Note B, details of which are set out in the announcement of the Company dated 22 May 2017 and 2 June 2017;

(c) the sale and purchase agreement dated 14 December 2017 between the Company, as vendor, and Octagon Special Opportunities Limited, as a purchaser, to dispose of the entire issued share capital of New Creation Global Limited for a consideration of HK$16.5 million;

(d) the Initial Subscription Agreement;

(e) the Restated Subscription Agreement;

(f) the ZTI Agreements and the Supplemental ZTI Agreements; and

(g) the Deed of Novation I.

10. MISCELLANEOUS

(a) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

(b) The head office and principal place of business of the Company is at Workshop C on 19th Floor, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

(c) The Hong Kong branch share registrar and transfer office of the Company is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) Save for the English transliteration of the Chinese names in this circular, the English text of this circular shall prevail over the Chinese text in case of any inconsistency.

(e) The secretary of the Company is Ms. Tang Yuen Ching Irene. Ms. Tang is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of the Chartered Certified Accountants.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Workshop C on the 19th Floor, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on page 42 of this circular;

(c) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 43 to 82 of this circular;

(d) the accountants' report of ZTI Asset Management, the text of which is set out in Appendix IIA to this circular;

(e) the accountants' report of ZTI Capital, the text of which is set out Appendix IIB to this circular;

(f) the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(g) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(h) the written consents of the experts referred to in the paragraph headed "Experts and Consents" of this appendix;

(i) the annual reports of the Company for the two years ended 31 March 2017 and 2018;

(j) the circular of the Company dated 25 July 2018 in relation to, among others, the general mandates to issue and repurchase shares; and

(k) the Share Purchase Agreement;

(l) the Deed of Novation II; and

(m) this circular.

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1348)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Quali-Smart Holdings Limited (the "**Company**") will be held at Unit 101, First Commercial Building, 33-35 Leighton Road, Causeway Bay, Hong Kong on Wednesday, 16 January 2019 at 10:00 a.m., for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the authorised share capital of the Company be and is hereby increased from US$75,000 divided into 3,000,000,000 shares of US$0.000025 each in the share capital of the Company ("**Share(s)**") to US$150,000 divided into 6,000,000,000 Shares by the creation of an additional 3,000,000,000 new Shares (the "**Increase in Authorised Share Capital**"), which upon issue shall rank pari passu in all respects with all existing Shares; and

   (b) any one director of the Company be and is hereby authorised to do all such acts and things and execute all such documents, instruments, agreements and deeds (including under the seal of the Company if and where applicable), as he/she may in his/her absolute discretion consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the Increase in Authorised Share Capital."

2. "**THAT**:

   (a) the amended and restated subscription agreement dated 11 October 2018 (the "**Restated Subscription Agreement**", a copy of which has been produced to the EGM marked "A" and signed by the chairman of the EGM for identification purpose) entered into among the Company, Zhongtai International Investment Group Limited (中泰國際投資集團有限公司) (the "**Original Offeror**"), Taifu Capital Investments Limited (泰富資本投資有限公司) ("**Subscriber A**") and Great Boom Group Limited (旺佳集團有限公司) ("**Subscriber B**"), and the deed of novation dated 29 November 2018 (the "**Deed of Novation**", a copy of which has been produced to the EGM marked "B" and signed by the chairman of the EGM for identification purpose) entered into among the Company, the Original Offeror, Subscriber A, Subscriber B and Zhongtai Financial International Limited (中泰金融國際有限公司) (the "**Offeror**", together with Subscriber A and Subscriber B, collectively, the "**Subscribers**") in relation to the proposed conditional subscription (the "**Subscription**") of an aggregate of 415,908,000 ordinary shares of the Company (collectively, the "**Subscription Shares**", and each a "**Subscription Share**") by the Subscribers at the subscription price of HK$0.35 per Subscription Share, and the transactions contemplated thereunder and in connection therewith be and are hereby approved, confirmed and ratified;

* *For identification purpose only*

(b) subject to the fulfilment or waiver of the other conditions precedent set out in the Restated Subscription Agreement, the grant of a specific mandate to the directors of the Company to exercise the powers of the Company to allot and issue the Subscription Shares at HK$0.35 per Subscription Share to the Subscribers pursuant to and in accordance with the terms and conditions of the Restated Subscription Agreement be and is hereby approved, and such Subscription Shares (upon issue) shall rank pari passu in all respects with the then existing issued shares of the Company; and

(c) any one director of the Company be and is hereby authorised to execute all such documents, instruments, agreements and deeds (including under the seal of the Company if and where applicable) and do all such acts and things that are ancillary to the Subscription and the grant of the specific mandate set out in paragraph (b) of this resolution, as he/she may in his/her absolute discretion consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of the Restated Subscription Agreement and the transactions contemplated thereunder, including the allotment and issue of the Subscription Shares, and to agree to such variations, amendments or waivers as are, in the opinion of the directors of the Company, in the interests of the Company."

3. "**THAT**:

(a) the conditional sale and purchase agreement dated 23 February 2018 (as amended and supplemented by supplemental agreements dated 11 October 2018 and 29 November 2018 respectively) (collectively, the "**ZTI Asset Management Agreement**", a copy of which has been produced to the EGM marked "C" and signed by the chairman of the EGM for identification purpose) entered into between the Company as purchaser and Zhongtai Financial International Limited (中泰金融國際有限公司) ("**Zhongtai Financial International**") as vendor in relation to the proposed acquisition of all the issued shares of Zhongtai International Asset Management Limited (中泰國際資產管理有限公司) ("**ZTI Asset Management**") by the Company from Zhongtai Financial International, and the transactions contemplated thereunder and in connection therewith be and are hereby approved, confirmed and ratified;

(b) the conditional sale and purchase agreement dated 23 February 2018 (as amended and supplemented by supplemental agreements dated 11 October 2018 and 29 November 2018 respectively) (collectively, the "**ZTI Capital Agreement**", a copy of which has been produced to the EGM marked "D" and signed by the chairman of the EGM for identification purpose, together with the ZTI Asset Management Agreement, collectively, the "**ZTI Agreements**") entered into between the Company as purchaser and Zhongtai International Financial Corporation (中泰國際金融有限公司) **("ZTI Financial**") as vendor in relation to the proposed acquisition of all the issued shares of Zhongtai International Capital Limited (中泰國際融資有限公司) ("**ZTI Capital**") by the Company from ZTI Financial, and the transactions contemplated thereunder and in connection therewith be and are hereby approved, confirmed and ratified;

(c) subject to the fulfilment or waiver of the other conditions precedent set out in the ZTI Agreements, the grant of a specific mandate to the directors of the Company to exercise the powers of the Company to allot and issue, credited as fully paid, 377,142,857 shares of the Company (the "**Consideration Shares**") at HK$0.35 per Consideration Share to the relevant vendors or their respective designated nominee(s) pursuant to and in accordance with the terms and conditions of the ZTI Agreements be and is hereby approved, and such Consideration Shares (upon issue) shall rank *pari passu* in all respects with the then existing issued shares of the Company; and

(d) any one director of the Company be and is hereby authorised to do all such acts and things and sign and execute all such documents, instruments, agreements and deeds (including under the seal of the Company if and where applicable) and do all such acts and things that are ancillary to the ZTI Agreements and the specific mandate set out in paragraph (b) of this resolution, as he/she may in his/her absolute discretion consider necessary, desirable or expedient for the purpose of, or in connection with, the implementation of and giving effect to the ZTI Agreements and the transactions contemplated thereunder, including the allotment and issue of the Consideration Shares, and to agree to such variations, amendments or waivers as are, in the opinion of the directors of the Company, in the interests of the Company."

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

Hong Kong, 31 December 2018

As at the date of this notice, the Board comprises four executive Directors: Mr. Lau Ho Ming, Peter (Executive Chairman), Mr. Poon Pak Ki, Eric, Mr. Ng Kam Seng and Mr. Chu Raymond; one non-executive Director: Madam Li Man Yee, Stella; and three independent non-executive Directors: Mr. Leung Po Wing, Bowen Joseph GBS, JP, Mr. Chan Siu Wing, Raymond and Mr. Wong Wah On, Edward.

Registered office:
Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
Workshop C on 19/F
TML Tower
3 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the EGM convened by the above notice is entitled to appoint one or more proxies in respect of the whole or any part of his/her holding of shares to attend and vote in his/her stead. A proxy need not be a shareholder of the Company.

2. The instrument appointing a proxy must be in writing under the hand of the appointor or of his/her attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

3. Where there are joint registered holders of any share(s), any one of such persons may vote at the EGM, either personally or by proxy, in respect of such share(s) as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share(s) shall alone be entitled to vote in respect thereof.

4. To be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of attorney or authority, must be deposited at the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, as soon as possible and in any event not later than 10:00 a.m. on Monday, 14 January 2019, or not less than 48 hours before the time appointed for the holding of any adjourned meeting (as the case may be), and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution, except at an adjourned meeting in the case where the EGM was originally held within 12 months from such date.

5. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the EGM, and in such event the instrument appointing a proxy shall be deemed to be revoked.

6. The resolutions as set out in this notice will be voted by way of poll.