

8 January 2026

To the Independent Shareholders and the Optionholders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFERS BY
CINDA INTERNATIONAL CAPITAL LIMITED AND
RAINBOW CAPITAL (HK) LIMITED FOR AND ON BEHALF OF
Yael Capital Management Limited
TO ACQUIRE ALL THE ISSUED SHARES OF
QUALI-SMART HOLDINGS LIMITED AND
TO CANCEL ALL OUTSTANDING OPTIONS OF
QUALI-SMART HOLDINGS LIMITED (OTHER THAN THOSE
ALREADY OWNED AND/OR AGREED TO BE ACQUIRED BY
Yael Capital Management Limited AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Joint Announcement in relation to, among other things, the Sale and Purchase Agreement and the Offers.

As disclosed in the Joint Announcement, on 12 December 2025 (after trading hours), the Offeror (as purchaser) and the Selling Shareholders (as vendors) entered into the Sale and Purchase Agreement, pursuant to which the Selling Shareholders agreed to sell, and the Offeror agreed to acquire, the full legal and beneficial title and interest in the Sale Shares (being an aggregate of 887,418,000 Shares), representing approximately 60.20% of the total issued share capital of the Company as at the Latest Practicable Date, at a total consideration of HK\$95,841,144, which is equivalent to HK\$0.108 per Sale Share. Completion of the Sale and Purchase Agreement took place immediately after the entering into of the Sale and Purchase Agreement by the Offeror and the Selling Shareholders on the Completion Date, being 12 December 2025.

Immediately prior to Completion, none of the Offeror, Mr. Liu, and the parties acting in concert with any of them was interested in any Shares or voting rights of the Company or any other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company. Immediately following Completion and as at the Latest Practicable Date, the Offeror, Mr. Liu and the parties acting in concert with any of them are interested in a total of 887,418,000 Shares, representing approximately 60.2% of the entire issued share capital of the Company. In addition, immediately following Completion and as at the Latest Practicable Date, the Company has 20,300,000 outstanding Options with an exercise price of HK\$0.748 each and the Convertible Notes.

As at the Latest Practicable Date, the Company had (i) 1,474,232,000 Shares in issue; (ii) 20,300,000 outstanding Options with an exercise price of HK\$0.748 each; and (iii) the Convertible Notes. Save as disclosed above, as at the Latest Practicable Date, the Company did not have any outstanding options, derivatives, warrants or other securities convertible or exchangeable into Shares or which confer rights to require the issue of Shares and had not entered into any agreement for the issue of such options, derivatives, warrants or securities which are convertible or exchangeable into Shares or which confer rights to require the issue of Shares. Save as disclosed above, as at the Latest Practicable Date, the Company had no other relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in issue. The Company has no intention to grant any new share options under the Share Option Scheme during the offer period (as defined under the SFO).

The purpose of this Composite Document (of which this letter forms part) is to provide you with, among other things, (i) information relating to the Group and the Offeror; (ii) further details of the Offers; (iii) a letter from the Independent Board Committee containing the Independent Board Committee's recommendation to the Independent Shareholders and the Optionholders in respect of the terms of the Offers and as to acceptance; (iv) the letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Independent Shareholders and the Optionholders in relation to the Offers; and (v) procedures for acceptance of the Offers.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee, comprising all of the four independent non-executive Directors, namely Mr. Leung Po Wing, Bowen Joseph, *GBS, JP*, Mr. Chan Siu Wing, Raymond, Mr. Wong Wah On, Edward and Ms. Yeung Wai Ling, has been established pursuant to Rule 2.1 of the Takeovers Code to advise the Independent Shareholders as to whether the Share Offer is, or is not, fair and reasonable and give a recommendation as to acceptance of the Share Offer, and to advise the Optionholders as to whether the Option Offer is, or is not, fair and reasonable and give a recommendation as to acceptance of the Option Offer.

As announced in the Joint Announcement, Draco Capital has been appointed as the independent financial adviser, with the approval of the Independent Board Committee, to advise the Independent Board Committee, the Independent Shareholders and the Optionholders in connection with the Offers and in particular as to whether the Offers are, or are not, fair and reasonable and as to their acceptance.

The full text of the letter from the Independent Board Committee and the letter from the Independent Financial Adviser are set out in this Composite Document. You are urged to read these letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offers.

PRINCIPAL TERMS OF THE OFFERS

The Share Offer

Cinda International and Rainbow Capital, for and on behalf of the Offeror and in compliance with the Takeovers Code, are making the Share Offer on the following basis:

For each Offer Share HK\$0.108 in cash

The Share Offer Price of HK\$0.108 per Offer Share under the Share Offer is equal to the price per Sale Share paid by the Offeror for the Sale Shares under the Sale and Purchase Agreement.

The Share Offer is extended to all Shareholders other than the Offeror, Mr. Liu and parties acting in concert with any of them in accordance with the Takeovers Code. The Offer Shares to be acquired under the Share Offer will be fully paid and free from all Encumbrances together with all rights attached thereto, including but not limited to all rights to any dividend or other distribution declared, made or paid on or after the date on which the Share Offer is made, being the date of despatch of this Composite Document. The Company confirms that as at the Latest Practicable Date, (i) the Company had not declared any dividend which is not paid; and (ii) it did not have any intention to make, declare or pay any future dividend/make other distributions on or before the close of the Offers.

The Share Offer is unconditional in all respects.

The Option Offer

Cinda International and Rainbow Capital, for and on behalf of the Offeror, are making the Option Offer to the Optionholders in accordance with Rule 13 of the Takeovers Code to cancel all outstanding Options in exchange for cash on the following basis:

In respect of Options with an exercise price of HK\$0.748 each:

For cancellation of each such Option HK\$0.0001 in cash

In accordance with the terms of the Share Option Scheme, Optionholders are entitled to exercise their Options (to the extent not already exercised) to its full extent at any time after the date on which the Offers are declared unconditional and up to the close of the Offers (or any revised offers), after which the Options will lapse automatically (to the extent not exercised).

Pursuant to Rule 13 of the Takeovers Code, the Offeror is making an appropriate cash offer to the Optionholders to cancel their Options. The consideration for the cancellation of each Option would normally be the see-through price which represents the excess of the Share Offer Price per Offer Share and the exercise price of each Option. Given that the exercise price of the Options is above the Share Offer Price, the “see-through” price is zero and the Option Offer Price will be at HK\$0.0001 per Option.

The Option Offer is unconditional in all respects. Following acceptance of the Option Offer, the relevant Options together with all rights attaching thereto will be entirely cancelled and renounced.

Further details of the Offers including, among other things, its extension to the Overseas Shareholders and Overseas Optionholders, information on taxation, the terms and conditions and the procedures for acceptance and settlement and acceptance period are set out in the “Letter from the Joint Financial Advisers” in this Composite Document, Appendix I to this Composite Document and the accompanying Forms of Acceptance.

INFORMATION OF THE GROUP

The Company is an exempted company incorporated in the Cayman Islands with limited liability on 14 March 2012 whose Shares have been listed on the Main Board of the Stock Exchange since 23 January 2013. The principal activities of the Company is investment holding and the provision of management services to subsidiaries and the Group is principally engaged in the manufacture and trading of toy products.

Your attention is drawn to Appendix II and Appendix III to this Composite Document which contain financial and general information of the Group, respectively, as required under the Takeovers Code.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table sets out the shareholding structure of the Company (i) immediately before Completion; and (ii) immediately following Completion and as at the Latest Practicable Date:

Shareholders	Immediately before Completion		Immediately following Completion and as at the Latest Practicable Date	
	<i>Number of Shares</i>	<i>Approximate % of issued Shares</i>	<i>Number of Shares</i>	<i>Approximate % of issued Shares</i>
The Offeror, Mr. Liu and parties acting in concert with any of them				
– The Offeror <i>(Note 1)</i>	–	–	887,418,000	60.20
Subtotal	–	–	887,418,000	60.20
Other Selling Shareholders				
– Smart Investor <i>(Note 2)</i>	482,864,000	32.75	–	–
– Mr. Lau	9,600,000	0.65	–	–
– Madam Li	9,600,000	0.65	–	–
– Benefit Global <i>(Note 3)</i>	107,352,000	7.28	–	–
– Mr. Poon	7,896,000	0.54	–	–
– Silver Pointer <i>(Note 4)</i>	172,006,000	11.67	–	–
– Madam Man	12,000,000	0.81	–	–
– Mr. Yau	38,424,000	2.61	–	–
– Mr. Wong	47,676,000	3.23	–	–
Other Director(s)				
– Mr. Hau Yiu Por	2,340,000	0.16	2,340,000	0.16
Public Shareholders	<u>584,474,000</u>	<u>39.65</u>	<u>584,474,000</u>	<u>39.65</u>
Total	<u>1,474,232,000</u>	<u>100.00</u>	<u>1,474,232,000</u>	<u>100.00</u>

Notes:

1. The Offeror is beneficially wholly owned by Mr. Liu.
2. Smart Investor is a company incorporated in the British Virgin Islands and is owned as to approximately 67.4% by Mr. Lau and approximately 32.6% by Madam Li.
3. Benefit Global is a company incorporated in the British Virgin Islands. It is wholly owned by Mr. Chu Sheng Yu, Lawrence.
4. Silver Pointer is a company incorporated in the British Virgin Islands and is owned as to 100% by Mr. Poon.

INFORMATION ON THE OFFEROR

Your attention is drawn to the paragraph headed “Information of the Offeror” in “Letter from the Joint Financial Advisers” in this Composite Document and Appendix IV to this Composite Document.

THE OFFEROR’S INTENTION ON THE GROUP

Your attention is drawn to the paragraph headed “The Offeror’s Intention on the Group” in “Letter from the Joint Financial Advisers” in this Composite Document.

The Board is aware of the Offeror’s intention in relation to the Group and its employees and is willing to render reasonable co-operation with the Offeror and continue to act in the best interests of the Company and the Shareholders as a whole.

PROPOSED CHANGE TO THE BOARD COMPOSITION OF THE COMPANY

As at the Latest Practicable Date, the Board comprises Mr. Poon Pak Ki Eric, Mr. Hau Yiu Por and Ms. Tang Yuen Ching Irene as executive Directors; and Mr. Leung Po Wing Bowen Joseph, *GBS, JP*, Mr. Chan Siu Wing Raymond, Mr. Wong Wah On Edward and Ms. Yeung Wai Ling as independent non-executive Directors.

It is intended that all of the existing Directors, except Mr. Poon Pak Ki Eric, will resign from the Board with effect from a date no earlier than the date of the close of the Offers or at the earliest time permitted under the Takeovers Code and the Listing Rules.

The Offeror intends to nominate new Directors to the Board to facilitate the business operation, management and strategy of the Group with effect from the date immediately after the date on which this Composite Document is posted or such other date as permitted under the Takeovers Code, or such later date as the Offeror considers to be appropriate. It is currently intended that Mr. Liu (the ultimate beneficial owner of the Offeror) will be appointed as a new executive director of the Company. Save for the above, as at the Latest Practicable Date, the Offeror had not reached any final decision as to who will be nominated as new director(s) of the Company. Having considered that (i) Mr. Poon, who has been in charge of the existing principal operations and business of the Group for years, will continue to remain as an executive Director for Company after close of the Offers; and (ii) Mr. Liu has had management experience over the years and has been involved in investment with a focus on innovative technologies, it is expected that (i) the resignation of the existing directors will not have any material impact to the Group’s operation; and (ii) the proposed change to the board composition of the Group may bring new business opportunities for, and create synergy with, the Group’s existing businesses.

Any changes to the members of the Board will be made in compliance with the Takeovers Code and the Listing Rules. Further announcement(s) (including the biographies of the new Directors) will be made immediately after their appointments.

PUBLIC FLOAT AND MAINTENANCE OF THE LISTING STATUS OF THE COMPANY

The Stock Exchange has stated that:

- (a) if, at the close of the offer, the Exchange believes that:
 - a false market exists or may exist in the trading of the Shares; or
 - an orderly market does not exist or may not exist;it will consider exercising its discretion to suspend dealings in the Shares; and
- (b) if, at the close of the offer, the Company has a Significant Public Float Shortfall (as defined in rule 13.32F of the Listing Rules), then:
 - the Stock Exchange will add a designated marker to the stock name of the Shares; and
 - the Stock Exchange will cancel the listing of the Shares if the Company fails to re-comply with rule 13.32B of the Listing Rules for a continuous period of 18 months from the commencement of the Significant Public Float Shortfall.

The Offeror intends the Company to remain listed on the Stock Exchange. The sole director of the Offeror has undertaken and the new directors to be appointed to the Board will jointly and severally undertake to the Stock Exchange that if, at the close of the Offers, the Company fails to comply with the requirement of rule 13.32B of the Listing Rules, they will take appropriate steps to ensure the Company's compliance with rule 13.32B of the Listing Rules at the earliest possible moment.

Further announcement(s) regarding the restoration of public float will be made by the Company as and when appropriate.

RECOMMENDATION

Your attention is drawn to the sections headed "Letter from the Independent Board Committee" and "Letter from the Independent Financial Adviser" in this Composite Document, which contain, among other things, their advice in relation to the Offers and the principal factors considered by them in arriving at their recommendation. You are urged to read these letters and the additional information contained in the appendices to this Composite Document carefully before taking any action in respect of the Offers.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this Composite Document. You are also recommended to read carefully Appendix I titled “Further Terms and Procedures of Acceptance of the Offers” to this Composite Document and the accompanying Forms of Acceptance for further details in respect of the procedures for acceptance of the Offers.

In considering what action to take in connection with the Offers, you should consider your own tax positions, if any, and, in case of any doubt, consult your professional advisers.

Yours faithfully,
By order of the Board of
Quali-Smart Holdings Limited



Poon Pak Ki Eric
Chairman and Executive Director