



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at <http://www.hkgem.com> in order to obtain up-to-date information on GEM-listed companies.**

*This report, for which the directors of VALUE CONVERGENCE HOLDINGS LIMITED 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 (“GEM Listing Rules”) for the purpose of giving information with regard to VALUE CONVERGENCE HOLDINGS LIMITED. The directors of VALUE CONVERGENCE HOLDINGS LIMITED, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

The board (the “Board”) of directors (the “Directors”) of Value Convergence Holdings Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group” or “Value Convergence”) for the three and six months ended 30th June 2006, together with comparative figures of the corresponding periods in 2005.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

A major investment banking group in the region, Value Convergence offers a comprehensive range of premier financial services and products to fulfill the various investment and wealth management needs of its clients. Such services include securities, futures and options brokerage, corporate finance advisory service, initial public offerings related services, and mergers and acquisitions advisory services. Aiming at becoming a full-fledged investment bank, Value Convergence initiated an asset management division in 2005 to enrich its product portfolio. It is also studying the possibility of introducing investment funds to capture opportunities arising in Macau and the Pearl River Delta region to diversify its investment options.

The Group’s unaudited consolidated revenue amounted to approximately HK\$47.9 million and HK\$93.8 million for the three months and six months ended 30th June 2006 respectively (three months and six months ended 30th June 2005: HK\$26.3 million and HK\$52.5 million respectively), marking an increase of approximately 82% and 78% respectively compared with corresponding periods in 2005. The Group’s unaudited consolidated profit attributable to shareholders amounted to approximately HK\$5.6 million and HK\$15.4 million for the three months and six months ended 30th June 2006 respectively (three months and six months ended 30th June 2005: HK\$1.0 million and HK\$2.4 million respectively), marking a substantial increase of approximately HK\$4.6 million and HK\$13 million respectively compared with the corresponding periods in 2005. The improved operating results during the six months under review were attributable to the improved operating performance of the brokerage business and trading investments. The Group is constantly mindful of the need to improve operational efficiency and has exercised strict cost control amid efforts to explore investment opportunities conducive to the Group’s future growth.

Entering 2006, the outlook of the financial services industry turned bright. The Hang Seng Index started out at 14876 and rose to 15805 on 31st March 2006 and climbed further to 16267 on 30th June 2006. The average daily market turnover of the Hong Kong stock market in the second quarter of 2006 was approximately HK\$34.1 billion, which was about 122% and 9% more than the respective average turnover of the same period in 2005 (HK\$15.4 billion) and the preceding quarter (HK\$31.2 billion).

## Brokerage

The division's performance improved significantly during the six months ended 30th June 2006, thanks to an increase in income from brokerage commission. Gross commission income increased by about HK\$26.6 million during the review period, showing a 90% growth compared with the same period in 2005 while net brokerage commission income increased by 61%. Overall, the division recorded a revenue and operating profit of HK\$56.2 million and HK\$3.0 million respectively during the six months ended 30th June 2006 (six months ended 30th June 2005: revenue of HK\$29.5 million and operating loss of HK\$4.4 million).

The net interest margin during the review period was narrowed since the funding cost was increased. While interest income from margin and other financing business grew by about 114% to HK\$27.4 million (six months ended 30th June 2005: HK\$12.8 million), net interest income, however, increased by 53%. Overall, the Group's margin and other financing business reported an operating profit of HK\$6.2 million for the six months ended 30th June 2006 (six months ended 30th June 2005: HK\$6.4 million).

In addition to a strong brokerage and margin financing business, the division also actively participated in underwriting and placement activities, which brought in significantly improved income from service fee and underwriting commission during the first six months of the year.

## Corporate Finance and Others

The corporate finance division participated in a number of deals during the six months ended 30th June 2006. Corporate advisory and related businesses, including underwriting, share placing and asset management, recorded a revenue of HK\$10.2 million and operating profit of HK\$7.1 million during the six months ended 30th June 2006 (six months ended 30th June 2005: revenue of HK\$10.2 million and operating profit of HK\$0.8 million). The division's operating profit also included a gain from trading investments of HK\$7.2 million during the six months under review (six months ended 30th June 2005: loss of HK\$0.7 million).

Apart from the completion of a number of financial advisory deals, the division is also sponsoring several Mainland enterprises seeking listing in Hong Kong. IPO sponsorships will continue to be a major revenue driver of the division, and will create further business opportunities in underwriting and placement for the division.

## Asset Management

The Group's plans to establish a direct investment fund progressed smoothly during the review period. The fund will focus on opportunities in the leisure and entertainment sector in Macau and the Greater China Region. A separate real estates investment fund is also in the making and will primarily target investment projects in the burgeoning property market of Macau. These initiatives will expand the product portfolio and enhance the fee-based revenue of the Group. Contribution from these initiatives is expected to come at the end of the current financial year. The operating results of this division during the six months ended 30th June 2006 are included in the Corporate Finance and Others Division.

## Liquidity and financial resources/capital structure

The Group financed its business operations with cash revenues generated from operating activities, short-term bank loans, bank overdrafts and shareholders' loans.

The Group held banking facilities of HK\$180 million from various banks as of 30th June 2006 (31st December 2005: HK\$180 million). HK\$80 million (31st December 2005: HK\$80 million) of these banking facilities was secured by the listed securities of margin clients. As of 30th June 2006, the Group had used HK\$47 million and HK\$3 million of unsecured and secured banking facilities respectively (31st December 2005: unsecured HK\$23 million; secured HK\$5 million) and these amounts were repaid by 6th July 2006.

As of 30th June 2006, the Group had borrowed HK\$211.9 million (31st December 2005: HK\$211.9 million) from its ultimate holding company. The loan bears an interest at prime rate minus 2% per annum or HIBOR plus 1.25% – 2% per annum and is repayable upon written notice from the ultimate holding company. The fund was used to finance the expansion of the Group's investment banking and financial services business, to meet related regulatory capital requirements and strengthen related business capability.

As of 30th June 2006, the Group's net current assets, cash available and shareholders' funds (other than trust accounts) amounted to approximately HK\$163.9 million (31st December 2005: HK\$145.8 million), HK\$64.1 million (31st December 2005: HK\$69.3 million) and HK\$192.3 million (31st December 2005: HK\$174 million) respectively. The current ratio, expressed as current assets over current liabilities, was maintained at a satisfactory level of 1.44 (31st December 2005: 1.49).

The Group adopts a prudent treasury policy. All borrowings and the majority of bank balances and cash are denominated in Hong Kong dollars and put in short term fixed deposits. The Group intends to maintain minimum exposure to foreign exchange risks.

As of 30th June 2006, the total number of issued ordinary shares of the Company was 252,797,679 at HK\$0.10 each (31st December 2005: 249,641,226 shares of HK\$0.10 each). The increase in issued shares was the result of exercise of share options of the Company during the six months ended 30th June 2006.

## Corporate governance

The Group has in place a Code on Corporate Governance Practices ("Code"), which sets out the corporate standards and practices used by the Group in directing and managing its business affairs. The Code was prepared with reference to the principles, Code Provisions and Recommended Best Practices stipulated in the Code on Corporate Governance Practices issued by the Stock Exchange, which came into effect on 1st January 2005. The Code not only formalizes the Group's existing corporate governance principles and practices, but also serves to assimilate the Group's practices with benchmarks prescribed by the Stock Exchange, ultimately ensuring that the Group runs a highly transparent operation and is accountable to its shareholders.

## **Material acquisitions and disposal of subsidiaries, significant investments and their performance**

During the six months ended 30th June 2006, the Group did not make any acquisition, disposal, significant investments and capital commitments.

## **Headcount/Employees' information**

As of 30th June 2006, the Group had a total of 128 employees, of which 123 were stationed in Hong Kong and 5 in the PRC. As of 30th June 2005, the Group employed a total of 125 employees, of which 120 were stationed in Hong Kong and 5 in the PRC.

Staff costs (including directors' emoluments) and staff sales commission amounted to approximately HK\$16.0 million and HK\$38.0 million respectively for the six months ended 30th June 2006 (six months ended 30th June 2005: approximately HK\$14.4 million and HK\$18.2 million respectively). The Group's employees are selected, remunerated and promoted based on the individual's performance merit, qualifications and competence. In addition to basic salaries and contribution to the Mandatory Provident Fund Scheme, other staff benefits include medical coverage, sales commission, performance-based bonus and discretionary share options. Training and development programmes are also offered to employees on an ongoing basis.

## **Charges on group assets**

As of 30th June 2006, the Group had not charged or pledged any of its assets (31st December 2005: Nil).

## **Gearing ratio**

As of 30th June 2006, the Group's gearing ratio, expressed as a percentage of total borrowings (including bank loans, overdrafts and loans from the ultimate holding company) over shareholders' funds, was at a satisfactory level of 1.36 times (31st December 2005: 1.38 times).

## **Foreign exchange exposure**

It is the Group's policy for each operating entity to operate in local currencies as much as possible to minimize currency risk. The Group's principal businesses are conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure has therefore been minimal. Hence, no hedging against foreign currency exposure was necessary.

## **Future plans for material investments or capital assets**

As of 30th June 2006, the Group had no known plans for material investments or capital assets.

## **Contingent liabilities**

As of 30th June 2006, the Company provided guarantees of HK\$120 million to banks in respect of banking facilities granted to a subsidiary, VC Brokerage Limited (31st December 2005: HK\$120 million).



## OUTLOOK

The looming effects of interest rate hikes in the U.S. and the Chinese Government's austerity measures to curb over-heated economic activities in the country are likely to slow down the rapid economic growth in the U.S. and Asia early this year. Military rows in the Middle East and North Asia will inevitably add uncertainties to the global economy. Pressure for inflation will continue due to fluctuating oil prices. In light of these factors, the market is likely to remain volatile. Despite the testing market conditions and severe market competition, the management remains confident about the future development of the investment banking and financial services business. The Group will actively pursue new initiatives to expand its business portfolio and the geographical coverage of its services. We are prepared to take on any market challenges.

By Order of the Board of  
**Value Convergence Holdings Limited**  
**Ho, Lawrence Yau Lung**  
*President and Vice Chairman*

Hong Kong, 14th August 2006



## UNAUDITED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30th June 2006

	Note(s)	Unaudited Three months ended 30th June		Unaudited Six months ended 30th June	
		2006	2005	2006	2005
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	(2)	<b>47,935</b>	26,295	<b>93,765</b>	52,534
Other income		<b>935</b>	1,172	<b>1,267</b>	1,663
Net (decrease) increase in fair value of trading investments		<b>(611)</b>	(126)	<b>7,157</b>	(732)
Employee benefits expense		<b>(6,804)</b>	(7,601)	<b>(15,979)</b>	(14,358)
Depreciation of property, plant and equipment	(7)	<b>(314)</b>	(703)	<b>(838)</b>	(1,391)
Amortisation of trading rights		<b>(126)</b>	(126)	<b>(253)</b>	(253)
Commission expenses		<b>(18,828)</b>	(8,942)	<b>(37,997)</b>	(18,245)
Finance costs	(4)	<b>(8,338)</b>	(3,362)	<b>(16,092)</b>	(5,388)
Other operating expenses		<b>(8,247)</b>	(5,596)	<b>(15,620)</b>	(11,441)
Operating profit	(3)	<b>5,602</b>	1,011	<b>15,410</b>	2,389
Income tax expense	(5)	-	-	-	-
Profit for the period		<b>5,602</b>	1,011	<b>15,410</b>	2,389
Attributable to:					
Equity holders of the parent		<b>5,602</b>	1,011	<b>15,410</b>	2,389
Earnings per share (HK cents)					
Basic	(6)	<b>2.22</b>	0.41	<b>6.14</b>	0.99
Diluted	(6)	<b>2.16</b>	0.40	<b>6.00</b>	0.97



## UNAUDITED CONSOLIDATED BALANCE SHEET

As at 30th June 2006

		<b>Unaudited 30th June 2006 HK\$'000</b>	Audited 31st December 2005 HK\$'000
<b>Non-current assets</b>			
Goodwill		<b>19,705</b>	19,705
Trading rights		<b>2,027</b>	2,279
Property, plant and equipment	(7)	<b>2,352</b>	1,841
Available-for-sale investments		<b>680</b>	680
Statutory deposits for investment banking and financial services business		<b>3,111</b>	3,216
Other intangible assets		<b>547</b>	547
		<b>28,422</b>	28,268
<b>Current assets</b>			
Accounts receivable	(8)	<b>452,067</b>	319,499
Prepayments, deposits and other receivables		<b>3,194</b>	4,845
Trading investments		<b>14,346</b>	44,956
Investment in convertible bonds		-	4,000
Amounts due from fellow subsidiaries		<b>191</b>	194
Deferred tax assets		<b>1,495</b>	1,495
Bank balances and cash		<b>64,110</b>	69,275
		<b>535,403</b>	444,264
<b>Current liabilities</b>			
Accounts payable	(9)	<b>73,405</b>	33,381
Accrued liabilities and other payables		<b>12,605</b>	11,262
Short-term bank borrowings		<b>50,000</b>	28,000
Amount due to ultimate holding company		<b>11,303</b>	5,356
Amount due to an investee company		-	6
Amounts due to fellow subsidiaries		<b>12,336</b>	8,579
Loans from ultimate holding company		<b>211,900</b>	211,900
		<b>371,549</b>	298,484
<b>Net current assets</b>		<b>163,854</b>	145,780
<b>Total assets less current liabilities</b>		<b>192,276</b>	174,048
<b>Capital and reserves</b>			
Share capital	(10)	<b>25,280</b>	24,964
Reserves		<b>166,996</b>	149,084
<b>Total equity</b>		<b>192,276</b>	174,048



## UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2006

	Share capital	Share premium	Capital reserve	Exchange reserve	Share Options reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005	23,815	-	123,758	-	-	8,676	156,249
Exercise of share options	1,119	6,313	-	-	-	-	7,432
Share issue expenses	-	(7)	-	-	-	-	(7)
Profit for the period	-	-	-	-	-	2,389	2,389
At 30th June 2005	<u>24,934</u>	<u>6,306</u>	<u>123,758</u>	<u>-</u>	<u>-</u>	<u>11,065</u>	<u>166,063</u>
	Share capital	Share premium	Capital reserve	Exchange reserve	Share Options reserve	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2006	24,964	6,468	123,758	(61)	-	18,919	174,048
Exercise of share options	316	2,099	-	-	-	-	2,415
Share issue expenses	-	(2)	-	-	-	-	(2)
Recognition of equity-settled share based payment	-	-	-	-	405	-	405
Profit for the period	-	-	-	-	-	15,410	15,410
At 30th June 2006	<u>25,280</u>	<u>8,565</u>	<u>123,758</u>	<u>(61)</u>	<u>405</u>	<u>34,329</u>	<u>192,276</u>

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2006

	Unaudited Six months ended 30th June	
	2006	2005
	HK\$'000	HK\$'000
Net cash used in operating activities	<b>(32,333)</b>	(37,451)
Net cash from investing activities	<b>2,755</b>	3,254
Net cash from financing activities	<b>24,413</b>	42,484
Net (decrease) increase in cash and cash equivalents	<b>(5,165)</b>	8,287
Cash and cash equivalents at the beginning of period	<b>69,275</b>	50,916
Cash and cash equivalents at the end of period, represented by bank balances and cash	<b>64,110</b>	59,203



## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of preparation and principal accounting policies

These unaudited consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) Interim Financial Reporting, and the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the unaudited consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31st December 2005 except as described below.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006 respectively. The application of the new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 “Financial Reporting in Hyperinflationary Economies” <sup>2</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st March 2006

<sup>3</sup> Effective for annual periods beginning on or after 1st May 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st June 2006



## 2. Revenue and segment information

Arising principally from the investment banking and financial services business, revenue comprise of the provision of initial public offerings, mergers and acquisitions, and other corporate finance related advisory services; along with securities, futures and options broking and dealing.

	Three months ended		Six months ended	
	30th June		30th June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Brokerage commission from dealing in securities and futures and options contracts	<b>25,069</b>	12,690	<b>56,155</b>	29,512
Underwriting, sub-underwriting, placing and sub-placing commission	<b>6,664</b>	136	<b>6,933</b>	287
Arrangement, management, advisory and other fee income	<b>1,625</b>	6,534	<b>3,241</b>	9,914
Interest income from clients	<b>14,577</b>	6,935	<b>27,436</b>	12,821
	<b>47,935</b>	26,295	<b>93,765</b>	52,534

### Primary reporting format – business segments

The Group segregated its business into three main operating divisions, namely, broking, margin and other financing, and corporate advisory and others. The details of these business segments are summarised as follows:

- (i) the broking segment engages in securities, futures and options broking and dealing;
- (ii) the margin and other financing segment engages in the provision of margin financing, commercial loans to corporate customers and money lending services; and
- (iii) the corporate advisory and others segment engages in the provision of corporate advisory, placing and underwriting services, proprietary trading and asset management services.



Six months ended 30th June 2006

	<b>Broking HK\$'000</b>	<b>Margin and other financing HK\$'000</b>	<b>Corporate advisory and others HK\$'000</b>	<b>Corporate HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue	56,155	27,232	10,174		93,561
Intersegment sales	-	204	-		204
	<u>56,155</u>	<u>27,436</u>	<u>10,174</u>		<u>93,765</u>
Segment results	<u>2,951</u>	<u>6,152</u>	<u>7,071</u>		<u>16,174</u>
Unallocated costs					<u>(764)</u>
Operating profit					15,410
Income tax expense					-
Profit for the period					<u>15,410</u>

**Other segment information:**

Depreciation of property, plant and equipment	452	-	307	79	838
Amortisation of trading rights	253	-	-	-	253
Impairment of doubtful receivables	-	1,677	85	-	1,762

Six months ended 30th June 2005

	<b>Broking HK\$'000</b>	<b>Margin and other financing HK\$'000</b>	<b>Corporate advisory and others HK\$'000</b>	<b>Corporate HK\$'000</b>	<b>Total HK\$'000</b>
Segment revenue	29,512	12,781	10,201		52,494
Intersegment sales	-	40	-		40
	<u>29,512</u>	<u>12,821</u>	<u>10,201</u>		<u>52,534</u>
Segment results	<u>(4,369)</u>	<u>6,406</u>	<u>823</u>		2,860
Unallocated costs					<u>(471)</u>
Operating profit					2,389
Income tax expense					-
Profit for the period					<u>2,389</u>

**Other segment information:**

Depreciation of property, plant and equipment	937	-	304	150	1,391
Amortisation of trading rights	253	-	-	-	253
Impairment of doubtful receivables	-	445	-	-	445



### Secondary reporting format – geographical segments

No geographical segment analysis is presented for the six months ended 30th June 2006 and 2005 respectively as over 90% of the Group's revenue and segment results are derived from Hong Kong.

#### 3. Operating profit

Operating profit is stated after crediting and charging the following:

	Three months ended		Six months ended	
	30th June		30th June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditors' remuneration	223	226	447	457
Operating leases in respect of land and buildings	1,199	551	2,058	1,201
Net exchange (gain) loss	(15)	26	(31)	3
Impairment of doubtful receivables	527	445	1,762	445
	<u>2,034</u>	<u>1,248</u>	<u>4,236</u>	<u>2,706</u>

#### 4. Finance costs

	Three months ended		Six months ended	
	30th June		30th June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interests on bank loans and overdrafts wholly repayable within five years	4,998	1,380	9,794	1,877
Interests on loans from ultimate holding company	3,340	1,982	6,298	3,511
	<u>8,338</u>	<u>3,362</u>	<u>16,092</u>	<u>5,388</u>

#### 5. Income tax expense

No provision for Hong Kong or overseas profits tax had been made in the financial statements as the assessable profits of individual company within the Group for the three months and six months ended 30th June 2006 were offset by the unused tax losses (three months and six months ended 30th June 2005: Nil).

As at 30th June 2006, the Group had estimated unused tax losses of approximately HK\$142,741,000 (30th June 2005: HK\$167,273,000) to carry forward against future taxation income. These estimated tax losses have no expiry date but are subject to the approval of the Hong Kong Inland Revenue Department.



## 6. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Three months ended		Six months ended	
	30th June		30th June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Earnings</b>				
Earnings for the purposes of basic and diluted earnings per share	<b>5,602</b>	1,011	<b>15,410</b>	2,389
	'000	'000	'000	'000
<b>Number of shares</b>				
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>252,368</b>	246,008	<b>251,071</b>	242,103
Effect of dilutive potential ordinary shares:				
Share options	<b>7,457</b>	7,137	<b>5,852</b>	4,570
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<b>259,825</b>	253,145	<b>256,923</b>	246,673

## 7. Property, plant and equipment

	As at	As at
	30th June	31st December
	2006	2005
	HK\$'000	HK\$'000
Net book value, beginning of period/year	<b>1,841</b>	4,641
Additions	<b>1,349</b>	805
Transfer	-	(715)
Disposals	-	(267)
Depreciation	<b>(838)</b>	(2,627)
Exchange difference	-	4
Net book value, end of period/year	<b>2,352</b>	1,841

## 8. Accounts receivable

	<b>As at 30th June 2006 HK\$'000</b>	As at 31st December 2005 HK\$'000
Accounts receivable arising from the ordinary course of business of dealing in (Note a):		
– Securities transactions		
Clearing houses and brokers	<b>2,289</b>	6,362
Cash clients (Note c)	<b>173,277</b>	134,395
Margin clients	<b>275,327</b>	177,937
– Futures and options contracts transactions		
Brokers	<b>135</b>	133
HKFE Clearing Corporation Limited	<b>44</b>	44
Accounts receivable arising from the ordinary course of business of provision of corporate advisory, placing and underwriting services (Note b)	<b>995</b>	628
	<b>452,067</b>	319,499

### Notes:

- (a) Credit limit is approved for each client by designated approvers according to the clients' credit worthiness. The settlement terms of accounts receivable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after the trade date. The settlement terms of accounts receivable arising from the ordinary course of business of dealing in futures and options contracts transactions are generally due on demand. Loans to margin clients are secured by clients' pledged securities, repayable on demand and bear interest at commercial rates. The decision for rate changes is on management's discretion subject to notification to clients. Securities are assigned with specific margin ratios for calculating their margin values. Loans granted to securities margin clients are further subject to the discounted value of securities deposited with reference to these specific margin ratios. Additional funds or collateral are required if the loan outstanding exceeds the eligible margin value of securities deposited. As at 30th June 2006, the total market value of securities pledged as collateral in respect of the loans to margin clients was HK\$4,092,924,000 (31st December 2005: HK\$5,266,133,000). No aging analysis on margin clients' receivables is disclosed as, in the opinion of the Directors, an aging analysis is not meaningful in view of the nature of the business of securities margin financing. Except for the loans to margin clients, all accounts receivable arising from the business of dealing in securities transactions are aged as follows:

	<b>As at 30th June 2006 HK\$'000</b>	As at 31st December 2005 HK\$'000
Within 30 days	<b>160,256</b>	115,847
31-90 days	<b>8,397</b>	12,852
Over 90 days	<b>6,913</b>	12,058
	<b>175,566</b>	140,757



- (b) The accounts receivable arising from the ordinary course of business of provision of corporate advisory, placing and underwriting services are due immediately from date of billing but the Group will generally grant a normal credit period of 30 days on average to its customers. The aging analysis of these receivables is as follows:

	<b>As at 30th June 2006 HK\$'000</b>	As at 31st December 2005 HK\$'000
Within 30 days	<b>653</b>	409
31-90 days	<b>251</b>	64
Over 90 days	<b>91</b>	155
	<b>995</b>	628

- (c) The accounts receivable from cash clients as at 30th June 2006 (31st December 2005: Nil) did not include any amount due from related parties in respect of transactions in securities undertaken for their accounts. There was no other accounts receivable in respect of transactions in securities undertaken for the accounts of the Directors or related parties as at 30th June 2006 (31st December 2005: Nil).

The fair value of the Group's accounts receivable at the balance sheet date approximates the corresponding carrying amounts.

## 9. Accounts payable

	<b>As at 30th June 2006 HK\$'000</b>	As at 31st December 2005 HK\$'000
Accounts payable arising from the ordinary course of business of dealing in securities transactions ( <i>Note a</i> ):		
Brokers	<b>9,219</b>	–
Cash clients ( <i>Note b</i> )	<b>44,682</b>	28,899
Margin clients	<b>19,504</b>	4,482
	<b>73,405</b>	33,381

*Notes:*

- (a) The settlement terms of accounts payable arising from the ordinary course of business of dealing in securities transactions are usually two trading days after trade date. These accounts payable are repayable on demand. Therefore, no aging analysis is disclosed as, in the opinion of Directors, an aging analysis is not meaningful in view of all these accounts payable are promptly settled two trading days after trade date.



- (b) Included in accounts payable to cash clients was HK\$534,722 as at 30th June 2006 (31st December 2005: HK\$1,000) due to related parties in respect of transactions in securities undertaken for their accounts. There were no other accounts payable in respect of transactions in securities undertaken for the accounts of the Directors or related parties as at 30th June 2006 (31st December 2005: Nil).

The fair value of the Group's accounts payable at the balance sheet date approximates the corresponding carrying value.

## 10. Share capital

	<b>Authorised Ordinary shares of HK\$0.10 each</b>	
	<b>No. of shares</b>	<b>Amount</b> <i>HK\$'000</i>
At 31st December 2005 and 30th June 2006	10,000,000,000	1,000,000
	<b>Issued and fully paid Ordinary shares of HK\$0.10 each</b>	
	<b>No. of shares</b>	<b>Amount</b> <i>HK\$'000</i>
At 1st January 2006	249,641,226	24,964
Exercise of share options	3,156,453	316
At 30th June 2006	252,797,679	25,280

## 11. Contingent liabilities

As at 30th June 2006, the Company provided corporate guarantees of HK\$120 million to banks in respect of banking facilities granted to a subsidiary, VC Brokerage Limited (31st December 2005: HK\$120 million).

## 12. Capital commitments

As at 30th June 2006, the Group did not have any material commitments contracted but not provided for in respect of purchase of property, plant and equipment (31st December 2005: Nil).



### 13. Related parties transactions

During the year, the Group entered into the following transactions:

	Note(s)	Three months ended 30th June		Six months ended 30th June	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Rental paid to fellow subsidiaries	(i)	<b>24</b>	45	<b>50</b>	131
Technical, network and other service fees charged from fellow subsidiaries	(ii)	<b>815</b>	682	<b>1,645</b>	1,364
Purchases of computer hardware and software from a fellow subsidiary	(ii)	<b>454</b>	7	<b>621</b>	8
Brokerage commission income, interest income earned from certain directors of the Group or their relatives	(iii)	<b>55</b>	42	<b>120</b>	76
Brokerage commission income earned from a related company	(iii)	<b>453</b>	–	<b>1,097</b>	–
Interest expenses charged on loans from ultimate holding company	(iv)	<b>3,340</b>	1,982	<b>6,298</b>	3,511
Management fee paid to a fellow subsidiary	(v)	<b>900</b>	900	<b>1,800</b>	1,800
Financial advisory fees charged to ultimate holding company	(vi)	<b>300</b>	350	<b>360</b>	600

*Notes:*

- (i) The Group leased certain office space from fellow subsidiaries. The lease rentals were charged by the fellow subsidiaries according to actual floor space utilised at normal commercial terms.
- (ii) Service fees charged from and computer hardware and software sold from fellow subsidiaries were conducted at normal commercial terms.
- (iii) Brokerage commission income and interest income earned from transactions with related parties was conducted at normal commercial terms.
- (iv) Interest expenses were charged on loans from ultimate holding company at prime rate minus 2 per cent. per annum or HIBOR plus 1.25 – 2 per cent. per annum. The loans from the ultimate holding company were repayable upon written notice given from the ultimate holding company.
- (v) The management fee paid to a fellow subsidiary was determined based on mutual agreement between the Group and the fellow subsidiary.
- (vi) The financial advisory fees charged to ultimate holding company were determined at normal commercial terms.

## INTERIM DIVIDEND

No dividends had been paid or declared by the Company for the six months ended 30th June 2006 (six months ended 30th June 2005: Nil).

## DIRECTORS' INTERESTS IN CONTRACTS

Other than as disclosed in note 13 to the financial statements, no contracts of significance in relation to the Group's business to which the Group was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 30th June 2006 or at any time during such period.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30th June 2006, the relevant interests or short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571, the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange, were as follows:

### (i) Interests in shares of the Company ("Shares")

<b>Name of Directors</b>	<b>Nature of interests</b>	<i>Notes</i>	<b>Number of Shares interested</b>	<b>Approximate percentage of Shares interested</b> <i>(Note 1)</i>
Dr. Ho Hung Sun, Stanley	Corporate	(2)	7,384,651	2.92%
Mr. Ho, Lawrence Yau Lung	Corporate	(3)	165,163,008	65.33%
	Personal	(5)	491,057	0.19%
Dr. Lee Jun Sing	Corporate	(4)	6,299,702	2.49%
	Personal	(5)	491,057	0.19%

*Notes:*

- As at 30th June 2006, the total number of issued shares of the Company was 252,797,679.
- Dr. Ho Hung Sun, Stanley is taken to be interested in 7,384,651 Shares as a result of him being beneficially interested in 65% of the issued share capital of Bailey Development Limited which in turn holds approximately 2.92% of the issued share capital of the Company.



3. Mr. Ho, Lawrence Yau Lung is taken to be interested in (i) 160,930,381 Shares as a result of him being beneficially interest in approximately 33.58% of the issued share capital of Melco International Development Limited which in turn holds approximately 63.66% of the issued share capital of the Company; and (ii) 4,232,627 Shares as a result of him being beneficially interested in the entire issued share capital of Golden Mate Co., Ltd. which in turn holds approximately 1.67% of the issued share capital of the Company.
4. Dr. Lee Jun Sing is taken to be interested in 6,299,702 Shares as a result of him being beneficially interested in the entire issued share capital of Best Summit International Limited which in turn holds approximately 2.49% of the issued share capital of the Company.
5. The personal interests of the relevant Directors represent their respective derivative interests in the Company comprising the share options as more particularly mentioned in sub-section headed "Derivative interests in the Company" below.

## (ii) Derivative interests in the Company

Pursuant to the share option scheme adopted by the Company on 29th November 2001 ("Share Option Scheme") as described in the section headed "Details of outstanding options granted" below, as at 30th June 2006, the Directors have options granted by the Company to subscribe Shares in the Company as follows:

Name of Directors	Date of grant	Exercise price per Share HK\$	Number of underlying Shares comprised in the options outstanding	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Number of underlying Shares comprised in the options outstanding	Expiry date
			as at 1st January 2006				as at 30th June 2006	
Mr. Ho, Lawrence Yau Lung	9th July 2002 (Note)	1.0	491,057	-	-	-	491,057	8th July 2012
Dr. Lee Jun Sing	9th July 2002 (Note)	1.0	491,057	-	-	-	491,057	8th July 2012

*Note:*

The grant of options on 9th July 2002 pursuant to the Share Option Scheme had been reviewed and approved by the then Independent Non-executive Directors.

As at 30th June 2006, none of the Directors had exercised their options.

### (iii) Interests in shares and equity derivatives of Melco International Development Limited (“Melco”)

<b>Name of Directors</b>	<b>Nature of interests</b>	<b>Number of shares of Melco interested</b>	<b>Number of underlying shares of Melco interested</b>	<b>Approximate percentage of shares of Melco interested</b> <i>(Note 1)</i>
Dr. Ho Hung Sun, Stanley	Corporate	7,298,456 <i>(Note 2)</i>	117,912,694 <i>(Note 4)</i>	10.22%
	Personal	22,749,278 <i>(Note 2)</i>	–	1.86%
Mr. Ho, Lawrence Yau Lung	Corporate	404,041,630 <i>(Note 3)</i>	117,912,694 <i>(Note 4)</i>	42.62%
	Personal	7,232,612 <i>(Note 3)</i>	–	0.59%

*Notes:*

- As at 30th June 2006, the total number of issued shares of Melco was 1,224,701,374.
- Dr. Ho Hung Sun, Stanley is taken to be interested in 7,298,456 shares of Melco as a result of him being beneficially interested in the entire issued share capital of Sharikat Investments Limited, Dareset Limited and Lanceford Company Limited which in turn hold an aggregate of approximately 0.60% of the issued share capital of Melco. Apart from that, Dr. Ho Hung Sun, Stanley personally holds 22,749,278 shares of Melco.
- Mr. Ho, Lawrence Yau Lung is taken to be interested in 115,509,024 shares of Melco as a result of him being beneficially interested in the entire issued share capital of Lasting Legend Ltd. which in turn holds approximately 9.43% of the issued share capital of Melco. He is also taken to be interested in 288,532,606 shares of Melco as a result of him being interested in 65% of issued share capital of Better Joy Overseas Ltd. which in turn holds approximately 23.56% of the issued share capital of Melco. Apart from that, Mr. Ho, Lawrence Yau Lung personally holds 7,232,612 shares of Melco.
- Pursuant to an agreement dated 11th May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Great China) Limited and Melco, convertible loan notes of Melco in the total principal amount of HK\$1,175,000,000 were issued to Great Respect Limited on 5th September 2005 on the terms set out in the agreement. Upon exercise in full of such convertible loan notes, a total of 117,912,694 shares will be issued by Melco. Great Respect Limited is a company controlled by a discretionary family trust, the beneficiaries include Dr. Ho Hung Sun, Stanley, Mr. Ho, Lawrence Yau Lung and Madam Lucina Laam King Ying. SG Trust (Asia) Ltd. is the trustee of the aforesaid discretionary family trust.

Save as disclosed above, as at 30th June 2006, none of the Directors or Chief Executive of the Company or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which are required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by the Directors, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June 2006, so far as is known to the Directors, the following persons (other than a Director or Chief Executive of the Company) had an interest or short position in the shares and 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:

<b>Name</b>	<i>Notes</i>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Approximate shareholding percentage</b>
Melco Financial Group Limited	1	Beneficial owner	160,930,381	63.66%
Ms. Sharen Lo	2	Family	165,654,065	65.53%

*Notes:*

1. Melco Financial Group Limited is a wholly-owned subsidiary of Melco.
2. Ms. Sharen Lo is the spouse of Mr. Ho, Lawrence Yau Lung and is deemed to be interested in Shares in which Mr. Ho, Lawrence Yau Lung is interested in under the SFO.

Save as disclosed above, as at 30th June 2006, so far as is known to the Directors, there is no other person who had an interest or a short position in the shares and underlying shares (including interests in options, if any) 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.



## DETAILS OF OUTSTANDING OPTIONS GRANTED

### Share option scheme

As at 30th June 2006, options to subscribe for an aggregate of 2,137,163, 8,810,565 and 654,934 underlying Shares granted on 9th July 2002, 25th March 2004 and 15th March 2006 (“Share Options”) pursuant to the Share Option Scheme at an exercise price of HK\$1.0 per Share, HK\$0.64 per Share and HK\$1.18 per Shares respectively were outstanding. The following are details of the outstanding Share Options as at 30th June 2006:

Categories of grantees	Date of grant	Exercise price per Share HK\$	Number of underlying Shares comprised in the options outstanding	Granted during the period	Exercised during the period	Lapsed/ cancelled during the period	Number of underlying Shares comprised in the options outstanding	Share options duration
			as at 1st January 2006				as at 30th June 2006	
Directors	9th July 2002	1.0	982,114	-	-	-	982,114	9th July 2002 to 8th July 2012
Employees	9th July 2002	1.0	694,842	-	(645,348)	(24,552)	24,942	9th July 2002 to 8th July 2012
Employees	25th March 2004	0.64	8,900,565	-	(2,060,000)	(80,000)	6,760,565	25th March 2004 to 24th March 2014
Employees	15th March 2006	1.18	-	654,934	-	-	654,934	15th March 2006 to 14 March 2016
Other eligible persons	9th July 2002	1.00	1,581,212	-	(451,105)	-	1,130,107	9th July 2002 to 8th July 2012
Other eligible persons	25th March 2004	0.64	2,050,000	-	-	-	2,050,000	25th March 2004 to 24th March 2014
<b>Total</b>			<b>14,208,733</b>	<b>654,934</b>	<b>(3,156,453)</b>	<b>(104,552)</b>	<b>11,602,662</b>	



The options are exercisable in accordance with the terms of the Share Option Scheme at any time during the following periods and in the following manners:

<b>Exercisable period</b>	<b>Percentage of underlying Shares comprised in the options which become exercisable</b>
Commencing from the date of grant up to the date falling six months thereafter	Up to 50%
Commencing during the period immediately after the expiry of first six months from the date of grant and ending 10 years after the date of grant	All Shares in respect of which the option has not been previously exercised

Details of the grant of Share Options to the Directors are disclosed in the sub-section headed "Derivative interests in the Company" under the section of "Directors' and Chief Executive's interests in the Company and its Associated Corporations" above.

During the six months ended 30th June 2006, certain Share Options to subscribe for a total of 104,552 underlying Shares granted to 2 employees lapsed as the relevant employees failed to exercise the same within 3 months after the relevant employees ceased to be the employees of the Group. During the six months ended 30th June 2006, certain Share Options to subscribe for a total of 1,096,453 and 2,060,000 underlying Shares at an exercise price of HK\$1.0 and HK\$0.64 per share respectively granted to a total of 42 employees were exercised. Since the date of the grant of the Share Options up to 30th June 2006, none of the Share Options was cancelled.

A summary of the major terms of the Share Option Scheme is set out at pages 76-85 of the circular of the Company dated 12th November 2001.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 30th June 2006, the Company has adopted a code of conduct regarding Directors' securities transactions on terms as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors, all Directors have complied with the required standard of dealings and code of conduct regarding securities transactions by directors as set out in the Rules 5.48 to 5.67 of the GEM Listing Rules for the six months period ended 30th June 2006.

## CORPORATE GOVERNANCE PRACTICES

The Group is committed to building and maintaining high standards of corporate governance. The Group applied the principles and complied with all requirements set out in the Code on Corporate Governance Practices (“HKSE Code”) contained in Appendix 15 of the GEM Listing Rules, with one deviation mentioned below, throughout the review period.

HKSE Code provision A.4.1 provides that Non-executive Directors should be appointed for specific term, subject to re-election. The Company has deviated from this provision in that all Non-executive Directors are not appointed for specific term. They are, however, subject to retirement and re-election every three years. The reason for the deviation is that the Company does not believe that arbitrary term limits on directors’ service are appropriate given that directors ought to be committed to representing the long term interests of the Company’s shareholders and the retirement and re-election requirements of Non-executive Directors have given the Company’s shareholders the right to approve continuation of Non-executive Directors’ offices.

On 3rd August 2005, the Company set up the following board committees and adopted its own code on corporate governance to ensure maintenance of a high corporate governance standard:

- a. Executive Committee;
- b. Audit Committee (terms of reference of the audit committee adopted on 12th May 2004 were superseded by the new terms of reference adopted on 3rd August 2005);
- c. Remuneration Committee;
- d. Nomination Committee;
- e. Finance Committee; and
- f. Regulatory Compliance Committee.

Terms of reference of all the aforesaid committees have been posted on the Company’s website, as have (1) division of responsibilities between the Company’s Chairman and President and Vice Chairman and (2) duties and powers delegated to the Company’s President and Vice Chairman and matters reserved for decision of the board.



## **AUDIT COMMITTEE**

The Company's audit committee was formed on 14th March 2001 and is currently composed of the Independent Non-executive Directors. As at 30th June 2006, the Independent Non-executive Directors were Attorney Lorna Patajo-Kapunan, Mr. Sham Sui Leung, Daniel and Dr. Tyen Kanhee, Anthony. The terms of reference of the audit committee have been established with regard to Rule 5.29 of the GEM Listing Rules.

The primary duties of the audit committee are to (i) review the Group's annual reports, financial statements, interim reports and quarterly reports and to provide advice and comments thereon to the Board; and (ii) review and supervise the financial reporting process and internal control procedures of the Group.

The audit committee has reviewed this interim report of the Group.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

The Company has not redeemed any of its shares during the six months ended 30th June 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30th June 2006.

## **COMPETING INTERESTS**

Dr. Ho Hung Sun, Stanley, the Chairman and an Executive Director of the Company, is also the chairman and a director of Seng Heng Bank Limited in Macau ("Seng Heng Bank"). As part of the business of Seng Heng Bank consists of securities brokerage and financial advisory services, the Directors believe that there is a potential risk that such part of business of Seng Heng Bank may compete with the investment banking business to be developed by the Group in Macau.

Save as disclosed above, as at 30th June 2006, none of the Directors, the substantial shareholders or the management shareholders of the Company or their respective associates had any business or interest in a business which competes or may compete with the business of the Group.