



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 purposes only
* 僅供識別

FIRST QUARTERLY REPORT 2017
二零一七年第一季度報告

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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

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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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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first three months ended 31 March 2017, 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 includes the financial leasing business, the securities business and the money lending business. Trading business is stable but 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 Finance Lease (Shanghai) Company Limited*) (“Heng He”) and Merdeka Capital Limited (萬德資本有限公司) (“Merdeka Capital”), the Company is putting more weight on the financial services business.

During the period under review, Merdeka Capital, besides in developing its securities brokerage business, has been exploring the opportunities in developing a higher returns and, in turn, a more profitable business in taking up the role as a book-runner as well as a lead manager in respect of issuance of debts listed worldwide after concluding two transactions in Europe in 2016.

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 but management is cautious in making provision of loan to avoid possible bad debts.

Trading business continues to provide a stable source of revenue to the Group during the period under review and as the business is running steadily but competitive, 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 has been ordering 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, a city of Sichuan Province, the PRC, the Group’s trading arm, Source Easy Limited (“Source Easy”) has been expanding its customer base in the PRC.

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The Group's information technology business remained challenging during the period under review, mainly because of the keen competition and the rapid 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"). Currently, 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.

During the last quarter of 2016, Heng Da has franchised a mobile game licence from a provider to market and ran exclusively a mobile game platform in the Mian Yang city of Sichuan, the PRC. This is a small but meaningful step for Heng Da as it would get hold of the hand-on technology and experience in the mobile game industry in the PRC based on its own development on the mobile and cloud based application software.

DISCUSSION ON FINANCIAL RESULTS

For the period under review, the Group's reported revenue reached approximately HK\$63.4 million, representing an increase of approximately 29.7% on a year-on-year basis. The increased revenue was mainly contributed by trading business which increased approximately HK\$13.0 million to reach approximately HK\$48.6 million, and financial services business which also increased approximately HK\$1.7 million to reach approximately HK\$14.7 million.

The Group's gross profit for the period under review was approximately HK\$7.2 million, representing approximately 2.4 times increase on a year-on-year basis. The Group's gross profit margin also increased by approximately 5.3% to reach approximately 11.4%. The increase in terms of dollar and margin was mainly attributable to the financial services business segment.

In light of the increasing operating activities, the cost of sales, and the operating and administrative expenses also increased correspondingly by approximately 22.4% and 16.7% respectively on a year-on-year basis.

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Finance lease contracts

As at 31 March 2017, Heng He had the following finance lease contracts in the aggregate amount of RMB1,649.5 million. Details of the finance lease contracts are as follows:

	Principal Amount (RMB '000)	Date	Tenor	Interest rate per annum
Customer A (Note 1)	25,000	20 January 2017	3 years	6.175%
Customer B (Note 2)	460	31 March 2015	5 years	11.00%
Customer C (Note 3)	200,000	14 August 2015	3 years	6.67%
	200,000	31 August 2015	3 years	6.38%
Customer D (Note 4)	44,000	31 August 2015	3 years	11.00%
Customer E (Note 5)	1,000,000	1 August 2016	2 years	5.12%
Customer F (Note 6)	65,000	18 August 2016	3 years	6.18%
Customer G (Note 7)	115,000	20 October 2016	3 years	5.10%

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 the provision of auditing, taxation and business advisory services in the PRC.
3. A company based in the PRC which is principally engaged in the construction of port and transportation infrastructure in Asia, Africa and Europe.
4. A company based in Shanghai which is principally engaged in property development business in the PRC.
5. A company incorporated in the PRC which is a prime contractor company specialized in offshore engineering, construction, repair and conversion.
6. A company incorporated in the PRC which engages in digital networking and information technology development.
7. A company incorporated in the PRC which specialized in the provision of heat supply and industrial use steam.

OUTLOOK

Looking forward to year 2017 and after, the Group will continue to focus on the development of financial services business in both PRC and Hong Kong.

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. Furthermore, in view of the growth potential of the finance lease 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 transactions would be concluded in the future 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 results, 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 finance lease 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 in the longer term.

Regarding the money lending business, the Company continuously receives enquiries from various customers, however, the Company is cautious in concluding the transactions in order to control the risk in money-laundering as well as, 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 subsidiary in securities business.

To build on its success in the debt financing business in Europe, Merdeka Capital also taking advantage in the Group's appearance in the PRC by co-operation with the debt financing and issuance experts in listing debts issued by the PRC corporations on the stock exchanges worldwide. Merdeka Capital would continuously focusing on the role of book-runner and lead managers on these financing exercise of the significant sizes PRC corporations.

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.

In order to complement the Type 1 regulated activity currently undertaken by Merdeka Capital and to explore the opportunities in the asset management business to potential overseas clients through the overseas network of the Group in the near future, on 7 February 2017 (after trading hours), the Group, through, a wholly-owned subsidiary, entered into a sale and purchase agreement to acquire 51% of the issued share capital of Heng Asset Management Limited ("Heng"), a company principally engages in the provision of Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO").

The Directors consider that the participation in Heng by acquiring 51% of its share capital would enable the Group to further provide more comprehensive financial services through direct investment in and hands-on management and operation of Heng. The Board observes that the current condition in the investment advisory market is highly competitive but at the same time there are promising opportunities in the market. This is evidenced by continuous increasing number of Type 4 and Type 9 licensed corporation application to the SFC. If the acquisition is completed, the Group is expected to take advantage of the future growth in capital markets and continuous products development, by diversifying its business further within the financial services sector, in particular the asset management business and to broaden the Group's revenue base.

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 actively considering to open physical stores in the PRC. The Group is also commencing to OEM its trading products from various Asian countries including Japan, Korea and Malaysia. In addition, the Group will explore the opportunities in the development of logistic and/or its related business in order to enhance the Group's trading sector.

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. 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, finance lease, money lending and securities business in accordance with the permission under the laws of Hong Kong and the PRC.

CONVERTIBLE BONDS

Further to the convertible bonds issued by the Company on 12 August 2008 (the "2008 CBs") as part of the consideration for the acquisition of forest concessions in Papua, Indonesia, upon the completion of the acquisition of the entire issued share capital of Blossom Height, the Company issued further convertible bonds on 21 April 2015 (the "2015 CBs") in the principal amount of HK\$40 million to the vendor, Yihua Enterprises Limited as part of the relevant consideration.

Furthermore, on 20 January 2017 (after trading hours), the Company and the bondholders of the 2008 CBs entered into the third supplemental deed, for (a) extending the maturity date of the 2008 CBs for 3 years from 12 August 2017 to 12 August 2020; (b) amending the conversion price of the 2008 CBs from HK\$0.3696 per Share to HK\$0.095 per Share; and (c) inclusion of the following adjustment events to the conversion price: (i) issue of Shares for subscription by way of rights, or a grant of options or warrants to subscribe for Shares, at a price which is less than 80% of the market price per Share to the shareholders of the Company; (ii) issue wholly for cash of securities convertible into or exchangeable for or carrying rights of subscription for Shares, if in any case the total effective consideration per Share receivable is less than 80% of the market price, or the conversion, exchange or subscription rights of any such issue are altered so that the said total effective consideration receivable is less than 80% of such market price; and (iii) issue of Shares being made wholly for cash at a price less than 80% of the market price per Share.

The Board is pleased to announce that the proposed resolution in respect of the above mentioned Third Supplemental Deed and the transactions contemplated thereunder was duly passed by the Shareholders by way of poll at an extraordinary general meeting of the Company held on 7 March 2017. Accordingly a maximum of 1,305,978,947 Shares will be allotted and issued upon exercise of the conversion rights attached to the outstanding 2008 CBs of aggregate principal amount of HK\$124,068,000 in full at the conversion price of HK\$0.095 per Share as at 31 March 2017.

As at 31 March 2017, the Company had outstanding 2018 CBs of aggregate principal amount of HK\$40 million which will be compulsorily converted into 173,913,043 Shares.

PROMISSORY NOTES

The Group had an outstanding principal of promissory notes of approximately HK\$52,600,000, 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\$29,000,000 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. Formal trial will be held in late 2017.

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 2016 and the Guarantee Certificate has been received by the Company.

DISCLOSEABLE TRANSACTION IN RELATION TO THE FINANCE LEASE AGREEMENT

As disclosed in the Company's announcement dated 20 January 2017 (the "FL Announcement"), on 20 January 2017 (after trading hours), Heng He, entered into a finance lease agreement (the "Finance Lease Agreement") with 上海長城電腦繡花有限公司 (Shanghai Zhang Cheng Computerized Embroidery 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 RMB25 million (approximately HK\$27.50 million), which would be leased back to the Lessee at the aggregate lease receivables of approximately RMB28.85 million (approximately HK\$31.73 million) for a term of 3 years, commencing on the date of payment of the consideration for the Leased Assets.

As one or more of the applicable percentage ratios calculated under the GEM Listing Rules in respect of the Finance Lease Agreement exceed 5% but are less than 25%, the transaction contemplated under the Finance Lease Agreement constitutes a discloseable transaction for the Company and is subject to the notification and announcement requirements under Chapter 19 of the GEM Listing Rules.

THE PROPOSED ACQUISITION OF 51% OF THE ISSUED SHARES IN HENG

On 7 February 2017 (after trading hours), the Company through a wholly-owned subsidiary entered into a sale and purchase agreement, pursuant to which the Company has conditionally agreed to acquire 51% of the issued share capital of Heng (the "Acquisition") at a consideration of HK\$10,000,000 which will be settled by the allotment and issue of the consideration Shares by the Company to the vendor or its nominee upon completion of the transaction.

As the applicable ratios under Chapter 19 of the GEM Listing Rules exceed 5% but are below 25%, the Acquisition constitutes a discloseable transaction of the Company under the GEM Listing Rules.

On 24 March 2017, an extraordinary general meeting was convened and held and, during which, the resolution in relation to the Acquisition and the transactions contemplated thereunder including the grant of the specific mandate to allot and issue the consideration Shares was duly passed by the Shareholders by way of poll.

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CHANGE OF DIRECTORSHIP AND COMMITTEE MEMBERS

Mr. Yip Kat Kong, Kenneth, due to his need in concentrating in the development of his own business, has resigned as an independent non-executive director of the Company with effect from 27 February 2017, and accordingly, his appointment as a member of the nomination committee, a member of the remuneration committee and as a member of the audit committee of the Company has been revoked with effect from 27 February 2017.

Mr. Au-yeung Sei Kwok was appointed as an independent non-executive director of the Company with effect from 27 February 2017 and he was also appointed as a member of the nomination committee, a member of the remuneration committee and as a member of the audit committee of the Company with effect from 27 February 2017.

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 and 31 March 2016	Placing of up to 125,000,000 new Shares at HK\$0.119 per Share 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 finance lease 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 up to 270,000,000 new Shares at HK\$0.092 per Share 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 finance lease 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

UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2017

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 2017, together with the comparative unaudited figures for the corresponding period in 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2017

	Note	Three months ended 31 March	
		2017 (Unaudited) HK\$ '000	2016 (Unaudited) HK\$ '000
REVENUE	2	63,444	48,912
Cost of sales		(56,215)	(45,921)
Gross profit		7,229	2,991
Other income and other net gains and losses		43	53
Operating and administrative expenses		(9,270)	(7,946)
Finance costs	5	(5,163)	(4,801)
LOSS BEFORE TAX		(7,161)	(9,703)
Income tax	6	(398)	(55)
LOSS FOR THE PERIOD		(7,559)	(9,758)
Loss attributable to:			
Owners of the Company		(8,184)	(9,532)
Non-controlling interests		625	(226)
		(7,559)	(9,758)
		HK\$	HK\$
LOSS PER SHARE			
Basic and diluted	8	(0.005)	(0.007)

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 2017

	Three months ended 31 March	
	2017 (Unaudited) HK\$' 000	2016 (Unaudited) HK\$' 000
LOSS FOR THE PERIOD	(7,559)	(9,758)
Other comprehensive profit, after tax:		
Exchange difference on translating of financial statements of overseas subsidiaries	2,164	1,150
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(5,395)	(8,608)
Total comprehensive (loss)/profit attributable to:		
Owners of the Company	(6,885)	(8,874)
Non-controlling interests	1,490	266
	(5,395)	(8,608)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2017

Notes	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
ASSETS		
Non-current assets		
Property, plant and equipment	4,264	4,664
Statutory deposit	510	510
Intangible assets	2,805	2,805
Available-for-sale investments	1,475	1,475
Finance lease receivables	1,914,024	1,869,445
Total non-current assets	1,923,078	1,878,899
Current assets		
Inventories	3,428	2,726
Trade receivables	4,548	6,867
Loan receivables	2,880	3,300
Prepayments, deposits and other receivables	36,272	62,853
Finance lease receivables	6,059	31,873
Bank balances - Trust accounts	6,602	5,206
Bank balances and cash - general accounts	60,673	63,347
Total current assets	120,462	176,172
Total assets	2,043,540	2,055,071
EQUITY AND LIABILITIES		
Equity attributable to owners of the Company		
Share capital	1,620	1,620
Reserves	(5,204)	1,681
	(3,584)	3,301
Non-controlling interests	89,529	88,039
Total equity	85,945	91,340
Non-current liabilities		
Deferred tax liabilities	463	463
Promissory notes	25,067	24,238
Finance lease obligation due more than one year	1,026	1,026
Bank borrowings due more than one year	1,708,314	1,691,649
Total non-current liabilities	1,734,870	1,717,376

	Notes	As at 31 March 2017 (unaudited) HK\$' 000	As at 31 December 2016 (audited) HK\$' 000
Current liabilities			
Bank borrowings due within one year		4,791	4,036
Finance lease obligation due within one year		710	942
Convertible bonds		118,189	114,400
Promissory notes		–	26,164
Trade payables		12,583	40,425
Other payables and accruals		84,253	57,299
Tax payables		2,199	3,089
Total current liabilities		222,725	246,355
Total liabilities		1,957,595	1,963,731
Total equity and liabilities		2,043,540	2,055,071
Net current liabilities		(102,263)	(70,183)
Net assets		85,945	91,340

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	Attributable to owners of the Company																			
	Issued capital	Share premium account	Contributed surplus	Equity component of convertible bonds	Share option reserve	Capital reduction reserve	Exchange fluctuation reserve	Accumulated losses	Total	Non-controlling interests	Total equity									
												(Unaudited)								
												HK\$ '000								
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									
At 1 January 2017	1,620	923,103	66,710	53,115	27,328	163,191	(12,495)	(1,219,271)	3,301	88,039	91,340									
Changes in equity for 2017:																				
Loss for the period	-	-	-	-	-	-	-	(8,184)	(8,184)	625	(7,559)									
Other comprehensive gain	-	-	-	-	-	-	1,279	20	1,299	865	2,164									
Total comprehensive gain/(loss)	-	-	-	-	-	-	1,279	(8,164)	(6,885)	1,490	(5,395)									
At 31 March 2017	1,620	923,103	66,710	53,115	27,328	163,191	(11,216)	(1,227,435)	(3,584)	89,529	85,945									

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 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 2016 (the “2016 Annual Report”). The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the 2016 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 2017. 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 2017 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	
	2017 (unaudited) HK\$ '000	2016 (unaudited) HK\$ '000
Revenue from:		
Trading business	48,635	35,610
Financial services business	14,719	13,035
Information technology business	90	227
Other business	–	40
	63,444	48,912

3. SEGMENT REPORTING

For management purposes, the Group is organised into business units based on its products and services and has the 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 finance lease services, provision of money lending services and provision of securities services;
- (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.

3. SEGMENT REPORTING (Continued)

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.

For the three months ended 31 March 2017

	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	48,634	14,720	90	-	63,444	-	63,444
Operating profit/(loss)	39	1,958	(369)	-	1,628	-	1,628
Interest income	-	8	-	-	8	-	8
Finance costs	(75)	-	-	-	(75)	(5,088)	(5,163)
Other expenses	-	-	-	-	-	(3,634)	(3,634)
Profit/(Loss) before tax	(36)	1,966	(369)	-	1,561	(8,722)	(7,161)
Additions for non-current assets	-	118	-	-	118	-	118
Depreciation	(25)	(174)	(15)	-	(214)	(301)	(515)

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)

As at 31 March 2017

	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	14,975	2,009,881	5,228	289	2,030,373	-	2,030,373
Bank balances and cash - general accounts	-	-	-	-	-	(408)	(408)
Other assets	-	-	-	-	-	13,575	13,575
Total assets	14,975	2,009,881	5,228	289	2,030,373	13,167	2,043,540
Segment liabilities	(4,900)	(1,768,850)	(2,414)	-	(1,776,164)	-	(1,776,164)
Convertible bonds	-	-	-	-	-	(118,189)	(118,189)
Promissory notes	-	-	-	-	-	(25,067)	(25,067)
Other liabilities	-	-	-	-	-	(38,175)	(38,175)
Total liabilities	(4,900)	(1,768,850)	(2,414)	-	(1,776,164)	(181,431)	(1,957,595)

3. SEGMENT REPORTING (Continued)

As at 31 December 2016

	Trading business (audited) HK\$ '000	Financial service 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	14,738	2,019,819	4,942	289	2,039,788	-	2,039,788
Bank balances and cash - general accounts	-	-	-	-	-	2,171	2,171
Other assets	-	-	-	-	-	13,112	13,112
Total assets	14,738	2,019,819	4,942	289	2,039,788	15,283	2,055,671
Segment liabilities	(4,228)	(1,780,982)	(2,436)	-	(1,787,646)	-	(1,787,646)
Convertible bonds	-	-	-	-	-	(114,400)	(114,400)
Promissory notes	-	-	-	-	-	(50,402)	(50,402)
Other liabilities	-	-	-	-	-	(11,283)	(11,283)
Total liabilities	(4,228)	(1,780,982)	(2,436)	-	(1,787,646)	(176,085)	(1,963,731)

Geographical information

(a) Revenue from external customers

	Three months ended 31 March	
	2017 (unaudited) HK\$ '000	2016 (unaudited) HK\$ '000
Hong Kong	48,931	36,156
PRC	14,513	12,756
	63,444	48,912

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

3. SEGMENT REPORTING (Continued)

Geographical information (Continued)

(b) Non-current assets - property, plant and equipment

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Hong Kong	3,095	3,383
PRC	1,169	1,281
	4,264	4,664

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

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	
	2017 (unaudited) HK\$ '000	2016 (unaudited) HK\$ '000
Customer A – revenue from trading business – Hong Kong	32,947	23,205
Customer B – revenue from financial services business – PRC	–	6,121
Customer C – revenue from trading business – Hong Kong	7,324	–
	40,271	29,326

4. LOSS BEFORE TAX

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

	Three months ended 31 March	
	2017 (unaudited) HK\$' 000	2016 (unaudited) HK\$' 000
Depreciation	515	528
Staff costs (including directors' emoluments)	3,623	2,967

5. FINANCE COSTS

	Three months ended 31 March	
	2017 (unaudited) HK\$' 000	2016 (unaudited) HK\$' 000
Imputed interest charge on convertible bonds (note 1)	3,789	3,356
Imputed interest charge on promissory notes	1,160	1,295
Coupon interest charge on promissory notes	118	118
Interest charge on bank borrowings	8,408	10,860
Interest charge on finance lease obligation (note 2)	22	32
	13,497	15,661
Less: interest charge on bank borrowings included in cost of sales for financial services business	(8,334)	(10,860)
	5,163	4,801

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	
	2017 (unaudited) HK\$'000	2016 (unaudited) HK\$'000
Hong Kong profits tax:		
– current	–	–
– over provision in prior years	–	(20)
PRC enterprise income tax:		
– current	398	75
Total income tax recognised in profit or loss	398	55

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

The PRC enterprise income tax has been provided at the rate of 25% for both periods.

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

Taxes on profits assessable elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

7. DIVIDEND

No quarterly dividend has been paid or declared by the Company during the three months ended 31 March 2017 (2016: 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 2017 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	
	2017 (unaudited) HK\$' 000	2016 (unaudited) HK\$' 000
Loss		
Loss attributable to owners of the Company used in the basic loss per share calculation	8,184	9,532

	Number of shares (thousands)	
	2017	2016
Shares		
Weighted average number of ordinary shares in issue during the year	1,620,094	1,225,094
Effect of the convertible bond issued in 2015	173,913	173,913
Weighted average number of ordinary shares for the purpose of calculating loss per share	1,794,007	1,399,007

No diluted loss per share information presented for the periods ended 31 March 2017 and 2016 as the impact of the convertible bonds and share options outstanding had an anti-dilutive effect on the basic loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 31 March 2017, the Group acquired approximately HK\$0.1 million in computer and office equipment (31 December 2016: HK\$1.0 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:

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Within 30 days	1,165	3,401
31 to 60 days	78	7
61 to 120 days	3	42
Over 120 days	3,302	3,417
At end of the period/year	4,548	6,867

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Not impaired	4,548	6,867

Receivables that were not impaired relate to customers for whom there were no recent history of default. The Group does not hold any collateral over these balances.

11. FINANCE LEASE RECEIVABLES

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Current finance lease receivables	6,059	31,873
Non-current finance lease receivables	1,914,024	1,869,445
At end of the period/year	1,920,083	1,901,318

11. FINANCE LEASE RECEIVABLES (Continued)

Amount receivable under finance leases

	Minimum lease payment		Present value of minimum lease payment	
	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Within one year	100,011	123,258	6,059	31,873
In more than one year but not more than two years	1,742,653	1,755,021	1,690,376	1,673,886
In more than two years but not more than five years	228,700	201,870	223,648	195,559
	2,071,364	2,080,149	1,920,083	1,901,318
Unearned finance income	(151,281)	(178,831)	N/A	N/A
Present value of minimum lease payment	1,920,083	1,901,318	1,920,083	1,901,318

The interest rate inherent in the leases was fixed at the contract date for the entire lease term. The interest rate of the above finance leases ranged from 4.37% to 9.40% per annum as at 31 March 2017 (31 December 2016: 4.81% to 9.40%).

Finance 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 finance lease receivables as at 31 March 2017 are neither past due nor impaired.

The term of finance leases entered into ranged from 2 to 5 years.

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:

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Repayable:		
Within 3 months	2,800	3,300
3 months to 1 year	80	–
At end of the period/year	2,880	3,300

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

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Neither past due nor impaired	2,800	900
1 to 3 months past due not impaired	80	2,400
At end of the period/year	2,880	3,300

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 2017 (31 December 2016: 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. BANK BALANCES AND CASH

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Bank balances – trust accounts (note)	6,602	5,206
Bank balances and cash – general accounts	60,673	63,347
	67,275	68,553

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 31 March 2017, the Group's bank balances and cash - general accounts amounted to approximately HK\$60.7 million (31 December 2016: HK\$63.3 million), approximately HK\$52.5 million was denominated in RMB. Also, approximately HK\$7.7 million, about 12.7% (31 December 2016: HK\$11.4 million, about 18.0%) were bank balances deposited with credit worthy banks of high credit ratings in Hong Kong, and approximately HK\$7.7 million (31 December 2016: HK\$10.4 million) was denominated in Hong Kong dollars. Included in bank balances and cash - general accounts, there is a pledged deposit of approximately HK\$4.0 million to secure a general banking facility.

14. CONVERTIBLE BONDS

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

	31 March 2017 (unaudited) HK\$ '000	31 December 2016 (audited) HK\$ '000
At beginning of the period/year	114,400	100,205
Interest charged	3,789	14,195
At end of the period/year	118,189	114,400

15. BANK BORROWINGS

	Notes	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Fixed rate:			
Secured bank borrowings – repayable on demand	a	206	206
Secured bank borrowings – due within one year	b	4,585	3,830
		4,791	4,036
Secured bank borrowings – due more than one year, but not more than three years	b	1,708,314	1,691,649
At end of the period/year		1,713,105	1,695,685

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 of this bank borrowing 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 RMB1,858.1 million (equivalent to approximately HK\$2,095.2 million), as at 31 March 2017 (31 December 2016: RMB1,858.1 million (equivalent to approximately HK\$2,074.7 million)). The interest rate of the bank loans were ranged from 4.9% to 6.3% per annum as at 31 March 2017 and 31 December 2016.

Included therein, a general banking facility amounted to HK\$7.0 million was secured by a deposit of HK\$4.0 million. The facility was utilised to the extent of approximately HK\$4.6 million as at 31 March 2017 (31 December 2016: 3.8 million). This general 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.

16. SHARE CAPITAL

	Notes	Company Number of shares in '000	Nominal values HK\$ '000
Authorised:			
As at 1 January and 31 December 2016, 1 January and 31 March 2017			
Ordinary shares of HK\$0.001 each		200,000,000	200,000
Issued and fully paid:			
As at 1 January 2016			
Ordinary shares of HK\$0.001 each		1,225,094	1,225
Issue of shares under general mandate	a	395,000	395
As at 31 December 2016, 1 January and 31 March 2017			
Ordinary shares of HK\$0.001 each		1,620,094	1,620

Notes:

- (a) On 14 March 2016, 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 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. On 8 April 2016, 125,000,000 new shares were placed. The net proceeds of approximately HK\$14.3 million would be used for the capital injections into Heng He and the remaining for general working capital.

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. On 24 June 2016, 270,000,000 new shares were placed. The net proceeds of approximately HK\$24.3 million would be used for capital injection into Heng He and the remaining for general working capital.

17. TRADE PAYABLES

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Trade payable from trading business	288	373
Trade payable from information technology business	2,023	2,052
Trade payable from financial services business	3,036	29,906
Amount payable arising from the business of dealing in securities		
- Cash clients	6,769	6,120
- HKSCC	467	1,974
	12,583	40,425

An aged analysis of trade payables arising from business other than dealing in securities as at the end of reporting period based on the invoice date / contractual term, are as follows:

	As at 31 March 2017 (unaudited) HK\$ '000	As at 31 December 2016 (audited) HK\$ '000
Within 30 days	3,045	29,931
31 to 60 days	20	–
61 to 120 days	–	4
Over 120 days	2,282	2,396
At end of the period/year	5,347	32,331

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:

	As at 31 March 2017 (unaudited) HK\$' 000	As at 31 December 2016 (audited) HK\$' 000
Within one year	2,492	2,742
In the second to fifth years, inclusive	516	1,016
	3,008	3,758

(b) Capital commitments

The Group did not have any material capital commitments as at 31 March 2017 (31 December 2016: Nil).

19. CONTINGENT LIABILITIES

As at 31 March 2017, the Group did not have any significant contingent liabilities (31 December 2016: 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	
			2017 (unaudited) HK\$' 000	2016 (unaudited) HK\$' 000
Lai Yau Hong, Thomson	Secretary of the Company	Loan interest payable	34	10
		Loan payable	200	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\$1,474,000 (2016: HK\$1,504,000).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2017, 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 2017

(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 Investment Limited ("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 2017** (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	6.172
Lau Chi Yan, Pierre	19/8/2015	19/8/2015 - 18/8/2025	0.147	20,000,000	20,000,000	1.235
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

(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	1,157,894,736	71.47

Note: These convertible bonds (originally due on 12 August 2011 and extended to 12 August 2020) 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\$0.095 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)

Save as disclosed above, as at 31 March 2017, 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 2017 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 2017, 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 (%)
Asiatrust Limited (Note)	Trustee	98,437,500	6.08
CW Limited (Note)	Controlled corporation	98,437,500	6.08
Ivana	Beneficial owner	98,437,500	6.08

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

Note: 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).

(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	1,157,894,736	71.47
CW Limited (Note 1)	Controlled corporation	1,157,894,736	71.47
Asiatrust Limited (Note 1)	Trustee	1,157,894,736	71.47
Yihua Enterprise Limited	Beneficial owner	173,913,043	10.73
Cheng Jun (Note 2)	Controlled corporation	173,913,043	10.73
Gao Yun Feng (Note 2)	Controlled corporation	173,913,043	10.73

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

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.

Save as disclosed above, the directors and chief executive of the Company are not aware that there is any party who, as at 31 March 2017, 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 2017, 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 31 March 2017 and the date of this report respectively.

SHARE OPTION SCHEME (Continued)

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 2017	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 2017	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
Employees and other eligible participants									
Employees	28,241	0	0	0	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
	71,000,000	0	0	0	71,000,000	19/8/2015	19/8/2015 - 18/8/2025	0.147	0.147
	<u>233,390,855</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>233,390,855</u>				

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 2017, 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 2017.

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 2017, 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. Au-yeung Sei Kwok, 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 2017.

BOARD OF DIRECTORS

As at the date of this report, 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. Au-yeung Sei Kwok

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

Hong Kong, 8 May 2017

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