



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)

ANNOUNCEMENT OF AUDITED ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2017

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This announcement, for which the directors of Merdeka Financial Services Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this 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.

** For identification purpose only*

LETTER TO THE SHAREHOLDERS

Dear Shareholders,

On behalf of Merdeka Financial Services Group Limited, I am pleased to present the 2017 annual report of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017. During the year, the Group is principally engaged in financial services business, trading business and information technology business. Financial services business and trading business continued to grow healthily and the information technology business remained challenging.

BUSINESS REVIEW AND OPERATION REVIEW

It is obvious that commencing from the establishment of the money lending business to the acquisitions of 恒河融資租賃 上海 有限公司 (Heng He Finance Lease (Shanghai) Company Limited*) (“Heng He”) and Merdeka Capital Limited (“Merdeka Capital”) as well as Heng Asset Management Limited (“Heng”), the Group is putting more weight on the financial services business.

During the year under review, Heng He continuously earns interest income and has been liaising and negotiating new contracts in order to further explore new clients as well as expanding its finance lease business in more provincial markets within the PRC. However, in light of the expecting transaction size and the prevailing economic environment in the PRC, such progress is slow in pace. Information in respect of the finance lease contracts is disclosed in the below section “FINANCE LEASE CONTRACTS”.

Merdeka Capital, besides in developing its securities brokerage business, has been exploring the opportunities in developing a higher returns and, in turn, a more profitable business in taking up the role as a book-runner as well as a lead manager in respect of issuance of debts listed worldwide after concluding two transactions in Europe in 2016. On 25 July 2017, a client of Merdeka Capital from the PRC has listed the United States dollars guaranteed bonds due 2020 issued by it on the Stock Exchange. Merdeka Capital participated as a Joint Lead Manager to the transaction.

Since commencing its money lending business with a valid money lenders licence granted, the Company is able to develop the money lending business as one of its principal lines of business by providing loans in a systematic and repetitive nature in its ordinary course of business, subject to compliance with the requirements in the Money Lenders Ordinance. The Group has been approached by potential borrowers for provision of loans from time to time but management is cautious in making provision of loan to avoid possible bad debts.

Trading business continues to provide a stable source of revenue to the Group during the period under review and as the business is running steadily but competitive with a thin profit margin, the Group is expanding its trading business into more variety of consumer products and into more geographical markets within the PRC. The Group's trading outlet is located in Sheung Shui, at where, it is nearer to its customers. The variety of the Group's trading products has been enlarged to confectioneries and pharmacy products. The Group sourced locally and from Japan and other Asia countries in respect of its trading products. Furthermore, after registered as a food importer/food distributor under the Food Safety Ordinance, the Group has been ordering OEM products from Asia countries that include Japan and Malaysia. With complimentary effects from the Group's mobile and cloud information technology centre in Mian Yang, a city of Sichuan Province, the PRC, the Group's trading arm, Source Easy Limited ("Source Easy") has been expanding its customer base in the PRC.

The Group's information technology business remained challenging during the period under review, mainly because of the keen competition and the rapid change in project cycles of the customers. However, the Group is consolidating different acquired entities into a single stream of income and shifting the weight to its 60% owned subsidiary, 綿陽恒達信息科技有限公司 (Mian Yang Heng Da Information Technology Limited*) ("Heng Da"). Currently, Heng Da has been developing mobile and cloud based application software and operating related e-commerce platform to trade the Group's consumer products in the PRC for Source Easy's trading products.

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

FINANCIAL LEASING CONTRACTS

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

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

Notes:

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

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

| Date of announcement | Fund raising activity | Net proceeds (approximately) | Intended use of proceeds | Actual use of proceeds |
|-----------------------------|---|-------------------------------------|---|-------------------------------|
| 19 June 2017 | Placing of new Shares under general mandate | HK\$24.90 million | (i) as to HK\$23,600,000 for the full repayment of the outstanding principal of the 2014 PN (as defined hereinafter); 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 debts | Fully utilized as intended |

OUTLOOK

Looking forward to year 2018 and after, the Group will continue to focus on the development of financial services business in both PRC and Hong Kong.

The Directors believe that the acquisition of Hang He allowed the Group, without setting up a new financing company, to further develop its financing related business in the PRC through a direct working capital injection, and subsequently to enjoy the benefits of the capital leverage in Heng He. Furthermore, in view of the growth potential of the finance lease industry in the PRC, the Directors consider that this acquisition will enhance the performance of the Group and the return to the Shareholders as a whole.

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

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

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

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

In order to complement the Type 1 regulated activity currently undertaken by Merdeka Capital and to explore the opportunities in the asset management business to potential overseas clients through the overseas network of the Group in the near future, the Group, through a wholly-owned subsidiary, acquired 51% of the issued share capital of Heng, a company principally engages in the provision of Type 4 (advising on securities) and Type 9 (asset management) regulated activities under the SFO.

The Directors consider that the participation in Heng would enable the Group to further provide more comprehensive financial services through direct investment in and hands-on management and operation of Heng. The Board observes that the current condition in the investment advisory market is highly competitive but at the same time there are promising opportunities in the market. It is expected to take advantage of the future growth in capital markets and continuous products development, by diversifying its business further within the financial services sector, in particular the asset management business and to broaden the Group's revenue base.

Trading business is expected to continuously providing a stable source of revenue to the Group and it is anticipate that the Group is continuously expanding its trading business into more variety of consumer products and actively considering to open physical stores in the PRC. The Group is also commencing to OEM its trading products from various Asian countries including Japan and Malaysia. In addition, the Group will explore the opportunities in the development of logistic and/or its related business in order to enhance the Group's trading sector.

For the information technology business, revenue would be mainly driven by the additional contribution from the consolidation of different acquired entities into a single stream of income. Complementing the trading business with its information technology business, the Group intends to commence trading consumer products into the PRC through its customers there by developing mobile and cloud based application software and operating related e-commerce platform in the PRC. Another opportunity to complement the business of the Group lied on the development of mobile and cloud based applications in relation to the financial services provided or to be provided by the Group, in terms of, namely, finance lease, money lending and securities business in accordance with the permission under the laws of Hong Kong and the PRC.

PLACING OF NEW SHARES UNDER GENERAL MANDATE

On 19 June 2017 (after trading hours), the Company and the Placing Agent entered into a placing agreement (as supplemented by the supplement agreement dated 7 July 2017, all together known as the “Placing Agreement”) pursuant to which the Company placed, under the General Mandate granted 7 March 2017, through the Placing Agent, on a best endeavour basis, up to 320,000,000 placing shares, to not less than six placees who and whose ultimate beneficial owners will be independent third parties at a price of HK\$ 0.081 per placing share.

The completion of the Placing took place on 20 July 2017 in accordance with the terms and conditions of the Placing Agreement. The Company received net proceeds of approximately HK\$24.90 million (after deduction of commission and other expenses of the Placing) from the Placing. The entire net proceeds from the Placing will be applied (i) as to HK\$23,600,000 for the full repayment of the outstanding principal of the promissory note issued pursuant to the agreement in relation to the acquisition of Ever Hero Group Limited in 2014 (the “2014 PN”); 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 debts.

The net proceeds have been fully utilized as intended during the year.

CONVERTIBLE BONDS

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

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

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

As at 31 December 2017, the Company had outstanding 2015 CBs of aggregate principal amount of HK\$40 million which will be compulsorily converted into 173,913,043 Shares.

PROMISSORY NOTE

The Group had an outstanding principal of promissory note of approximately HK\$28,900,000 (2016: HK\$29,000,000), which was issued pursuant to the agreement in relation to the acquisition of Blossom Height Ventures Limited in 2015. It is non-interest bearing and the settlement date is 21 April 2018.

LITIGATION

On 22 January 2015, the Company announced that a writ of summons was issued in the Court of First Instance of the High Court of Hong Kong by Au Kai To Karel, as the plaintiff claiming against (i) End User Technology Limited, an indirect wholly-owned subsidiary of the Company, as the 1st Defendant; (ii) the Company, as the 2nd Defendant; and (iii) Lau Chi Yan Pierre, the managing director and executive director of the Company, as the 3rd Defendant for, inter alia, (1) specific performance of an agreement dated 2 May 2013 in relation to a discloseable transaction of the Company (details of which were disclosed in the announcement of the Company dated 2 May 2013); or (2) alternatively, the damages in the sum of HK\$8,000,000 in lieu of specific performance; and (3) the interest; (4) further and/or other relief; and (5) the costs. 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 of Hong Kong (the “Judgement”) ordering, among others, that the Company and End User Technology Limited, the Company’s indirect wholly owned subsidiary, 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 on 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.

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 26 February 2018 the hearing of the Petition is adjourned to 26 March 2018 for further directions.

As the Company continues to be solvent and the normal course of operation of the Company has not been adversely affected by the Petition. The Company is endeavouring to oppose the Petition and 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.

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

On 21 April 2015, the Group completed the acquisition of the entire issued capital of Blossom Height Ventures Limited, investment of which is primarily in the shareholding interests in Hang He, and in accordance with the terms of the relevant acquisition agreement dated 31 October 2014, the Vendor has given to and for the benefit of the Purchaser a profit guarantee that the consolidated net profit after taxation and any extraordinary and exceptional items for each of the three years ending 31 December 2015, 2016 and 2017 shall not be less than HK\$10 million. However, as the profit guarantee for the year ended 31 December 2017 has not been met, the amount payable by the Company on redemption of the above promissory note shall be reduced on a dollar for dollar basis by the amount for approximately HK\$0.1 million.

DISCLOSEABLE TRANSACTION IN RELATION TO THE FINANCE LEASE AGREEMENT

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

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

ACQUISITION OF 51% OF THE ISSUED SHARES IN HENG

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

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

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

On 26 July 2017, the Securities and Futures Commission has approved the Company's application to become a substantial shareholder of Heng pursuant to section 132 of the SFO. The completion of the Acquisition took place on 10 August 2017 in accordance with the terms and conditions of the Agreement.

CHANGE OF DIRECTORSHIP AND COMMITTEE MEMBERS

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

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

During the Company's annual general meeting (the "AGM") held on 26 June 2017, Mr. Au-yeung Sei Kwok was re-elected as a director of the Company pursuant to the articles of association of the Company.

APPRECIATION

I would like to express my gratitude to our management team and all staff for their hard work in the execution of the Group's strategies and operations during the past year. As approved by the shareholders in the annual general meeting held on 3 May 2012, the Company adopted a share option scheme, which could provide incentives and rewards to eligible participants for their contribution to the Group. Last but not the least, I wish to thank all shareholders, customers, suppliers, business partners, bankers, government authorities for their continuous support and confidence in the Group.

Cheung Wai Yin, Wilson

Chairman and Chief Executive Officer

Hong Kong

26 March 2018

* *For identification purpose only*

ANNUAL RESULTS

The Board is pleased to announce that the consolidated annual results of the Group for the yearended 31 December 2017, together with the comparative figures for the previous year are as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

| | <i>Notes</i> | 2017 HK\$'000 | 2016 HK\$'000 |
|---|--------------|--------------------------------|--------------------|
| REVENUE | 4 | 430,184 | 256,232 |
| Cost of sales | | <u>(398,919)</u> | <u>(229,411)</u> |
| Gross profit | | 31,265 | 26,821 |
| Other income, other gains and losses | 4 | 32,809 | (7,679) |
| Operating expenses | | (24,667) | (22,191) |
| Administrative expenses | | (13,883) | (12,824) |
| Provision for impairment loss on trade receivables | | — | (3) |
| Provision for impairment of loss on loan receivables | | (1,000) | — |
| Provision for impairment loss on prepayments, deposits and other receivables | | (285) | — |
| Written off of bad debts | | (3,009) | (117) |
| Written off of inventories | | <u>(137)</u> | <u>(435)</u> |
| Profit/(loss) from operations | | 21,093 | (16,428) |
| Finance costs | 5 | <u>(21,183)</u> | <u>(19,782)</u> |
| LOSS BEFORE TAX | 6 | (90) | (36,210) |
| Income tax | 7 | <u>(3,242)</u> | <u>(3,938)</u> |
| LOSS FOR THE YEAR | | <u>(3,332)</u> | <u>(40,148)</u> |
| Loss for the year attributable to: | | | |
| Owners of the Company | | (6,725) | (42,617) |
| Non-controlling interests | | <u>3,393</u> | <u>2,469</u> |
| | | <u>(3,332)</u> | <u>(40,148)</u> |
| LOSS PER SHARE | | | |
| Basic and diluted | 9 | <u>(HK\$0.003)</u> | <u>(HK\$0.026)</u> |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the year ended 31 December 2017

| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| LOSS FOR THE YEAR | (3,332) | (40,148) |
| Other comprehensive income/(loss): <i>Items that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange difference on translating of financial statements of overseas subsidiaries | <u>15,328</u> | <u>(14,689)</u> |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | <u>11,996</u> | <u>(54,837)</u> |
| Total comprehensive income/(loss) attributable to: | | |
| Owners of the Company | <u>2,437</u> | (51,098) |
| Non-controlling interests | <u>9,559</u> | <u>(3,739)</u> |
| | <u>11,996</u> | <u>(54,837)</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2017

| | <i>Notes</i> | 2017 HK\$'000 | 2016 HK\$'000 |
|---|--------------|--------------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 4,011 | 4,664 |
| Statutory deposit | | 510 | 510 |
| Goodwill | | 5,803 | — |
| Intangible assets | | 5,705 | 2,805 |
| Available-for-sale investments | | 1,475 | 1,475 |
| Finance lease receivables | <i>10</i> | 240,366 | 1,869,445 |
| Total non-current assets | | <u>257,870</u> | <u>1,878,899</u> |
| Current assets | | | |
| Inventories | | 1,292 | 2,726 |
| Trade receivables | <i>11</i> | 8,202 | 6,867 |
| Loan receivables | <i>12</i> | 1,080 | 3,300 |
| Prepayments, deposits and other receivables | | 75,715 | 62,853 |
| Finance lease receivables | <i>10</i> | 1,837,309 | 31,873 |
| Held-for-trade investments | | 534 | — |
| Bank balances - Trust accounts | | 5,759 | 5,206 |
| Bank balances and cash - general accounts | | 36,490 | 63,347 |
| Total current assets | | <u>1,966,381</u> | <u>176,172</u> |
| Total assets | | <u><u>2,224,251</u></u> | <u><u>2,055,071</u></u> |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | <i>13</i> | 2,040 | 1,620 |
| Reserves | | 38,074 | 1,681 |
| | | <u>40,114</u> | <u>3,301</u> |
| Non-controlling interests | | <u>101,046</u> | <u>88,039</u> |
| Total equity | | <u><u>141,160</u></u> | <u><u>91,340</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*For the year ended 31 December 2017*

| | <i>Notes</i> | 2017 HK\$'000 | 2016 HK\$'000 |
|---|--------------|--------------------------------|------------------|
| Non-current liabilities | | | |
| Deferred tax liabilities | | 941 | 463 |
| Convertible bonds | | 95,940 | — |
| Promissory notes | | — | 24,238 |
| Finance lease obligation due more than one year | | 199 | 1,026 |
| Bank borrowings due more than one year | <i>14</i> | 72,060 | 1,691,649 |
| Total non-current liabilities | | 169,140 | 1,717,376 |
| Current liabilities | | | |
| Bank borrowings due within one year | <i>14</i> | 1,752,555 | 4,036 |
| Finance lease obligation due within one year | | 827 | 942 |
| Convertible bonds | | — | 114,400 |
| Promissory notes | | 27,622 | 26,164 |
| Trade payables | <i>15</i> | 47,683 | 40,425 |
| Other payables and accruals | | 83,035 | 57,299 |
| Tax payables | | 2,229 | 3,089 |
| Total current liabilities | | 1,913,951 | 246,355 |
| Total liabilities | | 2,083,091 | 1,963,731 |
| Total equity and liabilities | | 2,224,251 | 2,055,071 |
| Net current assets / (liabilities) | | 52,430 | (70,183) |
| Net assets | | 141,160 | 91,340 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---------------------------------------|-----------------------|---------------------|---------------------------------------|----------------------|---------------------------|------------------------------|--------------------|---------------|---------------------------|----------------|
| | Issued capital | Share premium account | Contributed surplus | Equity component of convertible bonds | Share option reserve | Capital reduction reserve | Exchange fluctuation reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
| | HK\$ '000 | HK\$ '000* | HK\$ '000* | HK\$ '000* | HK\$ '000* | HK\$ '000* | HK\$ '000* | HK\$ '000* | HK\$ '000 | HK\$ '000 | HK\$ '000 |
| As at 31 December 2015 and 1 January 2016 | 1,225 | 884,832 | 66,710 | 53,115 | 27,363 | 163,191 | (4,134) | (1,176,623) | 15,679 | 68,015 | 83,694 |
| Changes in equity for 2016 | | | | | | | | | | | |
| Loss for the year | — | — | — | — | — | — | — | (42,617) | (42,617) | 2,469 | (40,148) |
| Other comprehensive loss | — | — | — | — | — | — | (8,415) | (66) | (8,481) | (6,208) | (14,689) |
| Total comprehensive loss | — | — | — | — | — | — | (8,415) | (42,683) | (51,098) | (3,739) | (54,837) |
| Issue of new shares upon placing | 395 | 38,271 | — | — | — | — | — | — | 38,666 | — | 38,666 |
| Forfeiture of share options | — | — | — | — | (35) | — | — | 35 | — | — | — |
| Dividend to non-controlling interest | — | — | — | — | — | — | — | — | — | (6,666) | (6,666) |
| Contribution for formation of a subsidiary from non-controlling interests | — | — | — | — | — | — | — | — | — | 18,036 | 18,036 |
| Disposal of a subsidiary | — | — | — | — | — | — | 54 | — | 54 | 12,393 | 12,447 |
| As at 31 December 2016 and 1 January 2017 | 1,620 | 923,103 | 66,710 | 53,115 | 27,328 | 163,191 | (12,495) | (1,219,271) | 3,301 | 88,039 | 91,340 |
| Changes in equity for 2017 | | | | | | | | | | | |
| Loss for the year | — | — | — | — | — | — | — | (6,725) | (6,725) | 3,393 | (3,332) |
| Other comprehensive income | — | — | — | — | — | — | 8,953 | 209 | 9,162 | 6,166 | 15,328 |
| Total comprehensive income/(loss) | — | — | — | — | — | — | 8,953 | (6,516) | 2,437 | 9,559 | 11,996 |
| Issue of new shares upon placing | 320 | 25,056 | — | — | — | — | — | — | 25,376 | — | 25,376 |
| Issue of consideration shares | 100 | 8,900 | — | — | — | — | — | — | 9,000 | — | 9,000 |
| Acquisition of a subsidiary | — | — | — | — | — | — | — | — | — | 3,448 | 3,448 |
| As at 31 December 2017 | <u>2,040</u> | <u>957,059</u> | <u>66,710</u> | <u>53,115</u> | <u>27,328</u> | <u>163,191</u> | <u>(3,542)</u> | <u>(1,225,787)</u> | <u>40,114</u> | <u>101,046</u> | <u>141,160</u> |

* These reserve accounts comprise the consolidated reserves of approximately HK\$38,074,000 (2016: HK\$1,681,000) in the consolidated statement of financial position.

Notes:

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The StockExchange of Hong Kong Limited (the “GEM Listing Rules”). The adoption of new and revised HKFRSs and the impacts on the Group’s consolidated financial statements, if any, are disclosed in Note 2.

The consolidated financial statements have been prepared under 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.

2. NEW AND REVISED HKFRSS APPLIED

The Group has adopted the following revised standards for the first time for the current year’s financial statements.

| | |
|----------------------|---|
| Amendment to HKAS 7 | Disclosure Initiative; |
| Amendment to HKAS 12 | Recognition of Deferred Tax Assets for Unrealised losses; and |
| HKFRSs (Amendment) | Annual Improvements to HKFRSs, 2014-2016 Cycle |

The amendments to HKAS 7 require an entity to make disclosures that aim to enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The amendments to HKAS 12 clarify when unrealised losses on a debt instrument measured at fair value would give rise to a deductible temporary difference and how to evaluate whether sufficient future taxable profits are available to utilise a deductible temporary difference.

Annual improvements to HKFRSs (2014-2016 cycle) include an amendment to HKFRS 12 that clarifies that, when an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with HKFRS 5 *Non-current Assets held for Sale and Discontinued operations*, it is not required to disclose summarised financial information for that subsidiary, joint venture or associate, as required by HKFRS 12 *Disclosure of Interests in Other Entities*.

The application of these amendments has had no effect on the Group’s consolidated financial statements.

3. SEGMENT REPORTING

For management purposes, the Group is organised into business units based on its products and services and has the reportable operating segments as follows:

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

Executive directors of the Company, 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 or loss, which is a measure of adjusted profit/loss before tax. The adjusted profit or loss before tax is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, equity-settled share option expenses, as well as head office and corporate expenses are excluded from such measurement.

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

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

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

For the year ended 31 December 2017

| <i>HK\$'000</i> | Trading business | Financial services business | Information Technology business | Other business | Total | Unallocated | Group Total |
|--|---------------------|-----------------------------------|---------------------------------------|-------------------|----------------|----------------|----------------|
| Segment revenue: | | | | | | | |
| Revenue from external customers | <u>325,217</u> | <u>104,155</u> | <u>812</u> | <u>—</u> | <u>430,184</u> | <u>—</u> | <u>430,184</u> |
| Segment profit/(loss) | (260) | 8,261 | (323) | (43) | 7,635 | 107 | 7,742 |
| Interest income | 38 | 21 | 1 | — | 60 | — | 60 |
| Finance costs | (351) | — | — | — | (351) | (20,832) | (21,183) |
| Gain on extinguishment of convertible bonds liability component | — | — | — | — | — | 31,162 | 31,162 |
| Other expenses | — | — | — | — | — | (17,871) | (17,871) |
| Profit/(loss) before tax | <u>(573)</u> | <u>8,282</u> | <u>(322)</u> | <u>(43)</u> | <u>7,344</u> | <u>(7,434)</u> | <u>(90)</u> |
| Additions to non-current assets | — | 564 | — | — | 564 | 2,498 | 3,062 |
| Provision for impairment loss on loan receivables | — | (1,000) | — | — | (1,000) | — | (1,000) |
| Provision for impairment loss on prepayments, deposits and other receivables | — | (285) | — | — | (285) | — | (285) |
| Written off of inventories | (50) | — | (87) | — | (137) | — | (137) |
| Written off of bad debts | — | 97 | — | — | 97 | (3,106) | (3,009) |
| Depreciation of property, plant and equipment | <u>(44)</u> | <u>(747)</u> | <u>(41)</u> | <u>—</u> | <u>(832)</u> | <u>(2,953)</u> | <u>(3,785)</u> |

For the year ended 31 December 2016

| <i>HK\$'000</i> | Trading business | Financial services business | Information Technology business | Other business | Total | Unallocated | Group Total |
|---|---------------------|-----------------------------------|---------------------------------------|-------------------|----------------|-----------------|-----------------|
| Segment revenue: | | | | | | | |
| Revenue from external customers | <u>175,290</u> | <u>80,274</u> | <u>628</u> | <u>40</u> | <u>256,232</u> | <u>—</u> | <u>256,232</u> |
| Segment profit/(loss) | (675) | 11,694 | (1,774) | (28) | 9,217 | (493) | 8,724 |
| Interest income | — | 67 | 1 | — | 68 | 23 | 91 |
| Finance costs | (191) | (1) | — | — | (192) | (19,590) | (19,782) |
| Loss on disposal of a subsidiary | — | — | — | — | — | (10,370) | (10,370) |
| Other expenses | — | — | — | — | — | (14,873) | (14,873) |
| Profit/(loss) before tax | <u>(866)</u> | <u>11,760</u> | <u>(1,773)</u> | <u>(28)</u> | <u>9,093</u> | <u>(45,303)</u> | <u>(36,210)</u> |
| Additions to non-current assets | 15 | 1,032 | — | — | 1,047 | 20 | 1,067 |
| Provision for impairment loss on trade receivables | — | — | — | (3) | (3) | — | (3) |
| Written off of inventories | (435) | — | — | — | (435) | — | (435) |
| Written off of bad debts | — | — | (109) | — | (109) | (8) | (117) |
| Depreciation of property, plant and equipment | <u>(96)</u> | <u>(689)</u> | <u>(70)</u> | <u>—</u> | <u>(855)</u> | <u>(1,306)</u> | <u>(2,161)</u> |

As at 31 December 2017

| <i>HK\$'000</i> | Trading business | Financial service business | Information Technology business | Other business | Total | Unallocated | Group Total |
|------------------------|---------------------|----------------------------------|---------------------------------------|-------------------|--------------------|------------------|--------------------|
| Segment assets | 15,533 | 2,194,586 | 4,614 | 51 | 2,214,784 | — | 2,214,784 |
| Bank balances and cash | | | | | | | |
| — general accounts | — | — | — | — | — | 3,479 | 3,479 |
| Other assets | — | — | — | — | — | 5,988 | 5,988 |
| Total assets | <u>15,533</u> | <u>2,194,586</u> | <u>4,614</u> | <u>51</u> | <u>2,214,784</u> | <u>9,467</u> | <u>2,224,251</u> |
| Segment liabilities | (6,002) | (1,920,864) | (2,526) | — | (1,929,392) | — | (1,929,392) |
| Convertible bonds | — | — | — | — | — | (95,940) | (95,940) |
| Promissory notes | — | — | — | — | — | (27,622) | (27,622) |
| Other liabilities | — | — | — | — | — | (30,137) | (30,137) |
| Total liabilities | <u>(6,002)</u> | <u>(1,920,864)</u> | <u>(2,526)</u> | <u>—</u> | <u>(1,929,392)</u> | <u>(153,699)</u> | <u>(2,083,091)</u> |

As at 31 December 2016

| <i>HK\$'000</i> | Trading business | Financial service business | Information Technology business | Other business | Total | Unallocated | Group Total |
|------------------------|---------------------|----------------------------------|---------------------------------------|-------------------|--------------------|------------------|--------------------|
| Segment assets | 14,738 | 2,019,819 | 4,942 | 289 | 2,039,788 | — | 2,039,788 |
| Bank balances and cash | | | | | | | |
| — general accounts | — | — | — | — | — | 2,171 | 2,171 |
| Other assets | — | — | — | — | — | 13,112 | 13,112 |
| Total assets | <u>14,738</u> | <u>2,019,819</u> | <u>4,942</u> | <u>289</u> | <u>2,039,788</u> | <u>15,283</u> | <u>2,055,071</u> |
| Segment liabilities | (4,228) | (1,780,982) | (2,436) | — | (1,787,646) | — | (1,787,646) |
| Convertible bonds | — | — | — | — | — | (114,400) | (114,400) |
| Promissory notes | — | — | — | — | — | (50,402) | (50,402) |
| Other liabilities | — | — | — | — | — | (11,283) | (11,283) |
| Total liabilities | <u>(4,228)</u> | <u>(1,780,982)</u> | <u>(2,436)</u> | <u>—</u> | <u>(1,787,646)</u> | <u>(176,085)</u> | <u>(1,963,731)</u> |

Geographical information

(a) Revenue from external customers

| | Year ended 31 December | |
|----------------|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Hong Kong | 328,371 | 177,414 |
| Mainland China | 101,813 | 78,818 |
| | <u>430,184</u> | <u>256,232</u> |

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

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

| | As at 31 December | |
|----------------|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Hong Kong | 2,908 | 3,383 |
| Mainland China | 1,103 | 1,281 |
| | <u>4,011</u> | <u>4,664</u> |

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

Information about major customers

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

| | Year ended 31 December | |
|---|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Customer A — revenue from trading business | | |
| — Hong Kong | 255,255 | 110,836 |
| Customer B — revenue from financial services business | | |
| — PRC | — | 26,392 |
| Customer C — revenue from financial services business | | |
| — PRC | 51,505 | — |
| | <u>306,760</u> | <u>137,228</u> |

4. REVENUE AND OTHER INCOME

Revenue 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 business during the year. An analysis of revenue and other income is as follows:

| | Year ended 31 December | |
|--|------------------------|-----------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue: | | |
| Revenue from trading business | 325,217 | 175,290 |
| Revenue from financial services business | 104,155 | 80,274 |
| Revenue from information technology business | 812 | 628 |
| Others | — | 40 |
| | <u>430,184</u> | <u>256,232</u> |
| Other income, other gains and losses: | | |
| Interest income on bank deposit | 60 | 91 |
| Investment income | — | 1,299 |
| Loss on early repayment of promissory notes | — | (493) |
| Loss on disposal of a subsidiary | — | (10,370) |
| Gain on extinguishment of CB liability component | 31,162 | — |
| Sundry income | 1,587 | 1,794 |
| | <u>32,809</u> | <u>(7,679)</u> |

5. FINANCE COSTS

| | Year ended 31 December | |
|---|------------------------|----------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Imputed interest charge on convertible bonds (<i>note 1</i>) | 12,702 | 14,195 |
| Imputed interest charge on promissory notes | 3,839 | 4,810 |
| Coupon interest charge on promissory notes | 123 | 472 |
| Interest charge on bank borrowings | 77,922 | 57,971 |
| Interest charge on other borrowings | 4,099 | — |
| Interest charge on finance lease obligation (<i>note 2</i>) | 69 | 113 |
| | <u>98,754</u> | <u>77,561</u> |
| Less: interest charge on bank borrowings included in cost of sales for financial services business | <u>(77,571)</u> | <u>(57,779)</u> |
| | <u><u>21,183</u></u> | <u><u>19,782</u></u> |

Notes:

- (1) The charge represents the imputed interest on the liability component of the convertible bonds for the year.
- (2) Interest on financing the acquisition of motor vehicles.

6. LOSS BEFORE TAX

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

| | Year ended 31 December | |
|--|------------------------|-------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| (a) Staff costs (including directors' emoluments): | | |
| Salaries, wages and other benefits | 19,431 | 13,390 |
| Pension scheme contributions | 242 | 218 |
| | <u>19,673</u> | <u>13,608</u> |
| (b) Other items: | | |
| Auditors' remuneration — Audit services | 800 | 756 |
| Depreciation of property, plant and equipment | 3,785 | 2,161 |
| Operating lease payments in respect of office premises | 2,849 | 2,446 |
| Provision for impairment loss on loan receivables | 1,000 | — |
| Provision for impairment loss on prepayments, deposits and other receivable | 285 | — |
| Written off of inventories | 137 | 435 |
| Written off of bad debts | 3,009 | 117 |
| | <u><u>3,009</u></u> | <u><u>117</u></u> |

7. INCOME TAX

Hong Kong Profits Tax was calculated at 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong for both years. The PRC enterprise income tax has been provided at the rate of 25% (2016: 25%). Taxes on profits assessable elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Hong Kong profits tax: | | |
| — current year | — | 463 |
| — under / (over) provision in prior years | 459 | (20) |
| PRC enterprise income tax: | | |
| — current year | 2,550 | 3,353 |
| — under provision in prior years | 233 | 142 |
| | <u>3,242</u> | <u>3,938</u> |

The tax charge for the year can be reconciled to the loss before tax as follow:

| | Year ended 31 December | |
|---|------------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Loss before tax | <u>(90)</u> | <u>(36,210)</u> |
| Tax at the applicable tax rate | (15) | (5,975) |
| Effect of different taxation rates of other countries | 1,018 | 847 |
| Income not subject to tax | (6,057) | (1,451) |
| Expenses not deductible for tax purpose | 600 | 2,454 |
| Tax losses not recognised | 7,004 | 7,404 |
| Deferred taxation | — | 537 |
| Tax under provided | <u>692</u> | <u>122</u> |
| Tax charge at the Group's effective rate | <u>3,242</u> | <u>3,938</u> |

As at 31 December 2017, the Group has unused tax losses of approximately HK\$222,716,000 (2016: HK\$183,487,000) available for offset against future profits that may be carried forward indefinitely. No deferred tax asset has been recognised in respect of the tax losses due to the unpredictability of future profit streams.

8. DIVIDEND

No dividend has been paid or declared by the Company during the year (2016: Nil).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of basic and diluted loss per share is based on:

| | Year ended 31 December | |
|--|-------------------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Loss | | |
| Loss attributable to owners of the Company used in the basic loss per share calculation | <u>(6,725)</u> | <u>(42,617)</u> |
| | | |
| | Number of shares (thousands) | |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year | 1,803,053 | 1,457,526 |
| Effect of 2015 CB | <u>173,913</u> | <u>173,913</u> |
| Weighted average number of ordinary shares for the purpose of calculating loss per share | <u>1,976,966</u> | <u>1,631,439</u> |

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

10. FINANCE LEASE RECEIVABLES

| | As at 31 December | |
|---------------------------------------|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Current finance lease receivables | 1,837,309 | 31,873 |
| Non-current finance lease receivables | <u>240,366</u> | <u>1,869,445</u> |
| | <u>2,077,675</u> | <u>1,901,318</u> |

Amount receivable under finance leases

| | Minimum lease payment | | Present value of minimum lease payment | |
|--|-------------------------|-------------------------|--|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Within one year | 1,898,555 | 123,258 | 1,837,309 | 31,873 |
| In more than one year but not more than two years | 248,375 | 1,755,021 | 240,310 | 1,673,886 |
| In more than two years but not more than five years | 57 | 201,870 | 56 | 195,559 |
| | 2,146,987 | 2,080,149 | 2,077,675 | 1,901,318 |
| Unearned finance income | (69,312) | (178,831) | N/A | N/A |
| Present value of minimum lease payment | 2,077,675 | 1,901,318 | 2,077,675 | 1,901,318 |

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

Finance lease receivable balances are secured over the equipment held by the lessee. The Group is not permitted to sell or repledge the collateral in the absence of default by the lessee.

The finance lease receivables as at 31 December 2017 and 31 December 2016 are neither past due nor impaired.

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

11. TRADE RECEIVABLES

| | As at 31 December | |
|-------------------|-------------------------|-------------------------|
| | 2017 <i>HK\$'000</i> | 2016 <i>HK\$'000</i> |
| Trade receivables | 8,202 | 6,867 |

The Group's trading terms with its customers are mainly on credit. The credit period is generally two months. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has credit control procedures established to monitor credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of impairment, is as follows:

| | As at 31 December | |
|----------------|--------------------------|------------------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 30 days | 865 | 3,401 |
| 31 to 60 days | 532 | 7 |
| 61 to 120 days | 3,377 | 42 |
| Over 120 days | 3,428 | 3,417 |
| | <u>8,202</u> | <u>6,867</u> |

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

| | As at 31 December | |
|--------------|--------------------------|------------------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Not impaired | <u>8,202</u> | <u>6,867</u> |

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.

12. LOAN RECEIVABLES

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

Loan receivables bear interest at rates, and with credit periods, mutually agreed between the contracting parties. Loan receivables are secured by personal guarantees by the debtors/certain individuals. Overdue balances are reviewed regularly and handled closely by senior management.

| | As at 31 December | |
|-------------------------------------|--------------------------|------------------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loan receivables | 2,080 | 3,300 |
| Less: provision for impairment loss | <u>(1,000)</u> | <u>–</u> |
| | <u>1,080</u> | <u>3,300</u> |

The loan receivables at the end of the reporting period are analysed by the remaining period to contractual maturity date as follows:

| | As at 31 December | |
|--------------------|--------------------------|---------------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Repayable: | | |
| Within 3 months | 1,080 | 3,300 |
| 3 months to 1 year | <u>—</u> | <u>—</u> |
| | <u>1,080</u> | <u>3,300</u> |

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

| | As at 31 December | |
|---|--------------------------|---------------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Neither past due nor impaired | 80 | 900 |
| 1 to 3 months past due | <u>—</u> | 2,400 |
| Over 3 months to 1 year past due but not impaired | 300 | <u>—</u> |
| Over 1 year past due but not impaired | 700 | <u>—</u> |
| | <u>1,080</u> | <u>3,300</u> |

The interest rate was fixed at the contract date. The average interest rate was at 1% to 2.5% per month as at 31 December 2017 (2016: 1% to 2.5% per month).

Loan receivables that were neither past due nor impaired relate to certain debtors for whom there was no recent history of default.

Loan receivables that were past due but not impaired relate to an independent debtor. The directors of the Company are of the opinion that no provision for impairment is necessary as the balance is considered fully recoverable. Up to date of this report, amount of HK\$172,000 were subsequently settled.

13. SHARE CAPITAL

| | | Company | |
|--|--------------|------------------------------------|------------------------------------|
| | <i>Notes</i> | Number of shares <i>in '000</i> | Nominal values <i>HK\$ '000</i> |
| Authorised: | | | |
| As at 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | | | |
| Ordinary shares of HK\$0.001 each | | 200,000,000 | 200,000 |
| Issued and fully paid: | | | |
| As at 1 January 2016 | | | |
| Ordinary shares of HK\$0.001 each | | 1,225,094 | 1,225 |
| Issue of shares under general mandate | <i>a</i> | 395,000 | 395 |
| As at 31 December 2016 and 1 January 2017 | | | |
| Ordinary shares of HK\$0.001 each | | 1,620,094 | 1,620 |
| Issue of shares under general mandate | <i>b</i> | 320,000 | 320 |
| Issue of consideration shares | <i>c</i> | 100,000 | 100 |
| As at 31 December 2017 | | 2,040,094 | 2,040 |

Notes:

- (a) On 14 March 2016, the Company entered into a General Mandate (“GM”) placing agreement with a placing agent whereby the Company conditionally agreed to place through the placing agent, on a best endeavour basis, up to 245,000,000 Placing Shares, to not less than six placees at a price of HK\$0.119 per GM placing share. On 31 March 2016, the Company entered into a supplemental agreement with the placing agent to reduce the number of placing shares to 125,000,000. On 8 April 2016, 125,000,000 new shares were placed. The net proceeds of approximately HK\$14.3 million would be used for the capital injections into Heng He and the remaining for general working capital.

And on 8 June 2016, the Company entered into another GM placing agreement with a placing agent whereby the Company conditionally agreed to place through the placing agent, on a best endeavour basis, up to 270,000,000 Placing shares, to not less than six placees at a price of HK\$0.092 per GM placing share. On 24 June 2016, 270,000,000 new shares were placed. The net proceeds of approximately HK\$24.3 million would be used for capital injection into Heng He and the remaining for general working capital.

- (b) On 19 June 2017, the Company entered into a GM placing agreement with a placing agent whereby the Company conditionally agreed to place through the placing agent, on a best endeavour basis, up to 320,000,000 placing shares, to not less than six placees at a price of HK\$0.081 per GM placing share. On 20 July 2017, 320,000,000 new shares were placed. The net proceeds of approximately HK\$25.4 million would be used for partial repayment of promissory note, expansion of the securities business, and general working capital.

- (c) On 7 February 2017, Merdeka Financial Services Limited, an indirect wholly-owned subsidiary of the Company, entered into a sale and purchase agreement for the acquisition of 51% issued share capital of Heng Asset Management Limited at a consideration of HK\$10 million which should be satisfied by the allotment and issuance of 100,000,000 ordinary shares of the Company under specific mandate approved by the shareholders at the extraordinary general meeting of the Company. The shares were allotted and issued on 10 August 2017 upon the completion of the acquisition.

14. BANK BORROWINGS

| | | As at 31 December | |
|---|--------------|--------------------------|-----------------|
| | <i>Notes</i> | 2017 | 2016 |
| | | HK\$'000 | HK\$'000 |
| Fixed rate: | | | |
| Secured bank borrowings — repayable on demand | <i>a</i> | 206 | 206 |
| Secured bank borrowings — due within one year | <i>b</i> | 1,752,349 | 3,830 |
| | | 1,752,555 | 4,036 |
| Secured bank borrowings | | | |
| — due more than one year, but not more than three years | <i>b</i> | 72,060 | 1,691,649 |
| | | 1,824,615 | 1,695,685 |

Notes:

- a The bank borrowings were secured by a personal guarantee given by a former director of a subsidiary of the Company. The interest rate of this bank borrowing was charged at 0.88% flat per month.
- b Bank borrowings obtained in the PRC were secured by the finance lease assets held by the lessee with the carrying value of approximately RMB1,858.1 million (equivalent to approximately HK\$2,231.5 million), as at 31 December 2016 (2016: RMB1,858.1 million (equivalent to approximately HK\$2,074.7 million)). The interest rate of the bank loans were ranged from 3.8% to 5.7% per annum (2016: 4.9% to 6.3% per annum).

Included therein, a general banking facility amounted to HK\$7.0 million was secured by a deposit of HK\$4.0 million. The facility was utilised to the extent of approximately HK\$4.9 million as at 31 December 2017 (31 December 2016: HK\$3.8 million). This general banking facility is subject to the fulfilment of covenants relating to certain of the security coverage ratios, as are commonly found in lending arrangements with financial institutions. If any of the security coverage ratios shall at any time fall below the level required, the Group shall provide additional security acceptable to the bank and/or reduce the outstanding of the facilities designated by the bank. The Group regularly monitors its compliance with these covenants.

15. TRADE PAYABLES

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

| | As at 31 December | |
|---|--------------------------|-----------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payable from trading business | 1,082 | 373 |
| Trade payable from information technology business | 2,023 | 2,052 |
| Trade payable from financial services business | 38,367 | 29,906 |
| Amount payable arising from the business of dealing in securities | | |
| — Cash clients | 5,986 | 6,120 |
| — HKSCC | 225 | 1,974 |
| | <u>47,683</u> | <u>40,425</u> |

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 December | |
|----------------|--------------------------|-----------------|
| | 2017 | 2016 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 30 days | 38,454 | 29,931 |
| 31 to 60 days | 749 | — |
| 61 to 120 days | 2 | 4 |
| Over 120 days | 2,267 | 2,396 |
| | <u>41,472</u> | <u>32,331</u> |

FINANCIAL REVIEW

Highlights on financial results

| <i>(HK\$ '000, except percentage figures)</i> | Year ended 31 December | |
|--|------------------------|----------|
| | 2017 | 2016 |
| Revenue | 430,184 | 256,232 |
| Gross profit | 31,265 | 26,821 |
| Gross profit margin | 7.3% | 10.5% |
| Operating expenses | (24,667) | (22,191) |
| Administrative expenses | (13,883) | (12,824) |
| Non-cash items: | | |
| Depreciation of property, plant and equipment* | (3,785) | (2,161) |
| Written off of inventories | (137) | (435) |
| Written off of bad debts | (3,009) | (117) |
| Provision for impairment loss on trade receivables | — | (3) |
| Provision for impairment loss on loan receivables | (1,000) | — |
| Provision for impairment loss on prepayments, deposits and other receivables | (285) | — |
| Loss on early repayment of promissory notes | — | (493) |
| Finance costs of convertible bonds and promissory notes | (16,541) | (19,005) |
| Gain on extinguishment of CB liability component | 31,162 | — |
| Loss for the year | (3,332) | (40,148) |
| Loss for the year excluding non-cash items** | (9,737) | (17,934) |

* In 2017 and 2016, all of the depreciation of property, plant and equipment were included in the operating and administrative expenses.

** Loss for the year less non-cash items stated.

Discussion on financial results

For the year ended 31 December 2017, the Group's reported revenue reached approximately HK\$430.2 million, representing an increase of approximately 67.9% on a year-on-year basis. The significant increase in revenue was driven by the two major sources of revenue from trading business and financial services business. Trading business increased approximately HK\$149.9 million, representing approximately 85.5%, and financial services business also increased approximately HK\$23.9 million, representing approximately 29.7% on a year-on-year basis.

To correspond with the pace of growth in revenue, the Group's gross profit for the current year was approximately HK\$31.3 million, representing approximately 16.6% increase on a year-on-year basis. The increase was mainly attributable to the financial services business segment.

Despite the significant growth in terms of dollar in both revenue and gross profit, under intensive competition in the overall business environment, the Group's overall gross profit margin decreased by approximately 3.2% on a year-on-year basis.

During the year, the Group recognised a one-off gain on extinguishment of 2008 CB liability component of approximately HK\$31.2 million derived from revaluation upon extension for 3 years.

In light of the increasing operating activities carried out during the year, the overall operating and administrative expenses also increased correspondingly to approximately HK\$24.7 million and HK\$13.9 million respectively.

For the reason mentioned earlier, the result for the year improved drastically. The Group reported loss for the year of approximately HK\$3.3 million which represented approximately 91.7% reduction on a year-on-year basis. The loss excluding non-cash items decreased approximately HK\$9.7 million.

Analysis by business segment

| <i>(HK\$'000)</i> | Year ended 31 December | | | |
|---------------------------------|------------------------|----------------|--------------------------|--------------|
| | Revenue | | Profit/(loss) before tax | |
| | 2017 | 2016 | 2017 | 2016 |
| Trading business | 325,217 | 175,290 | (573) | (866) |
| Financial services business | 104,155 | 80,274 | 8,282 | 11,760 |
| Information technology business | 812 | 628 | (322) | (1,773) |
| Other business | — | 40 | (43) | (28) |
| | <u>430,184</u> | <u>256,232</u> | <u>7,344</u> | <u>9,093</u> |

Contributed by the intensive sale efforts putting on dairy products, beauty products and consumables, the revenue increased significantly to approximately HK\$325.2 million, representing a 85.5% increase over the last year. As a result, the reported loss was reduced to approximately HK\$0.6 million which decreased by approximately 33.8% compared with the corresponding year.

The financial services business kept providing satisfactory results in terms of revenue and profit before tax. Compared to 2016, the reported revenue increased by approximately 29.7% to HK\$104.2 million.

Since 2015, the information technology business kept not performing well due to keen competition in the industry. The reported revenue slightly increased in terms of dollars to approximately HK\$0.8 million representing approximately 29.3% on year-on-year basis for the year 2017. The loss before tax decreased by approximately 81.8% to approximately HK\$0.3 million for the current year.

Analysis by geographical segment

| | Year ended 31 December | | | |
|---|-------------------------------|--------------------|-----------------------|--------------------|
| | 2017 | | 2016 | |
| <i>(HK\$ '000, except percentage figures)</i> | Revenue | Proportion | Revenue | Proportion |
| Hong Kong | 328,371 | 76.33% | 177,414 | 69.24% |
| Mainland China | 101,813 | 23.67% | 78,818 | 30.76% |
| | <u>430,184</u> | <u>100%</u> | <u>256,232</u> | <u>100%</u> |

Highlights on financial position

| <i>(HK\$ '000)</i> | As at 31 December | |
|--|-------------------|-------------|
| | 2017 | 2016 |
| Property, plant and equipment | 4,011 | 4,664 |
| Goodwill | 5,803 | — |
| Held-for-trade investment | 534 | — |
| Intangible assets | 5,705 | 2,805 |
| Statutory deposit | 510 | 510 |
| Available-for-sale investments | 1,475 | 1,475 |
| Finance lease receivables | 2,077,675 | 1,901,318 |
| Trade receivables | 8,202 | 6,867 |
| Loan receivables | 1,080 | 3,300 |
| Bank balances — Trust accounts | 5,759 | 5,206 |
| Bank balances and cash — general accounts | 36,490 | 63,347 |
| Bank borrowings | (1,824,615) | (1,695,685) |
| Convertible bonds — liability component | (95,940) | (114,400) |
| Promissory notes | (27,622) | (50,402) |
| Finance lease obligation | (1,026) | (1,968) |
| Non-controlling interests | (101,046) | (88,039) |
| Equity attributable to owners of the Company | 40,114 | 3,301 |

Discussion on financial position

During the year, the Group acquired a subsidiary, which is carrying out regulated activities under SFO, that led to the increase in goodwill, held-for-trade investment, intangible assets, trade receivables, bank balances and cash — general accounts.

Finance lease receivables and bank borrowings increased in tandem. Finance lease receivables increased approximately HKD176.4 million and bank borrowings increased approximately 128.9 million. Both increment were mainly contributable to new finance lease contracts entered and RMB has been stronger against HKD at the end of the reporting date.

Convertible bonds - liability component decreased approximately HKD18.5 million which was the net effect of gain in extinguishment of liability component upon maturity and imputed interest charged.

During the year, one of the promissory notes matured which was transferred to other payable and the remaining promissory note was charged with imputed interest. As a result, the carrying amount of the promissory note at the reporting date had a net decrease of approximately HKD22.7 million.

Capital structure and gearing ratio

| | As at 31 December | | | |
|--|-------------------------|--------------------|-------------------------|--------------------|
| | 2017 | | 2016 | |
| | HK\$'000 | Proportion | HK\$'000 | Proportion |
| Total borrowings | | | | |
| — Bank borrowings | 1,824,615 | 91.72% | 1,695,685 | 90.88% |
| — Convertible bonds (liability component) | 95,940 | 4.82% | 114,400 | 6.13% |
| — Promissory notes | 27,622 | 1.39% | 50,402 | 2.70% |
| — Finance lease obligation | 1,026 | 0.05% | 1,968 | 0.11% |
| | <u>1,949,203</u> | <u>97.98%</u> | <u>1,862,455</u> | <u>99.82%</u> |
| Equity attributable to owners of the company | <u>40,114</u> | <u>2.02%</u> | <u>3,301</u> | <u>0.18%</u> |
| Total capital employed | <u><u>1,989,317</u></u> | <u><u>100%</u></u> | <u><u>1,865,756</u></u> | <u><u>100%</u></u> |

The increase in bank borrowings was in line with the growth of finance lease business during the year.

During the year, 2008 CB was matured and extended for three years, as a result the liability component was extinguished by approximately HKD31.2 million based on revaluation upon maturity. On the other hand, the carrying amount has been charged with imputed interest, the outstanding principal amount of the convertible bonds remained approximately HK\$124.1 million for both years with the maturity date due on 12 August 2020.

There were 2 batches of promissory notes collectively referred as 2014 PN and 2015 PN respectively. As at 31 December 2017, the outstanding principal and coupon interest of the 2014 PN amounted to approximately nil (2016: HK\$26.6 million) which has been matured in April 2017. In April 2015, the Company issued the principal amount of HK\$32.0 million of 2015 PN as part of the consideration to acquire the 40% equity interests in Heng He. The 2015 PN will be matured in April 2018. During the year 2016, the Company early repaid partially the outstanding principal of the 2015 PN of HK\$3.0 million. The outstanding principal of 2015 PN amounted to approximately HK\$28.9 million as at 31 December 2017 (2016: HK\$29.0 million).

Liquidity and financial resources

| (HK\$'000) | As at 31 December | |
|---------------------|-------------------|-------------------|
| | 2017 | 2016 |
| Current assets | 1,966,381 | 176,172 |
| Current liabilities | <u>1,913,951</u> | <u>246,355</u> |
| Current ratio | <u><u>1.0</u></u> | <u><u>0.7</u></u> |

As at 31 December 2017, high portion of the finance lease receivables were current assets, however high portion of bank borrowings in tandem were also current liabilities which were non-current as at 31 December 2016. Furthermore, the bank balances and cash - general accounts decreased dramatically, and other components of current liabilities increased. The combined effect of these factors led the current ratio increased to 1.0 from 0.7.

Foreign currency exposure

The Group's reporting currency is Hong Kong dollar. During the year ended 31 December 2017, most of the Group's transactions were denominated in Hong Kong dollars ("HK\$") and Renminbi ("RMB"). The Group had exposure to the risk of exchange rate fluctuations for RMB on account of its cost of finance lease and information technology operations in the Mainland China. The Group did not formally employ any hedging instruments or derivative products considering the relevant costs and benefits. However, the Group will continue to monitor closely the exchange rate risk.

Contingent liabilities

Details of the Company's contingent liabilities is set out in the note 42 to the financial statements (2016: Nil).

Acquisition and disposal of subsidiaries and affiliated companies

Details of acquisition and disposal of subsidiaries during the year ended 31 December 2017 and 2016 are disclosed in the notes to the financial statements of the Annual Report of the Company. Except for those disclosed in the Annual Report, the Group did not acquire or dispose of any material subsidiaries and affiliated companies during the year ended 31 December 2017.

Significant investments

The Group did not acquire or hold any significant investment during the year ended 31 December 2017 (2016: Nil).

Pledge of assets

As at 31 December 2017, the finance lease assets held by the leasees with the carrying value of approximately RMB1,858.1 million (equivalent to approximately HK\$2,231.5 million) had been pledged to the bank as security for the loan facilities of the Group (2016: RMB1,858.1 million (equivalent to approximately HK\$2,074.7 million)).

Capital commitments

As at 31 December 2017, the Group did not have any significant capital commitments (2016: Nil).

Employees and remuneration policy

As at 31 December 2017, the Group employed 35 staff (2016: 35). The Group's remuneration policy is based on principle of equality, motivating, performance-oriented and market-competitiveness. Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, other staff benefits included provident fund contributions, medical insurance coverage and performance related bonuses. A share option scheme is also established to reward and motivate the employees of the Group.

FINAL DIVIDEND

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

Interests and short positions in the shares and the underlying shares of the share options and the convertible bonds of the Company as at 31 December 2017

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

| Name of directors | Number of the shares interested and nature of interest | | | Approximate percentage of the total issued share capital of the Company |
|------------------------|--|----------------------------------|------------|---|
| | Personal | Founder of a discretionary trust | Total | |
| Cheung Wai Yin, Wilson | 557,814 | 98,437,500 (note) | 98,995,314 | 4.85% |
| Lau Chi Yan, Pierre | 3,984,375 | — | 3,984,375 | 0.20% |

Note:

As at the Latest Practicable Date, 98,437,500 Shares were owned 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 Asiitrust Limited, a trust company in its capacity as the trustee of a discretionary trust, the founder (as defined in the SFO) of which is Mr. Cheung Wai Yin, Wilson (“Mr. Cheung”) and the discretionary objects which are family members of Mr. Cheung (including Mr. Cheung himself). Accordingly, Mr. Cheung is deemed to be interested in the relevant Shares of the purpose of the SFO. Mr. Cheung is also personally interested in 557,814 Shares.

(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 | 19/8/2015 | 19/8/2015 - 18/8/2025 | 0.147 | 1,000,000 | 1,000,000 | 0.049% |

(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, 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 which are family members of Mr. Cheung (including Mr. Cheung himself).

Save as disclosed above, as at 31 December 2017, none of the directors and chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests in Shares and Underlying Shares" and "Share Option Scheme" above, at no time during the year ended 31 December 2017 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the directors and chief executive of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2017, the following persons (not being the directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

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

| Name of shareholders | Capacity and nature of interest | Number of the shares interested | Approximate percentage of the total issued share capital of the Company (%) |
|-----------------------------------|---------------------------------|---------------------------------|---|
| Ivana | Beneficial owner | 98,437,500 | 4.83 |
| CW Limited (<i>Note</i>) | Controlled corporation | 98,437,500 | 4.83 |
| Asiatrust Limited (<i>Note</i>) | Trustee | 98,437,500 | 4.83 |

Note: The interest is held by Ivana, a company incorporate in the British Virgin Islands owned as to 100% by CW Limited, which in turn is wholly-owned by Asiatrust Limited, a trust company in its capacity as the trustee of a discretionary trust, the founder (as defined in the SFO) of which is Mr. Cheung and the discretionary objects of which are family members of Mr. Cheung (including Mr. Cheung himself).

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

| Name of 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 | 1,157,894,736 | 297,619,048 | 56.76 |
| CW Limited (<i>Note 1</i>) | Controlled corporation | 1,157,894,736 | 297,619,048 | 56.76 |
| Asiatrust Limited (<i>Note 1</i>) | Trustee | 1,157,894,736 | 297,619,048 | 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 |

Note 1: The interest is held by Ivana, a company incorporate 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).

Note 2: The interest is held by Yihua Enterprise 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 December 2017, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTION SCHEME

The share option scheme of the Company (the “Share Option Scheme”) was adopted by the shareholders of the Company in the annual general meeting of the Company held on 3 May 2012 and was effective from that date. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

As at 31 December 2017, there were 233,390,855 share options outstanding under the Share Option Scheme. Based on these outstanding share options, the total number of shares available for issue is 233,390,855, which represents approximately 11.44% and 11.44% of the total issued share capital of the Company as at 31 December 2017 and the date of this report respectively.

Details of the movements of the share options under the Share Option Scheme during the year were as follows:

| Name | Number of share options | | | | Outstanding as at 31 December 2017 | Date of grant of the share options | Exercise period of the share options | Price of the shares before the date of grant (Note 2) per share | Original exercise price of the share options (Note 1) per share | Adjusted exercise price of the share options after open offer (Note 1) per share |
|--|--|---------------------------------|-----------------------------------|--|---|---|---|---|--|--|
| | Outstanding as at 1 January 2017 | Granted during the period | Exercised during the period | Cancelled/ Lapsed During the period | | | | | | |
| Executive director | | | | | | | | | | |
| Cheung Wai Yin, Wilson | 100,000,000 | – | – | – | 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 director | | | | | | | | | | |
| Yeung Mo Sheung, Ann | 16,483 | – | – | – | 16,483 | 17/1/2013 | 17/1/2013 - 16/1/2023 | 0.010 | 3.360 | 2.130 |
| | 1,000,000 | – | – | – | 1,000,000 | 19/8/2015 | 19/8/2015 - 18/8/2025 | 0.147 | 0.147 | – |
| Ng Kay Kwok | 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 | 5.680 | 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 | 5.680 | 3.600 |
| | 14,128 | – | – | – | 14,128 | 17/1/2013 | 17/1/2013 - 16/1/2023 | 0.010 | 3.360 | 2.130 |
| | 71,000,000 | – | – | – | 71,000,000 | 19/8/2015 | 19/8/2015 - 18/8/2025 | 0.147 | 0.147 | – |
| | 233,390,855 | – | – | – | 233,390,855 | | | | | |

Notes:

1. Pursuant to the terms and conditions of the Share Option Scheme, the number and the exercise price of the share options is subject to adjustment in the case of capitalisation issue, rights issue, subdivision or consolidation of the shares of the Company, or other similar changes in the Company's share capital.
2. The price of the shares of the Company before the date of the grant of the share options is the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day immediately before the date on which the share options were granted.

Save as disclosed above, at the date of this report, no other share options were exercised subsequent to the balance sheet date.

During the year ended 31 December 2017, no share option was granted by the Company.

No other feature of the share options granted was incorporated into the measurement of fair value.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE PERFORMANCE

The Group has commissioned itself to become a high-growth player in pursuing excellence in operations, at the same time we are dedicated to become a "Green Corporation" that explores business opportunities in this new and exciting sustainable world. We see no conflict in becoming a profit making entity simultaneously being a Green Corporation.

The Board understands that it is important to involve itself in preparing the environmental, social and governance ("ESG") report that summarises and reports the Group's ESG activities and performance in the year 2017 and it has extended its full support to the Secretary of the Company, who is reporting directly to the Board and is responsible for the task of compiling the ESG report which will be contained in and published together with our 2017 Annual Report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has always recognised the importance of the transparency and accountability to shareholders of the Company (the "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 in the interests of the Shareholders. Throughout the year ended 31 December 2017, the Board has reviewed the Group's corporate governance practices and is satisfied that the Company has complied with the code provisions under the Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules, except for the following deviations from the code provisions of the 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.

There is no separation of the roles of chairman and chief executive officer as set out in the Code Provision A.2.1.

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 Wai Yin, Wilson, 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.

The Board is currently 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.

Code Provision A.4.2

The Code Provision A.4.2 provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the articles of association of the Company, any director appointed to fill a casual vacancy shall hold office only until the next following AGM and shall then be eligible for re-election.

The Board considers that the Company is in compliance with paragraph 4(2) of Appendix 3 under the GEM Listing Rules and such a deviation is not material as casual vacancy is expected seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM is less than one year and is considered to be short.

Pursuant to the articles of association of the Company, the Chairman and the managing director of the Company 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 of the Company 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.

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. The Company has also made specific enquiry of all directors of the Company and the Company is not aware of any non-compliance with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the year ended 31 December 2017.

Nomination Committee

The Company has established a nomination committee (the “Nomination Committee”) with specific written terms of reference in line with the code provisions under the Code. The Nomination Committee consists of five members comprising three INEDs, namely Ms. Yeung Mo Sheung, Ann, Mr. Ng Kay Kwok and Mr. Au-yeung Sei Kwok, and two executive directors, namely Mr. Cheung Wai Yin, Wilson and Mr. Lau Chi Yan, Pierre. The chairman of the Nomination Committee is elected by the members who are present at the meeting.

Remuneration Committee

The Company has established a remuneration committee (the “Remuneration Committee”) with specific written terms of reference in line with the code provisions under the Code. The Remuneration Committee consists of five members comprising three INEDs, namely Ms. Yeung Mo Sheung, Ann, Mr. Ng Kay Kwok and Mr. Au-yeung Sei Kwok, and two executive directors, namely Mr. Cheung Wai Yin, Wilson and Mr. Lau Chi Yan, Pierre. The chairman of the Remuneration Committee is elected by the members who are present at the meeting.

Audit Committee

The Company has established the Audit Committee in 2001 with specific written terms of reference formulated in accordance with the requirements of the GEM Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company’s financial reporting and internal control procedures as well as to maintain an appropriate relationship with the external auditors of the Company.

The Audit Committee consisted of three members comprising three INEDs, namely Ms. Yeung Mo Sheung, Ann, Mr. Ng Kay Kwok and Mr. Au-yeung Sei Kwok, one of whom is a qualified accountant and has extensive experience in accounting and financial matters. The chairman of the Audit Committee is elected by the members who are present at the meeting. All members of the Audit Committee hold the relevant industry or legal, accounting and financial experience necessary to give advice on the Board's strategies and other related matters. All members of the Audit Committee have complete and unrestricted access to the external auditors and all employees of the Company.

The Audit Committee has reviewed the consolidated annual results of the Group for the year ended 31 December 2017, and confirmed that the preparation of such complied with applicable accounting principles and practices adopted by the Company and the requirements of the Stock Exchange, and adequate disclosure had been made.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the INEDs of the Company has filed a written confirmation to the Company confirming his independence pursuant to Rule 5.09 of the GEM Listing Rules and has undertaken to inform the Stock Exchange and the Company as soon as practicable if there is any subsequent change in circumstances which may affect his independence. As at the date of this Annual Report, the Board still considers the INEDs of the Company to be independent. All INEDs of the Company are appointed for a term of one year and are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the articles of association of the Company.

THE COMPANY SECRETARY

The Company has appointed and employed, on a full time basis, Mr. Lai Yau Hong, Thomson as the company secretary. He is an associate member of the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries and is an individual who, by virtue of his professional qualifications and relevant experience, is, in the opinion of the Board, capable of discharging the functions of company secretary. During the year ended 31 December 2017, the company secretary has taken over 15 hours of relevant professional training.

The company secretary is responsible not just for taking minutes of the Board's meetings but also for supporting the board by ensuring good information flow within the Board and that board policy and procedures are followed and for advising the Board through the Chairman and the CEO on governance matters and also for facilitating induction and professional development of directors.

The company secretary reports to the Chairman and the CEO while all directors have access to the advice and services of him to ensure that board procedures, and all applicable law, rules and regulations, are followed.

A physical board meeting is required to be held to discuss and approve any change in the company secretary.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2017.

PUBLICATION OF THE ANNUAL RESULTS, ANNUAL REPORT, ESG REPORT AND CORPORATE GOVERNANCE REPORT

The results announcement of the Company for the year ended 31 December 2017 will be published and remains on the website of the Company at <http://www.merdeka.com.hk> and 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. The Company's annual report, ESG report and corporate governance report will be despatched to the Shareholders and made available on the websites of the Company and the Stock Exchange in due course.

ANNUAL GENERAL MEETING

The notice of the 2018 AGM of the Shareholders will be published and despatched to the Shareholders in the manner as required by the GEM Listing Rules in due course.

By Order of the Board of
Merdeka Financial Services Group Limited
Cheung Wai Yin, Wilson
Chairman and Chief Executive Officer

Hong Kong, 26 March 2018

As at the date of this announcement, the directors of the Company are:

Executive Directors:

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

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

Independent Non-executive Directors:

Ms. Yeung Mo Sheung, Ann

Mr. Ng Kay Kwok

Mr. Au-yeung Sei Kwok

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>.