



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 2019
二零一九年第一季度報告

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

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Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors 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 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」）GEM（「GEM」）的特色

GEM的定位，乃為中小型公司提供一個上市的市場，此等公司相比起其他在主板上市的公司帶有較高投資風險。有意投資的人士應了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。

由於**GEM**上市公司普遍為中小型公司，在**GEM**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**GEM**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GEM證券上市規則》（「《GEM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負全責。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聲明或本報告產生誤導。

* 僅供識別

UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2019

The board of directors (the “**Board**”) of the Company is pleased to announce the unaudited condensed consolidated quarterly results of the Company and its subsidiaries (the “**Group**”) for the three months ended 31 March 2019, together with the comparative unaudited figures for the corresponding period in 2018, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2019

	Note	Three months ended 31 March	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
REVENUE	3	117,580	137,040
Cost of sales		(114,426)	(131,583)
Gross profit		3,154	5,457
Other income and other net gains and losses		348	20
Operating and administrative expenses		(11,452)	(14,515)
Finance costs	5	(3,018)	(3,511)
LOSS BEFORE TAX	4	(10,968)	(12,549)
Income tax	6	1,071	1,135
LOSS FOR THE PERIOD		(9,897)	(11,414)
Loss attributable to:			
Owners of the Company		(8,969)	(10,423)
Non-controlling interests		(928)	(991)
		(9,897)	(11,414)
		HK\$	HK\$
LOSS PER SHARE			
Basic and diluted	8	(0.004)	(0.005)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2019

	Three months ended 31 March	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
LOSS FOR THE PERIOD	(9,897)	(11,414)
Other comprehensive income, after tax:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange difference on translating of financial statements of overseas subsidiaries	4,434	9,861
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(5,463)	(1,553)
Total comprehensive (loss) attributable to:		
Owners of the Company	(6,369)	(4,468)
Non-controlling interests	906	2,915
	(5,463)	(1,553)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2019

	Notes	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	2,460	2,682
Statutory deposit		510	510
Goodwill	10	5,285	—
Intangible assets	11	7,125	5,705
Right-of-use assets	12	12,398	—
Finance lease receivables	14	4,596	5,283
Total non-current assets		32,374	14,180
Current assets			
Inventories		967	1,010
Trade receivables	13	823,615	2,460
Prepayments, deposits and other receivables		113,454	112,731
Finance lease receivables	14	211,121	547,941
Held-for-trade investments		446	428
Bank balances — Trust accounts	15	11,047	6,543
Bank balances and cash — general accounts	15	14,592	12,255
Total current assets		1,175,242	683,368
Total assets		1,207,616	697,548
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	19	2,040	2,040
Reserves		(66,788)	(60,351)
		(64,748)	(58,311)
Non-controlling interests		69,972	69,070
Total equity		5,224	10,759

	Notes	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Non-current liabilities			
Deferred tax liabilities		1,175	941
Convertible bonds	16	108,228	105,651
Lease liabilities	17	7,481	—
Total non-current liabilities		116,884	106,592
Current liabilities			
Bank borrowings due within one year	18	75,148	415,788
Promissory notes	21	7,342	—
Lease liabilities	17	5,074	—
Trade payables	20	836,796	13,652
Other payables and accruals		161,148	149,709
Tax payables		—	1,048
Total current liabilities		1,085,508	580,197
Total liabilities		1,202,392	686,789
Total equity and liabilities		1,207,616	697,548
Net current assets		89,734	103,171
Net assets		5,224	10,759

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2019

	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				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
				of convertible	Share option	Capital reduction reserve	Share					
				bonds	reserve	reserve	reserve					
As at 1 January 2018	2,040	957,059	66,710	53,115	27,328	163,191	(3,542)	(1,225,787)	40,114	101,046	141,160	
Changes in equity for 2018:												
Loss for the period	—	—	—	—	—	—	—	(10,423)	(10,423)	(991)	(11,414)	
Other comprehensive gain	—	—	—	—	—	—	5,808	147	5,955	3,906	9,861	
Total comprehensive gain/(loss)	—	—	—	—	—	—	5,808	(10,276)	(4,468)	2,915	(1,553)	
As at 31 March 2018	2,040	957,059	66,710	53,115	27,328	163,191	2,266	(1,236,063)	35,646	103,961	139,607	
As at 31 December 2018 and 1 January 2019, as original presented	2,040	957,059	66,710	53,115	27,328	163,191	(9,183)	(1,318,571)	(58,311)	69,070	10,759	
Effect on adoption of HKFRS 16	—	—	—	—	—	—	—	(68)	(68)	(4)	(72)	
As at 31 December 2018 and 1 January 2019, as restated	2,040	957,059	66,710	53,115	27,328	163,191	(9,183)	(1,318,639)	(58,379)	69,066	10,687	
Changes in equity for 2019:												
Loss for the period	—	—	—	—	—	—	—	(8,969)	(8,969)	(928)	(9,897)	
Other comprehensive gain	—	—	—	—	—	—	2,507	93	2,600	1,834	4,434	
Total comprehensive gain/(loss)	—	—	—	—	—	—	2,507	(8,876)	(6,369)	906	(5,463)	
As at 31 March 2019	2,040	957,059	66,710	53,115	27,328	163,191	(6,676)	(1,327,515)	(64,748)	69,972	5,224	

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated quarterly results of the Group 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 the historical cost convention except for certain 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 2018 (the “**2018 Annual Report**”). The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the 2018 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 2019. Except for the effect stated below, the adoption of the new revised HKFRSs has no material impact on the Group’s consolidated financial statements.

HKFRS 16 was issued in May 2016 and is effective for annual periods beginning on or after 1 January 2019. The Group has applied HKFRS 16 retrospectively, with the initial application date of 1 January 2019.

HKFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability and also classifies cash repayments of the lease liability into a principal portion and an interest portion.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

HKFRS 16 substantially carries forward the lessor accounting requirements of the superseded HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has reviewed the impact of HKFRS 16 on all its contracts that are, or that contain leases with effect from 1 January 2019. The Group has opted for the modified retrospective application permitted by HKFRS 16 upon adoption of the new standard. Modified retrospective application requires the recognition of the cumulative impact of adoption of HKFRS 16 on all contracts as at 1 January 2019 in equity.

The details of adjustments to opening retained profits and other account balances as at 1 January 2019 are set out below.

Condensed Consolidated Statement of Financial Position

	31 December 2018	Adjustments	1 January 2019
	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Assets			
Right-of-use assets	—	9,708	9,708
Liabilities			
Lease liabilities			
— Non-current portion	—	5,161	5,161
— Current portion	—	4,618	4,618
Equity			
Accumulated loss	(1,318,571)	(68)	(1,318,639)

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Condensed Consolidated Statement of Profit or Loss

	As per HKFRS 16 HK\$'000 (unaudited)	As per HKAS 17 HK\$'000 (unaudited)	Impact due to change HK\$'000 (unaudited)
Administrative expenses for the period ended 31 March 2019	(11,452)	(11,536)	84
Finance costs for the period ended 31 March 2019	(3,018)	(2,881)	(137)
Loss for the period ended 31 March 2019	(9,897)	(9,844)	(53)

Modified retrospective application of HKFRS 16 also requires the Group to recognise a lease liability at the date of initial application for leases previously classified as an operating lease under the superseded HKAS 17 measured at the present value of the remaining lease payments, discounted using the Group's borrowing rate at the date of initial application. The Group has applied a single discount rate to a portfolio of leases with reasonably similar characteristics for determination of present value of the remaining lease payments. The right-of-use assets have been recognised, on a lease-by-lease basis, at respective carrying amounts as if HKFRS 16 had been applied since the commencement date, but discounted using the Group's borrowing rate of 5.125% at the date of initial application.

2. 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) corporate consulting business segment is engaged in the provision of company secretarial services, accounting and financial reporting services and management consulting services;
- (b) trading business segment is engaged in the trading of goods, components and accessories;
- (c) financial services business segment is engaged in provision of finance lease services, provision of money lending services and provision of securities services;
- (d) the information technology business segment is engaged in distributorship of information technology products and the provision of relevant technical support services; and
- (e) other business segment is engaged in servicing business, such as training course provision.

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

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

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

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

2. SEGMENT REPORTING (Continued)

For the three months ended 31 March 2019

	Corporate consulting business (unaudited) HK\$'000	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	2,051	114,756	773	—	—	117,580	—	117,580
Segment profit/(loss)	1,332	(460)	(4,500)	(3)	—	(3,631)	54	(3,577)
Interest income	—	15	6	1	—	22	1	23
Finance costs	(16)	(117)	(36)	—	—	(169)	(2,849)	(3,018)
Other expenses	—	—	—	—	—	—	(4,396)	(4,396)
Profit/(Loss) before tax	1,316	(562)	(4,530)	(2)	—	(3,778)	(7,190)	(10,968)
Additions for non-current assets	4,260	1,323	—	—	—	5,583	5,388	10,971
Depreciation	(120)	(153)	(396)	—	—	(669)	(649)	(1,318)

For the three months ended 31 March 2018

	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	107,593	29,340	107	—	137,040	—	137,040
Segment profit/(loss)	6	(4,485)	(36)	—	(4,515)	—	(4,515)
Interest income	13	—	—	—	13	—	13
Finance costs	(92)	—	—	—	(92)	(3,419)	(3,511)
Other expenses	—	—	—	—	—	(4,536)	(4,536)
Profit/(Loss) before tax	(73)	(4,485)	(36)	—	(4,594)	(7,955)	(12,549)
Additions for non-current assets	—	77	—	—	77	—	77
Depreciation	(4)	(142)	(5)	—	(151)	(822)	(973)

2. SEGMENT REPORTING (Continued)

As at 31 March 2019

	Corporate consulting business (unaudited) HK\$'000	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	16,303	13,544	1,163,337	1,357	—	1,194,541	—	1,194,541
Bank balances and cash								
— general accounts	—	—	—	—	—	—	261	261
Other assets	—	—	—	—	—	—	12,814	12,814
Total assets	16,303	13,544	1,163,337	1,357	—	1,194,541	13,075	1,207,616
Segment liabilities	(7,641)	(7,836)	(984,315)	(1,841)	—	(1,001,633)	—	(1,001,633)
Convertible bonds	—	—	—	—	—	—	(108,228)	(108,228)
Promissory notes	—	—	—	—	—	—	(7,342)	(7,342)
Other liabilities	—	—	—	—	—	—	(85,189)	(85,189)
Total liabilities	(7,641)	(7,836)	(984,315)	(1,841)	—	(1,001,633)	(200,759)	(1,202,392)

As at 31 December 2018

	Trading business (unaudited) HK\$'000	Financial services business (unaudited) HK\$'000	Information technology business (unaudited) HK\$'000	Other business (unaudited) HK\$'000	Total (unaudited) HK\$'000	Unallocated (unaudited) HK\$'000	Group Total (unaudited) HK\$'000
Segment assets	12,957	673,685	1,336	—	687,618	—	687,618
Bank balances and cash							
— general accounts	—	—	—	—	—	262	262
Other assets	—	—	—	—	—	9,668	9,668
Total assets	12,957	673,685	1,336	—	687,618	9,930	697,548
Segment liabilities	(6,300)	(496,849)	(1,827)	—	(504,976)	—	(504,976)
Convertible bonds	—	—	—	—	—	(105,651)	(105,651)
Other liabilities	—	—	—	—	—	(76,162)	(76,162)
Total liabilities	(6,300)	(496,849)	(1,827)	—	(504,976)	(181,813)	(686,789)

2. SEGMENT REPORTING (Continued)

Geographical information

(a) Revenue from external customers

	Three months ended 31 March	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Hong Kong	117,124	107,888
People Republic of China ("PRC")	456	29,152
	117,580	137,040

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

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

	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
	Hong Kong	1,817
PRC	643	713
	2,460	2,682

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

2. SEGMENT REPORTING (Continued)

Information about major customers

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

	Three months ended 31 March	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Customer A — revenue from trading business		
— Hong Kong	101,509	98,866
Customer B — revenue from trading business		
— Hong Kong	3,215	—
	104,724	98,866

3. 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	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Revenue from:		
Corporate consulting business	2,051	—
Trading business	114,756	107,593
Financial services business	773	29,340
Information technology business	—	107
	117,580	137,040

4. LOSS BEFORE TAX

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

	Three months ended 31 March	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Depreciation expenses in respect of:		
Right-of-use assets	1,080	—
Property, plant and equipment	238	973
Staff costs (including directors' emoluments)	3,761	3,963

5. FINANCE COSTS

	Three months ended 31 March	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Imputed interest charge on convertible bonds (<i>note 1</i>)	2,577	2,340
Imputed interest charge on promissory notes	57	945
Coupon interest charge on promissory notes	13	—
Interest charge on bank borrowings	615	24,904
Interest charge on other borrowings	135	123
Interest charge on finance lease obligation (<i>note 2</i>)	137	11
	3,534	28,323
Less: interest charge on bank borrowings included in cost of sales for financial services business	(516)	(24,812)
	3,018	3,511

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	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Hong Kong profits tax:		
— current	—	—
PRC enterprise income tax:		
— current	—	—
— over provision in prior years	(1,071)	(1,135)
Total income tax recognised in profit or loss	1,071	(1,135)

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 2019 (three months ended 31 March 2018: 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 2019 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	
	2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Loss attributable to owners of the Company used in the basic loss per share calculation	8,969	10,423

8. LOSS PER SHARE (Continued)

	Number of shares (thousands) Three months ended 31 March	
	2019 (unaudited)	2018 (unaudited)
Shares		
Weighted average number of ordinary shares in issue during the year	2,040,094	2,040,094
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	2,214,007	2,214,007

No diluted loss per share information presented for the periods ended 31 March 2019 and 2018 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 2019, the Group acquired approximately HK\$0.1 million in computer and office equipment (for the year ended 31 December 2018: HK\$2.2 million).

10. GOODWILL

	HK\$'000
COST:	
At 1 January 2018 and 31 December 2018 (audited)	5,803
Acquisition through business combination (<i>note 22</i>)	5,285
At 31 March 2019 (unaudited)	11,088
ACCUMULATED IMPAIRMENT LOSSES:	
At 1 January 2018 (audited)	—
Impairment loss for the year	5,803
At 1 January 2019 and 31 December 2018 (audited)	5,803
Impairment loss for the period	—
At 31 March 2019	5,803
NET CARRYING AMOUNT:	
At 31 March 2019 (unaudited)	5,285
At 31 December 2018 (audited)	—

11. INTANGIBLE ASSETS

For the three months ended 31 March 2019, the Group acquired the following intangible assets through the acquisition of subsidiaries. Details of the acquisition of subsidiaries are set out in note 22. There is no addition of intangible assets for the year ended 31 December 2018.

Customer relationship of HK\$1,419,000 represented the intangible asset arose from the acquisition of corporate consulting business and was valued as of the respective date of acquisition by an independent qualified valuer on the basis of the excess earnings method under the income approach. The management of the Group considered customer relationship has finite useful lives and is amortised on a straight-line basis over 5 years.

12. RIGHT-OF-USE ASSETS

	HK\$'000
COST:	
At 1 January 2019	—
Recognition upon initial application of HKFRS 16	9,708
Acquired through business combination (<i>note 22</i>)	3,770
At 31 March 2019 (unaudited)	13,478
ACCUMULATED DEPRECIATION:	
At 1 January 2019	—
Recognition upon initial application of HKFRS 16	68
Provided for the period	1,025
Exchange realignment	(13)
At 31 March 2019	1,080
NET CARRYING AMOUNT:	
At 31 March 2019 (unaudited)	12,398

The right-of-use assets represent the Group's rights to use underlying leased premises under operating lease arrangements over the lease terms, which are stated at cost less accumulated depreciation and accumulated impairment losses, and adjusted for any remeasurement of the lease liabilities.

13. 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 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Within 30 days	821,330	283
31 to 60 days	52	24
61 to 120 days	96	24
Over 120 days	2,137	2,129
	823,615	2,460

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

	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Not impaired	823,615	2,460

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.

14. FINANCE LEASE RECEIVABLES

	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Current finance lease receivables	211,121	547,941
Non-current finance lease receivables	4,596	5,283
	215,717	553,224

Amount receivable under finance leases

	Minimum lease payment		Present value of minimum lease payment	
	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Within one year	229,399	565,846	211,121	547,941
In more than one year but not more than two years	4,670	4,554	3,602	3,388
In more than two years but not more than five years	1,174	2,281	994	1,895
	235,243	572,681	215,717	553,224
Unearned finance income	(19,526)	(19,457)	N/A	N/A
Present value of minimum lease payment	215,717	553,224	215,717	553,224

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 4.81% to 9.40% per annum as at 31 March 2019 (31 December 2018: 4.05% 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 2019 and 31 December 2018 are neither past due nor impaired.

The term of finance leases entered into ranged from 3 to 5 years.

15. BANK BALANCES AND CASH

	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Bank balances — trust accounts (<i>note</i>)	11,047	6,543
Bank balances and cash — general accounts	14,592	12,255
	25,639	18,798

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 2019, the Group's bank balances and cash — general accounts amounted to approximately HK\$14.6 million (31 December 2018: HK\$12.3 million), approximately HK\$2.1 million was denominated in RMB and approximately of HK\$12.5 million was denominated in Hong Kong dollars. Therein, approximately HK\$12.3 million, about 84.2% (31 December 2018: HK\$10.8 million, about 87.9%) were bank balances deposited with credit worthy banks of high credit ratings in Hong Kong, in which approximately HK\$11.4 million (31 December 2018: HK\$10.7 million) was denominated in Hong Kong dollars. Included in bank balances and cash — general accounts, there is a pledged deposit of approximately HK\$4 million to secure a general banking facility (note 18).

16. CONVERTIBLE BONDS

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

	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
As beginning of the period/year	105,651	95,940
Interest charged	2,577	9,711
As end of the period/year	108,228	105,651

17. LEASE LIABILITIES

	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Minimum lease payments due		
— Within one year	5,595	—
— In the second to fifth years, inclusive	7,794	—
	13,389	—
Less: future finance charges	(834)	—
Present value of lease liabilities	12,555	—
	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Within one year	5,074	—
In the second to fifth years, inclusive	7,481	—
	12,555	—

18. BANK BORROWINGS

	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Fixed rate:		
Secured bank borrowings		
— due within one year (<i>note 1</i>)	75,148	415,788
	75,148	415,788
Secured bank borrowings		
— due more than one year, but not more than three years (<i>note 1</i>)	—	—
	75,148	415,788

Note:

- (1) Bank borrowings obtained in the PRC were secured by the finance lease assets held by the leasee with the carrying value of approximately RMB60.0 million (equivalent to approximately HK\$70.2 million), as at 31 March 2019 (31 December 2018: RMB554.1 million (equivalent to approximately HK\$630.8 million)). The interest rate of the bank loans were 4% per annum as at 31 March 2019 and 31 December 2018.

Included therein, a general banking facility amounted to HK\$7.0 million was secured by a deposit of HK\$4.0 million (31 December 2018: HK\$4.0 million). The facility was utilised to the extent of approximately HK\$5.0 million as at 31 March 2019 (31 December 2018: HK\$5.0 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.

19. SHARE CAPITAL

	Number of shares in '000	Nominal values HK\$'000
Authorised:		
As at 31 December 2018		
and 31 March 2019		
Ordinary shares of HK\$0.001 each	200,000,000	200,000
Issued and fully paid:		
As at 31 December 2018		
and 31 March 2019		
Ordinary shares of HK\$0.001 each	2,040,094	2,040

20. TRADE PAYABLES

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 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
Within 30 days	4,998	4,490
31 to 60 days	9	22
61 to 120 days	22	202
Over 120 days	2,378	2,384
	7,407	7,098

21. PROMISSORY NOTES

On 28 February 2019, The Company issued a promissory note with principal amounts of HK\$8.0 million (2019 PN) as a consideration for the acquisition of VCSL Group (as defined in note 22). The 2019 PN bears interest at 2% per annum and is due on the date falling on the last day of the 12th month from the date of issue of the 2019 PN (the “**2019 PN Maturity Date**”). The maturity date is 28 February 2020. The Company has the right to repay in full or in part of the principal amount of the 2019 PN prior to the 2019 PN Maturity Date at par.

The movement of the promissory notes was as follows:

	As at 31 March 2019 (unaudited) HK\$'000	As at 31 December 2018 (audited) HK\$'000
At beginning of the period/year	—	27,622
Issuance upon acquisition of VCSL Group (as defined in note 22) on 28 February 2019 (“ 2019 PN ”)	7,272	—
Coupon interest charged	13	—
Imputed interest charged	57	1,272
Transfer to other payables upon maturity	—	(28,894)
At end of the period/year	7,342	—

The fair value of the 2019 PN was approximately HK\$7.2 million as at the issue date, calculated at the effective interest rate of 10.01% per annum. The promissory note was carried at amortised cost until settlement on due date. As a result, the carrying amount of outstanding 2019 PN was HK\$7.3 million.

22. ACQUISITION OF SUBSIDIARY

On 28 February 2019, the Group completed the acquisition of the entire interest in Veda Corporate Services Limited (“**VCSL**”) and its subsidiaries (together “**VCSL Group**”) at a consideration of HK\$8,000,000 settled by the promissory notes issued by the Company. VCSL Group is principally engaged in the provision of corporate consulting services including company secretarial services, accounting and financial reporting services and management consulting services and is a holder of the Trust or Company Service Provider License registered with the Companies Registry of Hong Kong. The primary reason for the acquisition was to further expand and diversify the business portfolio within the corporate consulting business sector.

The fair values of identifiable assets and liabilities arising from the acquisition of VCSL Group as at the date of acquisition were as follows:

	Fair value HK\$'000 (unaudited)
Property, plant and equipment	20
Right-of-use assets	3,770
Intangible assets	1,419
Trade receivables	998
Other receivables	36
Prepayments and deposits	544
Bank balances and cash	2,654
Tax receivables	226
Trade payables	(638)
Deferred income	(3)
Receipts in advance	(33)
Deferred tax liabilities	(234)
Dividend payable	(2,970)
Lease liabilities	(3,802)
Fair value of net assets acquired	1,987
	HK\$'000 (unaudited)
Total consideration satisfied by promissory notes issued at fair value (<i>note 21</i>)	7,272
Less: Fair value of net assets acquired	1,987
Goodwill (<i>note 10</i>)	5,285
Cash consideration paid	—
Bank balances and cash in subsidiaries acquired	2,654
Net cash inflow from acquisition of subsidiaries	2,654

23. CAPITAL COMMITMENTS

The Group did not have any material capital commitments as at 31 March 2019 (31 December 2018: Nil).

24. CONTINGENT LIABILITIES

As at 31 March 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

25. 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	
			2019 (unaudited) HK\$'000	2018 (unaudited) HK\$'000
Cheung Wai Yin, Wilson	Director of the Company	Loan payable	12,155	—
Wong Hin Shek	Shareholder of the Company	Loan interest payable Loan payable	192 13,030	— —

Total compensation paid to key management personnel during the period amounted to approximately HK\$1,484,000 (three months ended 31 March 2018: HK\$1,484,000).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the three months ended 31 March 2019, the Group recorded a revenue of approximately HK\$117.6 million (three months ended 31 March 2018: approximately HK\$137.0 million). Loss for the period attributable to owners of the Company was approximately HK\$9.0 million (three months ended 31 March 2018: approximately HK\$10.4 million). Basic and diluted loss per share was approximately HK\$0.004 (three months ended 31 March 2018: approximately HK\$0.005). The net loss was mainly attributable from the tightening fiscal policy and stricter lending conditions affected the financial leasing market in the PRC leading to the decrease in both turnover and gross margin.

BUSINESS REVIEW

Corporate consulting business

On 28 February 2019, Earning Action Limited, a wholly owned subsidiary of the Company, acquired the entire interest in VCSL Group, which is principally engaged in corporate consulting services including company secretarial services, accounting and financial reporting services and management consulting services. The revenue for the three months ended 31 March 2019 was approximately HK\$2.1 million and the segment profit was approximately HK\$1.3 million.

Trading business

The revenue for the three months ended 31 March 2019 of the trading business was approximately HK\$114.8 million (three months ended 31 March 2018: approximately HK\$107.6 million) and a segment loss of approximately HK\$0.5 million (three months ended 31 March 2018: approximately HK\$0.01 million). Trading business is one of the core businesses of the Group which contributed approximately 97.6% of the Group's revenue for the three months ended 31 March 2019. Having our trading outlet located in Sheung Shui, where is the most convenient location for the PRC visitors shopping for confectioneries, daily and pharmacy products, the source of revenue was comparatively stable. However, as the competition is fierce, the gross profit margin is comparatively low.

Financial services business

The financial services business includes the provision of financial leasing services, money lending services, securities brokerage services and asset management business. The revenue for the three months ended 31 March 2019 of the financial services business was approximately HK\$0.8 million (three months ended 31 March 2018: approximately HK\$29.3 million) and a segment loss of approximately HK\$4.5 million (three months ended 31 March 2018: approximately HK\$4.5 million). The segment loss was mainly due to the significant drop of revenue resulting from the tightening fiscal policy and stricter lending conditions affected the financial leasing market in the PRC.

BUSINESS REVIEW (Continued)**Financial services business** (continued)

As at 31 March 2019, 恒河融資租賃（上海）有限公司 (Heng He Finance Lease (Shanghai) Company Limited*) (“**Heng He**”) had the following material finance lease contracts in an aggregate amount of RMB205.0 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	6.18%
Customer B (Note 2)	65,000	18 August 2016	3 years	6.18%
Customer C (Note 3)	115,000	20 October 2016	3 years	5.10%

Notes:

1. A company incorporated in the PRC which is principally engaged in embroidery processing.
2. A company incorporated in the PRC which engages in digital networking and information technology development.
3. A company incorporated in the PRC which specializes in the provision of heat supply and industrial use steam.

Information technology business

The revenue for the three months ended 31 March 2019 of the information technology business was nil (three months ended 31 March 2018: approximately HK\$0.1 million) and a segment loss of approximately HK\$0.003 million (three months ended 31 March 2018: approximately HK\$0.04 million) which was mainly contributed by 綿陽恆達信息科技有限公司 (Mian Yang Heng Da Information Technology Limited*) (“**Heng Da**”). Due to the unsatisfactory financial performance of Heng Da in the past years, the Group decided to dispose its entire 60% equity interests in Heng Da to an independent third party for a cash consideration of RMB10,000 in December 2018. The disposal is still pending for the approval from the Mian Yang government. Once the disposal is approved, Heng Da will be no longer the subsidiary of the Group.

* For identification purpose only

OUTLOOK

Corporate consulting business

Given the steady increment of the listed companies in Hong Kong, the Group anticipates the demand from Hong Kong listed issuers requesting for professional services in relation to corporate governance matters and compliance with the appropriate local rules governing the listed companies in Hong Kong and other relevant legal and regulatory requirements will persist. The completion of an acquisition of the entire interest in VCSL Group which is principally engaged in the provision of corporate consulting services would enhance the revenue stream of Group in the foreseeable future.

Trading business

Although the competition in the trading business is fierce, the Group strive to increase the variety of its selling products to maintain the competitiveness and secure the Group's source of revenue.

Financial services business

During the period under review, the business environment of financial leasing services business in the PRC continues difficult. The commercial banks were unwilling to or were not be able to refer new customers with larger business size due to their tightening fiscal policy and stricter lending conditions. The Group expects that the development will remain sluggish in the coming future.

While for the other business divisions, such as provision of money lending services, securities brokerage services and asset management business, the Group had strived to formulate different business strategies in strengthening their operations to maximize returns.

Furthermore, the Group will continue to seize other growth opportunities to enhance competitiveness to strive for the best return to the shareholders of the Company (the "**Shareholders**").

CONVERTIBLE BONDS

Further to the convertible bonds issued by the Company on 12 August 2008 (the **"2008 CB"**) as part of the consideration for the acquisition of forest concessions in Papua, Indonesia, the Company issued further convertible bonds on 21 April 2015 (the **"2015 CB"**) in the principal amount of HK\$40.0 million as part of the consideration for the acquisition of the entire issued share capital of Blossom Height Ventures Limited.

As at 31 March 2019, the Company had outstanding 2008 CB and 2015 CB of aggregate principal amounts of approximately HK\$124.1 million and HK\$40.0 million respectively which could be converted into 1,305,978,947 shares of the Company (the **"Shares"**) and 173,913,043 Shares accordingly.

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 (the **"High Court"**) by Mr. Au Kai To Karel, as the plaintiff claiming against (i) End User Technology Limited (**"End User"**), 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. Formal trial was held on 4–7 September 2017.

On 29 September 2017, the Company received a judgement dated 29 September 2017 handed down by the High Court (the **"Judgement"**) ordering, among others, that the Company and End User, to pay, jointly and severally, damages to Mr. Au Kai To Karel in the sum of HK\$4.4 million.

As announced by the Company in its announcement dated 14 November 2017, the Company has appealed against the Judgment by way of Notice of Appeal filed on 25 October 2017 with the Court of Appeal. The Company's appeal is numbered CACV 237 of 2017. Additionally, after seeking further legal advice on the Judgment, the Appeal, the Petition (as explained below) and other appropriate actions to be taken thereon.

On 13 November 2017, the Company received a petition made by Mr. Au Kai To Karel (the **"Petition"**) in the matter of the Companies (Winding Up and Miscellaneous Provision) Ordinance, Chapter 32 (the **"Ordinance"**) from the High Court that the Company may be wound up by the High Court under the provisions of the Ordinance on the ground that the Company is deemed to be unable to pay the sum of HK\$4.4 million as stipulated therein the Judgment mentioned above. The Petition is numbered HCCW 343 of 2017.

LITIGATION (Continued)

The Company, on 1 December 2017, applied to the Court for a validation order in respect of the Company's disposition of property pending determination of the Petition (the "**Validation Order**").

At the hearing on 24 January 2018, the Validation Order was granted by the Court in the terms as follows: until further order of the Court, (i) any payment or other disposition of property made on or after 13 November 2017 in the ordinary course of the business of the Company shall not be void; (ii) the payments made into or out of certain specified bank accounts of the Company in respect of expenses incurred in the ordinary course of business shall be sanctioned; (iii) the payment of reasonable legal expenses incurred by the Company in various legal proceedings shall not be void; (iv) any transfer of the Company's shares on or after 13 November 2017 shall not be void; and (v) the Company shall provide to the Petitioner all quarterly Reports commencing December 2017 and annual Reports starting from the year ending 31 December 2017 within three days from the date of issuance of the same to the public.

On 7 May 2018, upon the Company having paid into court the judgement sum of HK\$4.4 million pursuant to a court order dated 16 April 2018, the Petition was adjourned until the determination of the Appeal.

On 4 January 2019, the Court of Appeal allowed the Company's appeal despite dismissing End User's appeal. Reasons for judgment was handed down on 18 January 2019. The Group will seek further legal advice on the reasons for judgment and other appropriate actions will be taken thereon if so advised. The Group will take every possible step to protect the interests and assets of the Group as well as the interest of the Shareholders and investors of the Company.

The Group will keep its Shareholders and the public informed of any further significant developments by making further announcements as and when appropriate.

FINANCIAL ASSISTANCES RECEIVED BY THE COMPANY

During the period ended 31 March 2019, Mr. Cheung Wai Yin Wilson ("**Mr. Cheung**"), the executive Director, advanced fund of approximately HK\$12.2 million (31 December 2018: HK\$13.6 million) to the Company at no interest and no fixed repayment terms.

On 28 September 2018, Mr. Wong Hin Shek ("**Mr. Wong**"), the substantial shareholder of the Company, entered into a loan agreement with the Company in which Mr. Wong agreed to grant a loan facility to the Company in the principal amount of up to HK\$25,000,000 at an interest rate of 5.125% per annum with an availability period from 28 September 2018 up to 30 September 2019. Loans will be matured after twelve months from the drawdown date. As at 31 March 2019, the outstanding principal amount was approximately HK\$13.0 million (31 December 2018: approximately HK\$8.9 million).

As Mr. Cheung and Mr. Wong are the connected persons to the Company, the loans constitute financial assistance received by the Company from connected person. The loans were conducted on normal commercial terms or better to the Company and not secured by any asset of the Group, the loans were fully exempted from all disclosure, annual review, circular and Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

PLEDGE OF ASSETS

As at 31 March 2019, the Group pledged bank deposits of approximately HK\$4.0 million (31 December 2018: approximately HK\$4.0 million) to secure banking facilities of the Group.

CAPITAL STRUCTURE

The Company had no changes in capital structure during the period ended 31 March 2019.

INVESTMENT POSITION AND PLANNING

Acquisition of 100% interest in VCSL Group

On 18 February 2019, the Company through a direct wholly-owned subsidiary entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**"), pursuant to which the Company conditionally agreed to acquire the entire interest in VCSL Group (the "**Acquisition**") at a consideration of HK\$8,000,000, which shall be settled by way of issue of the promissory notes by the Company. VCSL Group is principally engaged in the corporate consulting services including company secretarial services, accounting and financial reporting services and management consulting services.

On 28 February 2019, all conditions precedent for the completion under the Sale and Purchase Agreement had been fulfilled and completion took place in accordance with the terms and conditions of the Sale and Purchase Agreement. Following the completion, VCSL became an indirectly wholly-owned subsidiary of the Company and the financial results of the VCSL Group were consolidated into the financial statements of the Group.

Details of the Acquisition are set out in the Company's announcements dated 18 February 2019 and 28 February 2019.

SHARE OPTION SCHEME

The share option scheme of the Company (the "**Share Option Scheme**") was adopted by the Shareholders 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.

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 2019	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 2019	Granted during the period	Exercised during the period	Cancelled/ Lapsed during the period					
Executive director									
Cheung Wai Yin, Wilson	100,000,000	—	—	—	100,000,000	19/8/2015	19/8/2015 – 18/8/2025	0.147	0.147
Lau Chi Yan, Pierre	20,000,000	—	—	—	20,000,000	19/8/2015	19/8/2015 – 18/8/2025	0.147	0.147
Independent non-executive Directors									
Yeung Mo Sheung, Ann	16,483	—	—	—	16,483	17/1/2013	17/1/2013 – 16/1/2023	0.010	2.130
	1,000,000	—	—	—	1,000,000	19/8/2015	19/8/2015 – 18/8/2025	0.147	0.147
Ng Kay Kwok ("Mr. Ng") (Note 3)	1,000,000	—	—	—	1,000,000	19/8/2015	19/8/2015 – 18/8/2025	0.147	0.147
Employees and other eligible participants									
Employees	28,241	—	—	—	28,241	30/5/2012	30/5/2012 – 29/5/2022	0.017	3.600
	40,000,000	—	—	—	40,000,000	19/8/2015	19/8/2015 – 18/8/2025	0.147	0.147
Other eligible participants	332,003	—	—	—	332,003	30/5/2012	30/5/2012 – 29/5/2022	0.017	3.600
	14,128	—	—	—	14,128	17/1/2013	17/1/2013 – 16/1/2023	0.010	2.130
	71,000,000	—	—	—	71,000,000	19/8/2015	19/8/2015 – 18/8/2025	0.147	0.147
	<u>233,390,855</u>	—	—	—	<u>233,390,855</u>				

Notes:

- 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.
- 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.
- Mr. Ng resigned as an independent non-executive Director with effect from 1 April 2019. According to the Share Option Scheme, the share option which held by Mr. Ng will be lapsed on the expiry of 3 months after the date of cessation of his employment (i.e. 1 July 2019).

During the period for the three months ended 31 March 2019, no share options were granted by the Company.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2019, 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 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 31 March 2019

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

Name of directors	Personal	Total	Approximate percentage of the total issued share capital of the Company (%)
Cheung Wai Yin, Wilson	557,811	557,811	0.02%
Lau Chi Yan, Pierre	3,984,375	3,984,375	0.20%

(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	4.901%
Lau Chi Yan, Pierre	19/8/2015	19/8/2015 - 18/8/2025	0.147	20,000,000	20,000,000	0.980%
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	0.049%
Ng Kay Kwok (Note)	19/8/2015	19/8/2015 - 18/8/2025	0.147	1,000,000	1,000,000	0.049%

Note: Mr. Ng resigned as an independent non-executive Director with effect from 1 April 2019. According to the Share Option Scheme, the share options which held by Mr. Ng will be lapsed on the expiry of 3 months after the date of cessation of his employment (i.e. 1 July 2019).

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 2019** (continued)

(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	56.76

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 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).

Save as disclosed above, as at 31 March 2019, 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" above, at no time during the period for the three months ended 31 March 2019 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 2019, 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 (%)
Team Sunny International Holdings Limited (<i>Note</i>)	Beneficial owner	471,640,000	23.12
Wong Hin Shek (<i>Note</i>)	Controlled corporation	471,640,000	23.12

Note: The interest is held by Team Sunny International Holdings Limited, a company incorporated in the British Virgin Islands owned as to 100% by Mr. Wong Hin Shek.

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

Name of the holder of the convertible bonds	Nature of Interest	Principal amount of the convertible bonds HK\$	Number of the total underlying shares	Approximate percentage of the total issued share capital of the Company (%)
Ivana	Beneficial owner	110,000,000	1,157,894,736	56.76
CW Limited (<i>Note 1</i>)	Controlled corporation	110,000,000	1,157,894,736	56.76
Asiatrust Limited (<i>Note 1</i>)	Trustee	110,000,000	1,157,894,736	56.76
Yihua Enterprise Limited	Beneficial owner	40,000,000	173,913,043	8.52
Cheng Jun (<i>Note 2</i>)	Controlled corporation	40,000,000	173,913,043	8.52
Gao Yun Feng (<i>Note 2</i>)	Controlled corporation	40,000,000	173,913,043	8.52

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 2019, 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Ms. Tsang Kwai Ping ("**Ms. Tsang**"), an executive Director, is a director of a company incorporated in Hong Kong with limited liability which is principally engaged in the provision of company secretarial services for non-listed Hong Kong companies in Hong Kong. Ms. Tsang has irrevocably and unconditionally provided the Company an undertaking in accordance with the terms and conditions under outside interests and non-competition undertaking set out in her service agreement.

For the three months ended 31 March 2019, save as disclosed above, no Directors or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has not adopted a code of conduct nor established written guidelines regarding the securities transactions by the Directors and relevant employees of the Company but has applied the principles of the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. All Directors have confirmed, following the specific enquiry by the Company, that they have complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the period under review.

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 2019.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has always recognised the importance of the transparency and accountability to Shareholders. It is the belief of the Board that the Shareholders can maximise their benefits from good corporate governance. The Company is committed to maintaining and ensuring high standards of corporate governance and to complying with applicable statutory and regulatory requirements with a view to assuring the conduct of management as well as protecting the interests of the Shareholders.

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code (the "**CG Code**") in Appendix 15 of the GEM Listing Rules. Throughout the period ended 31 March 2019, to the best knowledge of the Board, the Company has complied with the code provisions set out in the CG Code except for the following deviations from the code provisions of the CG Code:

Code Provision A.2.1

The Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Cheung Wai Yin, Wilson currently assumes the roles of both the chairman and chief executive officer of the Company. Traditionally, the chief executive officer of the Company also assumes the role of the chairman of the Company because it is believed that the structure of the Board ensures the balance of power and authority therefore no need to segregate the roles of the chairman and chief executive officer of the Company. Mr. Cheung has substantial experience that is essential to fulfilling the role of the chairman of the Company, at the same time, he has the appropriate management skills and business acumen that are the prerequisites for assuming the role of the chief executive officer of the Company in the day-to-day management of the Group.

As at 31 March 2019, the Board composed of five Directors including three independent non-executive Directors with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the roles of the management of the Company's major operating subsidiaries are performed by the managing Director and other individuals. The balance of power and authority is therefore ensured by the current structure of the Board. Whilst it does not believe that such role separation will improve the corporate performance, the Board, as well as the Company, intends to comply with this code provision by seeking and appointing suitable candidate with appropriate background, acknowledge, experience and calibre to assume the role as the chairman of the Company.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (Continued)

Code Provision A.4.2

The Code Provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Pursuant to the articles of association of the Company, the Chairman and the managing Director shall not be subject to retirement by rotation or also not be taken into account in determining the number of directors to retire in each year. The Board considers that the continuity of the Chairman and the managing Director and their leaderships will be essential for the stability of the key management of the Board. On the other hand, the Board will ensure that the Directors other than the Chairman and the managing Director will rotate at least once every three years in order to comply with the Code Provision A.4.2.

AUDIT COMMITTEE

The Company has established 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 auditor of the Company.

During the period for the three months ended 31 March 2019, the Audit Committee consists of three members comprising three independent non-executive Directors, namely Ms. Yeung Mo Sheung, Ann, Mr. Ng Kay Kwok ("**Mr. Ng**") and Mr. Au-yeung Sei Kwok, one of whom is a qualified accountant and has extensive experience in accounting and financial matters.

On 1 April 2019, Mr. Ng resigned as an independent non-executive Director and ceased to act as a member of the Audit Committee. The minimum number of members and the composition of the Audit Committee fails to meet the requirements under Rule 5.28 of the GEM Listing Rules upon the resignation of Mr. Ng.

On 7 May 2019, Ms. Ng Ka Sim, Casina has been appointed as an independent non-executive Director and a member of the Audit Committee. Following the appointment of Ms. Ng, the Company has fulfilled the requirements under Rule 5.28 of the GEM Listing Rules.

The Audit Committee has reviewed with the senior management of the Company the unaudited condensed consolidated first quarterly results of the Group for the three months ended 31 March 2019.

EVENTS AFTER REPORTING PERIOD

Change of Directors and members of the Board Committees

On 1 April 2019, Ms. Tsang Kwai Ping has been appointed as an executive Director, and Mr. Ng Kay Kwok resigned as an independent non-executive Director and a member of each of the Audit Committee, the nomination committee of the Company and the remuneration committee of the Company (together the “**Board Committees**”).

On 7 May 2019, Ms. Ng Ka Sim, Casina has been appointed as an independent non-executive Director and a member of each of the Board Committees.

BOARD OF DIRECTORS

As at the date of this report, the Directors are:

Executive Directors:

Mr. Cheung Wai Yin, Wilson	<i>(Chairman and Chief Executive Officer)</i>
Mr. Lau Chi Yan, Pierre	<i>(Managing Director)</i>
Ms. Tsang Kwai Ping	

Independent Non-executive Directors:

Ms. Yeung Mo Sheung, Ann
 Mr. Au-yeung Sei Kwok
 Ms. Ng Ka Sim, Casina

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

Hong Kong, 10 May 2019

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