MERDEKA FINANCIAL GROUP LIMITED
領智金融集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8163)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the Annual Report and the announcements of the Company dated 18 August 2016 and 20 January 2017. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as in the Annual Report.

In addition to the information provided in the Annual Report, the Board would like to provide the following further information in relation to the impairment loss on finance lease receivables of HK$77.5 million.

The finance lease receivables as at 31 December 2019 in the aggregate amount of approximately HK$159 million referred to the finance lease agreement entered into between Heng He as lessor and Lessee A, an independent third party, as lessee in January 2017 in relation to the sale and purchase of certain machineries and equipment and the leaseback of such machineries and equipment to Lessee A for a term of 3 years and the deeds of transfer entered into between Heng He and Lessor B, an independent third party, in August 2016 in relation to the sale and purchase of certain sub-leased assets from Lessor B to Heng He and the leaseback of such sub-leased assets by Heng He to Lessor B for a term of 3 years. The sub-leased assets consisted of certain network servers, Ethernet switches and high-end routers, which were owned by Lessor B at the time of entering into the deeds of transfer and Lessor B therefore had the right to sell such sub-leased assets to Heng He under the deeds of transfer.

The finance lease receivables in the aggregate amount of HK$159 million had been outstanding since early 2018 and the management of Heng He had been actively chasing Lessee A and Lessor B for the outstanding payment by visiting their office, regularly communicating with them, and issuing demand letters to remind them to pay the outstanding payment on time since early 2018.

Both Lessee A and Lessor B had submitted a request in late 2018 to Heng He for a new payment schedule due to difficult operating environment. Lessee A requested to delay the payment schedule by repaying the remaining lease payment in aggregate of HK$30 million on a monthly basis starting from April 2019 to December 2019 while Lessor B requested to delay the payment schedule by repaying the remaining lease payment in aggregate of HK$129 million on a monthly basis starting from April 2019 to October 2019. The management of Heng He, having considered (i) Lessee A and Lessor B having paid the previous instalments on time according to the original payment schedule; (ii) the delay in payment according to their proposed new payment schedule was not long; and (iii) the estimated time and cost of taking legal actions against Lessee A and Lessor B for the recovery of the outstanding payment, considered that the new payment schedules proposed by Lessee A and Lessor B were acceptable. During the course of the preparation of the financial statements for the year ended 31 December 2018, the management of Heng He expected Lessee A and Lessor B would pay all the outstanding amount according to the new payment schedules and the Directors considered the probability of default was not high when each of Lessee A and Lessor B failed to repay the outstanding loan under the original payment term of 3 years under the finance lease agreement and deeds of transfer taking into account that the then financial condition and operation environment of each of Lessee A and Lessor B which were assessed through regular communications between the management of Heng He and the management of each of Lessee A and Lessor B. Having considered the above, no impairment on finance lease receivables were made for the year ended 31 December 2018.

However, both Lessee A and Lessor B were unable to pay the outstanding payment according to the new payment schedules in the first half 2019. No further new payment schedule was entered into between Heng He and each of Lessee A and Lessor B or suggested by Lessee A and Lessor B after both Lessee A and Lessor B were unable to pay the outstanding payment in the first half of 2019. The management of Heng He thus approached Lessee A and Lessor B to investigate and check on the financial status of Lessee A and Lessor B and to ascertain the underlying reasons of the debtors' inability to pay the outstanding payment according to the new payment schedules. As Lessee A and Lessor B had repeatedly failed to pay the instalments under the original agreements and the new payment schedules suggested by them, Heng He further issued demand letters and legal demand letters to Lessee A and Lessor B to remind the payment of the outstanding payment in second half year of 2019. In addition to issuing demand letters to Lessee A and Lessor B, the management of Heng He had meetings with Lessee A and Lessor B in 2019 to get an update on their business performance and financial situation and discussed with the management of Lessee A and Lessor B on the possible payment time of the outstanding lease payment. As at 31 December 2019, Lessee A had settled an aggregate amount of approximately HK$1.7 million of interest since the date of entering into the finance lease agreement. As at 31 December 2019, Lessor B had settled an aggregate amount of approximately HK$11.2 million of interest since the date of entering into the deeds of transfer. The management of the Company, having considered the probability of default and the loss given default and the exposure at default, made an impairment of HK$77.5 million on the finance lease receivables for the year ended 31 December 2019.

In assessing the expected credit loss of the Group's finance lease receivables as at 31 December 2019, a credit rating analysis of the underlying debtors was performed by an independent qualified valuer by reviewing the historical payment history, credit assessment and including forward-looking information to estimate the default risk. Credit loss referred to the difference between all contractual cash flows that were due to an entity in accordance with the contract and all the cash flows that the entity expected to receive (i.e. all cash shortfalls), discounted at the original effective interest rate. The expected credit loss referred to the weighted average of credit losses with the respective risk of a default occurring as the weights. The rate of expected credit loss adopted for the finance lease receivables as at 31 December 2019 was 48.86%.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following words and expressions shall have the following meanings when used herein:

"Annual Report"	the annual report of the Company for the year ended 31 December 2019
"Company"	Merdeka Financial Group Limited, together with its subsidiaries, the "**Group**"
"Heng He"	恒河融資租賃(上海)有限公司 (Heng He Financial Lease (Shanghai) Company Limited*), an indirect non-wholly owned subsidiary of the Company
"Lessee A"	上海長城電腦繡花有限公司(Shanghai Zhang Cheng Computerized Embroidery Company Limited*) ("**Shanghai Zhang Cheng**"), of which its equity interest is owned as to 90% by Chao Siwei (巢思維) and 10% by Guo Delong (郭德隆) as shown in the PRC company search result conducted on 13 September 2020

"Lessor B"	華富融資租賃(上海)有限公司(Hua Fu Finance Leasing (Shanghai) Company Limited*) ("**Hua Fu**"), of which its equity interest is owned as to 75% by 坤艮股權投資基金管理(上海)有限公司(Kun Gen Shares Investment Fund Management (Shanghai) Company Limited*), a company established in the PRC (which its equity interest is owned as to approximately 43.25% by Lu Dawei (陸大偉)) and as to 25% by Hong Kong LJI Industrial Investment Holding Limited (香港路奇實業投資控股有限公司), a company incorporated in Hong Kong (which its issued shares is owned as to 50% by Lu Dawei (陸大偉) and 50% by Chen Guo Bin (陳國斌)) as shown in the company search result conducted on 13 September 2020, 23 November 2020 and 10 December 2020

* *for identification purpose only*

By order of the Board
MERDEKA FINANCIAL GROUP LIMITED
Cheung Wai Yin, Wilson
Executive Director

Hong Kong, 16 December 2020

As at the date of this announcement, the executive Directors are Mr. Wong Hin Shek (Chairman and Chief Executive Officer), Mr. Cheung Wai Yin, Wilson and Ms. Tsang Kwai Ping, the independent non-executive Directors are Ms. Ng Ka Sim, Casina, Mr. Wong Wing Kit and Ms. Yeung Mo Sheung, Ann.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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