



MERDEKA FINANCIAL SERVICES GROUP LIMITED

(萬德金融服務集團有限公司*)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8163)

ANNOUNCEMENT OF UNAUDITED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2016

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This announcement, for which the directors of Merdeka Financial Services Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in This announcement 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 announcement misleading.

* For identification purpose only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first three months ended 31 March 2016, Merdeka Financial Services Group Limited (the “Company”) and its subsidiaries (the “Group”) continued to engage in financial services business, trading business, including the trading of various brands of milk powder products to customers based in Hong Kong and information technology business. Financial services business, including the money lending business and the financial leasing business, and trading business continued to grow healthily and the information technology business remained challenging.

OPERATION REVIEW

It is obvious that commencing from the establishment of the money lending business to the acquisition of 恒河融資租賃(上海)有限公司 (Heng He Financial Lease (Shanghai) Company Limited*) (“Heng He”), the Company is putting more weight on the financial services business.

During the period under review, being benefited from the contracts signed in 2014 and 2015, Heng He continuously earns interest income and has been liaising and negotiating new contracts in order to further explore new clients as well as expanding its financial leasing business. However, in light of the expecting transaction size and the prevailing listing rules, such progress is slow in pace. The Company is communicating with the Stock Exchange and is applying for certain waivers in light of this.

On 22 January 2016, Heng He signed and executed certain necessary documents in relation to the formation of a joint venture company in the People’s Republic of China (the “PRC”), namely 萬德徵信有限公司 (Merdeka Credit Information Limited*) (“Merdeka Credit”), in which Heng He holds 70% shareholding interests, with 坤良股權投資基金管理(上海)有限公司 (Kun Gen Equity Investment Fund Management (Shanghai) Limited*) (“Kun Gen”) and 上海華皓財務管理有限公司 (Shanghai Hua Hao Financial Management Limited*) (“Hua Hao”). Merdeka Credit is expected to be principally engaged in the provision of various kinds of credit information services to local and overseas institutional investors, financial institutions, regulatory authorities, government departments and economic research houses. Upon its establishment, Merdeka Credit will be accounted for as a subsidiary of the Company and their results will be consolidated into the financial statements of the Group.

Since commencing its money lending business with a valid money lenders licence granted, the Company is able to develop the money lending business as one of its principal lines of business by providing loans in a systematic and repetitive nature in its ordinary course of business, subject to compliance with the requirements in the Money Lenders Ordinance. During the first quarter of 2016, the Group has been approached by potential borrowers for provision of loans from time to time.

In order to further expand and diversify the Company’s business into financial services business, the Company, subject to and pending for the approval being given by the Securities and Futures Commission (the “SFC”), is going to purchase the entire shareholding of Xiaxin Securities (HK) Limited (“Xiaxin Securities”), a corporation licensed to carry out Type 1 (dealing in securities) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), at a cash consideration of HK\$7.5 million. The Company has made necessary application for the change in shareholding of Xiaxin Securities with the SFC and is hoping to receive the approval in the second quarter of 2016.

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During the period under review, trading business continues to provide a stable source of revenue to the Group and as the business is growing healthily, the Group is expanding its trading business into more variety of consumer products and into more geographical markets within the PRC. The Group's trading outlet is located in Sheung Shui, at where, it is nearer to its customers. The variety of the Group's trading products has been enlarged to confectioneries and pharmacy products. The Group sourced locally and from Japan and other Asia countries in respect of its trading products. Furthermore, after registered as a food importer/food distributor under the Food Safety Ordinance, the Group in the first quarter of 2016 has commenced OEM products from Asia countries that include Japan, Korea and Malaysia. With complimentary effects from the Group's mobile and cloud information technology centre in Mian Yang, the PRC, the Group's trading arm, Source Easy Limited ("Source Easy") has been expanding its customers there.

The Group's information technology business remained challenging during the period under review, partly because of the keen competition and partly because of the change in project cycles of the customers. However, the Group is consolidating different acquired entities into a single stream of income and shifting the weight to its 60% owned subsidiary, 綿陽恒達信息科技有限公司 (Mian Yang Heng Da Information Technology Limited*) ("Heng Da"). While developing its mobile and the cloud-based city Wi-Fi application software with Source Easy and its customer in the PRC, Heng Da has been developing mobile and cloud based application software and operating related e-commerce platform to trade the Group's consumer products in the PRC for Source Easy's trading products.

DISCUSSION ON FINANCIAL RESULTS

Compared to the first quarter of last year, the Group recorded an increase of approximately 414.4% in total revenue in 2016 with the reported revenue of approximately HK\$48.9 million. The significant increase was mainly contributed by the rapid growth in trading business by strengthening the direct sale channel with the bulk purchasers and the local pharmacies. Further, we also enhanced our product mix diversification by trading of more pharmaceutical and imported food products instead of focusing on cosmetic and dairy products in the past. On the other hand, the acquisition of financial lease business completed in September 2015 also provided a significant impact to the Group and reported the revenue of approximately HK\$12.6 million for the period.

The Group's gross profit increased approximately 263.0% to approximately HK\$3.0 million compared to the first quarter of last year. The increase was mainly contributed by the consolidation of financial lease business segment which contributed approximately HK\$2.2 million, representing 4.5% of the Group's gross profit margin, and trading business also contributed approximately HK\$0.7 million, representing approximately 1.4% of the Group's gross profit margin.

In light of the increasing operating activities carried out during the period, the overall operating and administrative expenses also increased correspondingly by 105.1% to approximately HK\$7.9 million.

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Financial leasing contracts

As at 31 March 2016, Heng He had the following financial leasing contracts in the aggregate amount of RMB889.0 million. Details of the financial leasing contracts are as follows:

	Principal Amount (RMB'000)	Date of commencement	Tenor	Interest rate per annum
Customer A (Note 1)	45,000	3 January 2014	3 years	11.00%
Customer B (Note 2)	35,000	3 January 2014	3 years	11.00%
Customer C (Note 3)	460	31 March 2015	5 years	11.00%
Customer D (Note 4)	220,000	1 June 2015	1 year	5.86%
Customer E (Note 5)	50,000	15 June 2015	3 years	8.00%
				(Note 6)
Customer F (Note 7)	200,000	14 August 2015	3 years	6.67%
	200,000	31 August 2015	3 years	6.38%
Customer G (Note 8)	44,000	31 August 2015	3 years	11.00%
Customer H (Note 9)	94,500	31 August 2015	1 year	5.40%

Notes:

1. A company located in Shanghai which is principally engaged in embroidery processing in the PRC.
2. A company located in Shanghai which is principally engaged in manufacturing of metallic mechanical and electrical products in the PRC.
3. A company located in Shanghai which is principally engaged in the provision of auditing, taxation and business advisory services in the PRC.
4. A company located in Liaoning province which is principally engaged in the production of metallic construction materials in the PRC.
5. A company based in Wuhan which is principally engaged in the trading of coal, production and distribution of green energy in the PRC.
6. The interest rate is adjustable subject to mutual consent of Heng He and Customer E.
7. A company based in the PRC which is principally engaged in the construction of port and transportation infrastructure in Asia, Africa and Europe.
8. A company based in Shanghai which is principally engaged in property development business in the PRC.
9. A company based in Nantong which is principally engaged in the provision of construction service in the PRC.

OUTLOOK

It is obvious that in the coming days of the year 2016 the Company as well as the Group will be continuously putting more weight on the financial services business.

The Directors believe that the acquisition of Hang He allowed the Group, without setting up a new financing company, to further develop its financing related business in the PRC through a direct working capital injection, and subsequently to enjoy the benefits of the capital leverage in Heng He. Looking forward, in view of the growth potential of the financial leasing industry in the PRC, the Directors consider that this acquisition will enhance the performance of the Group and the return to the Shareholders as a whole. Therefore, as additional capital is required by Heng He to cope with the significant growth in its business operation and the increasing demand for financial leasing in the PRC, the Company, on 14 December 2015, entered into a capital injection agreement (the “Capital Injection Agreement”) with 上海市巽離股權投資管理有限公司 (Shanghai Xunli Equity Investment Management Limited*) (“Shanghai Xunli”), to increase the registered capital of Heng He from RMB170 million to RMB300 million. The Capital Injection Agreement and the transactions contemplated thereunder was approved, confirmed and ratified during the extraordinary general meeting of the Company duly held on 26 April 2016.

The Directors consider that the Capital Injection will strengthen Heng He capital base which in turn will meet its capital needs and facilitate the growth of the financial leasing business of the Group.

During its business process, Heng He had developed its credit rating system that was compatible to those used by the other financial institutions, including banks, and government organizations. As a result, it is sensible for it to invest and explore and diverse into the formation of Merdeka Credit, which is to carry out a business to be principally engaged in the provision of various kinds of credit information services to local and overseas institutional investors, financial institutions, regulatory authorities, government departments and economic research houses. The Directors considered that it would be in the interests of the Company and its Shareholders as a whole for Heng He to expand into business that is relating to its own financial leasing business, which in turn will be beneficial to the Group by increasing its revenue and profits. The Directors expect that the establishment of Merdeka Credit will bring to Heng He a new source of income and in turn benefit the Company and its Shareholders as a whole.

Regarding the money lending business, the Company continuously receives enquiries from various customers, however, the Company is cautious in concluding the transaction in order to lower the risk in money-laundering and, more practical, the risk of bad debt. It is expected that the income from money lending business will grow steadily and healthily.

In order to further expand and diverse into the financial services and subject to and being approved by the SFC, the Company will have a 100% indirect owned securities company, namely, Xiixin Securities, completion of the acquisition of which is expected to be in the second quarter this year. Furthermore, the Company has already set up an indirect wholly owned subsidiary for starting up assets management business and to apply for a relevant license with the SFC in due course in an appropriate time.

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Trading business is expected to continuously providing a stable source of revenue to the Group and as the business is growing healthily, the Group is expanding its trading business into more variety of consumer products and into more geographical markets within the PRC. The Group is also commencing to OEM its trading products from various Asian countries including Japan, Korea and Malaysia.

For the information technology business, revenue would be mainly driven by the additional contribution from the consolidation of different acquired entities into a single stream of income. The Group is also shifting its mobile and cloud information technology centre into Mian Yang, the PRC to Heng Da. Complementing the trading business with its information technology business, the Group intends to commence trading consumer products into the PRC through its customers there by developing mobile and cloud based application software and operating related e-commerce platform in the PRC. Another opportunity to complement the business of the Group lied on the development of mobile and cloud based applications in relation to the financial services provided or to be provided by the Group, in terms of, namely, financial leasing, money lending and securities brokerage in accordance with the permission under the laws of Hong Kong and the PRC.

PROMISSORY NOTES

The Group had an outstanding principal of promissory notes of approximately HK\$55,600,000, which consists of two promissory notes. The promissory note with an outstanding principal of approximately HK\$23,600,000 is charged at interest rate of 2% per annum and the settlement date is 4 April 2017. The promissory note with an outstanding principal of approximately HK\$32,000,000 is non-interest bearing and the settlement date is 21 April 2018.

LITIGATION

On 22 January 2015, the Company announced that a writ of summons was issued in the Court of First Instance of the High Court of Hong Kong by Au Kai To Karel, as the plaintiff claiming against (i) End User Technology Limited, an indirect wholly-owned subsidiary of the Company, as the 1st Defendant; (ii) the Company, as the 2nd Defendant; and (iii) Lau Chi Yan Pierre, the managing director and executive director of the Company, as the 3rd Defendant for, inter alia, (1) specific performance of an agreement dated 2 May 2013 in relation to a discloseable transaction of the Company (details of which were disclosed in the announcement of the Company dated 2 May 2013); or (2) alternatively, the damages in the sum of HK\$8,000,000 in lieu of specific performance; and (3) the interest; (4) further and/or other relief; and (5) the costs. The Company have instructed legal representative to handle the matter, and was advised that the claim does not have merits as the agreement had been duly and completely performed. The three defendants, namely the Company, its subsidiary and Mr. Lau Chi Yan, Pierre have filed the relevant statements of defence with the High Court accordingly.

DISCLOSEABLE TRANSACTION

On 22 January 2016 (after the trading hours), Heng He, Kun Gen and Hua Hao signed and executed certain necessary documents (the "Necessary Documents") in relation to the formation of Merdeka Credit, which is expected to be principally engaged in the provision of various kinds of credit information services to local and overseas institutional investors, financial institutions, regulatory authorities, government departments and economic research houses. The registered capital of Merdeka Credit is RMB50 million (equivalent to approximately HK\$60 million). Pursuant to the Necessary Documents, Heng He, Kun Gen and Hua Hao will contribute 70%, 20% and 10% of the registered capital of Merdeka Credit respectively. As the applicable percentage ratios for the transaction contemplated under the formation of Merdeka Credit exceed 5% but are less than 25%, the transaction constitutes a discloseable transaction for the Company under Chapter 19 of the GEM Listing Rules and is subject to the notification and announcement requirements thereunder. For details, please refer to the Company's announcement dated 22 January 2016.

PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 14 March 2016 (after trading hours), the Company and the Placing Agent entered into the Placing Agreement (as supplemented by the supplemental agreement dated 31 March 2016) pursuant to which the Company placed, under the General Mandate granted 2 October 2015, through the Placing Agent, on a best endeavour basis, up to 125,000,000 placing shares, to not less than six placees who and whose ultimate beneficial owners will be independent third parties at a price of HK\$0.119 per placing share.

The completion of the Placing took place on 8 April 2016 in accordance with the terms and conditions of the Placing Agreement. The Company received net proceeds of approximately HK\$14.00 million (after deduction of commission and other expenses of the Placing) from the Placing. The entire net proceeds from the Placing will be applied (i) as to not less than HK\$11.20 million for the capital injection into Heng He as its general working capital to facilitate the expansion of the financial leasing business, by increasing the budget of funding amounts to the lessees and exploring other regions in the PRC; and (ii) the remaining for the strengthening of the general working capital base of the Company to finance its business development and/or to finance any future investment opportunities or any future needs in repaying its outstanding debts. For details, please refer to the Company's announcements dated 14 March 2016 and 31 March 2016.

CAPITAL INJECTION AGREEMENT

At the extraordinary general meeting held 26 April 2016, the Capital Injection Agreement dated 14 December 2015 and the transactions contemplated thereunder was approved, confirmed and ratified by the Shareholders of the Company. Pursuant to the Capital Injection Agreement the registered capital of Heng He would be increased from RMB170 million to RMB300 million, out of which Ideal Magic International Limited, an indirect wholly owned subsidiary of the Company, agreed to inject capital of approximately RMB84.1 million (approximately HK\$101.8 million) and Shanghai Xunli agreed to inject capital of approximately RMB45.9 million, into Heng He by way of cash contribution. The shareholding percentage of both parties will remain the same before and after the increase in capital contribution in Heng He.

Pursuant to the Capital Injection Agreement, all outstanding capital commitment including the capital injection of RMB130 million shall be settled by both parties within three years from the date which the business license of Heng He have been updated to reflect the change in registered capital. As at the Latest Practicable Date, the business license of Heng He have not been updated and there is no set timetable for the capital injection within the time period of three years.

It is expected that the Capital Injection will be funded through equity financing, including but not limited to placing of new Shares under general or specific mandate, and internal resources of the Group within three years from the date which the business license of Heng He have been updated to reflect the change in registered capital. The above mentioned equity financing method will (i) provide greater flexibility for the Company to raise funds; (ii) be less costly and time-consuming than raising funds by way of rights issue or open offer; and (iii) provide the Company with the capability to capture any capital raising opportunity as and when it arises. For details, please refer to the Company's announcement dated 14 December 2015 and the Company's circular dated 6 April 2016.

FUND RAISING ACTIVITIES OF THE COMPANY

In the past 12 months immediately prior to the date of this announcement, the Company has carried out the following fund raising activities:

Date of announcement	Fund raising activity	Net proceeds (approximately)	Intended use of proceeds	Actual use of proceeds
10 May 2015	Open offer on the basis of two offer shares for every one Share held on the record date	HK\$66.22 million	(i) as to not less than 80% for the capital injection into Heng He as its general working capital to facilitate the expansion of the financial leasing business; and (ii) the remaining for the general working capital of the Group	Approximately HK\$48 million has been used for the capital injection into Heng He to support its financial leasing business in August 2015. Not less than HK\$4.98 million will be used for the capital injection into Heng He. Approximately HK\$6 million has been used as and approximately HK\$7.24 million will be used for the general working capital of the Group as intended
17 August 2015	Placing of new Shares under general mandate	HK\$8.50 million	to strengthen the general working capital base of the Company to finance its business development and/or to finance any future investment opportunities	HK\$2.5 million has been paid as a refundable deposit to the existing shareholder of Xiaxin Securities pursuant to an acquisition agreement dated 10 August 2015. The remaining HK\$6.0 million is deposited in bank and will be used as general working capital of the Company and/or to finance any investment opportunities as intended
14 March 2016	Placing of new Shares under general mandate	HK\$14.00 million	(i) as to not less than HK\$11.20 million for the capital injection into Heng He as its general working capital to facilitate the expansion of the financial leasing business, by increasing the budget of funding amounts to the lessees and exploring other regions in the PRC; and (ii) the remaining for the strengthening of the general working capital base of the Company to finance its business development and/or to finance any future investment opportunities or any future needs in repaying its outstanding debt	HK\$14.00 million is deposited in bank and will be applied as intended

UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2016

The board of directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated quarterly results of the Group for the three months ended 31 March 2016, together with the comparative unaudited figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2016

	<i>Note</i>	Three months ended 31 March 2016 (Unaudited) HK\$'000	Three months ended 31 March 2015 (Unaudited) HK\$'000
REVENUE	2	48,912	9,508
Cost of sales		(45,921)	(8,684)
Gross profit		2,991	824
Other income and other net gains and losses		53	(1,244)
Operating and administrative expenses		(7,946)	(3,874)
Finance costs	5	(4,801)	(3,676)
LOSS BEFORE TAX		(9,703)	(7,970)
Income tax	6	(55)	(1,230)
LOSS FOR THE PERIOD		(9,758)	(9,200)
Loss attributable to:			
Owners of the Company		(9,532)	(9,131)
Non-controlling interests		(226)	(69)
		(9,758)	(9,200)
		HK\$	HK\$ (Restated)
LOSS PER SHARE			
Basic and diluted	8	(0.007)	(0.012)

Details of the dividends payable and proposed for the periods are disclosed in Note 7.

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

For the three months ended 31 March 2016

	Three months ended 31 March 2016 (Unaudited) HK\$'000	Three months ended 31 March 2015 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(9,758)	(9,200)
Other comprehensive profit, after tax:		
Exchange difference on translating of financial statements of overseas subsidiaries	1,150	–
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(8,608)	(9,200)
Total comprehensive (loss)/profit attributable to:		
Owners of the Company	(8,874)	(9,131)
Non-controlling interests	266	(69)
	(8,608)	(9,200)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

	<i>Notes</i>	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	6,353	5,841
Available-for-sale investments		9,290	10,036
Financial lease receivables	11	534,225	530,520
Total non-current assets		549,868	546,397
Current assets			
Inventories		3,077	3,952
Trade receivables	10	4,875	4,854
Financial lease receivables	11	475,940	488,077
Loan receivables	12	9,081	7,451
Prepayments, deposits and other receivables		21,896	13,714
Deferred tax assets		–	76
Cash and cash equivalents	13	109,091	52,839
Total current assets		623,960	570,963
Total assets		1,173,828	1,117,360
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	16	1,225	1,225
Reserves		5,580	14,454
Non-controlling interests		6,805	15,679
		79,651	68,015
Total equity		86,456	83,694

	<i>Notes</i>	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Non-current liabilities			
Convertible bonds	14	103,561	100,205
Promissory notes		49,040	47,627
Finance lease obligation due more than one year		1,968	1,968
Bank borrowings due more than one year	15	480,960	477,600
		635,529	627,400
Current liabilities			
Bank borrowings due within one year	15	376,855	374,224
Finance lease obligation due within one year		678	899
Trade payables	17	15,771	19,869
Other payables and accruals		55,028	7,772
Tax payables		3,511	3,502
Total current liabilities		451,843	406,266
Total liabilities		1,087,372	1,033,666
Total equity and liabilities		1,173,828	1,117,360
Net current assets		172,117	164,697
Net assets		86,456	83,694

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2016

Attributable to owners of the Company

	Issued capital (Unaudited) HK\$'000	Share premium account (Unaudited) HK\$'000	Contributed surplus (Unaudited) HK\$'000	Equity component of convertible bonds (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Capital reduction reserve (Unaudited) HK\$'000	Exchange fluctuation reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000	Non- controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2015	30,643	810,692	66,710	22,728	963	132,931	(54)	(1,051,679)	12,934	(9,472)	3,462
Changes in equity for 2015:											
Loss for the period	-	-	-	-	-	-	-	(9,131)	(9,131)	(69)	(9,200)
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-
Total comprehensive loss	-	-	-	-	-	-	-	(9,131)	(9,131)	(69)	(9,200)
Capital reduction of issued shares	(30,260)	-	-	-	-	30,260	-	-	-	-	-
At 31 March 2015	383	810,692	66,710	22,728	963	163,191	(54)	(1,060,810)	3,803	(9,541)	(5,738)
At 1 January 2016	1,225	884,832	66,710	53,115	27,363	163,191	(4,134)	(1,176,623)	15,679	68,015	83,694
Changes in equity for 2016:											
Loss for the period	-	-	-	-	-	-	-	(9,532)	(9,532)	(226)	(9,758)
Other comprehensive gain	-	-	-	-	-	-	651	7	658	492	1,150
Total comprehensive gain/(loss)	-	-	-	-	-	-	651	(9,525)	(8,874)	266	(8,608)
Distribution of reserves	-	-	-	-	-	-	-	-	-	(6,666)	(6,666)
Formation of a subsidiary	-	-	-	-	-	-	-	-	-	18,036	18,036
At 31 March 2016	1,225	884,832	66,710	53,115	27,363	163,191	(3,483)	(1,186,148)	6,805	79,651	86,456

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated quarterly results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”). The unaudited condensed consolidated quarterly results also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”).

The unaudited condensed consolidated quarterly results have been prepared under historical cost convention except for financial instruments which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The unaudited condensed consolidated quarterly results should be read in conjunction with the Group’s audited annual financial statements for the year ended 31 December 2015 (the “2015 Annual Report”). The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the 2015 Annual Report.

The Group has adopted the standards, amendments and interpretations that have been issued and effective for the accounting period beginning on 1 January 2016. The adoption of such standards, amendments and interpretations does not have material financial effect on this quarterly results.

The unaudited condensed consolidated quarterly results of the Group for the three months ended 31 March 2016 have been reviewed by the Company’s audit committee (the “Audit Committee”).

2. REVENUE

Revenue, which is also the Group’s turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, the value of services rendered, and interest income from financial services during the three months period under review.

An analysis of revenue is as follows:

	Three months ended 31 March 2016 (unaudited) HK\$’000	Three months ended 31 March 2015 (unaudited) HK\$’000
Revenue from:		
Trading business	35,610	8,511
Financial services business	13,035	103
Information technology business	227	894
Other business	40	–
	48,912	9,508

3. SEGMENT REPORTING

For management purposes, the Group is organised into business units based on its products and services and has five reportable operating segments as follows:

- (a) the trading business segment is engaged in the trading of goods, components and accessories;
- (b) financial services business segment is engaged in provision of financial leasing services and the provision of money lending services thereon;
- (c) the information technology business segment is engaged in distributorship of information technology products and the provision of relevant technical support services; and
- (d) other business segment is engaged in servicing business, such as training course provision.

Executive directors, who are the chief operating decision makers, monitor the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's loss before tax except that interest income, finance costs, equity-settled share option expenses, as well as head office and corporate expenses are excluded from such measurement.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arose from the depreciation or amortisation of assets attributable to those segments.

Segment assets include non-current assets and current assets with the exception of certain assets unallocated to an individual reportable segment.

Segment liabilities include non-current liabilities and current liabilities with the exception of tax payable and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

3. SEGMENT REPORTING *(continued)*

For the three months ended 31 March 2016

	Trading business (unaudited) HK\$'000	Financial services business (unaudited) HK\$'000	Information technology business (unaudited) HK\$'000	Other business (unaudited) HK\$'000	Total (unaudited) HK\$'000	Unallocated (unaudited) HK\$'000	Group Total (unaudited) HK\$'000
Segment revenue:							
Revenue from external customers	35,611	13,034	227	40	48,912	-	48,912
Operating profit/(loss)	(72)	(552)	(305)	11	(918)	-	(918)
Interest income	-	16	-	-	16	5	21
Finance costs	-	-	-	-	-	(4,801)	(4,801)
Other expenses	-	-	-	-	-	(4,005)	(4,005)
Profit/(Loss) before tax	(72)	(536)	(305)	11	(902)	(8,801)	(9,703)
Additions for non-current assets	-	1,014	-	-	1,014	9	1,023
Depreciation	(23)	(157)	(18)	-	(198)	(331)	(529)

3. SEGMENT REPORTING *(continued)*

For the three months ended 31 March 2015

	Trading business (unaudited) HK\$'000	Financial services business (unaudited) HK\$'000	Information technology business (unaudited) HK\$'000	Total (unaudited) HK\$'000	Unallocated (unaudited) HK\$'000	Group Total (unaudited) HK\$'000
Segment revenue:						
Revenue from external customers	8,511	103	894	9,508	–	9,508
Operating profit	117	47	23	187	–	187
Interest income	–	–	–	–	28	28
Loss on early repayment of promissory note	–	–	–	–	(1,300)	(1,300)
Finance costs	–	–	–	–	(3,676)	(3,676)
Other expenses	–	–	–	–	(3,209)	(3,209)
Profit/(loss) before tax	117	47	23	187	(8,157)	(7,970)
Additions for non-current assets	11	–	–	11	1,465	1,476
Depreciation	(4)	(1)	(6)	(11)	(472)	(483)

3. SEGMENT REPORTING *(continued)*

As at 31 March 2016

	Trading business (unaudited) HK\$'000	Financial services business (unaudited) HK\$'000	Information technology business (unaudited) HK\$'000	Other business (unaudited) HK\$'000	Total (unaudited) HK\$'000	Unallocated (unaudited) HK\$'000	Group Total (unaudited) HK\$'000
Segment assets	12,132	1,135,199	5,959	293	1,153,583	–	1,153,583
Cash and cash equivalents	–	–	–	–	–	12,514	12,514
Other assets	–	–	–	–	–	7,731	7,731
Total assets	12,132	1,135,199	5,959	293	1,153,583	20,245	1,173,828
Segment liabilities	(940)	(924,811)	(2,816)	(3)	(928,570)	–	(928,570)
Convertible bonds	–	–	–	–	–	(103,561)	(103,561)
Promissory notes	–	–	–	–	–	(49,040)	(49,040)
Other liabilities	–	–	–	–	–	(6,201)	(6,201)
Total liabilities	(940)	(924,811)	(2,816)	(3)	(928,570)	(158,802)	(1,087,372)

As at 31 December 2015

	Trading business (audited) HK\$'000	Financial services business (audited) HK\$'000	Information technology business (audited) HK\$'000	Other business (audited) HK\$'000	Total (audited) HK\$'000	Unallocated (audited) HK\$'000	Group Total (audited) HK\$'000
Segment assets	12,694	1,073,223	5,983	282	1,092,182	–	1,092,182
Cash and cash equivalents	–	–	–	–	–	18,118	18,118
Other assets	–	–	–	–	–	7,060	7,060
Total assets	12,694	1,073,223	5,983	282	1,092,182	25,178	1,117,360
Segment liabilities	(1,428)	(874,815)	(2,962)	(3)	(879,208)	–	(879,208)
Convertible bonds	–	–	–	–	–	(100,205)	(100,205)
Promissory notes	–	–	–	–	–	(47,627)	(47,627)
Other liabilities	–	–	–	–	–	(6,626)	(6,626)
Total liabilities	(1,428)	(874,815)	(2,962)	(3)	(879,208)	(154,458)	(1,033,666)

3. SEGMENT REPORTING *(continued)*

Geographical information

(a) Revenue from external customers

	Three months ended 31 March 2016 (unaudited) HK\$'000	Three months ended 31 March 2015 (unaudited) HK\$'000
Hong Kong (place of domicile)	36,156	9,508
PRC	12,756	–
	48,912	9,508

The revenue information is based on the location of the customers.

(b) Non-current assets

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Hong Kong (place of domicile)	4,413	4,851
PRC	1,940	990
	6,353	5,841

The non-current asset information is based on the location of assets.

3. SEGMENT REPORTING *(continued)*

Information about major customers

Revenues from customers contributing 10% or more of the total sales of the Group are as follows:

	Three months ended 31 March 2016 (unaudited) HK\$'000	Three months ended 31 March 2015 (unaudited) HK\$'000
Customer A – revenue from trading business – Hong Kong	23,205	–
Customer B – revenue from financial services business – PRC	6,121	–
Customer C – revenue from trading business – Hong Kong	–	3,575
	29,326	3,575

4. LOSS BEFORE TAX

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

	Three months ended 31 March 2016 (unaudited) HK\$'000	Three months ended 31 March 2015 (unaudited) HK\$'000
Depreciation	528	483
Staff costs (including directors' emoluments)	2,967	1,447

5. FINANCE COSTS

	Three months ended 31 March 2016 (unaudited) HK\$'000	Three months ended 31 March 2015 (unaudited) HK\$'000
Imputed interest charge on convertible bonds (note 1)	3,356	2,908
Imputed interest charge on promissory notes	1,295	504
Coupon interest charge on promissory notes	118	236
Interest charge on bank borrowings	10,860	–
Interest charge on finance lease obligation (note 2)	32	28
	15,661	3,676
Less: interest charge on bank borrowings included in cost of sales	(10,860)	–
	4,801	3,676

Notes:

- (1) The charge represents the imputed interest on the liability component of the convertible bonds for both periods.
- (2) Interest on financing the acquisition of motor vehicles.

6. INCOME TAX

Income tax recognised in profit or loss is shown as follows:

	Three months ended 31 March 2016 (unaudited) HK\$'000	Three months ended 31 March 2015 (unaudited) HK\$'000
Hong Kong profits tax:		
– current	–	–
– (over) under provision in prior years	(20)	1,230
PRC enterprise income tax:		
– current	75	–
Total income tax recognised in profit or loss	55	1,230

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both periods.

There was no income tax relating to the other comprehensive income for both periods.

7. DIVIDEND

No quarterly dividend has been paid or declared by the Company during the three months ended 31 March 2016 (2015: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the three months ended 31 March 2016 and the weighted average number of ordinary shares in issue during the period.

The calculation of basic and diluted loss per share is based on:

	Three months ended 31 March 2016 (unaudited) HK\$'000	Three months ended 31 March 2015 (unaudited) HK\$'000
<u>Loss</u>		
Loss attributable to owners of the Company used in the basic loss per share calculation	9,532	9,131
	Number of shares (thousands) (Restated)	
<u>Shares</u>		
Weighted average number of ordinary shares in issue during the period	1,399,007	756,698

No adjustment has been made to the basic loss per share amounts presented for the periods ended 31 March 2016 and 2015 in respect of a dilution as the impact of the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share.

The calculation of the basis loss per share for the prior reporting period have been restated as a result of the open offer effected on 10 August 2015.

9. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 31 March 2016, the Group acquired approximately HK\$1.0 million in motor vehicles, computer and office equipment, (31 December 2015: HK\$2.9 million).

10. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the end of the reporting date, based on the invoice date and net of impairment, is as follows:

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Within 30 days	1,018	1,577
31 to 60 days	83	33
61 to 120 days	315	977
Over 120 days	3,459	2,267
At end of the period/year	4,875	4,854

11. FINANCIAL LEASE RECEIVABLES

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Current financial lease receivables	475,940	488,077
Non-current financial lease receivables	534,225	530,520
At end of the period/year	1,010,165	1,018,597

11. FINANCIAL LEASE RECEIVABLES *(continued)*

Amount receivable under finance leases

	Minimum lease payment		Present value of minimum lease payment	
	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Not later than one year	513,881	521,179	475,940	488,077
Later than one year	579,487	593,570	534,225	530,520
	1,093,368	1,114,749	1,010,165	1,018,597
Unearned finance income	(83,203)	(96,152)	N/A	N/A
Present value of minimum lease payment	1,010,165	1,018,597	1,010,165	1,018,597

The interest rate inherent in the leases was fixed at the contract date for the entire lease term. The average interest rate was approximately 5.1% per annum as at 31 March 2016 (31 December 2015: 5.2%).

Financial lease receivable balances are secured over the equipment held by the lessee. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

The financial lease receivables as at 31 March 2016 are neither past due nor impaired.

12. LOAN RECEIVABLES

The Group's loan receivables arose from the money lending business during the period/year.

Loan receivables bear interest at rates, and with credit periods, mutually agreed between the contracting parties. Loan receivables are secured by personal guarantees by the debtors/certain individuals. Overdue balances are reviewed regularly and handled closely by senior management.

The loan receivables at the end of the reporting period are analysed by the remaining period to contractual maturity date as follows:

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Repayable:		
Within 3 months	7,181	2,100
3 months to 1 year	1,900	5,351
At end of the period/year	9,081	7,451

The aged analysis of the loan receivables that are not individually nor collectively considered to be impaired is as follows:

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Neither past due nor impaired	2,620	5,901
1 to 3 months past due not impaired	6,461	1,550
At end of the period/year	9,081	7,451

The interest rate was fixed at the contract date. The average interest rate was at 1% to 2.5% per month as at 31 March 2016 (31 December 2015: 1% to 2.5% per month).

Loan receivables that were neither past due nor impaired relate to certain debtors for whom there was no recent history of default.

Loan receivables that were past due but not impaired relate to independent debtors. The directors of the Company are of the opinion that no provision for impairment is necessary as the balance is considered fully recoverable.

13. CASH AND CASH EQUIVALENTS

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Cash and cash equivalents	109,091	52,839

At 31 March 2016, included in the cash and cash equivalents of approximately HK\$91.8 million (31 December 2015: HK\$29.7 million) that was denominated in RMB, and approximately HK\$16.2 million, about 14.9% (31 December 2015: 41.5%) of the Group's cash and cash equivalents, were bank balances deposited with creditworthy banks of high credit ratings in HK, among which about 14.5% (31 December 2015: 41.1%) were denominated in Hong Kong dollars.

14. CONVERTIBLE BONDS

The movement of the liability component of the convertible bonds was as follows:

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
At beginning of the period/year	100,205	87,803
Interest charged	3,356	12,402
At end of the period/year	103,561	100,205

15. BANK BORROWINGS

	<i>Notes</i>	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Fixed rate:			
Secured bank borrowings repayable on demand	<i>a</i>	206	206
Secured bank borrowings due within one year	<i>b</i>	376,649	374,018
		376,855	374,224
Secured bank borrowings due more than one year, but not more than three years	<i>b</i>	480,960	477,600
At end of the period/year		857,815	851,824

Notes:

- (a) The bank borrowings were secured by a personal guarantee given by a former director of a subsidiary of the Company. The interest rate was charged at 0.88% flat per month.
- (b) The bank borrowings were secured by the finance lease assets held by the lessee with the carrying value of approximately RMB802.1 million (equivalent to approximately HK\$964.5 million), as at 31 March 2016 (31 December 2015: approximately RMB802.1 million, equivalent to approximately HK\$957.8 million). The interest rate of the bank borrowings were ranged from 5.1% to 6.3% per annum as at 31 March 2016 (31 December 2015: 5.1% to 6.3% per annum). The bank borrowings are denominated in RMB.

16. SHARE CAPITAL

	<i>Notes</i>	Company Number of shares in '000	Nominal values HK\$'000
Authorised:			
As at 1 January 2015			
Ordinary shares of HK\$0.08 each		2,500,000	200,000
Share sub-division	<i>a(i)</i>	197,500,000	–
<hr/>			
As at 31 December 2015, 1 January and 31 March 2016			
Ordinary shares of HK\$0.001 each		200,000,000	200,000
<hr/>			
Issued and fully paid:			
As at 1 January 2015			
Ordinary shares of HK\$0.08 each		383,031	30,643
Capital reduction	<i>a(ii)</i>	–	(30,260)
<hr/>			
Ordinary shares of HK\$0.001 each		383,031	383
Issue of offer shares	<i>(b)</i>	766,063	766
Issue of shares under general mandate	<i>(c)</i>	76,000	76
<hr/>			
As at 31 December 2015, 1 January and 31 March 2016			
Ordinary shares of HK\$0.001 each		1,225,094	1,225

16. SHARE CAPITAL *(continued)*

Notes:

- (a) On 6 January 2015 (Hong Kong time), the Company's proposal on the capital reorganization ("Capital Reorganisation") became effective. The Capital Reorganisation involved the following:
- (i) each authorised but unissued share of the Company was sub-divided into eighty shares so that the nominal value of each unissued share was reduced from HK\$0.08 to HK\$0.001 each; and
 - (ii) the paid up capital of each issued share was reduced from HK\$0.08 to HK\$0.001 by cancelling the paid up capital to the extent of HK\$0.079 so as to form a new share with nominal value of HK\$0.001 each.
- (b) On 10 August 2015, the Company issued offer shares on the basis of two offer shares for every one existing share held on 16 July 2015, at the subscription price of HK\$0.09 per offer share with nominal value of HK\$0.001 each, resulting in net proceeds of approximately HK\$66.22 million, which would be used for (i) as to not less than 80% for the capital injection into Heng He as its general working capital to facilitate the expansion of the financial leasing business and (ii) the remaining net proceeds for strengthening the general working capital base of the Company to develop its existing information technology and trading businesses and/or to finance any future investment opportunities.
- (c) On 17 August 2015, the Company entered into a General Mandate ("GM") placing agreement with a placing agent whereby the Company conditionally agreed to place through the Placing Agent, on a best endeavour basis, up to 76,000,000 Placing Shares, to not less than six places at a price of HK\$0.120 per GM placing share. The aggregate nominal value of the placing shares under the GM placing agreement was HK\$76,000. The net proceeds from GM placing shares would be used for strengthening the general working capital to finance the business development and to finance any future investment opportunities of the Company.

17. TRADE PAYABLES

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

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Within 30 days	12,950	17,514
31 to 60 days	35	236
61 to 120 days	501	–
Over 120 days	2,285	2,119
At end of the period/year	15,771	19,869

18. COMMITMENTS

(a) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years.

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 March 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
<u>Properties</u>		
Within one year	2,756	1,526
In the second to fifth years, inclusive	1,931	1,667
	4,687	3,193

(b) Capital commitments

The Group did not have any material capital commitments as at 31 March 2016 (31 December 2015: Nil).

19. CONTINGENT LIABILITIES

As at 31 March 2016, the Group has no significant contingent liabilities (31 December 2015: Nil).

20. RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere to the unaudited condensed consolidated quarterly results, the Group have the following related party transactions.

Name of related party	Relationship	Nature of transaction	Three months ended 31 March 2016	Three months ended 31 March 2015
			(unaudited) HK\$'000	(unaudited) HK\$'000
Lai Yau Hong, Thomson	Secretary of the Company	Loan interest payable	10	–
		Loan payable	200	–

Note: The interest rate of the loan was 1% per month. In the opinion of the directors, the transactions between the Group and the related party were conducted in the ordinary course of business.

Total compensation paid to key management personnel during the period amounted to approximately HK\$1,504,000 (2015: HK\$577,000).

21. COMPARATIVE FIGURES

As detailed in note 8, the comparative figures of loss per share have been restated to conform with the current period's presentation.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2016, the directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Interests and short positions in the shares and the underlying shares of the share options and the convertible bonds of the Company as at 31 March 2016

(i) *Long positions in the shares of the Company:*

Name of directors	Number of the shares interested and nature of interest			Approximate percentage of the total issued share capital of the Company (%)
	Personal	Founder of a discretionary trust	Total	
Cheung Wai Yin, Wilson (Note)	557,814	98,437,500	98,995,314	8.08
Lau Chi Yan, Pierre	3,984,375	–	3,984,375	0.33

Note: The interests disclosed include 98,437,500 Shares held by Ivana, a company incorporated in the British Virgin Islands owned as to 100% by CW Limited, which in turn is wholly owned by Asiatrust Limited, a trust company in its capacity as the trustee of a discretionary trust, the founder (as defined in the SFO) of which is Mr. Cheung and the discretionary objects of which are family members of Mr. Cheung (including Mr. Cheung himself). Accordingly, Mr. Cheung is deemed to be interested in the relevant Shares for the purpose of the SFO. Mr. Cheung is also personally interested in 557,814 Shares.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Interests and short positions in the shares and the underlying shares of the share options and the convertible bonds of the Company as at 31 March 2016 (continued)

(ii) Long positions in the underlying shares of the share options granted under the share option scheme of the Company:

Name of directors	Date of grant of the share options	Exercise period of the share options	Exercise price per share HK\$	Number of the share options outstanding	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
Cheung Wai Yin, Wilson	19/8/2015	19/8/2015 - 18/8/2025	0.147	100,000,000	100,000,000	8.163
Lau Chi Yan, Pierre	19/8/2015	19/8/2015 - 18/8/2025	0.147	20,000,000	20,000,000	1.633
Yeung Mo Sheung, Ann	17/1/2013	17/1/2013 - 16/1/2023	2.130	16,483	16,483	0.001
	19/8/2015	19/8/2015 - 18/8/2025	0.147	1,000,000	1,000,000	0.082
Ng Kay Kwok	19/8/2015	19/8/2015 - 18/8/2025	0.147	1,000,000	1,000,000	0.082
Yip Kat Kong, Kenneth	19/8/2015	19/8/2015 - 18/8/2025	0.147	1,000,000	1,000,000	0.082

(iii) Long positions in the underlying shares of the convertible bonds of the Company:

Name of the holder of the convertible bonds	Principal amount of the convertible bonds HK\$	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
Cheung Wai Yin, Wilson	110,000,000	297,619,048	24.29

Note: These convertible bonds (originally due on 12 August 2011 and extended to 12 August 2017) were issued by the Company on 12 August 2008 as part of the consideration to acquire the forestry business. They are unlisted, interest-free and convertible into the shares of the Company at the adjusted conversion price of HK\$0.3696 per share of the Company (subject to adjustment according to the terms of the convertible bonds). The interest is held by Ivana, a company incorporated in the British Virgin Islands owned as to 100% by CW Limited, which in turn is wholly owned by Asiatrust Limited, a trust company in its capacity as the trustee of a discretionary trust, the founder (as defined in the SFO) of which is Mr. Cheung and the discretionary objects of which are family members of Mr. Cheung (including Mr. Cheung himself).

Save as disclosed above, as at 31 March 2016, none of the directors and chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests in Shares and Underlying Shares" above and "Share Option Scheme" below, at no time during the period for the three months ended 31 March 2016 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the directors and chief executive of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2016, the following persons (not being the directors or chief executive of the Company) had 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:

(i) *Long positions in the shares of the Company:*

Name of Shareholders	Nature of interest/capacity	Number of Shares	Approximate percentage of total issued share capital of the Company (%)
Ivana	Beneficial owner	98,437,500	8.04%
CW Limited (Note 1)	Controlled corporation	98,437,500	8.04%
Asiatrust Limited (Note 1)	Trustee	98,437,500	8.04%

Notes:

- (1) The interest is held by Ivana, a company incorporated in the British Virgin Islands owned as to 100% by CW Limited, which in turn is wholly-owned by Asiatrust Limited, a trust company in its capacity as the trustee of a discretionary trust, the founder (as defined in the SFO) of which is Mr. Cheung and the discretionary objects of which are family members of Mr. Cheung (including Mr. Cheung himself).
- (2) The percentage represented the percentage of the Company's share capital as stated in the relevant disclosure of interests forms.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

(ii) *Long positions in the underlying shares of the convertible bonds of the Company:*

Name of Shareholders	Nature of interest/capacity	Number of underlying Shares	Approximate percentage of total issued share capital of the Company (%)
Ivana	Beneficial owner	297,619,048	24.29%
CW Limited <i>(Note 1)</i>	Controlled corporation	297,619,048	24.29%
Asiatrust Limited <i>(Note 1)</i>	Trustee	297,619,048	24.29%
Yihua Enterprise Limited	Beneficial owner	173,913,043	14.20%
Cheng Jun <i>(Note 2)</i>	Controlled corporation	173,913,043	14.20%
Gao Yun Feng <i>(Note 2)</i>	Controlled corporation	173,913,043	14.20%

Notes:

- (1) The interest is held by Ivana, a company incorporated in the British Virgin Islands owned as to 100% by CW Limited, which in turn is wholly-owned by Asiatrust Limited, a trust company in its capacity as the trustee of a discretionary trust, the founder (as defined in the SFO) of which is Mr. Cheung and the discretionary objects of which are family members of Mr. Cheung (including Mr. Cheung himself).
- (2) The interest is held by Yihua Enterprises Limited, a company incorporated in the British Virgin Islands owned as to 50% by Mr. Cheng Jun and 50% by Mr. Gao Yun Feng.
- (3) The percentage represented the percentage of the Company's share capital as stated in the relevant disclosure of interests forms.

Save as disclosed above, the directors and chief executive of the Company are not aware that there is any party who, as at 1 March 2016, 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.

SHARE OPTION SCHEME

The existing share option scheme of the Company (the “Share Option Scheme”) was adopted by the shareholders of the Company and was effective on 3 May 2012. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption. As at 31 March 2016, there were 233,390,855 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 233,390,855, which represents approximately 19.05% and 17.29% of the total issued share capital of the Company as at 31 March 2016 and the date of this announcement respectively.

Details of the movements of the share options under the Share Option Scheme during the period were as follows:

Name	Number of share options				Outstanding as at 31 March 2016	Date of grant of the share options	Exercise period of the share options	Price of the shares before the date of grant (Note 2) per share	Exercise price of the share options (Note 1) per share
	Outstanding as at 1 January 2016	Granted during the period	Exercised during the period	Cancelled/ Lapsed During the period					
Executive director									
Cheung Wai Yin, Wilson	100,000,000	0	0	0	100,000,000	19/8/2015	19/8/2015 - 18/8/2025	0.147	0.147
Lau Chi Yan, Pierre	20,000,000	0	0	0	20,000,000	19/8/2015	19/8/2015 - 18/8/2025	0.147	0.147
Independent non-executive director									
Yeung Mo Sheung, Ann	16,483	0	0	0	16,483	17/1/2013	17/1/2013 - 16/1/2023	0.010	2.130
	1,000,000	0	0	0	1,000,000	19/8/2015	19/8/2015 - 18/8/2025	0.147	0.147
Ng Kay Kwok	1,000,000	0	0	0	1,000,000	19/8/2015	19/8/2015 - 18/8/2025	0.147	0.147
Yip Kat Kong, Kenneth	1,000,000	0	0	0	1,000,000	19/8/2015	19/8/2015 - 18/8/2025	0.147	0.147
Employees and other eligible participants									
Employees	42,367	0	0	(14,126)	28,241	30/5/2012	30/5/2012 - 29/5/2022	0.017	3.600
	40,000,000	0	0	0	40,000,000	19/8/2015	19/8/2015 - 18/8/2025	0.147	0.147
Other eligible participants	332,003	0	0	0	332,003	30/5/2012	30/5/2012 - 29/5/2022	0.017	3.600
	14,128	0	0	0	14,128	17/1/2013	17/1/2013 - 16/1/2023	0.010	2.130
	70,000,000	0	0	0	70,000,000	19/8/2015	19/8/2015 - 18/8/2025	0.147	0.147
	233,404,981	0	0	(14,126)	233,390,855	404,981			

SHARE OPTION SCHEME *(continued)*

Notes:

1. The exercise price of the share options is subject to adjustment in the case of capitalisation issue, rights issue, subdivision or consolidation of the shares of the Company, or other similar changes in the Company's share capital.
2. The price of the shares of the Company before the date of the grant of the share options is the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day immediately before the date on which the share options were granted.

Save as disclosed above, at the date of approval of these unaudited condensed consolidated first quarterly financial statements, no other share options were exercised subsequent to the end of the period under review.

During the period for the three months ended 31 March 2016, no share options were granted by the Company, therefore no recognition of share option expense in both years for the reporting period.

No other feature of the share options granted was incorporated into the measurement of fair value.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company during the period for the three months ended 31 March 2016.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with specific written terms of reference formulated in accordance with the requirements of the GEM Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company's financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

During the period for the three months ended 31 March 2016, the Audit Committee consists of three members comprising three independent non-executive directors, namely Ms. Yeung Mo Sheung, Ann, Mr. Ng Kay Kwok and Mr. Yip Kat Kong, Kenneth, one of whom is a qualified accountant and has extensive experience in accounting and financial matters. The chairman of the Audit Committee is elected by the members who are present at the meeting. All members of the Audit Committee hold the relevant industry or legal, accounting and financial experience necessary to advise on the Board's strategies and other related matters. All members of the Audit Committee have complete and unrestricted access to the external auditors and all employees of the Company.

The Audit Committee has reviewed the unaudited condensed consolidated first quarterly results of the Group for the three months ended 31 March 2016.

BOARD OF DIRECTORS

As at the date of this announcement, the directors are:

Executive Directors:

Mr. Cheung Wai Yin, Wilson (*Chairman and Chief Executive Officer*)

Mr. Lau Chi Yan, Pierre (*Managing Director*)

Independent Non-executive Directors:

Ms. Yeung Mo Sheung, Ann

Mr. Ng Kay Kwok

Mr. Yip Kat Kong, Kenneth

By Order of the Board of
MERDEKA FINANCIAL SERVICES GROUP LIMITED
Cheung Wai Yin, Wilson
Chairman and Chief Executive Officer

Hong Kong, 13 May 2016

This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Listed Company Information" page for at least seven days from the day of its publication and posting and will be published and remains on the website of the Company at <http://www.merdeka.com.hk>.