



MERDEKA

MERDEKA FINANCIAL SERVICES GROUP LIMITED
萬德金融服務集團有限公司*

STOCK CODE 股份代號：8163

* for identification purpose only

* 僅供識別

THIRD QUARTERLY REPORT 2016
二零一六年第三季度報告

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This report, 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 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.

香港聯合交易所有限公司(「聯交所」)創業板(「創業板」)的特色

創業板的定位，乃為相比起其他在聯交所上市的公司帶有較高投資風險之公司提供一個上市的市場。有意投資的人士應瞭解投資於該等公司的潛在風險，並應經過審慎周詳的考慮後方作出投資決定。創業板的較高風險及其他特色表示創業板較適合專業及其他資深投資者。

由於創業板上市公司新興的性質所然，在創業板買賣的證券可能會較於主板買賣之證券承受較大的市場波動風險，同時無法保證在創業板買賣的證券會有高流通量的市場。

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本報告乃遵照《聯交所創業板證券上市規則》(《創業板上市規則》)的規定而刊載，旨在提供有關Merdeka Financial Services Group Limited(萬德金融服務集團有限公司*)(「本公司」)之資料；本公司各董事願共同及個別對此承擔全部責任。本公司各董事經作出一切合理查詢後，確認就彼等所深知及確信，本報告所載資料在一切重大方面均屬準確及完整，且無誤導或欺詐成分，且無遺漏任何其他事實，致使本報告所載任何陳述或本報告產生誤導。

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the nine months ended 30 September 2016, Merdeka Financial Services Group Limited (the “Company”) and its subsidiaries (the “Group”) continued to engage in financial services business, trading business 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 acquisitions of 恒河融資租賃(上海)有限公司(Heng He Financial Lease (Shanghai) Company Limited*) (“Heng He”) and Merdeka Capital Limited (萬德資本有限公司) (formerly known as Xiaxin Securities (HK) Limited (“Xiaxin”)) (“Merdeka Capital”), the Company is putting more weight on the financial services business.

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 People’s Republic of China (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.

With effect from 26 July 2016, as the Company has further injected the sum of approximately RMB20.28 million (approximately HK\$23.59 million) in cash into Heng He as its registered and paid capital for use as general working capital to facilitate the expansion of the financial leasing business, the Company’s interest in Heng He increases to 64.71% accordingly.

During the period under review, being benefited from the contracts signed in 2014 and 2015 as well as additional contracts concluded, 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 strive to comply with the GEM Listing Rules and has made and will make required disclosure(s) accordingly.

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OPERATION REVIEW *(continued)*

On 22 January 2016, Heng He signed and executed certain necessary documents in relation to the formation of a PRC joint venture company, 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. The Group has been approached by potential borrowers for provision of loans from time to time.

In order to further expand and diversify into the financial services, on 10 August 2015, the Company entered into an acquisition agreement to purchase the entire shareholding of Xiaxin, a corporation licensed to carry out Type 1 (dealing in securities) regulated activities under the SFO, at a cash consideration of HK\$7.5 million. The Company has been granted the approval by the Securities and Futures Commission to become the substantial shareholder of Xiaxin, completion of the acquisition of Xiaxin has been taken place on 15 July 2016.

Following the above-said completion, on 30 August 2016, XiaXin has officially changed its name to Merdeka Capital.

During the period under review, trading business continues to provide a stable source of revenue to the Group and as the business is running steadily, 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 in the PRC.

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OPERATION REVIEW *(continued)*

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

For the nine months ended 30 September of current year, the Group's reported revenue was more than twofold of last year to approximately HK\$159.5 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. The reported revenue of the trading business segment during the current reporting period was already twice the amount of last year to approximately HK\$125.6 million. On the other hand, the acquisition of financial lease business completed in September 2015 also provided a significant impact to the Group, as a result, the reported revenue of the financial services business segment have leapt four times more to approximately HK\$33.3 million on a year-on-year basis.

The Group's gross profit increased approximately 61.7% to approximately HK\$9.6 million on a year-on-year basis. The increase was mainly contributed by the consolidation of financial lease business into the financial services business segment which contributed approximately HK\$6.6 million, representing 4.1% of the Group's gross profit margin, and trading business segment also contributed approximately HK\$2.7 million, representing approximately 1.7% 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 48.9% to approximately HK\$24.0 million.

The total expenses in finance costs for the nine months ended 30 September of this year should have been approximately HK\$41.3 million, however, approximately HK\$26.7 million was taken up as cost of sales for the financial lease business. The remaining finance costs was increased by approximately 21% to approximately HK\$14.6 million on a year-on-year basis. During the reporting period, there was no conversion or repayment of outstanding principal of convertible bonds and promissory notes, therefore, the increase in finance costs was mainly caused by increased imputed interest charge on outstanding carrying amount of convertible bonds and promissory notes.

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FINANCIAL LEASING CONTRACTS

As at 30 September 2016, Heng He had the following major financial leasing contracts in the aggregate amount of RMB1,589.5 million. Details of the financial leasing contracts are as follows:

	Principal Amount <i>(RMB'000)</i>	Date	Tenor	Interest rate per annum
Customer A <i>(Note 1)</i>	45,000	3 January 2014	3 years	11.00%
Customer B <i>(Note 2)</i>	35,000	3 January 2014	3 years	11.00%
Customer C <i>(Note 3)</i>	460	31 March 2015	5 years	11.00%
Customer D <i>(Note 4)</i>	200,000	14 August 2015	3 years	6.67%
	200,000	31 August 2015	3 years	6.38%
Customer E <i>(Note 5)</i>	44,000	31 August 2015	3 years	11.00%
Customer F <i>(Note 6)</i>	1,000,000	1 August 2016	2 years	5.12%
Customer G <i>(Note 7)</i>	65,000	18 August 2016	3 years	6.18%

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 based in the PRC which is principally engaged in the construction of port and transportation infrastructure in Asia, Africa and Europe.
5. A company based in Shanghai which is principally engaged in property development business in the PRC.
6. A company incorporated in the PRC which is a prime contractor company specialized in offshore engineering, construction, repair and conversion.
7. A company incorporated in the PRC which engages in digital networking and information technology development.

FUND RAISING ACTIVITIES OF THE COMPANY

In the past 12 months immediately prior to the date of this report, 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
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	Approximately HK\$12.00 million has been used for the capital injections into Heng He, the remaining has been utilized as intended
8 June 2016	Placing of new Shares under general mandate	HK\$23.90 million	(i) as to not less than HK\$19.14 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	Approximately HK\$20.00 million has been used for the capital injection into Heng He. The remaining is deposited in bank and will be applied as intended

OUTLOOK

It is obvious that in the coming days of the year 2016 and after, 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.

It is anticipated that more deals would be concluded in the coming days by Heng He after the Company and its effort in adapting to the required disclosure as required by and set forth in the GEM Listing Rules.

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 diversify 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.

After the completion of the acquisition of Merdeka Capital, the Company has further expanded and diversified into the financial services by having a 100% indirect owned securities brokerage subsidiary. 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.

OUTLOOK *(continued)*

To cope with the Group's strategy in exploring the China market, the Board is studying the possibilities for Merdeka Capital to apply for the certificate of Hong Kong service suppliers which is the first step in applying for the preferential treatment under Mainland and Hong Kong closer economic partnership arrangement ("CEPA"). Under CEPA, it is anticipated that Merdeka Capital may enjoy preferential treatment when setting up business in its relevant sector in the Mainland China and is vigorously planning to establish strategic partnership co-operations with certain Mainland financial institutes of relevant business in sharing commercial resources in the extensive areas, including products and customer paths, for mutual developments.

Furthermore, to enjoy the competitive advantages of the Group in the information technology as well as in the mobile application, Merdeka Capital is going to build, basing on its existing online financial services, an ultimately computerized automatic trading platform with mobile application supports as well as a professional information announcing and broadcasting platform for Hong Kong stocks and the stock market, so as to promote its business everywhere in Hong Kong as well as in the China market.

Trading business is expected to continuously providing a stable source of revenue to the Group and it is anticipate that the Group is continuously 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 issued pursuant to the agreement in relation to the acquisition of Ever Hero Group Limited in 2014 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 issued pursuant to the agreement in relation to the acquisition of Blossom Height Ventures Limited in 2015 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 and counterclaim with the High Court accordingly. On 3 August 2016, the parties attended the mediation as ordered by court, but the mediation failed.

PROFIT GUARANTEE IN RELATION TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF BLOSSOM HEIGHT VENTURES LIMITED

On 21 April 2015, the Group completed the acquisition of the entire issued capital of Blossom Height Ventures Limited, investment of which is primarily in the shareholding interests in Hang He, and in accordance with the terms of the relevant acquisition agreement dated 31 October 2014, the Vendor has given to and for the benefit of the Purchaser a profit guarantee that the consolidated net profit after taxation and any extraordinary and exceptional items for each of the three years ending 31 December 2015, 2016 and 2017 shall not be less than HK\$10 million.

As confirmed by the auditor of the Company, the recorded actual profit before taxation and before extraordinary items of the Blossom Height Group exceeded the Guaranteed Profit for the year ended 31 December 2015 and the Guarantee Certificate has been received by the Company.

MAJOR TRANSACTION IN RELATION TO THE FINANCE LEASE AGREEMENT AND THE FACTORING AGREEMENT

As disclosed in the Company's announcement dated 20 October 2016 (the "FL Announcement"), on 20 October 2016 (after trading hours), Heng He entered into a finance lease agreement (the "Finance Lease Agreement") with 營口沿海供熱有限公司 (Yingkou Costal Heat Supply Company Limited*) (the "Lessee"), pursuant to which Heng He conditionally agreed to purchase the Leased Assets (as defined therein the FL Announcement) from the Lessee at a total consideration of RMB115 million (approximately HK\$132.25 million), which would be leased back to the Lessee at the aggregate lease receivables of approximately RMB129.95 million (approximately HK\$149.44 million) (the "Lease Receivables") for a term of 3 years (the "Lease Period"), commencing on the date of payment of the consideration for the Leased Assets.

Incidental to the entering into of the Finance Lease Agreement, Heng He entered into a factoring agreement (the "Factoring Agreement") with 上海浦東發展銀行股份有限公司 (Shanghai Pudong Development Bank Co., Ltd.*), Dalian Branch (the "Lender") on 20 October 2016. Pursuant to the Factoring Agreement, the Lender agreed to provide a loan facility of RMB115 million (approximately HK\$132.25 million) to Heng He for the Lease Period solely for the purpose of financing the consideration for the Leased Assets under the Finance Lease Agreement and Heng He agreed to assign the Lease Receivables under the Finance Lease Agreement to the Lender without recourse and the Lender will half-yearly, after deducting the handling fee and the Loan Repayment (as defined therein the FL Announcement), remit the Lease Receivables received by it from the Lessee to Heng He over the Lease Period.

As one or more of the applicable percentage ratios calculated under the GEM Listing Rules in respect of the Finance Lease Agreement and the Factoring Agreement exceed 25%, the transaction contemplated under the Finance Lease Agreement and the Factoring Agreement constitutes a major transaction for the Company and is subject to the notification, announcement and Shareholders' approval requirements under Chapter 19 of the GEM Listing Rules. An Extraordinary General Meeting of the shareholders of the Company (the "EGM") will be convened to consider and, if thought fit, pass the ordinary resolution(s) to approve, among other things, the Finance Lease Agreement and the Factoring Agreement and the transactions contemplated thereunder. A circular containing, among other things, further details of the Finance Lease Agreement and the Factoring Agreement and a notice of the EGM, was despatched to the shareholders of the Company accordingly on 4 November 2016.

UNAUDITED CONDENSED CONSOLIDATED THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 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 and the nine months ended 30 September 2016, together with the comparative unaudited figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30 September 2016

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000
REVENUE	2	62,336	33,758	159,513	73,080
Cost of sales		(58,730)	(31,245)	(149,866)	(67,113)
Gross profit		3,606	2,513	9,647	5,967
Other income and other net gains and losses		94	131	1,513	(2,329)
Gain from bargain purchase arising on acquisition of subsidiaries		–	2,010	–	4,149
Operating and administrative expenses		(8,433)	(6,647)	(24,043)	(16,145)
Impairment of trade receivables		–	–	(3)	–
Written off of bad debts		(9)	–	(9)	–
Written off of inventories		(965)	–	(1,018)	–
Finance costs	5	(5,027)	(4,370)	(14,594)	(12,064)
Share of results of an associate		–	(583)	–	1,465
LOSS BEFORE TAX	4	(10,734)	(6,946)	(28,507)	(18,957)
Income tax	6	2	1,441	(198)	13
LOSS FOR THE PERIOD		(10,732)	(5,505)	(28,705)	(18,944)
Loss attributable to:					
Owners of the Company		(10,523)	(7,182)	(28,640)	(20,322)
Non-controlling interests		(209)	1,677	(65)	1,378
		(10,732)	(5,505)	(28,705)	(18,944)
		HK\$	HK\$	HK\$	HK\$
LOSS PER SHARE					
Basic and diluted	8	(0.006)	(0.006)	(0.018)	(0.023)

Details of the dividend payable and proposed for the periods are disclosed in note 7.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2016

	Three months ended 30 September 2016		Nine months ended 30 September 2016	
	(unaudited) HK\$'000	(unaudited) 2015 HK\$'000	(unaudited) 2016 HK\$'000	(unaudited) 2015 HK\$'000
LOSS FOR THE PERIOD	(10,732)	(5,505)	(28,705)	(18,944)
Other comprehensive loss, after tax: Exchange difference on translating of financial statement of overseas subsidiaries	(839)	(1,771)	(5,387)	(1,760)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(11,571)	(7,276)	(34,092)	(20,704)
Total comprehensive (loss)/profit attributable to:				
Owners of the Company	(11,013)	(9,156)	(31,547)	(22,294)
Non-controlling interests	(558)	1,880	(2,545)	1,590
	(11,571)	(7,276)	(34,092)	(20,704)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2016

	Notes	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	5,255	5,841
Goodwill		2,805	–
Trading right		510	–
Available-for-sale investments		9,035	10,036
Deferred tax assets		2	–
Financial lease receivables	12	1,813,632	530,520
Total non-current assets		1,831,239	546,397
Current assets			
Inventories		2,534	3,952
Trade receivables	11	7,744	4,854
Financial lease receivables	12	1,947	488,077
Loan receivables	13	7,461	7,451
Prepayments, deposits and other receivables		32,968	13,714
Deferred tax asset		–	76
Bank balances – trust accounts		6,107	–
Bank balances and cash – general accounts	15	83,047	52,839
Total current assets		141,808	570,963
Total assets		1,973,047	1,117,360
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	18	1,620	1,225
Reserves		21,178	14,454
Non-controlling interests		22,798	15,679
		76,840	68,015
Total equity		99,638	83,694

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)**As at 30 September 2016*

	<i>Notes</i>	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Non-current liabilities			
Convertible bonds	16	110,653	100,205
Promissory notes		51,583	47,627
Finance lease obligations due more than one year		1,968	1,968
Bank borrowings due more than one year	17	1,628,480	477,600
		1,792,684	627,400
Current liabilities			
Bank borrowings due within one year	17	5,110	374,224
Finance lease obligations due within one year		229	899
Trade payables	19	11,628	19,869
Other payables and accruals		63,758	7,772
Tax payables		–	3,502
Total current liabilities		80,725	406,266
Total liabilities		1,873,409	1,033,666
Total equity and liabilities		1,973,047	1,117,360
Net current assets		119,243	164,697
Net assets		99,638	83,694

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 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)/profit for the period	-	-	-	-	-	-	-	(20,322)	(20,322)	1,378	(18,944)
Other comprehensive (loss)/profit	-	-	-	-	-	-	(1,972)	-	(1,972)	212	(1,760)
Total comprehensive (loss)/profit	-	-	-	-	-	-	(1,972)	(20,322)	(22,294)	1,590	(20,704)
Issue of new shares upon placing	76	8,868	-	-	-	-	-	-	8,944	-	8,944
Issue of offer shares	766	66,635	-	-	-	-	-	-	66,401	-	66,401
Acquisition of subsidiaries	-	-	-	31,235	-	-	-	-	31,235	78,972	110,207
Capital reduction of issued shares	(30,260)	-	-	-	-	30,260	-	-	-	-	-
At 30 September 2015	1,225	885,195	66,710	53,963	963	163,191	(2,026)	(1,072,001)	97,220	71,090	168,310
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	-	-	-	-	-	-	-	(28,640)	(28,640)	(65)	(28,705)
Other comprehensive loss	-	-	-	-	-	-	(2,881)	(26)	(2,907)	(2,480)	(5,387)
Total comprehensive loss	-	-	-	-	-	-	(2,881)	(28,666)	(31,547)	(2,545)	(34,092)
Distribution of reserves	-	-	-	-	-	-	-	-	-	(6,666)	(6,666)
Formation of a subsidiary	-	-	-	-	-	-	-	-	-	18,036	18,036
Issue of shares under placing	395	38,271	-	-	-	-	-	-	38,666	-	38,666
At 30 September 2016	1,620	923,103	66,710	53,115	27,363	163,191	(7,015)	(1,205,289)	22,798	76,840	99,638

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 nine months ended 30 September 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 income from financial services during the nine months period under review.

An analysis of revenue is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2016 (unaudited) HK\$’000	2015 (unaudited) HK\$’000	2016 (unaudited) HK\$’000	2015 (unaudited) HK\$’000
Revenue from:				
Trading business	53,391	26,490	125,509	61,550
Financial services business	8,813	5,986	33,297	6,377
Information technology business	132	1,072	667	4,794
Other business	–	210	40	359
	62,336	33,758	159,513	73,080

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 engaged in the trading of goods, components and accessories;
- (b) financial services business segment engaged in the provision of financial leasing services, money lending services and dealing in securities;
- (c) the information technology business segment engaged in distributorship of information technology products and the provision of relevant technical support services; and
- (d) other business segment 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 loss, which is a measure of adjusted loss before tax. The adjusted 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 nine months ended 30 September 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	125,510	33,296	667	40	159,513	-	159,513
Operating (loss)/profit	(1,292)	502	(718)	10	(1,498)	-	(1,498)
Interest income	-	42	-	-	42	22	64
Finance costs	(101)	-	-	-	(101)	(14,493)	(14,594)
Other expenses	-	-	-	-	-	(12,479)	(12,479)
(Loss)/profit before tax	(1,393)	544	(718)	10	(1,557)	(26,950)	(28,507)
Additions for non-current assets	15	1,036	-	-	1,051	20	1,071
Depreciation	(71)	(514)	(53)	-	(638)	(985)	(1,623)

3. SEGMENT REPORTING *(continued)*

For the nine months ended 30 September 2015

	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	61,550	6,377	4,794	359	73,080	–	73,080
Operating profit/(loss)	1,508	720	(1,124)	113	1,217	–	1,217
Interest income	–	10	–	–	10	66	76
Gain from bargain purchase arising on acquisition of subsidiaries	–	–	–	–	–	4,149	4,149
Share of results of an associate	–	1,465	–	–	1,465	–	1,465
Finance costs	–	–	–	–	–	(12,064)	(12,064)
Other expenses	–	–	–	–	–	(13,800)	(13,800)
Profit/(loss)/profit before tax	1,508	2,195	(1,124)	113	2,692	(21,649)	(18,957)
Additions for non-current assets	178	969	120	–	1,267	1,470	2,737
Depreciation	(44)	(40)	(45)	–	(129)	(1,213)	(1,342)

3. SEGMENT REPORTING *(continued)*

As at 30 September 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	15,556	1,930,542	5,355	289	1,951,742	-	1,951,742
Bank balances and cash	-	-	-	-	-	10,684	10,684
Other assets	-	-	-	-	-	10,621	10,621
Total assets	15,556	1,930,542	5,355	289	1,951,742	21,305	1,973,047
Segment liabilities	(5,686)	(1,691,446)	(2,668)	-	(1,699,800)	-	(1,699,800)
Convertible bonds	-	-	-	-	-	(110,653)	(110,653)
Promissory notes	-	-	-	-	-	(51,583)	(51,583)
Other liabilities	-	-	-	-	-	(11,373)	(11,373)
Total liabilities	(5,686)	(1,691,446)	(2,668)	-	(1,699,800)	(173,609)	(1,873,409)

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
Bank balances and cash	-	-	-	-	-	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

	Nine months ended 30 September 2016 (unaudited) HK\$'000	Nine months ended 30 September 2015 (unaudited) HK\$'000
Hong Kong (place of domicile)	127,312	67,095
China	32,201	5,985
	159,513	73,080

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

(b) Non-current assets

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Hong Kong (place of domicile)	3,743	4,851
China	1,512	990
	5,255	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:

	Nine months ended 30 September 2016 (unaudited) HK\$'000	Nine months ended 30 September 2015 (unaudited) HK\$'000
Customer A – revenue from trading business – Hong Kong	80,519	–
Customer B – revenue from financial services business – PRC	17,164	–
Customer C – revenue from trading business – Hong Kong	–	8,777
Customer D – revenue from trading business – Hong Kong	–	9,725
	97,683	18,502

4. LOSS/(PROFIT) BEFORE TAX

The Group's loss/(profit) before tax is arrived at after charging:

	Three months ended 30 September		Nine months ended 30 September	
	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000
Depreciation	548	414	1,623	1,342
Staff costs (including directors' emoluments)	3,139	1,969	9,012	4,880

5. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000	2016 (unaudited) HK\$'000	2015 (unaudited) HK\$'000
Imputed interest charge on convertible bonds (<i>Note 1</i>)	3,625	3,176	10,449	9,121
Imputed interest charge on promissory notes	1,171	1,014	3,602	2,306
Coupon interest charge on promissory notes	118	143	354	531
Interest charge on bank borrowings	6,438	–	26,822	–
Interest charge on finance lease obligations (<i>Note 2</i>)	26	37	88	106
	11,378	4,370	41,315	12,064
Less: interest charge on bank borrowings included in cost of sales	(6,351)	–	(26,721)	–
	(5,027)	4,370	14,594	12,064

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 EXPENSE

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

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000	(unaudited) HK\$'000
Hong Kong profits tax:				
– current	–	–	–	198
– (over) under provision in prior years	–	598	(20)	1,828
PRC enterprise income tax:				
– current	(1)	(2,039)	75	(2,039)
– (over) under provision in prior years	(1)	–	143	–
Total income tax recognised in profit or loss	(2)	(1,441)	198	(13)

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 nine months ended 30 September 2016 (2015: Nil).

8. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Basic (loss)/earnings per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the three months and nine months ended 30 September 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 30 September		Nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
<u>Loss</u>				
Loss attributable to owners of the Company	(10,523)	(7,182)	(28,640)	(20,322)
	Number of shares (in thousands)			
<u>Shares</u>				
Weighted average number of ordinary shares in issue during the period	1,794,007	1,105,699	1,576,854	874,310

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 September 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.

9. ACQUISITION OF SUBSIDIARIES

Reference to the announcement on 15 July 2016, the Company completed the acquisition of XiaXin Securities (HK) Limited, a corporation licensed to carry out Type 1 (dealing in securities) regulated activities under Chapter 571 Securities and Futures Ordinance, upon the approval granted by the Securities and Futures Commission on 6 July 2016 for the application as the substantial shareholder of XiaXin. Following the acquisition, XiaXin became an indirect wholly-owned subsidiary of the Company. Pursuant to the announcement on 11 October 2016, on 30 August 2016, XiaXin officially changed its name to Merdeka Capital Limited.

10. PROPERTY, PLANT AND EQUIPMENT

During the nine months ended 30 September 2016, the Group acquired approximately HK\$1,071,000 in motor vehicles, computer and office equipment, and leasehold improvements (2015: HK\$2,737,000).

11. 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:

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Within 30 days	3,850	1,577
31 to 60 days	51	33
61 to 120 days	241	977
Over 120 days	3,602	2,267
	7,744	4,854

12. FINANCIAL LEASE RECEIVABLES

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Current financial lease receivables	1,947	488,077
Non-current financial lease receivables	1,813,632	530,520
	1,815,579	1,018,597

Amount receivable under finance leases

	Minimum lease payment		Present value of minimum lease payment	
	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Not later than one year	91,464	521,179	1,947	488,077
Later than one year	1,909,723	593,570	1,813,632	530,520
	2,001,187	1,114,749	1,815,579	1,018,597
Unearned finance income	(185,608)	(96,152)	N/A	N/A
Present value of minimum lease payment	1,815,579	1,018,597	1,815,579	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 5.0% per annum as at 30 September 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 30 September 2016 are neither past due nor impaired.

13. LOAN RECEIVABLES

The Group's loan receivables arose from the money lending business during the periods.

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:

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Repayable:		
Within 3 months	5,561	2,100
3 months to 1 year	1,900	5,351
	7,461	7,451

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

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Neither past due nor impaired	1,900	5,901
1 to 3 months past due not impaired	5,561	1,550
	7,461	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 30 September 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.

14. BANK BALANCES AND CASH

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Bank balances – trust accounts (<i>note</i>)	6,107	–
Bank balances and cash – general accounts	83,047	52,839
	89,154	52,839

Note: The Group receives and holds money deposited by clients in the course of the conduct of the regulated activities. These clients money are maintained in one or more trust bank accounts and bear interest at commercial rates. The Group has recognised the corresponding accounts payable to respective clients.

As at 30 September 2016, for bank balances and cash – general accounts, approximately HK\$64.3 million (31 December 2015: HK\$29.7 million) were denominated in RMB, and approximately HK\$20.5 million, about 24.7% (31 December 2015: 41.5%) were bank balances deposited with creditworthy banks of high credit ratings in HK, and approximately 22.5% (31 December 2015: 41.1%) were denominated in Hong Kong dollars.

15. CONVERTIBLE BONDS

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

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
At beginning of the period/year	100,205	87,803
Interest charged	10,448	12,402
At end of the period/year	110,653	100,205

16. BANK BORROWINGS

	Notes	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Secured bank borrowing repayable on demand	a	206	206
Secured bank borrowings due within one year	b	4,904	374,018
		5,110	374,224
Secured bank borrowings due more than one year, but not more than three years	b	1,628,480	477,600
At end of the period/year		1,633,590	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) Bank borrowings obtained in the PRC were secured by the finance lease assets held by the lessee with the carrying value of approximately RMB1,656.2 million (equivalent to approximately HK\$1,926.5 million), as at 30 September 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 4.5% to 6.3% per annum as at 30 September 2016 (31 December 2015: 5.1% to 6.3% per annum). The bank borrowings are denominated in RMB.

Included therein, a banking facility amounted to HK\$7 million was secured by a time deposit of HK\$4 million. The facility was utilised to the extent of approximately HK\$4.9 million as at 30 September 2016 (31 December 2015: nil). This banking facility is subject to the fulfilment of covenants relating to certain of the security coverage ratios, as are commonly found in lending arrangements with financial institutions. If any of the security coverage ratios shall at any time fall below the level required, the Group shall provide additional security acceptable to the bank and/or reduce the outstanding of the facilities designated by the bank. The Group regularly monitors its compliance with these covenants. As at 30 September 2016, none of the covenants relating to drawn facilities had been breached (31 December 2015: nil).

17. 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	–
As at 31 December 2015, 1 January and 30 September 2016			
Ordinary shares of HK\$0.001 each		200,000,000	200,000
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)
As at 31 December 2015, 1 January 2016			
Ordinary shares of HK\$0.001 each		1,225,094	1,225
Issue of shares under general mandate	<i>(b)</i>	766,063	766
Issue of shares under general mandate	<i>(c)</i>	76,000	76
As at 31 December 2015, 1 January 2016			
Ordinary shares of HK\$0.001 each		1,225,094	1,225
Issue of shares under general mandate	<i>(d)</i>	395,000	395
As at 30 September 2016			
Ordinary shares of HK\$0.001 each		1,620,094	1,620

17. 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 placees 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.
- (d) On 14 March 2016, the Company entered into a 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 245,000,000 Placing Shares, to not less than six placees at a price of HK\$0.119 per GM placing share. On 31 March 2016, the Company entered into a supplemental agreement with the placing agent to reduce the number of placing shares to 125,000,000. The aggregate nominal value of the placing shares under the GM placing agreement was HK\$125,000.

And on 8 June 2016, the Company entered into another 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 270,000,000 Placing shares, to not less than six placees at a price of HK\$0.092 per GM placing share. The aggregate nominal value of the placing shares under the GM placing agreement was HK\$270,000.

The net proceeds from both GM placing shares were for the purpose of strengthening the general working capital to finance the business development and to finance any future investment opportunities of the Company.

18. TRADE PAYABLES

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

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
Within 30 days	8,826	17,514
31 to 60 days	3	236
61 to 120 days	134	–
Over 120 days	2,665	2,119
	11,628	19,869

19. COMMITMENTS

(a) Operating lease commitments

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 September 2016 (unaudited) HK\$'000	31 December 2015 (audited) HK\$'000
<u>Properties</u>		
Within one year	2,816	1,526
In the second to fifth years, inclusive	1,921	1,667
	1,737	3,193

(b) Capital commitments

The Group did not have any material capital commitments as at 30 September 2016 (31 December 2015: Nil).

20. CONTINGENT LIABILITIES

As at 30 September 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

21. 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 30 September		Nine months ended 30 September	
			2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Lai Yau Hong, Thomson	Secretary of the Company	Loan interest payable	6	–	22	–
		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\$4,471,000 (2015: HK\$2,140,000).

22. COMPARATIVE FIGURES

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 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 Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (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 30 September 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	6.11
Lau Chi Yan, Pierre	3,984,375	–	3,984,375	0.25

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 30 September 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	6.17
Lau Chi Yan, Pierre	19/8/2015	19/8/2015 - 18/8/2025	0.147	20,000,000	20,000,000	1.23
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	0.062
Ng Kay Kwok	19/8/2015	19/8/2015 - 18/8/2025	0.147	1,000,000	1,000,000	0.062
Yip Kat Kong, Kenneth	19/8/2015	19/8/2015 - 18/8/2025	0.147	1,000,000	1,000,000	0.062

(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	18.37

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).

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 30 September 2016** (continued)

Save as disclosed above, as at 30 September 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 nine months ended 30 September 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 30 September 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	6.08%
CW Limited (Note 1)	Controlled corporation	98,437,500	6.08%
Asiitrust Limited (Note 1)	Trustee	98,437,500	6.08%

Notes:

- 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 Asiitrust 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).
- 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	18.37%
CW Limited <i>(Note 1)</i>	Controlled corporation	297,619,048	18.37%
Asiatrust Limited <i>(Note 1)</i>	Trustee	297,619,048	18.37%
Yihua Enterprise Limited	Beneficial owner	173,913,043	10.37%
Cheng Jun <i>(Note 2)</i>	Controlled corporation	173,913,043	10.37%
Gao Yun Feng <i>(Note 2)</i>	Controlled corporation	173,913,043	10.37%

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 30 September 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 30 September 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 14.41% and 14.41% of the total issued share capital of the Company as at 30 September 2016 and the date of this report 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					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	Outstanding as at 30 September 2016				
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				

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 third quarterly financial statements, no other share options were exercised subsequent to the end of the period under review.

During the period for the nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 third quarterly results of the Group for the nine months ended 30 September 2016.

BOARD OF DIRECTORS

As at the date of this report, the directors of the Company 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, 14 November 2016

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