



**ZZ CAPITAL INTERNATIONAL LIMITED**

**中植資本國際有限公司**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 08295

# Interim Report 2018



This report is printed on environmentally friendly paper

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the “Directors”) of ZZ Capital International Limited 中植資本國際有限公司 (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange 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 report 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 report misleading.*

## HIGHLIGHTS

- During the Interim Period 2018, no investment advisory and management income (2017: HK\$7.64 million) nor corporate advisory income (2017: HK\$14.87 million) were recognised.
- In the Second Quarter Fiscal 2018 and Interim Period 2018, there was a net exchange loss of HK\$9.82 million (2017: gain of HK\$0.84 million) and HK\$15.67 million (2017: gain of HK\$1.51 million) respectively, mostly driven by the foreign exchange revaluation of the Group's RMB bank balances.
- As a result, the Group's overall revenue and other loss resulted to a loss of HK\$4.76 million for the Interim Period 2018 (2017: income of HK\$24.72 million).
- Operating expenses for the three months and six months ended 30 September 2018 were HK\$38.76 million (2017: HK\$59.38 million) and HK\$141.16 million (2017: HK\$104.28 million) respectively. The increase in operating expenses for the Interim Period 2018 was mainly attributable to ascended staff cost of HK\$27.08 million from the one-off staff redundancy and termination programs primarily in the US and UK offices, as well as the increase in financing cost of HK\$21.51 million from the conclusion of the Alerian Unit Purchase Agreement. Staff cost represented the largest expense component for the Second Quarter Fiscal 2018 and the Interim Period 2018.
- With income tax credit increasing to HK\$2.66 million (2017: expense of HK\$1.27 million) for the Interim Period 2018, the resultant post-tax loss was HK\$143.26 million, compared to a post-tax loss of HK\$80.83 million for the corresponding six months period in 2017.
- Non current deposit compared to last audited financial year of HK\$207.58 million at 31 March 2018, fell to HK\$16.21 million at 30 September 2018, as deposit of HK\$195 million has been released and returned to the Group upon termination of Alerian Unit Purchase Agreement.
- Trade receivables of HK\$233.07 million at 31 March 2018 has been received in full in the First Quarter Fiscal 2018.
- The Group recorded total comprehensive loss of HK\$38.73 million (2017: HK\$43.11 million) for the Second Quarter Fiscal 2018, and HK\$143.41 million (2017: HK\$82.21 million) for the Interim Period 2018 respectively. Basic loss per share for the Interim Period 2018 was HK4.03 cents (2017: HK2.28 cents).
- Net assets value as at 30 September 2018 of HK\$847.00 million was 14.48% lower than net assets value of HK\$990.41 million as at 31 March 2018.
- The Board does not recommend payment of an interim dividend for the Interim Period 2018 (2017: Nil).

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2018

The board (the “Board”) of directors (the “Directors”) of ZZ Capital International Limited 中植資本國際有限公司 (the “Company”) is pleased to present the condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months (the “Second Quarter Fiscal 2018”) and six months ended 30 September 2018 (the “Interim Period 2018”), together with the comparative unaudited figures for the corresponding periods in 2017, as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months and six months ended 30 September 2018

	Notes	Three months ended 30 September		Six months ended 30 September	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Revenue	6	6,826	17,326	7,412	22,526
Interest income	6	2,960	169	3,535	685
Other income and net (loss)/gain	6	(9,853)	835	(15,702)	1,509
Revenue and other (loss)/income		(67)	18,330	(4,755)	24,720
Operating expenses		(38,764)	(59,376)	(141,160)	(104,279)
<b>Loss before tax</b>	8	<b>(38,831)</b>	(41,046)	<b>(145,915)</b>	(79,559)
Income tax (expense)/credit	9	(8)	(1,275)	2,659	(1,275)
<b>Loss for the period</b>		<b>(38,839)</b>	(42,321)	<b>(143,256)</b>	(80,834)
<b>Other comprehensive income/(loss):</b>					
Items that may be subsequently reclassified to profit or loss:					
Exchange differences arising on translation of foreign operations		112	(787)	(153)	(1,376)
<b>Total comprehensive loss for the period</b>		<b>(38,727)</b>	(43,108)	<b>(143,409)</b>	(82,210)
<b>Loss per share attributable to owners of the Company</b>	10				
— Basic (HK cents)		(1.09)	(1.19)	(4.03)	(2.28)
— Diluted (HK cents)		(1.09)	(1.19)	(4.03)	(2.28)

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2018

	Notes	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)
<b>Non-current assets</b>			
Plant and Equipment	12	7,909	10,030
Convertible loan receivable designated at fair value through profit or loss	22	–	249,405
Loan receivable		1,634	–
Deposits	20	16,206	207,581
Available-for-sale (“AFS”) investment	21	–	14,694
<b>Total non-current assets</b>		<b>25,749</b>	481,710
<b>Current assets</b>			
Other assets and receivables		43,010	43,254
Convertible loan receivable designated at fair value through profit or loss	22	259,401	–
Held for trading investments		–	5,903
Financial assets at fair value through profit or loss (“FVTPL”)		7,814	–
Prepaid tax		43	1,374
Trade receivables	13	–	233,072
Cash held on behalf of clients	14	2	2
Cash and bank balances	15	525,124	245,260
<b>Total current assets</b>		<b>835,394</b>	528,865
<b>Current liabilities</b>			
Trade payables	16	2	2
Other payables and accruals	17	12,328	14,240
Tax payable		1,808	5,919
<b>Total current liabilities</b>		<b>14,138</b>	20,161
<b>Net current assets</b>		<b>821,526</b>	508,704
<b>Net assets</b>		<b>847,005</b>	990,414
<b>Equity</b>			
Equity attributable to owners of the Company			
Issued capital	18	35,505	35,505
Reserves		811,500	954,909
<b>Total equity</b>		<b>847,005</b>	990,414

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2018

	Attributable to owners of the Company					
	Share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 April 2018	35,505	706,245	9,000	(2,631)	242,295	990,414
Loss for the period	-	-	-	-	(143,256)	(143,256)
Other comprehensive loss for the period	-	-	-	(153)	-	(153)
Total comprehensive loss for the period	-	-	-	(153)	(143,256)	(143,409)
<b>At 30 September 2018 (Unaudited)</b>	<b>35,505</b>	<b>706,245</b>	<b>9,000</b>	<b>(2,784)</b>	<b>99,039</b>	<b>847,005</b>
At 1 April 2017	35,505	706,245	9,000	-	221,493	972,243
Loss for the period	-	-	-	-	(80,834)	(80,834)
Other comprehensive loss for the period	-	-	-	(1,376)	-	(1,376)
Total comprehensive loss for the period	-	-	-	(1,376)	(80,834)	(82,210)
<b>At 30 September 2017 (Unaudited)</b>	<b>35,505</b>	<b>706,245</b>	<b>9,000</b>	<b>(1,376)</b>	<b>140,659</b>	<b>890,033</b>

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2018

	Notes	Six months ended 30 September 2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		<b>261,146</b>	(115,559)
INVESTING ACTIVITIES			
Purchase of equipments		<b>(100)</b>	(9,924)
Purchase of an AFS investment		–	(14,694)
Proceeds from disposal of plant and equipment		<b>447</b>	–
Proceeds from disposal of a subsidiary		<b>14,694</b>	–
Interests received		<b>3,535</b>	685
Deposit for acquisition of a subsidiary		–	(195,645)
Increase/(decrease) in non-pledged time deposits more than three months when acquired		–	38,902
NET CASH FROM/(USED IN) INVESTING ACTIVITIES		<b>18,576</b>	(180,676)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		<b>279,722</b>	(296,235)
CASH AND CASH EQUIVALENTS AT 1 APRIL		<b>245,260</b>	889,942
Effect of exchange rates changes on the bank balances and cash held in foreign currencies		<b>142</b>	–
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER		<b>525,124</b>	593,707
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances	15	<b>63,810</b>	535,374
Time deposits	15	<b>461,314</b>	93,770
Cash and bank balances as stated in the condensed consolidated statement of financial position		<b>525,124</b>	629,144
Time deposits with original maturity of more than three months when acquired		–	(35,437)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flow		<b>525,124</b>	593,707

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands on 5 January 2010 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activity of the Company is investments holding. The subsidiaries are principally engaged in investment holding, money lending and the provision of corporate advisory services and related activities, investment advisory and management, as well as alternative investments globally.

## 2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 September 2018 (the “Interim Financial Statements”) have been prepared in accordance with the Hong Kong Accounting Standards 34 (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

The functional currency of the Company, which is also the presentation currency of the Group’s Interim Financial Statements, is Hong Kong dollars (“HK\$”).

## 3. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

(a) On 14 July 2017, ZZCI Index Partners LLC, an indirect wholly-owned subsidiary of the Company, entered into a unit purchase agreement (“Alerian Unit Purchase Agreement”) as the buyer (the “Buyer”) with Mr. Gabriel Hammond, Mr. Daniel Hammond and Mr. Kenny Feng as the sellers (the “Sellers”), Mr. Gabriel Hammond as the Sellers’ representative and GKD Index Partners, LLC, pursuant to which the Buyer has conditionally agreed to acquire and the as Sellers have conditionally agreed to sell the equity interest in GKD Index Partners, LLC, subject to the terms and conditions therein. A deposit of approximately US\$26.31 million has been placed in an escrow account.

On 22 May 2018, the Alerian Unit Purchase Agreement was terminated and the Company entered into several ancillary transaction agreements with Aretex Capital Partners, LP (“Aretex Capital”), and ACP Index Partners Holdings LLC, an investment vehicle managed and controlled by Aretex Capital. ACP Index Partners Holdings LLC entered into an agreement with the Sellers to acquire the equity interests of GKD Index Partners, LLC (the “Aretex Alerian Acquisition”) which, among other things, facilitated the release of the amount of US\$25 million deposited by the Company in the escrow account (net of legal and professional fees paid).

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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The ancillary transaction agreements with Aretex Capital include (1) a loan commitment agreement in which the Company agreed to advance an amount of US\$2 million (equivalent to approximately HK\$15.60 million) for a term of 7 years at an interest rate of 9.5% per annum to affiliates of Aretex Capital so that they can make capital contributions in order to satisfy the requirements of certain fund partnership agreements for their investments in, among others, the Aretex Alerian Acquisition; and (2) an agreement in which the Company's wholly-owned subsidiaries shall grant licenses to affiliates of Aretex Capital to use the Company's London and New York office each for a period of up to six months after the closing of the Aretex Alerian Acquisition and the transfer of certain business assets, tangible, and intangible assets and properties currently used in the Group's operation of managing investments. Each of the above licenses may be terminated by the Company if a new permanent sub-tenant is secured for the relevant office. The aggregate consideration payable by Aretex Capital to the Company is approximately HK\$7.10 million.

Aretex Capital and its affiliates are indirectly controlled by the directors of the subsidiaries of the Company. Details of above transaction were disclosed in the announcement of the Company dated 14 July 2017, 15 January 2018 and 23 May 2018.

- (b) On 11 July 2018, the Company sold its 100% interest in ZZCI Holding (I) Limited, which is a wholly owned subsidiary of the Company, to ACP SSC Bidco (Cayman), Ltd, at a consideration of US\$1.88 million. As ZZCI Holding (I) Limited is a special purpose vehicle holding 94,000 shares in SSC Holdco Limited which was purchased at cost of US\$1.88 million, the disposal of ZZCI Holding (I) Limited resulted no material gain/loss to the Group.

## 4. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 April 2018. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS"), and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 4.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current period, the Group has applied HKFRS 9 “Financial Instruments” and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities; and 2) expected credit losses (“ECL”) for financial assets.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial Instruments: Recognition and Measurement”.

### 4.1.1 Key changes in accounting policies resulting from application of HKFRS 9

#### *Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset 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 are solely payments of principal and interest on the principal amount outstanding.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 Business Combinations applies.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or fair value through other comprehensive income ("FVTOCI") criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

### *Equity instruments designated as at FVTOCI*

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

### *Financial assets at FVTPL*

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains and losses" line item.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 4.1.2.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## *Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables and loan receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

For loan commitments, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a loan commitment, the Group considers changes in the risk of a default occurring on the loan to which a loan commitment relates.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

## *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For undrawn loan commitments, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the loan commitments draws down the loan, and the cash flows that the Group expects to receive if the loan is drawn down.

For ECL on loan commitments for which the effective interest rate cannot be determined, the Group will apply a discount rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows but only if, and to the extent that, the risks are taken into account by adjusting the discount rate instead of adjusting the cash shortfalls being discounted.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortized cost of the financial asset.

For loan commitments, the loss allowances are recognised at the higher of the amount of the loss allowance determined in accordance with HKFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised over the guarantee period.

As at 1 April 2018, the directors of the Company reviewed and assessed the Group's existing financial assets and loan commitments, for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 4.1.2.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 4.1.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and financial liabilities and other items subject to expected credit losses under HKFRS 9 and HKAS 39 at the date of initial application, 1 April 2018.

	1 April 2018 HK\$'000 (Unaudited)
Decrease in AFS investments	(14,694)
Decrease in held for trading investments	(5,903)
Increase in financial assets at FVTOCI	14,694
Increase in financial assets at FVTPL	5,903

(a) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost mainly comprise of bank balances, loan receivables and other receivables, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 April 2018, the Group has assessed and reviewed the existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional impairment loss was identified.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 5. PRINCIPAL ACCOUNTING POLICIES

The Interim Financial Statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and interpretations that are first effective or available for early adoption for the current accounting period of the Company. The adoption of these new and revised HKFRSs has no material effect on the Interim Financial Statements, and there have otherwise been no significant changes to the accounting policies applied in the Interim Financial Statements.

Except as described in Note 4, the principal accounting policies used in the preparation of the Interim Financial Statements are consistent with those used in the preparation of the Group’s audited annual financial statements for the year ended 31 March 2018 (the “Annual Financial Statements”). However, the Interim Financial Statements do not include all of the information required for annual financial statements and they should be read in conjunction with the Annual Financial Statements.

## 6. REVENUE AND OTHER (LOSS)/INCOME

An analysis of the Group’s revenue and other (loss)/income is as follows:

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$’000 (Unaudited)	2017 HK\$’000 (Unaudited)	2018 HK\$’000 (Unaudited)	2017 HK\$’000 (Unaudited)
<b>Revenue</b>				
Corporate advisory income	–	12,664	–	14,873
Investment advisory and management income	–	4,641	–	7,636
Net investment income				
Net fair value gain on financial assets measured at FVTPL	<b>6,826</b>	21	<b>7,412</b>	17
	<b>6,826</b>	17,326	<b>7,412</b>	22,526

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Interest income</b>				
— Bank deposits	2,930	169	3,505	685
— Loan receivable	30	—	30	—
	<b>2,960</b>	169	<b>3,535</b>	685
<b>Other income and net (loss)/ gain</b>				
Loss on disposal of plant and equipment	(36)	—	(36)	—
(Loss)/gain on exchange differences	(9,817)	835	(15,666)	1,509
	<b>(9,853)</b>	835	<b>(15,702)</b>	1,509
<b>Revenue and other (loss)/ income</b>	<b>(67)</b>	18,330	<b>(4,755)</b>	24,720

## 7. OPERATING SEGMENT INFORMATION

The Group's principal businesses include investment holding, money lending and provision of corporate advisory services, investment advisory and asset management services. The executive directors have been identified as the chief operating decision-maker ("CODM"), responsible for making strategic decisions, allocating resources and assessing performance of the operating segments. During the period, the CODM, taking into account the maturity of the Group's various businesses, its operations and related resources allocation, considers the Group to have three key reportable segments: the provision of corporate advisory services and asset management ("Corporate advisory and IAM"), proprietary investments and money lending. "Others" consists of other corporate activities and shared services. Information provided to the CODM is measured in a manner consistent with that in the Interim Financial Statements. The CODM expects the appropriateness of operating segments and reportable segments to be reviewed as the Group's business evolves.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## For the six months ended 30 September 2018 (Unaudited):

	Corporate advisory and IAM HK\$'000 (Unaudited)	Proprietary investments HK\$'000 (Unaudited)	Money Lending HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from external customers	-	(2,584)	9,996	-	7,412
Segment loss before tax	(15,221)	(2,549)	10,026	(138,171)	(145,915)
Other segment information:					
Total assets	137,012	7,814	261,035	455,282	861,143
Total liabilities	5,080	-	-	9,058	14,138
Interest income	364	-	30	3,141	3,535
Depreciation	-	-	-	1,445	1,445

## For the six months ended 30 September 2017 (Unaudited):

	Corporate advisory and IAM HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Revenue from external customers	22,509	17	22,526
Segment loss before tax	(14,686)	(64,873)	(79,559)
Other segment information:			
Total assets	259,673	652,232	911,905
Total liabilities	8,508	13,364	21,872
Interest income	277	408	685
Depreciation	-	818	818

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## 8. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Depreciation	719	544	1,445	818
Value-added tax and surtax	–	404	–	539
Minimum lease payments under operating leases on land and buildings	11,554	11,809	23,122	22,794
Employee benefit expense (including directors' remuneration)	13,419	26,575	64,467	48,841

## 9. INCOME TAX (EXPENSE)/CREDIT

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the three months and six months ended 30 September 2018. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

Income tax expense represents current tax provision for Hong Kong profits tax for all periods.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## 10. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	Three months ended 30 September 2018		Six months ended 30 September 2018	
	HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Loss for the purposes of basic loss per share	<b>(38,839)</b>	(42,321)	<b>(143,256)</b>	(80,834)
<b>Number of shares (in thousands)</b>				
Number of ordinary shares for the purposes of basic loss per share	<b>3,550,497</b>	3,550,497	<b>3,550,497</b>	3,550,497

Diluted loss per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive, potential ordinary shares. Dilutive loss per share amount were the same as basic loss per share amount for all periods as there were no potential dilutive ordinary shares outstanding.

## 11. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2018 (2017: Nil).

## 12. PLANT AND EQUIPMENT

During the six months ended 30 September 2018, the Group acquired items of furniture, fixture and equipment with a cost of approximately HK\$100,000 (31 March 2018: at cost of HK\$9,924,000).

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## 13. TRADE RECEIVABLES

	<b>At 30 September 2018 HK\$'000 (Unaudited)</b>	<b>At 31 March 2018 HK\$'000 (Audited)</b>
Trade receivables	–	233,612
Less: allowances	–	(540)
<b>Total trade receivables</b>	<b>–</b>	<b>233,072</b>

The Group's trade receivables arose generally from the provision of corporate advisory services, placing and underwriting income, investment advisory and management income and securities dealing commission.

The Group's normal trading term with its customers is that payment is due upon the issuance of invoices apart from the investment advisory and management fee as described in Note (a) below. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management and executives responsible for the related revenue. There were no movement in allowance for trade receivables in the current period.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

An aging analysis of the Group's trade receivables which are past due but not considered to be individually or collectively impaired as at the end of the reporting period, based on the invoice dates and net of impairment allowance, is as follows:

	<b>At 30 September 2018 HK\$'000 (Unaudited)</b>	<b>At 31 March 2018 HK\$'000 (Audited)</b>
	<i>Note</i>	
Current to 30 days	–	–
31 to 60 days	–	–
61 to 90 days	–	–
Over 90 days	–	–
	<b>(a)</b>	–

The above analysis has not included investment advisory and management fee receivables as at 31 March 2018 of approximately HK\$233,072,000 which were within 30 days (see Note (a)).

Note:

- (a) For the investment advisory and management fee, management fee for managing the investment portfolio is due within 90 days after the end of each calendar year and performance fee is due within 90 days after the receipt of the amount realised from the disposal of certain assets in the investment portfolio managed by the Group for 中植資本管理有限公司 (Zhongzhi Capital Management Company Limited\*) ("Zhongzhi Capital") in accordance with an investment and advisory management agreement ("IAM Agreement") signed on 2 February 2016 between Zhongzhi Capital and Asian Capital (Corporate Finance) Limited ("ACCF"), a wholly owned subsidiary of the Group. The Directors are of the opinion that, other than the impairments that have already been made, no provision for impairment is necessary in respect of these receivables as the balances have either been recovered or are still considered fully recoverable under the Group's advice by Zhongzhi Capital in accordance the IAM agreement.

\* The company name is registered in Chinese only, the translated English name is only used for identification purpose in the Interim Financial Statements.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## 14. CASH HELD ON BEHALF OF CLIENTS

The Group's licensed subsidiary maintains segregated trust accounts with a licensed bank to hold clients' monies arising from its normal course of business. The Group has classified the clients' monies as cash held on behalf of clients under the current assets section of the condensed consolidated statement of financial position, and recognised the corresponding payables to the respective clients on the grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use clients' monies to settle its own obligations.

## 15. CASH AND BANK BALANCES

	At 30 September 2018 HK\$'000 (Unaudited)	At 31 March 2018 HK\$'000 (Audited)
Short-term bank deposits		
— with original maturity within three months	461,314	88,844
Bank balances and cash	63,810	156,416
	<b>525,124</b>	245,260

## 16. TRADE PAYABLES

Included in trade payables are clients' monies which are segregated in the trust accounts as described in Note 14 to the Interim Financial Statements. Aging of the Group's trade payables excluding clients' monies as at the end of the reporting period was current to 30 days (31 March 2018: current to 30 days).

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## 17. OTHER PAYABLES AND ACCRUALS

The Group's other payables and accruals included the following:

	<b>As at 30 September 2018 HK\$'000 (Unaudited)</b>	As at 31 March 2018 HK\$'000 (Audited)
Accruals and other payables	<b>12,328</b>	14,240

## 18. SHARE CAPITAL

	<b>Number of shares</b>	<b>Nominal value HK\$'000</b>
<b>Authorised</b>		
As at 31 March 2017, 1 April 2017, 30 September 2017, 31 March 2018, 1 April 2018 and 30 September 2018	10,000,000,000	100,000
<b>Issued and fully paid</b>		
As at 31 March 2017 (Audited), 1 April 2017, 30 September 2017 (Unaudited), 31 March 2018 (Audited), 1 April 2018 and 30 September 2018 (Unaudited)	3,550,416,836	–

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## 19. RELATED PARTY TRANSACTIONS

- (a) As at 30 September 2018, the Group has nil trade receivables (31 March 2018: HK\$233,072,000) due from Zhongzhi Capital as disclosed in Note 13.
- (b) Compensation of key management personnel of the Group:

	Three months ended 30 September		Six months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Short-term employees benefits	4,366	8,904	6,732	17,982
Post-employment benefits	4	26	9	35
Total compensation for key management personnel	4,370	8,930	6,741	18,017

## 20. DEPOSITS

As at 30 September 2018, the decrease in deposits mainly resulted from release of an amount of US\$25 million (approximately HK\$195 million) paid by the Group and held in an escrow account on the terms and subject to the conditions set out in the Unit Purchase Agreement in relation to the acquisition of GKD Index Partners, LLC as described in Note 3(a).

## 21. AFS INVESTMENT

AFS investment represented the unlisted shares in SSC Holdco Limited as described in Note 3(b). AFS investment reclassified as financial assets at FVTOCI under the adoption of HKFRS9. The investment was disposed as described in Note 3(b).

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## 22. CONVERTIBLE LOAN RECEIVABLE DESIGNATED AT FVTPL

	<b>As at 30 September 2018 HK\$'000 (Unaudited)</b>	As at 31 March 2018 HK\$'000 (Audited)
Convertible loan receivable designated at FVTPL	<b>259,401</b>	249,405

On 7 September 2017, ZZCI Corporate Services Limited (the "Lender"), an indirect wholly-owned subsidiary of the Company, entered into a loan agreement and a security agreement over shares with Geoswift Holding Limited (the "Borrower"), an independent third party of the Group, pursuant to which the Lender agreed to grant a loan facility of up to US\$31 million to the Borrower for a term of 18 months at interest rate of 7% per annum. The provision of the loan facility allows the Borrower to fund Geopay to finance the payment of part of the consideration for the acquisition of PayEase Beijing (HK) Limited and PayEase (Hong Kong) Limited ("PayEase Acquisition") which was completed by Geopay on 11 December 2017.

In connection with the loan facility, on 7 September 2017, the Borrower granted a call option over 2,000 shares out of 10,000 shares of Geopay to the Lender, representing a 20% interest in Geopay. The total number of outstanding shares of Geopay can be increased to 13,000 at the discretion of Geopay as permitted in the agreement, resulting in a conversion of the Group's interest over Geopay to below 20% at the time of exercise of the call option by the Group.

The exercise of the call option is at the Lender's discretion and the exercise price is US\$31 million which shall be either in cash or set off against the principal and any accrued and unpaid interest under the loan facility agreement. The option will expire 18 months after the date of completion of the PayEase Acquisition.

Details of the above transaction were disclosed in the announcement of the Company dated 7 September 2017.

On 3 October 2017, US\$31 million (equivalent to approximately HK\$242.36 million) was drawn down by the Borrower and call option has not been exercised as at 30 September 2018.

The instrument contains embedded derivative (i.e. the call option) and is therefore accounted for as financial asset designated at FVTPL. The Group has engaged an independent professional valuer to perform the valuation as at 30 September 2018 and the detail assumptions are disclosed in Note 23.

Change in fair value of the convertible loan receivable designated at FVTPL has been disclosed in Note 23.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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## 23. FAIR VALUE OF MEASUREMENTS OF FINANCIAL INSTRUMENTS

### 23.1 Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The Group's financial assets at FVTPL are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets is determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which inputs to the fair value measurements are observable. During period ended 30 September 2018 and year ended 31 March 2018, there were no transfers between Level 1, Level 2 and Level 3.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)				
1) Financial assets at FVTPL	Listed security in Hong Kong 3,535	Listed security in Hong Kong 115	Level 1	Quoted bid prices in an active market	N/A	N/A
	Listed security in the USA 4,279	Listed security in the USA 5,788	Level 1	Quoted bid prices in an active market	N/A	N/A

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	30 September 2018 HK\$'000 (Unaudited)	31 March 2018 HK\$'000 (Audited)				
2) Convertible loan receivable designated at FVTPL (Note a)	259,401	249,405	Level 3	Binomial model, the key inputs are: equity value of Geopay, coupon rate, risk free rate, expected volatility and discount rate	Expected volatility of 37.8% (31 March 2018: 30.6%) discount rate of 9.1% (31 March 2018: 9.9%)	The higher the expected volatility the higher the fair value and the higher the discount rate, the lower the fair value

Note a: If the volatility was 5% higher/lower while all the other variables were held constant, the carrying amount of the convertible loan receivable designated at FVTPL would increase by approximately HK\$155,000/decrease by approximately HK\$118,000.

If the discount rate used was multiplied by 95% or 105% while all the other variables were held constant, the gain on change in fair value of the convertible bonds receivable would increase by approximately HK\$56,000/decrease by approximately HK\$56,000.

## 23.2 Fair value of the Group's financial assets that are measured at amortised cost

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Interim Financial Statements approximate their fair values.

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 September 2018

## 23.3 Reconciliation of Level 3 fair value measurements

	HK\$'000 (Unaudited)
Convertible loan receivable	
As at 1 April 2018	249,405
Change in fair value	9,996
As at 30 September 2018	259,401
Change in unrealised gains for the period included in profit and loss for assets held at 30 September 2018	9,996

In estimating the fair value of the convertible loan receivable, the Group engaged an independent professional valuer to perform such valuation. The management of the Group works closely with the independent professional valuer to establish the appropriate valuation techniques and inputs to the model.

Information about the valuation techniques and inputs used in determining the fair value of the asset is disclosed above.

## 24. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The Interim Financial Statements were approved and authorised for issue by the Board on 12 November 2018.

## BUSINESS REVIEW

China's gross domestic product (GDP) grew 6.8% year-on-year in the first half of 2018 to about 41.90 trillion yuan, above the government's annual growth target of around 6.5%. In the second quarter, China's GDP rose solidly by 6.7% year-on-year, slightly lower than the 6.8% in the previous quarter but representing the 12th straight quarter that the GDP growth rate has stayed within the band of 6.7% to 6.9%. However, with rising global interest rate, raging US-China trade disputes, a weakening Chinese yuan, continued domestic deleveraging, stagnant domestic stock and real estate markets, many companies including ZZ Capital International Limited as well as Zhongzhi Capital, have been readjusting strategy by focusing on rationalization, liquidity management, and income-driven investments.

Under this context, following the termination of the Alerian transaction and the spin-off of the US and UK teams, during the Second Quarter Fiscal 2018 the Company focused on cost control, including staff reduction in Hong Kong and Israel, and finding replacement tenants for its overseas premises.

The Company entered into a sale and purchase agreement on 11 July 2018 in relation to the disposal of its 0.673% equity interest in ZZCI Holdings (I) Limited, a direct wholly-owned subsidiary of the Company, to an independent third party at a consideration of US\$1.88 million. The only investment of ZZCI Holdings (I) Limited is 94,000 shares in SSC Holdco Limited which ZZCI Holdings (I) Limited acquired at US\$1.88 million on 23 May 2017.

On 10 August 2018, the Company decided not to proceed with the proposed HK\$50 million acquisitions announced on 12 July, 2017 to purchase securities from its related parties.

Also in August 2018, ZZCI Corporate Finance Limited, a wholly owned subsidiary of the Company, which is licensed to carry out type 9 (asset management) regulated activity, had filed a business plan for uplifting the license condition to provide fund management services on a discretionary basis. The Company plans to launch a private investment fund in Cayman Islands, in six months' time upon the pending approval by the Securities and Futures Commission ("SFC").

The 2018 Annual General Meeting of the Company was convened on 10 August 2018, during which all resolutions were duly passed.

Pursuant to the Environmental, Social and Governance Guide contained in the GEM Listing Rules, the Company published its second ESG Report on 21 September 2018.

## FINANCIAL REVIEW

During the Interim Period 2018, no investment advisory and management income (2017: HK\$7.64 million) nor corporate advisory income (2017: HK\$14.87 million) were recognised.

In the Second Quarter Fiscal 2018 and Interim Period 2018, there was a net exchange loss of HK\$9.82 million (2017: gain of HK\$0.84 million) and HK\$15.67 million (2017: gain of HK\$1.51 million) respectively, mostly driven by the foreign exchange revaluation of the Group's RMB bank balances.

As a result, the Group's overall revenue and other loss resulted to a loss of HK\$4.76 million for the Interim Period 2018 (2017: income of HK\$24.72 million).

Operating expenses for the three months and six months ended 30 September 2018 were HK\$38.76 million (2017: HK\$59.38 million) and HK\$141.16 million (2017: HK\$104.28 million) respectively. The increase in operating expenses for the Interim Period 2018 was mainly attributable to ascended staff cost of HK\$27.08 million from the one-off staff redundancy and termination programs primarily in the US and UK offices, as well as the increase in financing cost of HK\$21.51 million from the conclusion of the Alerian Unit Purchase Agreement. Staff cost represented the largest expense component for the Second Quarter Fiscal 2018 and the Interim Period 2018.

With income tax credit increasing to HK\$2.66 million (2017: expense of HK\$1.27 million) for the Interim Period 2018, the resultant post-tax loss was HK\$143.26 million, compared to a post-tax loss of HK\$80.83 million for the corresponding six months period in 2017.

Non current deposit compared to last audited financial year of HK\$207.58 million at 31 March 2018, fell to HK\$16.21 million at 30 September 2018, at deposit of HK\$195 million has been released and returned to the Group upon termination of Alerian Unit Purchase Agreement.

Trade receivables of HK\$233.07 million at 31 March 2018 has been received in full in the First Quarter Fiscal 2018.

The Group recorded total comprehensive loss of HK\$38.73 million (2017: HK\$43.11 million) for the Second Quarter Fiscal 2018, and HK\$143.41 million (2017: HK\$82.21 million) for the Interim Period 2018 respectively. Basic loss per share for the Interim Period 2018 was HK4.03 cents (2017: HK2.28 cents).

Net assets value as at 30 September 2018 of HK\$847.00 million was 14.48% lower than net assets value of HK\$990.41 million as at 31 March 2018.

### **Liquidity and financial resources**

The Group continued to adopt a prudent financial management strategy and maintained a healthy liquidity position. The Group's cash and cash at bank maintained at HK\$525.12 million as at 30 September 2018 (31 March 2018: HK\$245.26 million), representing a 114.11% increase in such balance due to release of non-current deposit of US\$25 million (approximately HK\$195 million) placed in an escrow account in relation to the acquisition of GKD Index Partners, LLC. As at 30 September 2018, the Group had net current assets of HK\$821.26 million (31 March 2018: HK\$508.70 million).

The Group's operations and investments were financed principally by revenue generated from business operations and available bank balances. Funds are largely placed with financial institutions with maturities timed to cover any known capital, investment or underwriting commitments. The Group had no borrowing and the gearing ratio of the Group, calculated as total borrowings over shareholders' fund, was nil as at 30 September 2018 (31 March 2018: Nil).

For foreign currency risk, the Group will continue to monitor its foreign currency exposure and will consider using hedging instruments if available in respect of significant foreign currency exposure should the need arise.

### **Capital structure**

There has been no change in the capital structure of the Company during the Interim Period 2018. The capital of the Company comprises only ordinary shares.

Total equity attributable to owners of the Company amounted to HK\$847.00 million as at 30 September 2018 (31 March 2018: HK\$990.41 million). This decrease was mainly attributable to the decline in retained profits during the Interim Period 2018.

### **Capital Commitments**

As at 30 September 2018, the establishment of a wholly-owned foreign funded equity investment management enterprise (the "Qianhai Subsidiary") in Qianhai, Shenzhen for which there will be a capital contribution of US\$1.6 million (31 March 2018: US\$1.6 million). Save for the above, the Group and the Company did not have any significant commitment as at 30 September 2018 and 31 March 2018.

**Employees and remuneration policies**

As of 30 September 2018, the Group employed 15 employees including executive Directors. Total staff cost (including Directors' emoluments) for the Interim Period 2018 amounted to approximately HK\$64.47 million (2017: HK\$48.84 million). Employees' remuneration packages are decided based on their job responsibilities, local market benchmarks and industry trends. Employee bonus is distributable according to the performance of the respective subsidiaries and employees concerned. Moreover, the Group also provides in-house and external training programmes which are beneficial to certain job functions.

**Charge on the Group's assets**

As at 30 September 2018, the Group did not have any charge on its assets (2017: Nil).

**Contingent liabilities**

As at 30 September 2018, the Group had no material contingent liabilities (2017: Nil).

**Material acquisitions and disposals of subsidiaries and affiliated companies**

Following the termination of the Alerian transaction in May 2018, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies.

**Advances to an entity**

On 3 October 2017, US\$31 million (equivalent to approximately HK\$242.36 million) was drawn by the Borrower as described in Note 22.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Future plans for material investments or capital assets

The Qianhai Subsidiary was set up in August 2016. The registered capital required for setting up the Qianhai Subsidiary is US\$2 million which will be financed by the Group's internal resources. Save as aforementioned, the Group has no plans for material investments or acquisitions of capital assets, but will pursue investment and lending opportunities to enhance its profitability in the ordinary course of its business.

### OUTLOOK

Given continued market volatility and uncertainties ahead, the Company aims to leverage its professional talents in Hong Kong as well as Zhongzhi Capital's China background to focus on investment advisory and management services, money lending business and proprietary investment business.

During the period under review, overall financial services in Hong Kong are continued to be impacted by the global tough economic conditions persisting in the financial industry, namely the continuous decline in stock market worldwide, intensifying competition among industry players. Despite the challenging operating environment, the Group stepped up to explore or reactivate its asset management business, investment advisory services as well as money lending businesses and it has made application of waiver of condition to the SFC so that the Group could launch a series of the funds as well as building its client base and scale of asset under management. The Group remains focused on measures to further increase operating efficiency, streamline its operations to reduce costs, strengthen the Group's balance sheet and get prepared to position itself for igniting the next phase of growth. While focusing on the asset management business, the Company may also seek opportunities in the corporate advisory business and underwriting business upon the recruitment of experienced responsible officers.

The money lending business will continue to target in providing secured loans to high quality corporate and institution clients. The Company has dedicated resources to source and evaluate various corporate lending opportunities.

As to the proprietary investments, the refund of the Alerian Acquisition deposit of US\$25 million or approximately HK\$195 million (net of legal and professional fees paid) provides ample liquidity for the Company's investment team and committee to prudently identify and assess potential investment opportunities through the extensive market network of Zhongzhi Capital and its affiliates.

## OTHER INFORMATION

### **DIVIDENDS**

The Board does not recommend the payment of an interim dividend for the Interim Period 2018 (2017: Nil).

### **SHARE OPTION SCHEME**

The Company has adopted a share option scheme on 7 June 2010 (the "Share Option Scheme"). The principal terms of the Share Option Scheme were summarized in the section headed "Share Option Scheme" in Appendix V to the Company's prospectus dated 11 June 2010.

The purpose of the Share Option Scheme is to enable the Company to grant options to the participants as incentive or reward for their contributions to the Group.

During the Interim Period 2018, no option was granted, exercised or lapsed under the Share Option Scheme.

### **DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

As at 30 September 2018, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong ("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 were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2018, so far as was known to the Directors, the following persons (other than the Directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who were directly or indirectly interested in 5% 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:

### Long positions in shares of the Company

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
Jinhui Capital Company Limited ("Jinhui") (Note 1)	Beneficial owner	2,159,552,102	60.82%
Zhongzhi Capital (HK) (Note 1)	Interest of controlled corporation	2,159,552,102	60.82%
深圳前海中植金輝投資管理合夥企業（有限合夥） (Shenzhen Qianhai Zhongzhi Jinhui Investment Management Partnership Enterprise (Limited Partnership)*) ("Shenzhen Zhongzhi") (Notes 1 and 3)	Interest of controlled corporation	2,159,552,102	60.82%
Kang Bang Qi Hui (HK) Company Limited ("Kang Bang") (Note 2)	Beneficial owner	455,820,525	12.84%
常州康邦齊輝投資中心（有限合夥） (Notes 2 and 3)	Interest of controlled corporation	455,820,525	12.84%
西藏康邦勝博企業管理有限公司 (Tibet Kangbang Sheng Bo Business Management Company Limited*) ("Tibet Kangbang") (Note 3)	Interest of controlled corporation	2,615,372,627	73.66%

## OTHER INFORMATION

Name of shareholder	Capacity	Number of shares held	Approximate percentage of shareholding in the Company
常州京江資本管理有限公司 (Changzhou Jingjiang Capital Management Company Limited*) ("Changzhou Jingjiang") (Note 3)	Interest of controlled corporation	2,615,372,627	73.66%
Zhongzhi Capital (Note 3)	Interest of controlled corporation	2,615,372,627	73.66%
中海晟融（北京）資本管理有限公司 (Note 3)	Interest of controlled corporation	2,615,372,627	73.66%
中海晟豐（北京）資本管理有限公司 (Note 3)	Interest of controlled corporation	2,615,372,627	73.66%
Mr. XIE Zhikun ("Mr. Xie") (Note 3)	Interest of controlled corporation	2,615,372,627	73.66%

\* For identification purposes only

Notes:

- Jinhui is a wholly-owned subsidiary of Zhongzhi Capital (HK), which in turn is wholly-owned by Shenzhen Zhongzhi. As such, each of Jinhui, Zhongzhi Capital (HK) and Shenzhen Zhongzhi is deemed to be interested in the 2,159,552,102 shares in the Company by virtue of the SFO.
- Kang Bang is a wholly-owned subsidiary of 常州康邦齊輝投資中心(有限合夥). As such, each of Kang Bang and 常州康邦齊輝投資中心(有限合夥) is deemed to be interested in the 455,820,525 shares of the Company by virtue of the SFO.

3. Shenzhen Zhongzhi is owned as to 95% by Tibet Kangbang as limited partner and 5% by Changzhou Jingjiang as general partner, and 常州康邦齊輝投資中心(有限合夥) is owned as to 99% by Changzhou Jingjiang as limited partner and 1% by Tibet Kangbang as general partner. Tibet Kangbang and Changzhou Jingjiang are wholly-owned subsidiaries of Zhongzhi Capital which in turn is owned as to 95% by 中海晟融(北京)資本管理有限公司. 中海晟融(北京)資本管理有限公司 is owned as to 99.933% by 中海晟豐(北京)資本管理有限公司 which is wholly and beneficially owned by Mr. Xie. As such, each of Tibet Kangbang, Changzhou Jingjiang, Zhongzhi Capital, 中海晟融(北京)資本管理有限公司, 中海晟豐(北京)資本管理有限公司 and Mr. Xie is deemed to be interested in an aggregate of 2,615,372,627 shares of the Company held by Jinhui and Kang Bang by virtue of the SFO.

Save as disclosed above, as at 30 September 2018, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was directly or indirectly interested in 5% 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.

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Interim Period 2018.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

Ms. DUAN Di and Ms. ZHANG Yun, executive Directors up until the date of this report, served certain capacities in Zhongzhi Capital and/or its subsidiaries as listed below which provide asset management, investment management and/or investment advisory services that may compete or are likely to compete with the business of the Group:

*Ms. DUAN Di*

<u>Name of company</u>	<u>Capacity</u>
Zhongzhi Capital 深圳前海力道金融服務有限公司*	Legal representative and director Director

## OTHER INFORMATION

Ms. ZHANG Yun

<u>Name of company</u>	<u>Capacity</u>
Changzhou Jingjiang <sup>#</sup>	Legal representative and director
常州康邦齊輝投資中心（有限合夥） <sup>#</sup>	Appointed representative
常州康成企業管理諮詢有限公司 <sup>#</sup>	Legal representative and director
江陰植乾企業管理諮詢有限公司 <sup>#</sup>	Legal representative and director
拉薩輝澤企業管理合夥企業（有限合夥） <sup>#</sup>	Appointed representative
拉薩元瀚企業管理合夥企業（有限合夥） <sup>#</sup>	Appointed representative
江陰迅捷企業管理諮詢合夥企業（有限合夥） <sup>#</sup>	Appointed representative
常州植輝企業管理諮詢有限公司 <sup>#</sup>	Legal representative and director
深圳鑫創企業管理有限公司 <sup>#</sup>	Legal representative and director
拉薩康軍企業管理合夥企業（有限合夥） <sup>#</sup>	Appointed representative
拉薩伯曼企業管理合夥企業（有限合夥） <sup>#</sup>	Appointed representative
寧波安家至誠投資管理有限公司 <sup>#</sup>	Legal representative and director
寧波植萊股權投資合夥企業（有限合夥） <sup>#</sup>	Appointed representative
寧波植利股權投資合夥企業（有限合夥） <sup>#</sup>	Appointed representative
寧波安家投資管理有限公司 <sup>#</sup>	Legal representative and director
深圳前海力道金融服務有限公司 <sup>*</sup>	Director
寧波京煒投資管理有限公司 <sup>#</sup>	Legal representative and director
江蘇法爾勝股份有限公司	Director

<sup>#</sup> subsidiaries of Zhongzhi Capital

<sup>\*</sup> associate of Zhongzhi Capital

Note: Zhongzhi Capital is a controlling shareholder of the Company which provides asset management, investment management and investment advisory services.

Zhongzhi Capital, through its wholly-owned subsidiaries, Jinhui and Kang Bang, indirectly owns a 73.66% interest in the Company and is the controlling shareholder of the Company. Zhongzhi Capital's key business include private equity investments in the primary market, private placement, mergers and acquisitions of overseas businesses and funds which may compete or are likely to compete with the business of the Group.

Save as disclosed above, the Directors are not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates (as defined under the GEM Listing Rules) that competed or might compete with the businesses of the Group nor any conflict of interest which any such person had or might have with the Group as at 30 September 2018.

### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had made specific enquiries to all the relevant Directors who confirmed their compliance with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the Interim Period 2018. No incident of non-compliance was noted by the Company during the Interim Period 2018.

### **CORPORATE GOVERNANCE**

The Company has applied the principles and complied with all code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the Interim Period 2018.

### **REVIEW OF UNAUDITED FINANCIAL RESULTS**

The Audit Committee has reviewed the Interim Financial Statements and is of the opinion that the preparation of those statements complies with the applicable accounting standards and that adequate disclosures have been made.

## OTHER INFORMATION

**EVENTS AFTER THE REPORTING PERIOD**

On 31 October 2018, the Company announced that Mr. CHEN Jianfeng Peter (“Mr. Chen”) has tendered his resignation as an executive Director, the chief financial officer, the compliance officer, the alternate director of Ms. Duan Di, and an authorized representative of the Company, which took effect from 1 November 2018. Ms. ZHANG Yun, currently an executive Director and chief executive officer of the Company, has been appointed as the compliance officer of the Company; and Ms. Chan Sau Mui Juanna (“Ms. Chan”), currently the company secretary of the Company, has been appointed as the authorized representative of the Company, in place of Mr. Chen with effect from 1 November 2018. On 1 November 2018, the Company further announced that Ms. Chan has been appointed as an authorised representative in place of Mr. Chen for accepting service of process and notices on behalf of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), with effect from 1 November 2018.

By Order of the Board  
**ZZ Capital International Limited**  
中植資本國際有限公司  
**DUAN Di**  
*Chairman*

Hong Kong, 12 November 2018

*As at the date hereof, the executive Directors are Ms. DUAN Di (Chairman) and Ms. ZHANG Yun (Chief Executive Officer); and the independent non-executive Directors are Mr. Stephen MARKSCHEID, Mr. ZHANG Weidong and Mr. ZHANG Longgen.*