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MERDEKA

MERDEKA FINANCIAL SERVICES GROUP LIMITED

(萬德金融服務集團有限公司*)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8163)

**CONNECTED TRANSACTION:
AMENDMENTS TO THE TERMS AND CONDITIONS
OF THE CONVERTIBLE BONDS**

THIRD SUPPLEMENTAL DEED RELATING TO THE CONVERTIBLE BONDS

The Board announces that on 20 January 2017 (after trading hours), the Company and the Bondholders entered into the Third Supplemental Deed, pursuant to which the Company and the Bondholders agreed to amend certain terms and conditions of the Convertible Bonds. Save for the Proposed Terms, all other terms of the Convertible Bonds shall remain unchanged and valid.

As at the date of this announcement, the aggregate outstanding principal amount of the Convertible Bonds amounts to HK\$124,068,000.

** for identification purposes only*

GEM LISTING RULES IMPLICATIONS

Pursuant to Rule 22.03 of the GEM Listing Rules, any alterations in the terms of convertible equity securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible equity securities.

As Ivana is a company controlled and owned by a trust founded by Mr. Cheung, Ivana is a connected person of the Company under the GEM Listing Rules. The Proposed Terms to be effected by the Third Supplemental Deed constitute a connected transaction of the Company. Therefore, the Proposed Terms are subject to reporting and announcement requirements, as well as approval by the Independent Shareholders at the EGM under the GEM Listing Rules. The Company will establish an independent board committee and appoint an independent financial adviser to advise the Independent Shareholders and the independent board committee of the Company in respect of the Proposed Terms. Mr. Cheung and Ivana together with their respective associates will abstain from voting in respect of the resolution(s) approving the Proposed Terms at the EGM. The grant of the Specific Mandate for the issue and allotment of the Conversion Shares will also be subject to approval by the Independent Shareholders at the EGM.

GENERAL

Application will be made by the Company to the Stock Exchange for its approval of: (i) the Proposed Term; and (ii) the listing of, and permission to deal in, the Conversion Shares.

A circular containing, among other things, details of the Convertible Bonds, the Proposed Terms, the letters from the independent board committee and the independent financial adviser and the notice convening the EGM will be despatched to the Shareholders in compliance with the GEM Listing Rules as soon as practicable (which is expected to be on or about 14 February 2017).

If any of the conditions precedent to the Third Supplemental Deed are not satisfied, the Third Supplemental Deed will lapse and will not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares or any other securities of the Company.

BACKGROUND

References are made to the announcements of the Company dated 23 October 2007, 30 May 2011, 4 July 2011, 9 July 2014 and 19 September 2014, and the circulars (the “**Circulars**”) of the Company dated 30 May 2008, 15 June 2011 and 2 September 2014 in relation to the issue of, and the subsequent amendments made to, the Convertible Bonds in the aggregate principal amount of HK\$776,880,000 convertible into Shares at the initial conversion price of HK\$0.10 per Conversion Share (subject to adjustment as provided in the terms and conditions of the Convertible Bonds) as part of the consideration for the acquisition of forest concessions in Papua, Indonesia on 12 August 2008.

The Convertible Bonds are unsecured, interest-free and were originally mature on 12 August 2011. Unless converted into the Shares by the Company, the outstanding principal amount of the Convertible Bonds would be redeemed in full on maturity.

By the two supplemental deeds dated 30 May 2011 and 9 July 2014, among other changes on the terms of the Convertible Bonds, the maturity date of the Convertible Bonds and its conversion period have been extended to 12 August 2017.

As at the date of this announcement, the aggregate outstanding principal amount of the Convertible Bonds is HK\$124,068,000, which is legally and beneficially owned by three Bondholders, convertible into the Shares at the conversion price of HK\$0.3693 per Share.

For further details of the Convertible Bonds, please refer to the Circulars.

THIRD SUPPLEMENTAL DEED RELATING TO THE CONVERTIBLE BONDS

On 20 January 2017 (after trading hours), the Company and the Bondholders entered into the Third Supplemental Deed to: (a) extend the maturity date of the Convertible Bonds for a further three years to 12 August 2020; (b) revise the conversion price of the Convertible Bonds from HK\$0.3696 per Share to HK\$0.095 per Share; and (c) revise the adjustment events to the Conversion Price to include the following events:

- (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;
- (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.

To the best information, knowledge and belief of the Directors after making necessary enquiry, each of Bondholders (other than Ivana which is a connected person of the Company) is an independent third party not connected with the Company and its connected persons.

The Third Supplemental Deed is conditional upon the following conditions:

- (a) the Stock Exchange granting its approval for the Proposed Terms;
- (b) the passing of an ordinary resolution by the Independent Shareholders at the EGM approving the Third Supplemental Deed and the transactions contemplated thereunder including the grant of the Specific Mandate; and
- (c) the GEM Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Conversion Shares to be issued upon exercise of conversion rights attached to the outstanding Convertible Bonds.

None of the above conditions are waiverable. If any of the conditions above are not fulfilled by 31 March 2017, the parties to the Third Supplemental Deed will not be bound to proceed with the transactions contemplated under the Third Supplemental Deed and the Third Supplemental Deed will cease to have any effect.

Apart from the Proposed Terms, all other terms of the Convertible Bonds remain unchanged. A summary of the principal terms of the Convertible Bonds as adjusted by the Proposed Terms is as follows:

Issuer	:	The Company
Outstanding principal amount	:	HK\$124,068,000
Interest	:	Zero coupon
Conversion period	:	Subject to the restrictions specified below, Bondholders shall be entitled to convert the Convertible Bonds into the Conversion Shares at any time during the period commencing from the date of issue of the Convertible Bonds until the date that falls on the fifth day immediately before the maturity date.
Restrictions in conversion	:	There is no right for any Bondholder(s) to convert any principal amount of the Convertible Bonds held by the Bondholder(s) and the Company shall not issue any Conversion Shares thereof if, upon such conversion and issue of the Conversion Shares, the Company will be in breach of the minimum public float requirement as stipulated under Rule 11.23 of the GEM Listing Rules.
Conversion Price	:	Upon the Third Supplemental Deed taking effect, the Conversion Price would be HK\$0.095 per Conversion Share, subject to adjustments.

The Conversion Price represents:

- (i) the closing price per Share as quoted on the Stock Exchange of HK\$0.095 on 20 January 2017, being the date of the Third Supplemental Deed; and

- (ii) a premium of about 1.93% over the average of the closing prices of HK\$0.0932 per Share for the last five trading days immediately preceding 20 January 2017,

The Conversion Price was determined by reference to the recent trading performance of the Shares on the Stock Exchange.

Adjustment events : The Conversion Price shall from time to time be subject to adjustment upon occurrence of certain events:

- (i) consolidation or subdivision of the Shares;
- (ii) capitalisation of profits or reserves;
- (iii) capital distribution;
- (iv) 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;
- (v) 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
- (vi) issue of Shares being made wholly for cash at a price less than 80% of the market price per Share.

Early redemption	:	The Company may at any time during the period commencing from the date of issue of the Convertible Bonds to the maturity date of the Convertible Bonds to redeem the whole or part of the outstanding Convertible Bonds of the Bondholder(s) on a pro rata basis.
Ranking of Conversion Shares	:	Conversion Shares will rank pari passu in all respects with the Shares then in issue on the relevant conversion date.
Maturity date	:	The date falling on the twelfth anniversary of the issue date, such date being a business day and if such date not being a business day, the immediately next business day. Unless previously converted or cancelled under the conditions of the Convertible Bonds, each Convertible Bond shall be redeemed at their principal amount on the maturity date. Upon the Third Supplemental Deed taking effect, the maturity date of the Convertible Bonds would be 12 August 2020.
Voting rights	:	The Bondholders shall not have any right to attend or vote in any general meeting of the Company by virtue of their being Bondholders.
Transferability	:	The Convertible Bonds are transferable from the date of issue of the Convertible Bonds until the date that falls on the tenth day before the maturity date, subject to the terms and conditions of the Convertible Bonds.
Status	:	General, unsecured obligations of the Company ranking equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for the obligations accorded preference by mandatory provisions of applicable laws.
Listing	:	No application will be made for the listing of the Convertible Bonds. Application will be made to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares arising from the conversion of the outstanding Convertible Bonds.

If the outstanding Convertible Bonds are fully converted at the Conversion Price of HK\$0.095 each, a maximum of 1,305,978,947 Conversion Shares will be allotted and issued upon exercise of the conversion rights attached to the outstanding Convertible Bonds in full, which represents: (i) approximately 80.61% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 44.63% of the issued share capital of the Company as to be enlarged by the issue of the 1,305,978,947 Conversion Shares (assuming there being no other issue or repurchase of Shares). According to the existing terms of the Convertible Bonds, a Bondholder shall have the right to convert the Convertible Bonds into Shares provided that the public float of the Shares shall not be less than 25% (or any given percentage as required by the GEM Listing Rules) of the issued Shares at any one time in compliance with the GEM Listing Rules.

The Conversion Shares will be issued under the Specific Mandate to be sought at the EGM.

REASONS FOR THE THIRD SUPPLEMENTAL DEED

The Proposed Terms effectively allow the Group to refinance the debts under the Convertible Bonds under the same financial terms for a further three-year period. Since the existing conversion price of the Convertible Bonds is much higher than the prevailing market price of the Share, the Conversion Price together with the newly included adjustment events (which are standard and customary in Hong Kong for similar convertible securities issuance) will serve as an incentive for the Bondholders to exercise their conversion rights attached to the Convertible Bonds to convert the Convertible Bonds into the Shares, thereby alleviating the financial pressure on the Company for redemption at the maturity date. As the Convertible Bonds is zero coupon, it will not incur any interest burden for the Group for the next three years. Save for the Proposed Terms, other terms and conditions of the Convertible Bonds remain unchanged.

The Board (excluding: (i) Mr. Cheung Wai Yin, Wilson, the founder of a trust which is the ultimate beneficial owner of Ivana who has material interest in the Proposed Terms and has abstained from voting in the Board meeting for approving the Proposed Terms, and (ii) the independent non-executive Directors who will form their views after considering the advice of the independent financial adviser) considers that the terms and conditions of the Third Supplemental Deed (including the Conversion Price) are fair and reasonable and the Proposed Terms are in the interests of the Company and the Shareholders as a whole. No proceeds will be received by the Company as a result of the Proposed Terms.

SHAREHOLDING STRUCTURE

The shareholding structure of the Company as at the date of this announcement and immediately after the full conversion of the outstanding Convertible Bonds at the Conversion Price (assuming there being no other issue or repurchase of Shares) is as follows:

	As at the date of this announcement		Immediately after the full conversion of the outstanding Convertible Bonds at the Conversion Price (Note 3)	
	No. of Shares	Approx. %	No. of Shares	Approx. %
Shareholders				
Cheung Wai Yin, Wilson (Note 1)	98,995,314	6.11	1,256,890,050	42.95
Lau Chi Yan, Pierre (Note 2)	3,984,375	0.25	3,984,375	0.14
Total non-public Shareholders	102,979,689	6.36	1,260,874,425	43.09
Bondholders (other than Ivana)	0	0.00	148,084,211	5.06
Other public Shareholders	1,517,114,463	93.64	1,517,114,463	51.85
Total	1,620,094,152	100.00	2,926,073,099	100.00

Notes:

- The interests disclosed include 98,437,500 Shares held by Ivana, a company incorporated in the British Virgin Islands owned as to 100% by CW Limited, which in turn is wholly owned by Asiastrust Limited, a trust company in its capacity as the trustee of a discretionary trust, the founder of which is Mr. Cheung and the discretionary objects of which are family members of Mr. Cheung (including Mr. Cheung himself). Mr. Cheung is also personally interested in 557,814 Shares.
- Mr. Lau Chi Yan, Pierre is the Managing Director of the Company.
- There is no right for any Bondholder(s) to convert any principal amount of the Convertible Bonds held by the Bondholder(s) and the Company shall not issue any Conversion Shares thereof if, upon such conversion and issue of the Conversion Shares, the Company will not be able to comply with the minimum public float requirement as stipulated under Rule 11.23 of the GEM Listing Rules.

FUND RAISING ACTIVITY IN PAST TWELVE MONTHS

Apart from the fund raising activity mentioned below, the Company had not conducted any other fund raising activities in the past 12 months immediately preceding the date of this announcement:

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 financial leasing business, by increasing the budget of funding amounts to the lessees and exploring other regions in the PRC; and (ii) the remaining for the strengthening of the general working capital base of the Company to finance its business development and/or to finance any future investment opportunities or any future needs in repaying its outstanding debt	Approximately HK\$12.00 million has been used for the capital injections into Heng He, the remaining has been utilized as intended
8 June 2016	Placing of 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 financial leasing business, by increasing the budget of funding amounts to the lessees and exploring other regions in the PRC; and (ii) the remaining for the strengthening of the general working capital base of the Company to finance its business development and/or to finance any future investment opportunities or any future needs in repaying its outstanding debt	Approximately HK\$20.00 million has been used for the capital injection into Heng He. The remaining is deposited in bank and will be applied as intended

GEM LISTING RULES IMPLICATIONS

Pursuant to Rule 22.03 of the GEM Listing Rules, any alterations in the terms of convertible equity securities after issue must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of such convertible equity securities.

As at the date of this announcement, Mr. Cheung and Ivana together hold 98,995,314 Shares representing approximately 6.11% of the issued share capital of the Company. As Ivana is a company controlled and owned by a trust founded by Mr. Cheung, Ivana is a connected person of the Company under the GEM Listing Rules. The Proposed Terms to be effected by the Third Supplemental Deed between the Company and Ivana constitute a connected transaction of the Company. Therefore, the Proposed Terms are subject to reporting and announcement requirements, as well as approval by the Independent Shareholders at the EGM under the GEM Listing Rules. The Company will establish an independent board committee and will appoint an independent financial adviser to advise the Independent Shareholders and the independent board committee of the Company in respect of the Proposed Terms. Mr. Cheung and Ivana together with their respective associates will abstain from voting in respect of the resolution(s) approving the Proposed Terms at the EGM.

The grant of the Specific Mandate for the issue and allotment of the Conversion Shares will also be subject to approval by the Independent Shareholders at the EGM.

Application will be made to the Stock Exchange for its approval of: (i) the Proposed Term; and (ii) the listing of, and permission to deal in, the Conversion Shares arising from the conversion of the outstanding Convertible Bonds.

INFORMATION ON THE GROUP

The Group is principally engaged in financial services business, trading business and information technology business.

GENERAL

A circular containing, among other things, details of the Convertible Bonds, the Proposed Terms and the letters from the independent board committee and the independent financial adviser and the notice convening the EGM, will be despatched to the Shareholders in compliance with the GEM Listing Rules as soon as practicable (which is expected to be on or about 14 February 2017).

If any of the conditions precedent to the completion under the Third Supplemental Deed are not satisfied, the Third Supplemental Deed will lapse and will not proceed. Shareholders and potential investors of the Company should exercise caution when dealing in the Shares or any other securities of the Company.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the meanings set opposite to them below:

“associate”	has the meaning ascribed thereto under the GEM Listing Rules
“Board”	the board of Directors
“Bondholder(s)”	holder(s) of the Convertible Bonds
“Company”	Merdeka Financial Services Group Limited, a company incorporated in the Cayman Islands, whose issued Shares are listed on GEM
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Conversion Price”	the proposed new conversion price of HK\$0.095 per Conversion Share under the Proposed Terms, subject to adjustment under the terms and conditions of the Convertible Bonds
“Conversion Share(s)”	new Shares to be issued by the Company upon the exercise of the conversion rights attached to the Convertible Bonds by the Bondholders thereof
“Convertible Bond(s)”	the zero % coupon convertible bonds due 2017 issued by the Company on 12 August 2008
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened and held to consider and, if thought fit, approve the Proposed Terms and the Specific Mandate
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Heng He”	恆河融資(上海)有限公司 (Heng He Financial Lease (Shanghai) Company Limited*), a sino-foreign joint venture company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company

** for identification purpose only*

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholder(s)”	Shareholder(s) other than Mr. Cheung, Ivana and their respective associates
“Ivana”	Ivana Investments Limited, being an investment holding company, the entire issued shares of which are owned by a trust founded by Mr. Cheung
“Mr. Cheung”	Mr. Cheung Wai Yin, Wilson, an executive Director, Chairman and the Chief Executive Officer of the Company
“PRC”	People’s Republic of China, which for the purpose of this announcement shall exclude Hong Kong, Taiwan and Macau Special Administrative Region
“Proposed Terms”	together (a) the proposed extension of the maturity date of the Convertible Bonds for a further three years to 12 August 2020; (b) the proposed revision of the conversion price of the Convertible Bonds from HK\$0.3696 per Share to HK\$0.095 per Share; and (c) to replace the clause as stipulated therein the instrument of the Convertible Bonds in relation to the adjustments to the conversion price
“Share(s)”	the ordinary share(s) of par value of HK\$0.001 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Specific Mandate”	the mandate to allot and issue the Conversion Shares at the Conversion Price to be sought at the EGM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Third Supplemental Deed” the supplemental deed dated 20 January 2017 between the Company and the Bondholders in respect of the Proposed Terms

“%” percentage or per centum

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

Hong Kong, 20 January 2017

As at the date of this announcement, the Board comprises:

Executive Directors:

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

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

Independent Non-executive Directors:

Ms. Yeung Mo Sheung, Ann

Mr. Ng Kay Kwok

Mr. Yip Kat Kong, Kenneth

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>.