

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

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

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

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This report, for which the directors of Merdeka Financial Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company (the “Directors”), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

香港聯合交易所有限公司（「聯交所」）GEM（「GEM」）的特色

GEM的定位，乃為中小型公司提供一個上市的市場，此等公司相比起其他在主板上市的公司帶有較高投資風險。有意投資的人士應了解投資於該等公司的潛在風險，並應經過審慎周詳的考慮後方作出投資決定。

由於GEM上市公司普遍為中小型公司，在GEM買賣的證券可能會較於主板買賣之證券承受較大的市場波動風險，同時無法保證在GEM買賣的證券會有高流通量的市場。

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本報告乃遵照《聯交所GEM證券上市規則》（「《GEM上市規則》」）的規定而刊載，旨在提供有關領智金融集團有限公司（「本公司」）之資料；本公司各董事願共同及個別對此負全責。本公司各董事（「董事」）經作出一切合理查詢後確認，就彼等所深知及確信，本報告所載資料在一切重大方面均屬準確及完整，且無誤導或欺詐成分，且無遺漏任何其他事實，致使本報告所載任何聲明或本報告產生誤導。

UNAUDITED CONDENSED CONSOLIDATED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2020

The board (the “**Board**”) of Directors is pleased to announce the unaudited condensed consolidated quarterly results of the Company and its subsidiaries (collectively, the “**Group**”) for the three months ended 31 March 2020, together with the comparative unaudited figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2020

| | Notes | Three months ended 31 March | |
|---------------------------------------|-------|---------------------------------|---------------------------------|
| | | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| REVENUE | 2.1 | 13,967 | 117,580 |
| Cost of sales | | (6,672) | (114,426) |
| Gross profit | | 7,295 | 3,154 |
| Other income and gains | 3 | 9,317 | 348 |
| Operating and administrative expenses | | (7,440) | (11,452) |
| Finance costs | 4 | (3,559) | (3,018) |
| PROFIT/(LOSS) BEFORE TAXATION | 5 | 5,613 | (10,968) |
| Income tax (expense)/credit | 6 | (590) | 1,071 |
| PROFIT/(LOSS) FOR THE PERIOD | | 5,023 | (9,897) |
| Profit/(loss) attributable to: | | | |
| Owners of the Company | | 1,963 | (8,969) |
| Non-controlling interests | | 3,060 | (928) |
| | | 5,023 | (9,897) |
| | | HK\$ | HK\$ |
| PROFIT/(LOSS) PER SHARE | | | |
| Basic and diluted | 8 | 0.01 | (0.04)* |

* Adjusted for the effect of share consolidation on 19 August 2019.



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2020

| | Three months ended 31 March | |
|--|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| PROFIT/(LOSS) FOR THE PERIOD | 5,023 | (9,897) |
| Other comprehensive income: | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange differences arising on translation of foreign operations | (3,564) | 4,434 |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | 1,459 | (5,463) |
| Total comprehensive income attributable to: | | |
| Owners of the Company | (200) | (6,369) |
| Non-controlling interests | 1,659 | 906 |
| | 1,459 | (5,463) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|---|-------|--|---|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 9 | 1,645 | 1,891 |
| Statutory deposit | | 510 | 510 |
| Goodwill | 10 | 5,470 | 5,470 |
| Intangible assets | 11 | 5,393 | 5,450 |
| Right-of-use assets | 12 | 7,463 | 8,706 |
| Financial assets at fair value through other comprehensive income | 13 | 2,032 | 2,032 |
| Total non-current assets | | 22,513 | 24,059 |
| Current assets | | | |
| Inventories | | 869 | 485 |
| Trade receivables | 14 | 6,589 | 29,888 |
| Prepayments, deposits and other receivables | | 13,624 | 14,479 |
| Finance lease receivables | 15 | 77,652 | 81,071 |
| Bank balances — trust accounts | 16 | 17,797 | 31,651 |
| Bank balances and cash — general accounts | 16 | 30,768 | 15,454 |
| Total current assets | | 147,299 | 173,028 |
| Current liabilities | | | |
| Borrowings | 17 | 5,001 | 4,884 |
| Lease liabilities | 18 | 4,986 | 5,003 |
| Convertible bonds | 19 | 119,183 | 116,344 |
| Promissory note | 20 | 8,160 | 8,005 |
| Trade payables | 21 | 24,017 | 60,183 |
| Other payables and accruals | | 111,736 | 106,721 |
| Tax payables | | 925 | 341 |
| Total current liabilities | | 274,008 | 301,481 |
| Net current liabilities | | (126,709) | (128,453) |
| Total assets less current liabilities | | (104,196) | (104,394) |


CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

| | Notes | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|---|-------|---|---|
| Non-current liabilities | | | |
| Deferred tax liabilities | | 1,087 | 1,128 |
| Lease liabilities | 18 | 2,622 | 3,842 |
| Total non-current liabilities | | 3,709 | 4,970 |
| Net liabilities | | (107,905) | (109,364) |
| EQUITY | | | |
| Share capital | 22 | 2,622 | 2,622 |
| Reserves | | (146,925) | (146,725) |
| Equity attributable to owners of the Company | | (144,303) | (144,103) |
| Non-controlling interests | | 36,398 | 34,739 |
| Total deficiency | | (107,905) | (109,364) |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2020

| | Attributable to owners of the Company | | | | | | | | | | | | | |
|--|---|--|--|--|---|---|--|---|--|---|----------------------------------|--|---|--|
| | Issued capital (Unaudited) HK\$'000 | Share premium (Unaudited) HK\$'000 | Contributed surplus (Unaudited) HK\$'000 | Equity component of | | | Capital reduction reserve (Unaudited) HK\$'000 | Exchange fluctuation reserve (Unaudited) HK\$'000 | Fair value through other comprehensive | | | Non-controlling interests (Unaudited) HK\$'000 | Total equity (Unaudited) HK\$'000 | |
| | | | | convertible bonds (Unaudited) HK\$'000 | Share option reserve (Unaudited) HK\$'000 | income reserve (Unaudited) HK\$'000 | | | Other reserve (Unaudited) HK\$'000 | Accumulated losses (Unaudited) HK\$'000 | Total (Unaudited) HK\$'000 | | | |
| | | | | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | | | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | | | |
| As at 31 December 2018 and 1 January 2019, as original presented | 2,040 | 957,059 | 66,710 | 53,115 | 27,328 | 163,191 | (9,183) | — | — | (1,318,571) | (58,311) | 69,070 | 10,759 | |
| Effect on adoption of HKFRS 16 | — | — | — | — | — | — | — | — | — | (68) | (68) | (4) | (72) | |
| As at 31 December 2018 and 1 January 2019, as restated | 2,040 | 957,059 | 66,710 | 53,115 | 27,328 | 163,191 | (9,183) | — | — | (1,318,639) | (58,379) | 69,066 | 10,687 | |
| Comprehensive income | | | | | | | | | | | | | | |
| Loss for the period | — | — | — | — | — | — | — | — | — | (8,969) | (8,969) | (928) | (9,897) | |
| Other comprehensive income | | | | | | | | | | | | | | |
| Exchange difference arising on translation of foreign operation | — | — | — | — | — | — | 2,507 | — | — | 93 | 2,600 | 1,834 | 4,434 | |
| Total comprehensive income | — | — | — | — | — | — | 2,507 | — | — | (8,876) | (6,369) | 906 | (5,463) | |
| As at 31 March 2019 | 2,040 | 957,059 | 66,710 | 53,115 | 27,328 | 163,191 | (6,676) | — | — | (1,327,515) | (64,748) | 69,972 | 5,224 | |
| As at 1 January 2020 | 2,622 | 993,392 | 66,710 | 22,728 | 25,004 | 163,191 | (10,997) | 32 | (6,548) | (1,400,237) | (144,103) | 34,739 | (109,364) | |
| Comprehensive income | | | | | | | | | | | | | | |
| Profit for the period | — | — | — | — | — | — | — | — | — | 1,963 | 1,963 | 3,060 | 5,023 | |
| Other comprehensive income | | | | | | | | | | | | | | |
| Exchange difference arising on translation of foreign operation | — | — | — | — | — | — | (2,163) | — | — | — | (2,163) | (1,401) | (3,564) | |
| Total comprehensive income | — | — | — | — | — | — | (2,163) | — | — | 1,963 | (200) | 1,659 | 1,459 | |
| As at 31 March 2020 | 2,622 | 993,392 | 66,710 | 22,728 | 25,004 | 163,191 | (13,160) | 32 | (6,548) | (1,398,274) | 144,303 | 36,398 | (107,905) | |



Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated quarterly results of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations issued by Hong Kong Institute of Certified Public Accountants (“**HKICPA**”).

The unaudited condensed consolidated quarterly results also comply with the applicable disclosure provisions of the GEM Listing Rules.

The unaudited condensed consolidated quarterly results have been prepared under the historical cost convention except for certain financial instruments which are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The unaudited condensed consolidated quarterly results should be read in conjunction with the Group’s audited annual financial statements for the year ended 31 December 2019 (the “**2019 Annual Report**”). The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the 2019 Annual Report.

The Group has adopted the standards, amendments and interpretations that have been issued and effective for the accounting period beginning on 1 January 2020. The adoption of such standards, amendments and interpretations does not have material financial effect on this quarterly results.

2. REVENUE AND SEGMENT REPORTING

- 2.1 Revenue represents the amounts received and receivable for goods sold to outside customers, net of returns and discounts, income from financial services operations and income from corporate consulting operations during the three months ended.

| | Three months ended 31 March | |
|-------------------------------|--|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Financial services business | 4,845 | 773 |
| Corporate consulting business | 1,768 | 2,051 |
| Trading business | 7,354 | 114,756 |
| | 13,967 | 117,580 |

2.2 Segment reporting

(a) Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. The chief operating decision-maker has been identified as the Company's executive directors.

The Group currently has four reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies as follows:

- (a) The financial services business includes the securities brokerage business, provision of corporate finance advisory services, asset management business, money lending business and financial leasing business;



2. REVENUE AND SEGMENT REPORTING (Continued)

2.2 Segment reporting (Continued)

(a) Reportable segments (Continued)

- (b) Corporate consulting business segment is engaged in the provision of company secretarial services, accounting and financial reporting services and management consulting services;
- (c) The trading business segment is engaged in the trading of goods, components and accessories; and
- (d) The information technology business segment is engaged in distributorship of information technology products and the provision of relevant technical support services.

(b) Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segments.

For three months ended 31 March 2020

| | Financial services business HK\$'000 (Unaudited) | Corporate consulting business HK\$'000 (Unaudited) | Trading business HK\$'000 (Unaudited) | Information technology business HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|--|--|--|--|--|----------------------------------|
| Segment revenue | 4,845 | 1,768 | 7,354 | — | 13,967 |
| Segment profit | 2,587 | 404 | 23 | — | 3,014 |
| Reversal of impairment loss recognised on other receivables | | | | | 8,950 |
| Finance costs | | | | | (3,433) |
| Unallocated corporate expenses | | | | | (2,918) |
| Profit before taxation | | | | | 5,613 |

2. REVENUE AND SEGMENT REPORTING (Continued)

2.2 Segment reporting (Continued)

(b) Segment revenue and results (Continued)

For three months ended 31 March 2019

| | Financial services business HK\$'000 (Unaudited) | Corporate consulting business HK\$'000 (Unaudited) | Trading business HK\$'000 (Unaudited) | Information technology business HK\$'000 (Unaudited) | Total HK\$'000 (Unaudited) |
|-----------------------------------|--|--|--|--|----------------------------------|
| Segment revenue | 773 | 2,051 | 114,756 | — | 117,580 |
| Segment (loss)/profit | (4,530) | 1,316 | (562) | (2) | (3,778) |
| Finance costs | | | | | (2,849) |
| Unallocated corporate expenses | | | | | (4,341) |
| Loss before taxation | | | | | (10,968) |



2. REVENUE AND SEGMENT REPORTING (Continued)

2.2 Segment reporting (Continued)

(c) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segments:

| | 31 March 2020 (Unaudited) HK\$'000 | 31 December 2019 (Audited) HK\$'000 |
|---------------------------------------|---|--|
| Segment assets | | |
| Financial services business | 132,587 | 159,790 |
| Corporate consulting business | 11,772 | 11,633 |
| Trading business | 12,493 | 12,163 |
| Total segment assets | 156,852 | 183,586 |
| Unallocated bank balances and cash | 206 | 119 |
| Unallocated corporate assets | 12,754 | 13,382 |
| Consolidated total assets | 169,812 | 197,087 |
| Segment liabilities | | |
| Financial services business | 31,763 | 65,901 |
| Corporate consulting business | 3,069 | 3,442 |
| Trading business | 8,706 | 8,398 |
| Information technology business | 765 | 765 |
| Total segment liabilities | 44,303 | 78,506 |
| Convertible bonds | 119,183 | 116,344 |
| Promissory note | 8,160 | 8,005 |
| Unallocated corporate liabilities | 106,071 | 103,596 |
| Consolidated total liabilities | 277,717 | 306,451 |

2. REVENUE AND SEGMENT REPORTING (Continued)

2.2 Segment reporting (Continued)

(d) Geographical information

The Group's operations are mainly located in Hong Kong (Place of domicile) and the People's Republic of China (the "PRC").

The Group's revenue from external customers and information about its non-current assets (other than financial assets) by geographical markets are detailed as below:

| | Revenue from external customers | | Non-current assets | |
|-----------|---|---|--|---|
| | Three months ended 31 March 2020 HK\$'000 (Unaudited) | Three months ended 31 March 2019 HK\$'000 (Unaudited) | As at 31 March 2020 HK\$'000 (Unaudited) | As at 31 December 2019 HK\$'000 (Audited) |
| Hong Kong | 13,967 | 117,124 | 20,481 | 21,667 |
| PRC | — | 456 | — | 360 |
| | 13,967 | 117,580 | 20,481 | 22,027 |

The geographical location of customers is based on the location at which the goods and services are delivered. For goodwill and intangible assets, the geographical location is based on the areas of operation. The geographical location of other non-current assets is based on the physical location of the assets.



2. REVENUE AND SEGMENT REPORTING (Continued)

2.2 Segment reporting (Continued)

(e) Major customers

Revenues from customers in the segment of trading business contributing over 10% of the total turnover of the Group are as follows:

| | Three months ended 31 March | |
|------------|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Customer A | 3,859 | 101,509 |
| Customer B | — | 3,215 |
| | 3,859 | 104,724 |

3. OTHER INCOME AND GAINS

| | Three months ended 31 March | |
|--|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Interest income on bank deposit | — | 18 |
| Other operating income | 252 | 84 |
| Gain on disposal of held-for-trading investment | — | 18 |
| Reversal of impairment loss recognised on other receivables | 8,950 | — |
| Sundry income | 115 | 228 |
| | 9,317 | 348 |

4. FINANCE COSTS

| | Three months ended 31 March | |
|---|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Imputed interest charge on convertible bonds <i>(note)</i> | 2,839 | 2,577 |
| Imputed interest charge on promissory note | 128 | 57 |
| Coupon interest charge on promissory note | 27 | 13 |
| Interest charge on bank borrowings | 91 | 615 |
| Interest charge on other borrowings | 410 | 135 |
| Interest on lease liabilities | 64 | 137 |
| | 3,559 | 3,534 |
| Less: interest charge on bank borrowings included in cost of sales for financial services business | — | (516) |
| | 3,559 | 3,018 |

Note:

The charge represents the imputed interest on the liability component of the convertible bonds for both periods.



5. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging:

| | Three months ended 31 March | |
|---|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Depreciation expenses in respect of: | | |
| Property, plant and equipment | 260 | 238 |
| Right-of-use assets | 1,243 | 1,080 |
| Amortisation of intangible assets | 57 | 19 |
| Staff costs (including Directors' emoluments) | 3,880 | 3,761 |

6. INCOME TAX

Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. The profits of group entities in Hong Kong that are not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The PRC enterprise income tax has been provided at the rate of 25% for both periods. Taxes on profits assessable elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

| | Three months ended 31 March | |
|---------------------------------|---------------------------------|---------------------------------|
| | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Hong Kong profits tax: | | |
| — current | 631 | — |
| PRC enterprise income tax: | | |
| — current | — | — |
| — over provision in prior years | — | (1,071) |
| Deferred tax | (41) | — |
| | 590 | (1,071) |

7. DIVIDEND

No quarterly dividend has been paid or declared by the Company during the three months ended 31 March 2020 (three months ended 31 March 2019: Nil).

8. PROFIT/(LOSS) PER SHARE

The calculation of basic and diluted profit/(loss) per share attributable to owners of the Company are based on the following data:

| | Three months ended 31 March | |
|---|--|---------------------------------|
| | 2020 HK\$'000 (Unaudited) | 2019 HK\$'000 (Unaudited) |
| Profit/(loss) attributable to owners of the Company for the purpose of calculating basic and diluted loss per share | 1,963 | (8,969) |

| | Number of shares Three months ended 31 March | |
|---|---|-----------------------------|
| | 2020 '000 (Unaudited) | 2019 '000 (Unaudited) |
| Weighted average number of ordinary shares for the purpose of basic and diluted profit/(loss) per share | 262,201 | 204,009 |
| Effect of convertible bond issued in 2015 | — | 17,391 |
| | 262,201 | 221,400 |

The computation of diluted profit/(loss) per share does not assume the exercise of the Company's share options because the exercise prices of those options were higher than the average market price for both 2020 and 2019.

For the three months ended 31 March 2019 comparative figure has been restated with the effective of share consolidation.



9. PROPERTY, PLANT AND EQUIPMENT

During the three months ended 31 March 2020, the Group spent HK\$21,000 in additions of leasehold improvement (year ended 31 December 2019: HK\$373,000).

10. GOODWILL

| | HK\$'000 |
|--|---------------|
| COST: | |
| At 1 January 2019 (audited) | 5,803 |
| Acquired through acquisition of a subsidiary (<i>note 23</i>) | 5,470 |
| <hr/> | |
| At 31 December 2019 (audited), 1 January 2020 (audited) and 31 March 2020 (unaudited) | 11,273 |
| <hr/> | |
| ACCUMULATED IMPAIRMENT LOSSES: | |
| At 1 January 2019 (audited) | 5,803 |
| Impairment loss for the year | — |
| <hr/> | |
| At 31 December 2019 and 1 January 2020 (audited) | 5,803 |
| Impairment loss for the period | — |
| <hr/> | |
| At 31 March 2020 (unaudited) | 5,803 |
| <hr/> | |
| NET CARRYING AMOUNT: | |
| At 31 March 2020 (unaudited) | 5,470 |
| <hr/> <hr/> | |
| At 31 December 2019 (audited) | 5,470 |
| <hr/> <hr/> | |

11. INTANGIBLE ASSETS

| | Trading Right HK\$'000 | Customer Relationship HK\$'000 | Total HK\$'000 |
|---|------------------------------|--------------------------------------|-------------------|
| COST: | | | |
| At 1 January 2019 (audited) | 5,705 | — | 5,705 |
| Acquired through acquisition of a subsidiary (<i>note 23</i>) | — | 1,140 | 1,140 |
| At 31 December 2019 (audited), 1 January 2020 (audited) and 31 March 2020 (unaudited) | 5,705 | 1,140 | 6,845 |
| ACCUMULATED AMORTISATION AND IMPAIRMENT LOSSES: | | | |
| At 1 January 2019 (audited) | — | — | — |
| Impairment loss for the year | 1,205 | — | 1,205 |
| Amortisation for the year | — | 190 | 190 |
| At 31 December 2019 (audited) and 1 January 2020 (audited) | 1,205 | 190 | 1,395 |
| Amortisation for the period | — | 57 | 57 |
| At 31 March 2020 (unaudited) | 1,205 | 247 | 1,452 |
| NET CARRYING AMOUNT: | | | |
| At 31 March 2020 (unaudited) | 4,500 | 893 | 5,393 |
| At 31 December 2019 (audited) | 4,500 | 950 | 5,450 |

Trading right have indefinite useful life and therefore no amortisation has been provided.

No impairment loss was considered during the three months ended 31 March 2020 (year ended 31 December 2019: HK\$1,205,000).

Customer relationship of HK\$1,140,000 represented the intangible asset arose from the acquisition of corporate consulting business and was valued as of the respective date of acquisition by an independent qualified valuer on the basis of the excess earnings method under the income approach. The management of the Group considered customer relationship has finite useful lives and is amortised on a straight-line basis over 5 years.

There was no addition of intangible assets for the three months ended 31 March 2020 (year ended 31 December 2019: HK\$1,140,000).



12. RIGHT-OF-USE ASSETS

| | HK\$'000 |
|---|---------------|
| COST: | |
| Recognition upon initial application of HKFRS 16 | 11,171 |
| Acquired through acquisition of a subsidiary (<i>note 23</i>) | 3,943 |
| Exchange realignment | (18) |
| At 31 December 2019 and 1 January 2020 (audited) | 15,096 |
| Exchange realignment | (21) |
| At 31 March 2020 (unaudited) | 15,075 |
| ACCUMULATED DEPRECIATION: | |
| Depreciation recognised upon initial application of HKFRS 16 | 1,463 |
| Depreciation for the year | 4,944 |
| Exchange realignment | (17) |
| At 31 December 2019 and 1 January 2020 (audited) | 6,390 |
| Depreciation for the period | 1,243 |
| Exchange realignment | (21) |
| At 31 March 2020 (unaudited) | 7,612 |
| NET CARRYING AMOUNT: | |
| At 31 March 2020 (unaudited) | 7,463 |
| At 31 December 2019 (audited) | 8,706 |

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

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

On 16 August 2019, the Group acquired 10% of the issued share capital of a private company as financial assets at fair value through other comprehensive income at cash consideration of HK\$2,000,000. As at 31 March 2020, the Group's shareholding in this private company was diluted to approximately 9.6% due to further allotment of shares of the private company to investors (year ended 31 December 2019: approximately 9.9%). No fair value gain or loss was recognised during the three months ended 31 March 2020 (year ended 31 December 2019: HK\$32,000).

14. TRADE RECEIVABLES

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

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|----------------|---|---|
| Within 30 days | 4,961 | 28,169 |
| 31 to 60 days | 206 | 312 |
| 61 to 120 days | 262 | 978 |
| Over 120 days | 1,160 | 429 |
| | 6,589 | 29,888 |

As at 31 March 2020, the balance of HK\$4,478,000 (31 December 2019: HK\$27,579,000) represented the trade receivables arising from securities brokerage service.



14. TRADE RECEIVABLES (Continued)

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

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|--------------|---|---|
| Not impaired | 6,589 | 29,888 |

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.

15. FINANCE LEASE RECEIVABLES

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|---------------------------------------|---|---|
| Finance lease receivables | 155,110 | 158,529 |
| Less: Provision for impairment losses | (77,458) | (77,458) |
| | 77,652 | 81,071 |

15. FINANCE LEASE RECEIVABLES (Continued)

Amount receivable under finance leases

| | Minimum lease payment | | Present value of minimum lease payment | |
|---|--|---|--|---|
| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
| | 168,347 | 172,059 | 155,110 | 158,529 |
| Unearned finance income | (13,237) | (13,530) | N/A | N/A |
| Present value of minimum lease payment | 155,110 | 158,529 | 155,110 | 158,529 |
| Less: Provision for impairment losses | (77,458) | (77,458) | (77,458) | (77,458) |
| | 77,652 | 81,071 | 77,652 | 81,071 |

The interest rate inherent in the leases was fixed at the contract date for the entire lease term. The interest rate of the above finance leases is 5.83% per annum as at 31 March 2020 (31 December 2019: 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.

As at 31 March 2020, the term of finance lease entered is one year (31 December 2019: one year).

For the three months ended 31 March 2020, no impairment loss was recognised in the unaudited condensed consolidated statement of profit or loss (year ended 31 December 2019: HK\$77,458,000).



16. BANK BALANCES AND CASH

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|--|---|---|
| Bank balances — trust accounts (<i>note</i>) | 17,797 | 31,651 |
| Bank balances and cash — general accounts | 30,768 | 15,454 |
| | 48,565 | 47,105 |

Note: The Group receives and holds money deposited by clients in the course of the conduct of the regulated activities. These clients money are maintained in one trust bank account and bear interest at commercial rates. The Group has recognised the corresponding accounts payable to respective clients.

As at 31 March 2020, the Group's bank balances and cash — general accounts amounted to HK\$30,768,000 (31 December 2019: HK\$15,454,000), HK\$10,965,000 was denominated in RMB and of HK\$19,803,000 was denominated in Hong Kong dollars (31 December 2019: HK\$127,000 and HK\$15,327,000 respectively). Therein, HK\$19,654,000 (31 December 2019: HK\$15,130,000) were bank balances deposited with credit worthy banks of high credit ratings in Hong Kong, in which HK\$19,654,000 (31 December 2019: HK\$15,130,000) was denominated in Hong Kong dollars. Included in bank balances and cash — general accounts, there is a pledged deposit of HK\$4,124,000 (31 December 2019: HK\$4,124,000) to secure a general banking facility (note 17).

17. BORROWINGS

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|---|---|---|
| Bank overdrafts | 2,001 | 1,884 |
| Bank borrowings, secured — current portion (<i>note</i>) | 3,000 | 3,000 |
| | 5,001 | 4,884 |

Note:

A general banking facility amounted to HK\$7,000,000 was secured by a deposit of HK\$4,124,000 (31 December 2019: HK\$4,124,000). The facility was utilised to the extent of HK\$3,000,000 as at 31 March 2020 (31 December 2019: HK\$3,000,000). 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.



18. LEASE LIABILITIES

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|---|---|---|
| Minimum lease payments due | | |
| — Within one year | 5,145 | 5,200 |
| — In the second to fifth years, inclusive | 2,648 | 3,894 |
| | 7,793 | 9,094 |
| Less: Future finance charges | (185) | (249) |
| Present value of lease liabilities | 7,608 | 8,845 |
| | | |
| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
| Within one year | 4,986 | 5,003 |
| In the second to fifth years, inclusive | 2,622 | 3,842 |
| | 7,608 | 8,845 |

19. CONVERTIBLE BONDS

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

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|-------------------------------------|---|---|
| At the beginning of the period/year | 116,344 | 105,651 |
| Interest charged | 2,839 | 10,693 |
| At the end of the period/year | 119,183 | 116,344 |

20. PROMISSORY NOTE

On 28 February 2019, the Company issued a promissory note with principal amounts of HK\$8,000,000 (the "2019 PN") as a consideration for the acquisition of MPSL Group (as defined in note 23). The 2019 PN bears interest at 2% per annum and is due on the date falling on the last day of the 12th month from the date of issue of the 2019 PN (the "2019 PN Maturity Date"). The maturity date is 28 February 2020. The Company has the right to repay in full or in part of the principal amount of the 2019 PN prior to the 2019 PN Maturity Date at par.



20. PROMISSORY NOTE (Continued)

The movement of the promissory note was as follows:

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|--|---|---|
| At the beginning of the period/year | 8,005 | — |
| Issuance upon acquisition of MPSSL Group (as defined in note 23) | — | 7,272 |
| Coupon interest charged | 27 | 133 |
| Imputed interest charged | 128 | 600 |
| | 8,160 | 8,005 |

The fair value of the 2019 PN was HK\$7,272,000 as at the issue date, calculated at the effective interest rate of 10.01% per annum. The promissory note was carried at amortised cost until settlement on due date. As at 31 March 2020, the carrying amount of outstanding 2019 PN was HK\$8,160,000 (31 December 2019: HK\$8,005,000).

On 28 February 2020, Mr. Wong Hin Shek (“**Mr. Wong**”), the substantial shareholder of the Company entered into an extension deed (which was agreed and accepted by the Company), agreeing that (i) the maturity date of 2019 PN shall be extended to the date of completion of the CB Subscription (as defined in the section “Connected transaction — subscription of convertible bonds under specific mandate”) or the date on which the CB Subscription (as defined in the section “Connected transaction — subscription of convertible bonds under specific mandate”) lapses, whichever is the earlier, or such later date as Mr. Wong and the Company may mutually agree in writing (the “**New Maturity Date**”) and; (ii) all interest accrued on the outstanding principal amount of the 2019 PN shall be repayable on the fifth business day immediately after the date of completion of the proposed rights issue or the date on which the proposed rights issue and the underwriting agreement are terminated or lapse, whichever is the earlier (the “**Interest Payment Date**”), or such other date as Mr. Wong and the Company may mutually agree in writing. For the avoidance of doubt, no interest shall continue to accrue after the full repayment of the principal amount of the 2019 PN on the New Maturity Date. Save for the above amendments, all other terms and conditions of the 2019 PN shall remain unchanged and in full and effect in all aspects.

Details are set out in the Company’s announcement dated 28 February 2020.

21. TRADE PAYABLES

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

| | As at 31 March 2020 (Unaudited) HK\$'000 | As at 31 December 2019 (Audited) HK\$'000 |
|----------------|---|---|
| Within 30 days | 22,301 | 58,723 |
| 31 to 60 days | 134 | 294 |
| 61 to 120 days | 264 | 26 |
| Over 120 days | 1,318 | 1,140 |
| | 24,017 | 60,183 |

As at 31 March 2020, the balance of HK\$22,171,000 (31 December 2019: HK\$58,665,000) represented the trade payables arising from securities brokerage services.

22. SHARE CAPITAL

| | Number of shares in '000 | Amount HK\$'000 |
|---|---|----------------------------|
| Authorised: | | |
| As at 31 December 2019 (audited), and 31 March 2020 (unaudited) | | |
| Ordinary shares of HK\$0.01 each | 20,000,000 | 200,000 |
| Issued and fully paid: | | |
| As at 31 December 2019 (audited) and 31 March 2020 (unaudited) | | |
| Ordinary shares of HK\$0.01 each | 262,200 | 2,622 |



23. ACQUISITION OF SUBSIDIARY

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

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

| | Fair value HK\$'000 (Unaudited) |
|--|--|
| Property, plant and equipment | 20 |
| Right-of-use assets (<i>note 12</i>) | 3,943 |
| Intangible assets (<i>note 11</i>) | 1,140 |
| Trade receivables | 998 |
| Other receivables | 36 |
| Prepayments and deposits | 544 |
| Bank balances and cash | 2,654 |
| Tax receivables | 233 |
| Trade payables | (630) |
| Deferred income | (3) |
| Receipt in advance | (33) |
| Deferred tax liabilities | (187) |
| Dividend payable | (2,970) |
| Lease liabilities | (3,943) |
| Fair value of net assets acquired | 1,802 |

23. ACQUISITION OF SUBSIDIARY (Continued)

| | HK\$'000 (Unaudited) |
|--|---------------------------------|
| Total consideration satisfied by promissory note issued at fair value (<i>note 20</i>) | 7,272 |
| Less: Fair value of net assets acquired | (1,802) |
| Goodwill (<i>note 10</i>) | 5,470 |
| Cash consideration paid | — |
| Bank balances and cash in a subsidiary acquired | 2,654 |
| Net cash inflow from acquisition of a subsidiary | 2,654 |

24. RELATED PARTY TRANSACTIONS

Save as disclosed in elsewhere to the unaudited condensed consolidated financial statements, the Group has the following related party transactions.

| Name of related party | Relationship | Nature of transaction | Three months ended 31 March | |
|-----------------------|----------------------------|-----------------------|---------------------------------|---------------------------------|
| | | | 2020 (Unaudited) HK\$'000 | 2019 (Unaudited) HK\$'000 |
| Wong Hin Shek | Shareholder of the Company | Loan interest payable | 1,402 | 192 |

Total compensation paid to key management personnel during the three months ended 31 March 2020 amounted to HK\$216,000 (three months ended 31 March 2019: HK\$1,484,000).



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL AND BUSINESS REVIEW

During the three months ended 31 March 2020, the Group is principally engaged in (i) financial services business including the securities brokerage services, provision of corporate finance advisory services, asset management business, money lending services and financial leasing business; (ii) corporate consulting business including company secretarial services, accounting and financial reporting services and management consulting services; (iii) trading business; and (iv) information technology business.

For the three months ended 31 March 2020, the Group recorded revenue of approximately HK\$14.0 million (three months ended 31 March 2019: approximately HK\$117.6 million). Profit for the period attributable to owners of the Company was approximately HK\$2.0 million (three months ended 31 March 2019: loss of approximately HK\$9.0 million). Basic and diluted profit per share was approximately HK\$0.01 (three months ended 31 March 2019: loss per share of approximately HK\$0.04). The increase in net profit for the three months ended 31 March 2020 was mainly due to the net profit contributed from the businesses of corporate finance advisory services, asset management services and corporate consulting business and the reversal of impairment loss recognised on other receivables of approximately HK\$9.0 million.

Financial services business

The revenue for the three months ended 31 March 2020 of the financial services business was approximately HK\$4.8 million (three months ended 31 March 2019: approximately HK\$0.8 million) and a segment profit of approximately HK\$2.6 million (three months ended 31 March 2019: loss of approximately HK\$4.5 million). The segment profit was mainly due to the net profit contribution from corporate finance advisory services and asset management services.

Upon Merdeka Corporate Finance Limited obtained a license from the Securities and Futures Commission of Hong Kong (the “**SFC**”) to carry out Type 6 (advising on corporate finance) regulated activity as defined under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”) in August 2019, the corporate financial advisory services had completed five engagements and generated revenue of approximately HK\$3.6 million for the three months ended 31 March 2020.

Furthermore, Merdeka Investment Management Limited, a company carries out Type 4 (advising on securities) and Type 9 (asset management) regulated activities as defined under the SFO, generated revenue of approximately HK\$1.0 million for the three months ended 31 March 2020.

The development of financial leasing services business in the PRC was still stagnant. During the three months ended 31 March 2020, no revenue was recorded in the financial leasing services business (three months ended 31 March 2019: approximately HK\$0.5 million).

FINANCIAL AND BUSINESS REVIEW (Continued)

Corporate consulting business

The performance of corporate consulting business remained stable that it generated revenue of approximately HK\$1.8 million (three months ended 31 March 2019: approximately HK\$2.1 million) and recorded a segment profit of approximately HK\$0.4 million (three months ended 31 March 2019: approximately HK\$1.3 million) during the three months ended 31 March 2020.

Trading business

The revenue of the trading business for the three months ended 31 March 2020 was approximately HK\$7.4 million (three months ended 31 March 2019: approximately HK\$114.8 million) and a segment profit of approximately HK\$0.02 million (three months ended 31 March 2019: loss of approximately HK\$0.6 million). Due to the outbreak of novel coronavirus in February 2020 and the introduction of several quarantine arrangement, the number of PRC tourists visiting Hong Kong dropped significantly, the revenue of the trading business was affected and faced a sharp decline.

Information technology business

The information technology business recorded nil revenue (three months ended 31 March 2019: nil) and nil segment result (three months ended 31 March 2019: loss of approximately HK\$0.002 million) for the three months ended 31 March 2020.

OUTLOOK

Financial services business

Given the satisfactory performance of the businesses of corporate financial advisory services and asset management services, the Group will continue to explore business opportunities within the financial services business segment and if suitable opportunities arise, the Group will expand its traditional financial services business into the financial technology industry in order to capture the potential growth of such segment and potentially to create synergy effect with the Group's existing financial services business.

Further to the Group's investment in minority stake of YAS Digital Limited in August 2019, Joy Sunny Investment Limited, a wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with two independent third parties (collectively, the "YAS Vendors") on 20 March 2020 regarding the Group's intention to acquire certain number of shares of YAS Digital Limited owned by the YAS Vendors at a consideration subject to further negotiation by the parties thereto.



OUTLOOK (Continued)

Corporate consulting business

Given the worldwide awareness of corporate governance, the Group anticipates the demand from Hong Kong listed issuers requesting for professional services in relation to corporate governance matters and compliance with the appropriate local rules governing the listed companies in Hong Kong and other relevant legal and regulatory requirements will persist.

Trading business

Recently, the business environment for retail trade has become even more difficult, with the threat of the novel coronavirus infection heavily weighing on inbound tourism and local consumption sentiment. The near-term outlook for retail sales depends critically on how the situation of the novel coronavirus infection will evolve and therefore, the trading business of the Group remains uncertain. The Group was implementing cost control over the trading business to maintain its competitiveness.

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, the Company issued further convertible bonds on 21 April 2015 (the “**2015 CBs**”) in the principal amount of HK\$40.0 million as paid of the consideration for acquisition of the entire issued share capital of Blossom Height Ventures Limited. On 17 December 2019, 17,391,304 shares issued as the convertible bonds with fair value of HK\$40.0 million were fully converted into shares of HK\$0.01 each at the conversion price of HK\$2.30.

As at 31 March 2020, the Company had zero coupon 2008 CBs with principal amount of approximately HK\$124.1 million conferring rights to convert into a total of 130,597,895 Shares with the conversion price of HK\$0.95 per share of the Company (the “**Shares**”).

LITIGATION

On 22 January 2015, the Company received a writ of summons (HCA 170 of 2015) issued in the Court of First Instance of the High Court of Hong Kong (the "**High Court**") by Mr. Au Kai To Karel, as the plaintiff claiming against (i) End User Technology Limited ("**End User**"), an indirect wholly-owned subsidiary of the Company, as the first defendant; (ii) the Company, as the second defendant; and (iii) Mr. Lau Chi Yan Pierre, the then managing Director and executive Director, as the third 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); (2) alternatively, the damages in the sum of HK\$80,000,000 in lieu of specific performance; (3) the interest; (4) further and/or other relief; and (5) the costs.

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

As announced by the Company in its announcement 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 "**Appeal**") (CACV 237 of 2017) and has taken steps to seek further legal advice on the Judgement, the Appeal, 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 Provisions) Ordinance, Chapter 32 of the laws of Hong Kong (the "**CWUMPO**") from the High Court (HCCW 343 of 2017) that the Company may be wound up by the High Court under the provisions of the CWUMPO on the ground that the Company is deemed to be unable to pay the sum of HK\$4.4 million as stipulated therein the Judgement.

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

On 4 January 2019, the Court of Appeal allowed the Company's appeal despite dismissing End User's appeal. Reasons for judgement was handed down on 18 January 2019.



LITIGATION (Continued)

On 20 May 2019, the High Court ordered that the Petition made by Mr. Au Kai To Karel (the “**Petitioner**”) under HCCW 343 of 2017 to wind up the Company be dismissed with costs payable by the Petitioner to the Company. Application for the return of HK\$4.4 million together with the interest accrued to the Company has been submitted to the High Court. On the hearing of the High Court on 18 December 2019, the High Court ordered that such application be adjourned sine die and costs be reserved. It was ordered by the High Court that the case be placed before a judge of the Court of Appeal for direction or determination. The case is currently pending the direction or determination of the Court of Appeal.

For details, please refer to the announcements of the Company dated 22 January 2015, 29 September 2017, 14 November 2017, 22 January 2019 and 21 May 2019.

DIVIDENDS

The Board resolved not to recommend the payment of any dividend for the three months ended 31 March 2020 (three months ended 31 March 2019: nil).

FINANCIAL RESOURCES, LIQUIDITY AND GEARING

As at 31 March 2020, the Group recorded cash and bank balances (included trust accounts) amounting to approximately HK\$48.6 million (31 December 2019: approximately HK\$47.1 million) and the net current liabilities value was approximately HK\$126.7 million (31 December 2019: approximately HK\$128.5 million).

The Group’s gearing ratio as at 31 March 2020 was approximately 0.78 (31 December 2019: approximately 0.66), being a ratio of total interest-bearing debts, included bank borrowings, convertible bonds and promissory notes of approximately HK\$132.3 million (31 December 2019: approximately HK\$129.2 million) to the total assets of approximately HK\$169.8 million (31 December 2019: approximately HK\$197.1 million).

FINANCIAL ASSISTANCE RECEIVED BY THE COMPANY

As at 31 March 2020, Mr. Cheung Wai Yin, Wilson (“**Mr. Cheung**”), the chairman (the “**Chairman**”), the chief executive officer and an executive Director of the Company, advanced fund of approximately HK\$12.6 million (31 March 2019: approximately HK\$12.2 million) to the Company at no interest, no security and no fixed repayment terms.

As at 31 March 2020, Mr. Wong, the substantial shareholder of the Company, advanced fund of approximately HK\$33.5 million (31 March 2019: approximately HK\$13.0 million) to the Company. The principal amount of approximately HK\$20.5 million was at an interest rate of 5.125% per annum, in which principal amount of approximately HK\$5.5 million will be matured after twelve months from the drawdown date and principal amount of approximately HK\$15.0 million will be matured on 11 August 2020. The principal amount of HK\$13.0 million was at an interest rate of 5.0% per annum, in which principal amount of HK\$10.0 million will be matured on 29 October 2020 and principal amount of HK\$3.0 million will be matured on 23 January 2021. All the loans advanced by Mr. Wong to the Company were unsecured.

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

PLEDGE OF ASSETS

As at 31 March 2020, the Group pledged bank deposits of approximately HK\$4.1 million (31 December 2019: approximately HK\$4.1 million) to secure banking facilities of the Group.

CAPITAL STRUCTURE

The Company had no changes in capital structure during the three months ended 31 March 2020.



INVESTMENT POSITION AND PLANNING

Proposed rights issue on the basis of four (4) rights shares for every one (1) existing share held on the record date

The Company proposed to implement the rights issue on the basis of four (4) rights shares for every one (1) existing share of the Company held on the record date at the subscription price of HK\$0.110 per rights share, to raise not less than approximately HK\$115.37 million before expenses (assuming no outstanding share options being exercised), and not more than approximately HK\$115.38 million before expenses (assuming all outstanding share options being exercised) by issuing not less than 1,048,802,876 rights shares and not more than 1,048,935,672 rights shares. Details were set out in the Company's announcements dated 10 January 2020, 20 March 2020 and 14 April 2020 and the Company's circular dated 27 March 2020.

Connected transaction — subscription of convertible bonds under specific mandate

On 10 January 2020, the Company entered into the subscription agreement (as supplemented by the supplemental agreement dated 20 March 2020) with Team Sunny International Holdings Limited ("**Team Sunny**"), a company incorporated in the British Virgin Islands and is wholly-owned by Mr. Wong, pursuant to which Team Sunny conditionally agreed to subscribe and the Company conditionally agreed to issue the convertible bonds in the principal amount of HK\$39,805,651 (which are convertible into conversion shares at the conversion price of HK\$0.110 per share (subject to adjustments)) for the settlement of the outstanding debt due from the Company to Mr. Wong of HK\$39,805,651. The subscription amount payable by Team Sunny under the subscription agreement shall be satisfied by way of offsetting (i) the principal amount of HK\$8,000,000 under the 2019 PN and payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the subscription to facilitate the set-off); and (ii) the outstanding principal amount and part of the accrued interest in an aggregate amount of HK\$31,805,651 under Mr. Wong's facilities payable by the Company to Mr. Wong (which will be assigned to Team Sunny by Mr. Wong at the completion of the subscription to facilitate the set-off). Details were set out in the Company's announcements dated 10 January 2020, 20 March 2020 and 14 April 2020 and the Company's circular dated 27 March 2020.

Connected transaction — proposed amendments to the terms of the 2008 convertible bonds

On 10 January 2020, the Company and the holder(s) ("**CB Holders**") of the 2008 CB entered into the fourth supplemental deed, pursuant to which the Company and the CB Holders conditionally agreed to amend certain terms of the 2008 CB such that (a) the maturity date of the 2008 CB be extended for a further term of three years from 13 August 2020 to 12 August 2023; and (b) the conversion price of the 2008 CB be revised from HK\$0.95 per conversion share to HK\$0.110 per conversion share with effect from 13 August 2020 (subject to adjustments). Save for the above amendments, all other terms of the 2008 CB shall remain unchanged and valid. Details were set out in the Company's announcements dated 10 January 2020, 20 March 2020 and 14 April 2020 and the Company's circular dated 27 March 2020.

INVESTMENT POSITION AND PLANNING (Continued)

Extension of the maturity date of the promissory note

On 28 February 2020, Mr. Wong entered into an extension deed (which was agreed and accepted by the Company), agreeing that (i) the maturity date of 2019 PN shall be extended to the date of completion of the CB Subscription or the date on which the CB Subscription lapses, whichever is the earlier, or such later date as Mr. Wong and the Company may mutually agree in writing and; (ii) all interest accrued on the outstanding principal amount of the 2019 PN shall be repayable on the fifth business day immediately after the date of completion of the proposed rights issue or the date on which the proposed rights issue and the underwriting agreement are terminated or lapse, whichever is the earlier, or such other date as Mr. Wong and the Company may mutually agree in writing. For the avoidance of doubt, no interest shall continue to accrue after the full repayment of the principal amount of the 2019 PN on the New Maturity Date. Save for the above amendments, all other terms and conditions of the 2019 PN shall remain unchanged and in full and effect in all aspects. Details were set out in the Company's announcement dated 28 February 2020.

Memorandum of understanding in relation to the possible acquisition of the digital insurance and related business

On 20 March 2020, Joy Sunny Investment Limited, a wholly-owned subsidiary of the Company, entered into a non-legally binding memorandum of understanding with the YAS Vendors regarding the Group's intention to acquire certain amount of shares of YAS Digital Limited owned by YAS Vendors at a consideration subject to further negotiation by the parties thereto. Details were set out in the Company's announcement dated 20 March 2020.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group employed 40 staff (31 December 2019: 41). 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 to bonuses. A share option scheme is also established to reward and motivated the employees of the Group.

CONNECTED TRANSACTIONS

Saved as disclosed, the Company did not have any other connected transactions which were subject to the reporting requirements under Chapter 20 of the GEM Listing Rules for three months ended 31 March 2020.



SHARE OPTION SCHEME

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

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

| Name | Number of share options | | | | | Date of grant of the share options | Exercise period of the share options | Price of the shares before the date of grant of the share options (Note 2) per share | Exercise price of the share options (Note 1) per share |
|-----------------------------|----------------------------------|---------------------------|-----------------------------|-------------------------------------|---------------------------------|------------------------------------|--------------------------------------|--|--|
| | Outstanding as at 1 January 2020 | Granted during the period | Exercised during the period | Cancelled/ Lapsed during the period | Outstanding as at 31 March 2020 | | | | |
| Other eligible participants | 33,199 | — | — | — | 33,199 | 30/5/2012 | 30/5/2012–29/5/2022 | 0.017 | 36.00 |
| | 33,199 | — | — | — | 33,199 | | | | |

Notes:

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

During the period for the three months ended 31 March 2020, no share options were granted by the Company.

DIRECTORS’ INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 March 2020, the Directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules:

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

Interests and short positions in the shares and the underlying shares of the share options and the convertible bonds of the Company as at 31 March 2020

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

| Name of Directors | Personal | Total | Approximate percentage of the total issued share capital of the Company (%) |
|------------------------|----------|--------|---|
| Cheung Wai Yin, Wilson | 55,781 | 55,781 | 0.02% |

(ii) 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 | 115,789,473 | 44.16 |

Note: These convertible bonds (originally due on 12 August 2011 and extended to 12 August 2020) were issued by the Company on 12 August 2008 as part of the consideration to acquire the forestry business. They are unlisted, interest-free and convertible into the shares of the Company at the adjusted conversion price of HK\$0.095 per share of the Company (subject to adjustment according to the terms of the convertible bonds). The interest is held by Ivana Investment Limited ("Ivana"), a company incorporated in the British Virgin Islands owned as to 100% by CW Limited, which in turn is wholly owned by Asiastrust Limited, a trust company in its capacity as the trustee of a discretionary trust, the founder (as defined in the SFO) of which is Mr. Cheung and the discretionary objects of which are family members of Mr. Cheung (including Mr. Cheung himself).

Save as disclosed above, as at 31 March 2020, none of the Directors and chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the GEM Listing Rules.



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests in Shares and Underlying Shares" above and "Share Option Scheme" above, at no time during the period for the three months ended 31 March 2020 was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors and chief executive of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

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

As at 31 March 2020, the following persons (not being the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

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

| Name of Shareholders | Nature of interest/capacity | Number of Shares | Approximate percentage of total issued share capital of the Company (%) |
|---|-----------------------------|------------------|---|
| Team Sunny International Holdings Limited <i>(Note 1)</i> | Beneficial owner | 47,164,000 | 17.99 |
| Wong Hin Shek <i>(Note 1)</i> | Controlled corporation | 47,164,000 | 17.99 |
| Yihua Enterprises Limited <i>(Note 2)</i> | Beneficial owner | 17,391,304 | 6.63 |
| Yang Biao <i>(Note 2)</i> | Controlled corporation | 17,391,304 | 6.63 |

Notes:

- (1) The interest is held by Team Sunny International Holdings Limited, a company incorporated in the British Virgin Islands owned as to 100% by Mr. Wong Hin Shek.
- (2) The interest is held by Yihua Enterprises Limited, a company incorporated in the British Virgin Islands owned as to 100% by Mr. Yang Biao.
- (3) The percentage represented the percentage of the Company's share capital as stated in the relevant disclosure of interests forms.

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

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

| Name of the holder of the convertible bonds | Nature of Interest | Principal amount of the convertible bonds HK\$ | Number of the total underlying shares | Approximate percentage of the total issued share capital of the Company (%) |
|---|------------------------|---|---------------------------------------|--|
| Ivana | Beneficial owner | 110,000,000 | 115,789,473 | 44.16 |
| CW Limited (Note) | Controlled corporation | 110,000,000 | 115,789,473 | 44.16 |
| Asiatrust Limited (Note) | Trustee | 110,000,000 | 115,789,473 | 44.16 |

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

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any party who, as at 31 March 2020, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

For the three months ended 31 March 2020, save as disclosed above, no Directors or their respective associates (as defined in the GEM Listing Rules) had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.



MODEL CODE FOR SECURITIES TRANSACTIONS BY 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 “**Required Standard of Dealings**”).

All Directors have confirmed, following the specific enquiry by the Company, that they have complied with the Required Standard of Dealings throughout the period and up to the date of this report.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES

Neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities during the period for the three months ended 31 March 2020.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Throughout the period ended 31 March 2020, to the best knowledge of the Board, the Company has applied the principles and complied with all the applicable code provisions set out in the Corporate Governance Code in Appendix 15 of the GEM Listing Rules except for the following deviations:

Code Provision A.2.1

The code provision A.2.1 provides that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

Mr. Cheung 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 because it is believed that the structure of the Board ensures the balance of power and authority therefore no need to segregate the roles of the Chairman and chief executive officer of the Company. Mr. Cheung has substantial experience that is essential to fulfilling the role of the Chairman, 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.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE (Continued)

Code Provision A.2.1 (continued)

As at 31 March 2020, the Board composed of five Directors including three independent non-executive Directors with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the roles of the management of the Company's major operating subsidiaries are performed by the Directors 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.

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 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 (the "**Articles**"), any Director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting of the Company ("**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 deviation is not material 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, the Chairman 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 his leadership will be essential for the stability of the key management of the Board. On the other hand, the Board will ensure that the Directors other than the Chairman will rotate at least once every three years in order to comply with the code provision A.4.2.



AUDIT COMMITTEE

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

As at the date of this report, the Audit Committee comprises of three independent non-executive Directors, namely Ms. Ng Ka Sim, Casina, Mr. Wong Wing Kit and Ms. Yeung Mo Sheung, Ann, with at least one of whom has professional qualifications or accounting or related financial management expertise as required in rule 5.05(2) of the GEM Listing Rules.

The Audit Committee has reviewed with the senior management of the Company the unaudited condensed consolidated first quarterly results of the Group for the three months ended 31 March 2020 and this report, and was of the opinion that such results and this report had complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements and that adequate disclosures had been made.

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

Hong Kong, 14 May 2020

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

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