Value Convergence Holdings Limited
滙盈控股有限公司




Delivering Value
THROUGH EXCELLENCE

Brokerage

Corporate Finance

Asset Management

Annual Report 2006

A Hong Kong listed company with stock code: 8101
www.valueconvergence.com

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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.

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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 in order to obtain up-to-date information on GEM-listed companies.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

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.

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Executive Directors

Mr. HO, Lawrence Yau Lung
(President & Vice Chairman)
Mr. Patrick SUN
(Chief Executive Officer)

Non-executive Directors

Dr. HO Hung Sun, Stanley
(Chairman)
Dr. LEE Jun Sing
Attorney PATAJO-KAPUNAN, Lorna

Independent Non-executive Directors

Dr. TYEN Kanhee, Anthony
Mr. SHAM Sui Leung, Daniel
Mrs. CHU HO Miu Hing

Registered Office

28/F., The Centrium
60 Wyndham Street
Central
Hong Kong

Company Homepage/Website

http://www.valueconvergence.com

Company Secretary

Mr. TSANG Yuen Wai, Samuel

Qualified Accountant

Mr. MA Shui Kin *AHKICPA, FCCA*

Compliance Officer

Mr. Patrick SUN

Executive Committee

Mr. Ho, Lawrence Yau Lung
(Chairperson)
Mr. Patrick SUN

Audit Committee

Dr. TYEN Kanhee, Anthony
(Chairperson)
Attorney PATAJO-KAPUNAN, Lorna
Mr. SHAM Sui Leung, Daniel
Mrs. CHU HO Miu Hing

Remuneration Committee

Dr. TYEN Kanhee, Anthony
(Chairperson)
Mr. HO, Lawrence Yau Lung
Mr. Patrick SUN
Mr. SHAM Sui Leung, Daniel
Mrs. CHU HO Miu Hing

Nomination Committee

Mr. SHAM Sui Leung, Daniel
(Chairperson)
Mr. HO, Lawerence Yau Lung
Mr. Patrick SUN
Dr. TYEN Kanhee, Anthony
Attorney PATAJO-KAPUNAN, Lorna

Finance Committee

Mr. HO, Lawerence Yau Lung
(Chairperson)
Mr. Patrick SUN

Regulatory Compliance Committee

Mr. HO, Lawerence Yau Lung
(Chairperson)
Mr. Patrick SUN
Dr. TYEN Kanhee, Anthony
Mr. SHAM Sui Leung, Daniel
Mrs. CHU HO Miu Hing

Authorised Representatives

Mr. Patrick SUN
Mr. TSANG Yuen Wai, Samuel

Auditors

Deloitte Touche Tohmatsu

Principal Bankers

Standard Chartered Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

Share Registrar and Transfer Office

Abacus Shares Registrars Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Stock Code

8101

President's Statement

2006 was a significant year for Value Convergence, having enjoyed renewed vigor by effectively capitalizing on Hong Kong's rejuvenated economy and buoyant stock market. Among the many indicators of our upturn there was an increase in revenue by approximately 57% to HK$182.6 million. There was a more substantial rise in profits by 416%, or HK$21.2 million, to HK$26.3 million.

Indeed, the flurry of trading activity at the Hong Kong stock exchange has generated tremendous momentum both for the territory's economic development and the Group's growth. Within a 12-month period, 62 IPO listings were conducted, raising proceeds of HK$333 billion – an all time high. The exchange achieved a market capitalization in excess of HK$13,338 billion in late December and now ranks seventh in the world by market capitalization. Reaffirming Hong Kong's position as one of the key financial centers of the world, the local market also recorded a new high in terms of transaction value. Capping off a stellar year, the Hang Seng Index subsequently broke the 20,000 points barrier on December 28, realizing an impressive milestone. Accordingly, such developments have directly benefited the Group in the form of brokerage commissions, interest from margin financing and investment earnings.

Spurred by a robust economy and membership in the Melco Group, we remain committed to developing Value Convergence into a full-fledged financial services provider. Towards this objective, we will continue to capture opportunities that promote business growth, leverage positive sentiment and reap the benefits of a fertile investment environment. Already, efforts have been placed on furthering efficiency so that the Group can best operate in an increasingly competitive business environment. While we are pleased to report that business performance has duly improved, we will not be drawn into complacency and will explore fresh investment opportunities that are conducive to future growth.

Subscribing to the opinion that the Hong Kong stock market will continue to prosper, thus serving as catalyst for further economic progress, we are confident that Value Convergence will likewise forge ahead. Having actively fortified our operations and sought to diversify our product portfolio while expanding geographical coverage, we are adamant that the Group will be able to broaden its revenue base, thus fueling long-term growth. Certainly, ongoing support from our parent company, Melco Group, will strengthen our resolve.

On behalf of the Board of Directors, I would like to extend my sincere gratitude to our business partners, customers and shareholders for their steadfast patronage over the year. Likewise, our dedicated management team and staff are well recognised for their contribution and will be entrusted with elevating Value Convergence to new heights in the years ahead. As always we relish the challenges that await us and, by concerted efforts, will seize opportunities that deliver greater returns for the Group and our shareholders.

Ho, Lawrence Yau Lung
President and Vice Chairman

Hong Kong, 14th March 2007

BUSINESS/FINANCIAL REVIEW

Value Convergence is an established financial services group that is committed to delivering premier financial services and products to fulfill the various investment and wealth management needs of its clients in the Greater China region. The Group's expertise includes securities, futures and options brokering, asset management, as well as corporate finance services in relation to sponsoring and underwriting initial public offerings and mergers and acquisitions.

The Group

For the year ended 31st December 2006, the Group's consolidated revenue was approximately HK$182.6 million, marking an increase of about 57% compared with that in 2005. Consolidated profit attributable to shareholders increased by about HK$21.2 million over the previous year to approximately HK$26.3 million for the year under review. The improved operating results during the year were mainly attributed to enhanced operating performance of the brokerage business and profits from the Group's investment trading portfolio. In an increasingly competitive marketplace, the Group recognised the need to improve operational efficiency and increase investment in information technology, while at the same time implement strict cost control measures and explore new investment opportunities conducive to future growth.

The Market

In 2006, the financial services industry took a positive turn. The Hang Seng Index started out at 14,876 points and rose to 15,805 on 31st March 2006, climbing to 16,267 on 30th June 2006 and reached 17,543 by 30th September 2006. The Index eventually closed at 19,964 for the year ended 31st December 2006. The average daily market turnover of the Hong Kong stock market for the first quarter of 2006 was approximately HK$31.2 billion, increasing by 9% to approximately HK$34.1 billion in the second quarter, and after a relatively quiet third quarter, topped off at approximately HK$44.7 billion in the last quarter of 2006.

Brokerage

In light of positive market sentiment, brokerage commission arising from dealing in securities and futures and option contracts improved noticeably for the year ended

31st December 2006. Gross commission income increased by about HK$47.8 million during the year under review, showing a growth of 83% compared with that in 2005, while net brokerage commission income climbed by 95%. Revenue and operating profit from this business area were approximately HK$105.2 million (2005: HK$60.3 million) and HK$6.7 million (2005: loss of HK$9.3 million) respectively for the year under review.

As for margin and other finance-related businesses, interest income grew by about 102.1% from HK$30.3 million in 2005 to HK$61.3 million. Net interest income increased by 66.5% despite increased funding cost and a competitive market, which narrowed the net interest margin. Overall, operating profit generated by margin and other finance-related businesses was HK$15 million (2005: HK$4.8 million) for the year under review.

In addition to a strong brokerage and margin financing business, the division also actively participated in share underwriting and placement activities during the year, generating significantly improved income by way of service fees and underwriting commissions.

Corporate Finance and Others

As for corporate advisory and related businesses, such as underwriting, share placing and asset management, turnover and operating profit for the year were HK$16.1 million (2005: HK$25.4 million) and HK$7.2 million (2005: HK$8.9 million) respectively. Included in the operating profits was a gain of HK$11.3 million (2005: HK$0.7 million) derived from the Group's investment trading portfolio.

Apart from completion of a number of financial advisory deals, the division is also sponsoring several Mainland enterprises seeking listings 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.

Asset Management

During the year, progress was made on establishing a direct investment fund that focuses on opportunities in the leisure and entertainment sector of Macau and the Greater China Region. This initiative will diversify the Group's product portfolio and enhance its fee-based revenue stream, contributing to the overall financial performance of the Group in the next financial year. The operating results of this division for the review year are included in the Corporate Finance and Others Division section.

For the year ended 31st December 2006, Hong Kong remained the core market of the Group.

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$170 million from various banks as at 31st December 2006 (2005: HK$180 million) and HK$60 million (2005: HK$80 million) of these banking facilities was secured by margin clients' listed securities. As at 31st December 2006, the Group had used HK$49 million of its unsecured banking facilities (HK$23 million and HK$5 million of unsecured and secured banking facilities respectively as at 31st December 2005) and the amount was repaid by 4th January 2007.

As at 31st December 2006, the Group had borrowed HK$241.9 million (2005: HK$211.9 million) from its ultimate holding company. The loans bear interest at prime rate minus 2% per annum or HIBOR plus 1.25% – 2% per annum and are 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 relevant business capabilities.

As at 31st December 2006, the Group's net current assets, cash available and shareholders' funds (other than the trust accounts) amounted to approximately HK$174.6 million (2005: HK$144.3 million), HK$67.9 million (2005: HK$69.3 million) and HK$193.5 million (2005: HK$164 million) respectively. The current ratio, expressed as current asset over current liabilities, was maintained at a satisfactory 1.35 level (2005: 1.48).

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 at 31st December 2006, the total number of issued ordinary shares of the Company was 253,740,179 of HK$0.10 each (2005: 249,641,226 shares of HK$0.10 each). The increase in issued shares was the result of the exercising of the Company's share options during the year.

Corporate governance

The Group has in place a Code on Corporate Governance ("Company Code"), which sets out the corporate standards and practices used by the Group in directing and managing its business affairs. The Company 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 Company Code not only formalises 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 year ended 31st December 2006, the Group did not make any material acquisitions, disposal, significant investments or capital commitments.

Headcount/Employees' information

As at 31st December 2006, the Group employed a total of 122 employees, of which 117 were stationed in Hong Kong and 5 in the PRC.

Staff costs (including directors' emoluments and staff sales commission) amounted to approximately HK$88.5 million for the year ended 31st December 2006 (2005: approximately HK$58.9 million). The Group's employees are selected, remunerated and promoted based on their merit, qualifications and competence. In addition to basic salaries and Mandatory Provident Fund Scheme, other benefits include medical coverage, sales commission, performance-based bonus and discretionary share options. Training and development programs are also provided to the Group's employees on an ongoing basis.

Charges on group assets

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

Gearing ratio

As at 31st December 2006, the Group's gearing ratio, expressed as a percentage of total borrowings (including bank loans and overdrafts and loans from the ultimate holding company) over shareholders' funds, was at a satisfactory level of 1.5 times (2005: 1.46 times).

Foreign exchange exposure

It is the Group's policy that each operating entity use local currencies as far as possible in order to minimise exchange related risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars. Impact from foreign exchange exposure is minimal, hence no hedging against foreign currency exposure is necessary.

Future plans for material investments or capital assets

As at 31st December 2006, the Group had no known plans with regard to material investments or capital assets.

Contingent liabilities

As at 31st December 2006, the Company provided guarantees of HK$140 million to banks in respect of banking facilities granted to a subsidiary, VC Brokerage Limited (2005: HK$120 million).

OUTLOOK

Looking ahead, though slowing global growth may be a concern, fundamentals in Asia remain strong in light of robust economic growth and corporate earnings. Interest rates appear to have leveled off, and abundant liquidity in the region continues to be a powerful force to drive the market higher. The Group sees robust prospects for the local stock market in 2007. Still, the risk of a deeper than expected slowdown in the U.S. remains, and short-term market volatility is anticipated.

Nevertheless, Management remains optimistic about the long-term prospects of the Group's financial services business. Building on a streamlined and strengthened foundation, the Group will forge ahead with the aim of expanding its products and geographical coverage. It will actively pursue fresh initiatives such as offering fund management services and new investment products as well as embark on business acquisitions beneficial to the overall growth of the Group's business.

The board (the "Board") of Directors (the "Directors") of Value Convergence Holdings Limited (the "Company") is pleased to present their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31st December 2006, together with the audited comparative figures for the year ended 31st December 2005.

Principal activities

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 18 to the financial statements.

An analysis of the Group's performance for the year ended 31st December 2006 by business and geographical segments is set out in note 7 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31st December 2006 are set out in the consolidated income statement on page 37.

The Directors do not recommend the payment of a dividend.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the financial statements.

Share capital and share options

Details of the movements in share capital and share options of the Company are set out in notes 28 and 30 to the financial statements respectively.

Distributable reserves

As at 31st December 2006, the Company's reserve available for distribution to shareholders, calculated under section 79B of the Companies Ordinance, amounted to HK$8,459,000 (2005: HK$9,868,000).

Five years'/periods' financial summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years/periods is set out on page 84.

Purchase, sale or redemption of the Company's listed securities

The Company had not redeemed any of its shares during the year ended 31st December 2006. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year ended 31st December 2006.

Directors

The Directors during the year ended 31st December 2006 and up to the date of this report are:

Executive Directors
Mr. HO, Lawrence Yau Lung *(President and Vice Chairman)*
Mr. Patrick SUN *(Chief Executive Officer)* (Appointed on 21st August 2006)

Non-executive Directors
Dr. HO Hung Sun, Stanley *(Chairman)* (Re-designated on 21st August 2006)
Dr. LEE Jun Sing (Re-designated on 21st August 2006)
Attorney PATAJO-KAPUNAN, Lorna (Re-designated on 28th December 2006)

Independent Non-executive Directors
Dr. TYEN Kanhee, Anthony
Mr. SHAM Sui Leung, Daniel
Mrs. CHU HO Miu Hing (Appointed on 28th December 2006)

Pursuant to the Article 92 of the Company's Articles of Association of the Company, any director appointed during the year shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. Furthermore, in accordance with Article 101 of the Company's Articles of Association, one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office. The Directors to retire every year shall be those who have been longest in office since their last election. In accordance with these provisions, Mr. Patrick Sun, Dr. Tyen Kanhee, Anthony, Mr. Sham Sui Leung, Daniel and Mrs. Chu Ho Miu Hing shall retire at the forthcoming annual general meeting.

Directors' service contracts

Mr. Ho, Lawrence Yau Lung and Mr. Patrick Sun have service contracts with VC Services Limited, a wholly-owned subsidiary of the Company, commencing on 1st January 2005 and 21st August 2006 respectively, which may be terminated by either party by written notice of not less than three months. Save as disclosed above, as at 31st December 2006, none of the Directors of the Group has entered into any service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

Directors' interests in contracts

Other than as disclosed in note 33 to the financial statements, no contract 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 year ended 31st December 2006 or at any time during such year.

Group's emolument policy

The Group's employees are selected, remunerated and promoted based on their merit, qualifications and competence.

The emoluments of the Directors of the Company are determined with regard to the performance of individuals, the Company's operating results and market standards.

The Company has adopted its share option schemes as an incentive to Directors and employees. Details of share options granted to the Directors and employees as at 31st December 2006 are set out in the sub-section headed "Interests in equity derivatives of the Company" under the section of "Directors' and Chief Executives' interests in the Company and its associated corporations" and the section headed "Details of outstanding options granted" in the Directors' Report.

Directors' and Chief Executives' interests in the Company and its associated corporations

As at 31st December 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")

Name of Directors	Nature of interests	*Notes*	Number of Shares interested	Approximate percentage of Shares interests
Dr. Ho Hung Sun, Stanley	Corporate	2	7,384,651	2.91%
Mr. Ho, Lawrence Yau Lung	Corporate	3	165,163,008	65.09%
	Personal	5	491,057	0.19%
Dr. Lee Jun Sing	Corporate	4	6,299,702	2.48%
	Personal	5	491,057	0.19%
Mr. Patrick Sun	Personal	5	2,400,000	0.95%

Notes:

1. As at 31st December 2006, the total number of issued shares of the Company were 253,740,179.

2. 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 2.91% 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 33.49% of the issued share capital of Melco International Development Limited which in turn holds approximately 63.42% 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 2.48% 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 options as more particularly mentioned in sub-section headed "Interests in equity derivatives of the Company" below.

(ii) Interests in equity derivatives of the Company

Pursuant to the share option scheme adopted by the Company on 29th November 2001 ("Share Option Scheme") as respectively described in the section headed "Details of outstanding options granted" below, as at 31st December 2006, the Directors of the Company have options granted by the Company to subscribe Shares in the Company as follows:

Name of Director	Date of grant	Exercise Price per Share *HK$*	Number of underlying Shares comprised in the options outstanding as at 01.01.2006	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Number of underlying Shares comprised in the options outstanding as at 31.12.2006	Expiry date
Mr. Ho, Lawrence Yau Lung	09.07.2002 *(Note)*	1.0	491,057	–	–	–	491,057	08.07.2012
Dr. Lee Jun Sing	09.07.2002 *(Note)*	1.0	491,057	–	–	–	491,057	08.07.2012
Mr. Patrick Sun	27.12.2006 *(Note)*	1.292	–	2,400,000	–	–	2,400,000	26.12.2016

Note: The grant of options on 9th July 2002 and 27th December 2006 pursuant to the Share Option Scheme had been reviewed and approved by the then Independent Non-executive Directors of the Company.

As at 31st December 2006, none of the Directors had exercised their options.

(iii) Interests in shares and equity derivatives of Melco International Development Limited ("Melco")

Name of Directors	Nature of interests	Number of shares of Melco interested	Number of underlying shares of Melco interested	Approximate percentage of shares of Melco interested *(Note 1)*
Dr. Ho Hung Sun, Stanley	Corporate	3,127,107 *(Note 2)*	117,912,694 *(Note 4)*	9.86%
	Personal	18,587,789 *(Note 2)*	–	1.51%
Mr. Ho, Lawrence Yau Lung	Corporate	404,041,630 *(Note 3)*	117,912,694 *(Note 4)*	42.50%
	Personal	7,232,612 *(Note 3)*	–	0.59%

Notes:

1. As at 31st December 2006, the total number of issued shares of Melco were 1,228,150,716.

2. Dr. Ho Hung Sun, Stanley were taken to be interested in 3,127,107 shares of Melco as a result of him being beneficially interested in the entire issued share capital of Lanceford Company Limited which in turn holds approximately 0.25% of the issued share capital of Melco. Apart from that, Dr. Ho Hung Sun, Stanley personally holds 18,587,789 shares of Melco.

3. Mr. Ho, Lawrence Yau Lung was 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 9.41% of the issued share capital of Melco. He was 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. ("Better Joy") which in turn holds approximately 23.49% of the issued share capital of Melco. Apart from that, Mr. Ho, Lawrence Yau Lung personally holds 7,232,612 shares of Melco.

4. Pursuant to an agreement dated 11th May 2005 entered into between Great Respect Limited, Melco PBL Entertainment (Greater 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 31st December 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 31st December 2006, so far as is known to the Directors of the Company, the following persons (other than a Director or Chief Executive of the Company) 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:

Name	*Notes*	**Capacity**	**Number of Shares held**	**Approximate shareholding percentage**
Melco Financial Group Limited	1	Beneficial owner	160,930,381	63.42%
Ms. Sharen Lo	2	Family	165,654,065	65.28%

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 31st December 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

The Share Option Scheme ("Share Option Scheme") was adopted by the Company on 29th November 2001. The purpose of the Share Option Scheme is to recognise and acknowledge the contributions that had or may have made by the participants to the Group and also provide them an opportunity to have a personal stake in the Company with the view to motivating them to optimise their performance and efficiency for the benefit of the Group and to attract and retain or otherwise maintain ongoing business relationship with them whose contributions are beneficial to the long term growth of the Group. The Directors may at their discretion grant options to the employees or Directors of the Group or such other persons who are eligible for participation in the scheme to subscribe for ordinary shares in the Company subject to the terms and conditions stipulated in the Share Option Scheme at HK$1.00 per option payable by each participant to the Company on acceptance of the offer of an option.

The total number of shares that may be issued pursuant to the exercise of all outstanding options granted under the Share Option Scheme and any other schemes is not permitted to exceed 30% of the issued share capital of the Company from time to time. Subject to the above rule, the total number of shares in respect of which options may be granted under the Share Option Scheme and any other schemes must not in aggregate, exceed 10% of the issued share capital of the Company from time to time unless further shareholders' approval has been obtained. According to the terms of the Share Option Scheme, options granted to connected person, who is also a substantial shareholder or Independent Non-executive Director of the Company, in excess of 0.1% of the issued shares of the Company or with a value in excess of HK$5 million in the twelve month period up to the date of the grant must be approved by the Company's shareholders in general meetings. Also pursuant to the Share Option Scheme, no option may be granted to any one person within any twelve months period if the underlying shares of such option exceed 1% of the issued share capital of the Company from time to time unless otherwise approved by the Company's shareholders in general meetings.

As at 31st December 2006, options to subscribe for an aggregate of (1) 2,137,163, (2) 7,623,065, (3) 654,934 and (4) 2,400,000 underlying Shares granted on (1) 9th July 2002, (2) 25th March 2004, (3) 15th March 2006 and (4) 27th December 2006 ("Share Options") pursuant to the Share Option Scheme at an exercise price of (1) HK$1.0 per Share, (2) HK$0.64 per Share, (3) HK$1.18 per Share and (4) HK$1.292 per Share respectively were outstanding, which in total represents approximately 5.05% (2005: 5.7%) of the shares of the Company in issue as at 31st December 2006. The adjusted closing price of the Company's shares immediately before 9th July 2002 was HK$0.65 and the closing price of the Company's shares immediately before 25th March 2004, 15th March 2006 and 27th December 2006 were HK$0.64 per share, HK$1.06 per share and HK$1.24 per share respectively. The Share Options have a duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012, between 25th March 2004 to 24th March 2014, between 15th March 2006 to 14th March 2016 and between 27th December 2006 to 26th December 2016 respectively. Accordingly to the Share Option Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Group. Details of the outstanding Share Options as at 31st December 2006 are set out below.

Categories	Date of grant	Exercise Price per Share *HK$*	Number of underlying Shares comprised in the options outstanding as at 01.01.2006	Granted during the year	Exercised during the year	Lapsed during the year	Number of underlying Shares comprised in the options outstanding as at 31.12.2006	Share options duration
Directors[1]	09.07.2002	1.0	982,114	–	–	–	982,114	09.07.2002 to 08.07.2012
Directors[3]	27.12.2006	1.292	–	2,400,000	–	–	2,400,000	27.12.2006 to 26.12.2016
Employees[1]	09.07.2002	1.0	694,842	–	(645,348)	(24,552)	24,942	09.07.2002 to 08.07.2012
Employees[1]	25.03.2004	0.64	8,900,565	–	(2,852,500)	(325,000)	5,723,065	25.03.2004 to 24.03.2014
Employees[2]	15.03.2006	1.18	–	654,934	–	–	654,934	15.03.2006 to 14.03.2016
Other eligible persons[1]	09.07.2002	1.00	1,581,212	–	(451,105)	–	1,130,107	09.07.2002 to 08.07.2012
Other eligible persons[1]	25.03.2004	0.64	2,050,000	–	(150,000)	–	1,900,000	25.03.2004 to 24.03.2014
Total			**14,208,733**	**3,054,934**	**(4,098,953)**	**(349,552)**	**12,815,162**	

Notes:

1. Commencing from the date of grant up to the date falling six months thereafter, up to 50% of the shares comprised in the options can be exercised. Commencing during the period immediately after the expiry of first six months from the date of grant and ending 10 years after the date grant, all shares comprised in the options which were not previously exercised can be exercised.

2. Commencing from the date of grant and ending 10 years after the date of grant, all shares comprised in the options can be exercised.

3. Commencing from 27th December 2007 to 26th December 2016, up to 800,000 shares comprised in the options can be exercised. Commencing from 27th December 2008 to 26th December 2016, up to 1,600,000 shares comprised in the options which were not previously exercised can be exercised. Commencing from 27th December 2009 to 26th December 2016, all shares comprised in the options which were not previously exercised can be exercised.

Details of the grant of Share Options to the Directors of the Company are disclosed in the sub-section headed "Interests in equity derivatives of the Company" under the section of "Directors' and Chief Executives' interests in the Company and its associated corporations" above.

During the year ended 31st December 2006, certain Share Options to subscribe for a total of 349,552 underlying Shares which had been granted to three 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 year ended 31st December 2006, certain Share Options to subscribe for a total of 1,096,453 and 3,002,500 underlying Shares at an exercise price of HK$1.00 and HK$0.64 per share respectively granted to a total of 20 employees were exercised. Since the date of the grant of Share Options up to 31st December 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 to 85 of the circular of the Company dated 12th November 2001.

The exercise price for Share Options will be a price determined by the Board and notified to each grantee and will be the highest of (i) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the date of offer of the Share Options, which must be a trading day and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the Share Option; and (iii) the nominal value of a Share.

Management contracts

There exists a services agreement under which Melco Services Limited, the Company's fellow subsidiary, provides services to companies within the Group in respect of which a yearly service fee is payable. The agreement can be terminated by mutual consent or by either party with immediate written notice if the other party commits a material breach or certain specified events happen to the other party.

Major customers and suppliers

The aggregate revenues attributable to the Group's five largest customers taken together were less than 30% of the Group's total revenues for the year ended 31st December 2006.

The Group had no major supplier due to the nature of principal activities of the Group.

Connected transactions

Significant related party transactions entered by the Group during the year ended 31st December 2006 are disclosed in note 33 to the financial statements.

None of the related party transactions fall under the definition of "connected transaction" or "continuing connected transaction" in Chapter 20 of the GEM Listing Rules.

Independent non-executive directors

Confirmation of independence has been received from each of Independent Non-executive Directors of the Company and the Company considers all existing Independent Non-executive Directors to be independent.

Competing interests

Dr. Ho Hung Sun, Stanley, the Chairman and the Non-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 31st December 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.

Sufficiency of public float

The Company has maintained a sufficient public float throughout the year ended 31 December 2006.

Charitable donations

During the year, the Group made charitable donations amounting to approximately HK$88,000.

Auditors

The consolidated financial statements of the Group and the Company for the year ended 31st December 2006 have been audited by Messrs. Deloitte Touche Tohmatsu, who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting.

On behalf of the Board
Value Convergence Holdings Limited
Ho, Lawrence Yau Lung
President & Vice Chairman

14th March 2007

Corporate Governance Practices

(a) Application of Corporate Governance Principles

The Group is committed to promoting and maintaining the highest standard corporate governance, with the objectives of (i) the maintenance of responsible decision making, (ii) the improvement in transparency and disclosure of information to shareholders, (iii) the continuance of respect for the rights of shareholders and the recognition of the legitimate interests of shareholders, and (iv) the improvement in management of risks and the enhancement of performance by the Group. The Group has applied the principles set out in the Code on Corporate Governance Practices ("HKSE Code") contained in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules") with these objectives in mind.

(b) Promulgation of Company's Corporate Governance Code

To this end, the Group has promulgated a set of Code on Corporate Governance ("Company Code") which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by referencing to the principles, Code Provisions and Recommended Best Practices set out in the HKSE Code, which came into effect on 1st January 2005. In addition to formalizing existing corporate governance principles and practices, the Company Code also serves the purpose of assimilating existing practices with benchmarks prescribed by the HKSE Code and ultimately ensuring high transparency and accountability to the Group's shareholders.

(c) Compliance of Company and HKSE's Code's Provisions

The Group has complied with all provisions in the Company Code and the HKSE Code throughout the financial year ended 31st December 2006 with one deviation mentioned below.

On 3rd August 2005, the Company set up the following board committees and adopted its own code on corporate governance:-

(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.

The Company's code on corporate governance contains the provisions of the HKSE Code and other provisions, and has been posted on the Company's website.

Apart from the audit committee and remuneration committee required by the HKSE Code, the Company has established four additional board committees to ensure maintenance of a high corporate governance standard. Terms of reference of all board committees set up by the Company 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 of Directors ("Board") of the Company.

(d) Deviation from HKSE Code

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 of the Company 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.

Securities Transactions by Directors

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 Model Code for the year 2006.

The Board of Directors – Function and Composition

The Board is entrusted with the overall responsibility for promoting the success of the Company by the direction and supervision of the Company's business and affairs and the ultimate responsibility for the day to day management of the Company which is delegated to the President and Vice Chairman and the management. Lists of (1) duties and powers delegated to the Company's President and Vice Chairman and matters reserved for decision of the Board and (2) division of responsibilities between the Company's Chairman and President and Vice Chairman are given at the Company's website under the section "Corporate Governance".

The posts of Chairman and President and Vice Chairman are separated to ensure a clear division between the Chairman's responsibility to manage the Board and the President and Vice Chairman's responsibility to manage the Company's business. The separation ensures a balance of power and authority so that power is not concentrated in any one individual.

The Board comprises a total of eight Directors, with two Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (President and Vice Chairman) and Mr. Patrick Sun[1] (Chief Executive Officer); three Non-executive Directors, namely, Dr. Ho Hung Sun, Stanley[2] (Chairman), Dr. Lee Jun Sing[2] and Attorney Lorna Patajo-Kapunan[3]; and three Independent Non-executive Directors, namely, Dr. Tyen Kanhee, Anthony, Mr. Sham Sui Leung, Daniel and Mrs. Chu Ho Miu Hing[4]. More than one Independent Non-executive Directors have appropriate professional qualifications, accounting and financial management expertise.

Dr. Ho Hung Sun, Stanley, Chairman of the Board, is the father of Mr. Ho, Lawrence Yau Lung, the President and Vice Chairman of the Company.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 5.09 of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Board Operation

The Board meets regularly over the Company's affairs and operations. In 2006, the Board held four meetings. The attendance record of each member of the Board is set out below:

	Attendance
Executive Directors	
Ho, Lawrence Yau Lung *(President and Vice Chairman)*	4/4
Patrick Sun *(Chief Executive Officer)*	1/1[1]
Non-executive Directors	
Ho Hung Sun, Stanley *(Chairman)*	1/4
Lee Jun Sing	4/4
Lorna Patajo-Kapunan	4/4
Independent Non-executive Directors	
Tyen Kanhee, Anthony	4/4
Sham Sui Leung, Daniel	4/4
Chu Ho Miu Hing	Not applicable[4]

Remuneration of Directors

As mentioned above, a Remuneration Committee was formed on 3rd August 2005 for, inter alia, the following purposes:

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and

(b) to determine the remuneration packages for executive directors and senior management and to make recommendations to the board on the remuneration of Non-Executive Directors.

Other details of the role and function of the Remuneration Committee are given at the Company's website under the section "Corporate Governance".

The Remuneration Committee is made up of the Company's Executive Directors and Independent Non-executive Directors, namely Dr. Tyen Kanhee, Anthony (Chairman), Mr. Sham Sui Leung, Daniel, Mrs. Chu Ho Miu Hing, Mr. Ho, Lawrence Yau Lung and Mr. Patrick Sun.

In 2006, the Remuneration Committee held three meetings. The attendance record of each member of the Committee is set out below:

	Attendance
Tyen Kanhee, Anthony *(Chairman)*	3/3
Sham Sui Leung, Daniel	3/3
Ho, Lawrence Yau Lung	1/1[5]
Patrick Sun	1/1[6]
Chu Ho Miu Hing	Not applicable[7]
Lorna Patajo-Kapunan	3/3[8]

The formulation of the Group's emolument policy is based on the principles of equity and market competitiveness so as to drive staff to work towards the mission of the Group and to retain talents. The Company has also adopted its share option scheme as an incentive to Directors and employees. Details of the scheme are set out in pages 16 to 18 of this Annual Report.

The emoluments of the Directors are determined with regard to the performance of individuals, the Company's operating results and market standards. During the year, the Remuneration Committee has considered and approved (a) bonus payments to employees of the Group, (b) salary increases of senior management of the Group, (c) range of salary increases for employees of the Group and (d) grant of share options to an Executive Director. The Committee has also made recommendations to the Board in relation to the remuneration packages of the Directors appointed during the year in line with the Group's emolument policy.

Nomination of Directors

As mentioned above, a Nomination Committee was formed on 3rd August 2005 for, inter alia, the following purposes:

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board;

(b) to identify individuals suitably qualified to become Board members and make recommendations to the Board on the selection of individuals nominated for directorship; and

(c) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors.

The Nomination Committee is made up of the Company's Executive Directors, Non-executive Director and Independent Non-executive Directors, namely Mr. Sham Sui Leung, Daniel (Chairman), Dr. Tyen Kanhee, Anthony, Ms. Lorna Patajo-Kapunan, Mr. Ho, Lawrence Yau Lung and Mr. Patrick Sun.

In 2006, the Nomination Committee held three meetings. The attendance record of each member of the Committee is set out below:

	Attendance
Sham Sui Leung, Daniel *(Chairman)*	3/3
Tyen Kanhee, Anthony	3/3
Lorna Patajo-Kapunan	3/3
Ho, Lawrence Yau Lung	1/1[5]
Patrick Sun	1/1[6]

During the year, the Nomination Committee has reviewed the structure, size and composition of the Board. The Committee has also recommended the appointments of Mr. Patrick Sun and Mrs. Chu Ho Miu Hing as an executive director and an independent non-executive director respectively to the Board.

Executive Committee

As mentioned above, an Executive Committee was formed on 3rd August 2005 for, inter alia, the following purposes:

(a) to oversee the implementation of the Company's strategic objectives and risk management policies; and

(b) to oversee the business and operations of all of the business units of the Group.

The Executive Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Patrick Sun[6] and members of the Company's senior management (non-voting capacity). The Executive Committee held meetings from time to time to discuss operational matters of the Company's business and new projects.

Finance Committee

As mentioned above, a Finance Committee was formed on 3rd August 2005 for, inter alia, the following purposes:

(a) to conduct review on matters such as Group wide financial, accounting, treasury and risk management policies, major financing transactions, corporate plans and budgets; and

(b) to review major acquisitions and investments and their funding requirements.

The Finance Committee is made up of the Company's Executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Patrick Sun[6] and members of the Company's senior management (non-voting capacity). The Finance Committee held meetings from time to time to discuss financial matters of the Company's new and existing business.

Regulatory Compliance Committee

As mentioned above, a regulatory compliance committee was formed on 3rd August 2005 for, inter alia, the following purposes:

(a) to review and advise upon matters in respect of the present or future regulation of the Company's gaming and financial services businesses; and

(b) to comply with applicable laws and regulations, including the GEM Listing Rules.

The Regulatory Compliance Committee is made up of the Company's Executive Directors and Independent Non-executive Directors, namely, Mr. Ho, Lawrence Yau Lung (Chairman), Mr. Patrick Sun[6], Dr. Tyen Kanhee, Anthony, Mr. Sham Sui Leung, Daniel, Mrs. Chu Ho Miu Hing[7], a member of senior management (non-voting capacity) and the Group Legal Counsel (non-voting capacity). The Regulatory Compliance Committee held meetings from time to time to discuss the ongoing compliance matters of the Group.

Audit Committee

The Company's Audit Committee was formed on 14th March 2001 and is composed of a Non-executive Director and three Independent Non-executive Directors of the Company as at 31st December 2006, namely, Dr. Tyen Kanhee, Anthony (Chairman), Mr. Sham Sui Leung, Daniel, Mrs. Chu Ho Miu Hing and Ms. Lorna Patajo-Kapunan. The primary duties of the Audit Committee are (a) to review the Group's annual reports, financial statements, interim reports and quarterly reports, (b) to provide advices and comments thereon to the Board and (c) to review and supervise the financial reporting process and internal control procedures of the Group. Other details of the role and function of the Audit Committee are available on the Company's website under the section "Corporate Governance".

In 2006, the Audit Committee held four meetings. The attendance record of each member of the Committee is set out below:

	Attendance
Tyen Kanhee, Anthony *(Chairman)*	4/4
Sham Sui Leung, Daniel	4/4
Lorna Patajo-Kapunan	4/4
Chu Ho Miu Hing	Not applicable[7]

The Audit Committee has carefully reviewed the Company's quarterly, half-yearly and annual results and its system of internal control and has made suggestions to improve them. The Committee also carried out and discharged its duties set out in HKSE Code. In the course of doing so, the Committee has met the company's management, qualified accountant and external auditors several times during 2006.

A statement of director responsibilities for preparing the financial statements is set out in this Annual Report. The Independent Auditor's Report states auditors' reporting responsibilities.

Auditors' remuneration

For the year ended 31st December 2006, the Company paid its auditors, Deloitte Touche Tohmatsu, around HK$1,107,000 for audit and non-audit services provided to the Company. Among the total payment, HK$980,000 was for audit services and the balance of HK$127,000 was for non-audit services such as special review of the Group's mandatory provident fund, agreed-upon procedures for agreeing the Company's final results announcement and tax services.

Internal Control

The Board recognises its overall responsibility for the establishment and maintenance of a sound system of internal control and the review of its effectiveness in order to safeguard the shareholders' investment and the Group's assets.

(a) Internal Control System

The Group's system of internal control consists of various policies, procedures and control activities designed to provide reasonable assurance against material misstatement or loss. The sound system of internal control is developed to safeguard the Group's assets and resources against unauthorized use or disposition, ensure the transactions are executed in accordance with management's authorization and ensure the accounting records are reliable for preparing financial information internally and publicly.

(b) Internal Audit Function

The Group has its internal audit team (Internal Audit Department of Melco Group) to assist the Board to independently review the Group's internal controls throughout the year ended 31 December 2006. The internal audit team reports directly to the Audit Committee and brings appropriate matters identified during the course of audits to the Audit Committee's attention. The internal audit team also has the rights to consult the Audit Committee without reference to the management. This reporting structure allows the internal audit team to maintain its independence.

(c) Internal Audit Charter

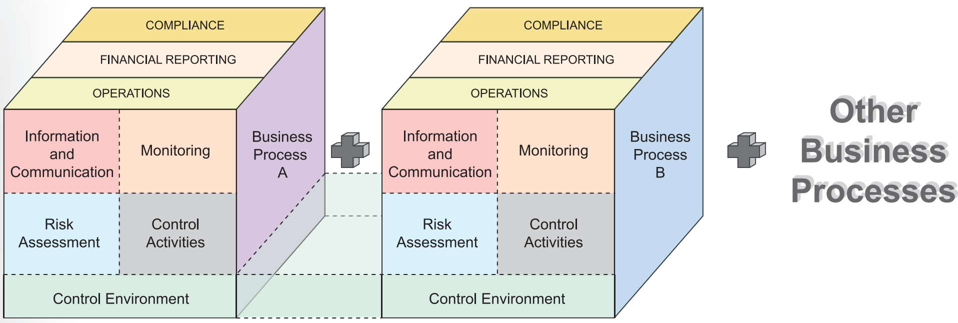
The mission, scope of work, accountability, independence, authority and responsibility of the internal audit team are clearly stated in a written Internal Audit Charter, which is approved and periodically reviewed by the Audit Committee.

(d) Risk Assessment and Internal Control Review

The internal audit team adopts a risk and control based audit approach and has established an integrated framework of internal controls in assessing the adequacy and effectiveness of the Group's system of internal control on an on-going basis. The integrated framework is developed by referring to the COSO ("the Committee of Sponsoring Organizations of the Treadway Commission") framework, as recommended by the Hong Kong Institute of Certified Public Accountants.

(d) Risk Assessment and Internal Control Review (continued)

The five components of the integrated framework serve as the assessment criteria for the review, as illustrated below:



Integrated framework of internal controls

(1) Control Environment

Control environment is the foundation for other components of the internal control system. Factors of control environment include ethical values and competence of personnel, direction provided by the Board and effectiveness of management.

(2) Risk Assessment

Risk assessment involves the identification and analysis of risks underlying the achievement of process objectives, including risks relating to the changing regulatory and operating environment, which serves as a basis for determining how such risks should be mitigated and managed.

(3) Control Activities

Control activities entail a diverse range of policies and procedures that help to ensure management directives are carried out and any actions that may be needed to address risks in order to achieve process objectives.

(4) Information and Communication

Information and communication comprises effective processes and systems to identify, capture and report operational, financial and compliance-related information in a form and timeframe that enable staff to carry out their responsibilities.

(5) Monitoring

Monitoring is a process that assesses the adequacy and quality of the internal control system's performance over time. Deficiencies in internal controls should be reported to the appropriate level upstream, which may be, for example, senior management, the Audit Committee, or the Board.

During the year, the internal audit team has assisted the Board to conduct an annual risk assessment and internal control review to identify significant risks faced by the Group and evaluate the existing internal controls to mitigate these risks.

(e) Internal Audit Planning

Annual internal audit plan for the Group is formulated based on the results of the annual assessment of risk and review of internal control. The annual plan so formulated is reviewed by the Audit Committee. In addition to the internal audit plan, internal audit team also conducts other projects and investigations as may be required.

(f) Price-sensitive Information

In respect of procedures and internal controls for the handling and dissemination of price-sensitive information, a mechanism has been established to identify, analyze and disclose any material price-sensitive information with reference to the "Guide on disclosure of price-sensitive information" issued by the Hong Kong Exchanges and Clearing Limited. Besides, the Group's staff handbook contains the general prohibition from buying or selling the Group's securities while staff members are in possession of any insider information about the Group. Staff members are also prohibited from disclosing such information to persons who do not have a demonstrable need to know the information.

The Board have reviewed and are satisfied with the adequacy and effectiveness of the Group's system of internal control including, in particular, the operational, financial and compliance controls and risk management functions and no significant internal control deficiency has been identified.

Shareholders' rights

Pursuant to Article 65 of the Articles of Association of the Company, the Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on requisition, as provided by the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) ("Companies Ordinance"). In accordance with Section 113 of the Companies Ordinance, members holding at the date of the deposit of the requisition not less than one-twentieth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company can request the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company.

The Company regards the annual general meeting of the Company ("AGM") an important event as it provides an opportunity for the Board to communicate with the shareholders. Active participation by the shareholders at the AGM is highly welcomed. Notices of AGM and related papers are sent to the shareholders no less than 21 days before the meeting.

The Company Secretarial Department and the Public Relations Department respond to letters and telephone enquiries from shareholders/investors. Whenever a shareholder has any enquiries on matters in relation to the Company, he or she may put such enquires in writing and address the same to the Company Secretary at the registered office of the Company at 28th Floor, The Centrium, 60 Wyndham Street, Central, Hong Kong or through an email contact info@vcgroup.com. The website of the Company at http://www.valueconvergence.com also provides a medium to make information of the Company and the Group available to the shareholders with a section on "Corporate Governance" included.

Notes :

(1) Mr. Patrick Sun was appointed as Chief Executive Officer and an Executive Director with effect from 21st August 2006.

(2) Dr. Ho Hung Sun, Stanley and Dr. Lee Jun Sing were re-designated from Executive Directors to Non-executive Directors with effect from 21st August 2006.

(3) Attorney Lorna Patajo-Kapunan was re-designated from an Independent Non-executive Director to a Non-executive Director with effect from 28th December 2006.

(4) Mrs. Chu Ho Miu Hing was appointed as an Independent Non-executive Director with effect from 28th December 2006.

(5) Mr. Ho, Lawrence Yau Lung was appointed as a member of the Remuneration Committee and the Nomination Committee with effect from 21st August 2006.

(6) Mr. Patrick Sun was appointed as a member of the Remuneration Committee, the Nomination Committee, the Executive Committee, the Finance Committee and the Regulatory Compliance Committee with effect from 21st August 2006.

(7) Mrs. Chu Ho Miu Hing was appointed as a member of the Remuneration Committee, the Regulatory Compliance Committee and the Audit Committee with effect from 28th December 2006.

(8) Attorney Lorna Patajo-Kapunan ceased to be a member of the Remuneration Committee with effect from 28th December 2006.

Executive Directors

Mr. HO, Lawrence Yau Lung, aged 30, joined the Group in October 2000 and was appointed the President and Vice Chairman of the Group with effect from August 2002. Within six months of joining the Group, Mr. Ho spearheaded the public listing of the Company on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and was instrumental in its subsequent mergers and acquisitions. Mr. Ho is currently the Chairman and Chief Executive Officer of Melco International Development Limited ("Melco"), Company's ultimate parent company. Melco is a dynamic conglomerate listed on the Hong Kong Stock Exchange with a major business focus in Leisure, Gaming and Entertainment. Mr. Ho is also a Co-Chairman and Chief Executive Officer of Melco PBL Entertainment (Macau) Limited, a company listed on the Nasdaq Global Market owning one of only six gaming concessions and subconcessions to own and operate gaming business in Macau. Melco is a constituent of the MSCI Hong Kong Index, part of the MSCI Standard Index Series. As the CEO of Melco, Mr. Ho oversees and is responsible for the overall strategic development, management and operations of the Melco Group.

Mr. Ho is a graduate of the University of Toronto, Canada and holds a Bachelor of Arts degree, majoring in commerce. Mr. Ho is also the son of Dr. Ho Hung Sun Stanley, founder of the Shun Tak Group and Sociedade de Turismo e Diversoes de Macau, S.A.

Mr. Ho is active in community services and serves on numerous boards and committees in Hong Kong, Macau & mainland China. He sits on the Board of Directors of The Community Chest and is the Chairman of The Chamber of Hong Kong Listed Companies. He is also a Member of The Chinese People's Political Consultative Conference, Shanghai Committee; Member of Science and Technology Council of Macau Special Administrative Region; Member of All China Youth Federation, Member of Macau Basic Law Promotional Association; Chairman of Macau International Volunteers Association; Member of Campaign Committee of The Community Chest; Board of Governors of The Canadian Chamber of Commerce in Hong Kong; Honorary Lifetime Director of the Chinese General Chamber of Commerce, Hong Kong; President of Macau Canadian Chamber of Commerce; Member of Association of Property Agents and Real Estate Developers of Macau and Lifetime Member of Macao Chinese General Chamber of Commerce.

In recognition of Mr. Ho's excellent directorship and entrepreneurial spirit, Institutional Investor, a leading research and publishing organization, has honoured Mr. Ho as the "Best CEO" in the 'Conglomerates' category by the end of 2005. Mr. Ho also won the 'Directors of the Year Award 2005' in November 2005. The award is presented annually by the Hong Kong Institute of Directors in recognition of excellent corporate governance practice among Hong Kong listed companies. Mr Ho also received the 5th China Enterprise Award for Creative Businessmen in Beijing and was named "Leader of Tomorrow 2005" by Hong Kong Tatler for his leadership wisdom and traits. As a socially responsible young entrepreneur in Hong Kong, Mr. Ho was elected as one of the "Ten Outstanding Young Persons" in 2006.

Mr. Patrick SUN, aged 48, joined the Group in August 2006. Mr. Sun has more than 20 years of experience in the investment banking business and has participated in numerous capital markets and advisory transactions. Before joining the Group, he had been an executive director of SW Kingsway Capital Holdings Limited (a company listed on the Stock Exchange); the Senior Country Officer of JP Morgan Chase and head of its investment banking business in Hong Kong; as well as the group executive director and co-head of investment banking of Jardine Fleming Holdings Limited. Mr. Sun is currently an independent non-executive director of Solomon Systech (International) Limited (a company listed on the Stock Exchange), The Link Management Limited (as manager of The Link Real Estate Investment Trust which is listed on the Stock Exchange) and Everbright Pramerica Fund Management Company Limited.

Mr. Sun holds a Bachelor of Science degree from the Wharton School, University of Pennsylvania in the United States and completed the Stanford Executive Program of the Stanford Business School. He is a qualified accountant in the United Kingdom and Hong Kong.

Mr. Sun was deputy convenor of the Listing Committee of the Stock Exchange from 1996 to 2002 and was a member of the Council of the Stock Exchange from 1995 to 2000. From 2002 to 2004, he was honorary chief executive officer of the Chamber of Hong Kong Listed Companies. He was appointed by the Securities and Futures Commission as a member of the Takeovers and Mergers Panel from 1995 to 1997 and again from 1999 to 2001.

Mr. Sun also participated actively in public services. He is a former member of the Financial Services Advisory Committee of the Hong Kong Trade Development Council, the Investment Advisory Committee of the Hong Kong Exchanges and Clearing Limited, the Corporate Advisory Council of the Hong Kong Securities Institute and the Hong Kong Policy Research Institute. He is a member of the General Committee of the Chamber of Hong Kong Listed Companies.

Non-executive Directors

Dr. HO Hung Sun, Stanley, G.B.S., aged 85, joined the Group as Chairman in February 2000. Dr. Ho is an outstanding entrepreneur in Asia with various key positions in both Hong Kong and Macau. In Hong Kong, he is Group Executive Chairman of Shun Tak Holdings Limited and President of The Real Estate Developers Association of Hong Kong. In Macau, he is Managing Director of Sociedade de Turismo e Diversões de Macau, S.A. and Sociedade de Jogos de Macau, S.A., Vice-Chairman of the Board of Directors of Macau International Airport Company Limited, Chairman of Seng Heng Bank Limited and Chairman of the Board of Directors of Macau Horse Racing Company, Limited.

Dr. Ho is a Standing Committee Member of the 10th National Committee of the Chinese People's Political Consultative Conference; Honorary Lifetime Chairman of The University of Hong Kong Foundation for Educational Development and Research; Member of the Court of The Hong Kong Polytechnic University; Founding Honorary Life Chairman and Director of the PolyU Development Foundation; Trustee of Macau Foundation; Member of the Economic Council of the Macau Special Administrative Region Government; as well as Council Member of the University of Macau.

Dr. Ho is also a vice patron of the Community Chest of Hong Kong, a member of the board of trustees and Advisory Council of the Better Hong Kong Foundation, and a patron of the Society of the Academy for Performing Arts.

Dr. Ho is the holder of honorary doctorates of social sciences of The University of Hong Kong, The Hong Kong Polytechnic University and the University of Macau. He was awarded the Honorary Degree of Doctor of Business Administration by The Open University of Hong Kong in 2004. He is an Honorary Fellow of The Hong Kong Academy for Performing Arts and a Fellow of The Royal Academy of Dance, United Kingdom.

Dr. Ho has been re-designated from an executive director to a non-executive director of the Company on 21 August 2006.

Dr. LEE Jun Sing, aged 60, joined the Group in January 2000 and is one of the founders of the Company. Dr. Lee graduated with a Doctor of Philosophy in Physical Chemistry from Indiana University, the United States, and did his postdoctoral research at John Hopkins University, the United States. Dr. Lee is also a director of numerous companies including Guangzhou Luhu Golf & Country Club, iSinolaw Limited, Bio-Cancer Treatment International Limited and a Managing Director of Vast Honour Development Limited. Dr. Lee has been re-designated from an executive director to a non-executive director of the Company on 21 August 2006.

Attorney PATAJO-KAPUNAN, Lorna, aged 54, has been a Director of the Company since November 2000. Attorney Patajo-Kapunan has been an active law practitioner in the Philippines for many years. She is a graduate from the University of the Philippines, College of Law and also majored in AB Political Science. Attorney Patajo-Kapunan has a number of professional involvements throughout her legal career. The most recent ones include Founding President, Intellectual Property Alumni Association (IPAA); Councilor, Asean Patent Attorneys Association (APAA); Chairman, Copyright Committee (APAA); Regional President, Asean Intellectual Property Association (ASEAN IP); Director, Licensing Executive Society of the Philippines (LES); Chairman, Women Business Council of the Philippines and Chairman, National Issues Committee, Management Association of the Philippines. Attorney Patajo-Kapunan is Senior Partner of Kapunan Lotilla Flores Garcia & Castillo and her fields of practice include Corporate, Franchising, Mergers and Acquisitions, Litigation, Intellectual Property and Family Laws. Attorney Patajo-Kapunan has been re-designated from an independent non-executive director to a non-executive director of the Company on 28 December 2006.

Independent Non-executive Directors

Mr. SHAM Sui Leung, Daniel, aged 51, joined the Group in August 2004. Mr. Sham qualified as a chartered accountant in England and Wales, and worked as a certified public accountant in Hong Kong for over 20 years. He was a partner of Moores Rowland Mazars for 14 years until he retired on 31 December 2003. After his retirement, he rejoined Moores Rowland Mazars as a consultant in late 2004 and worked in that capacity until March 2006.

Mr. Sham graduated with a Bachelor of Arts in Economics at University of Leeds. He was a member of the Auditing Standard Committee, the Expert Panel on Listing and the Expert Panel on Securities and the Accountants' Report Task Force of the Hong Kong Institute of Certified Public Accountants ("HKICPA"). He was also a member of the Disciplinary Panel of HKICPA.

Mr. Sham has all-round experience in accounting, auditing and other related works, especially in the fields of corporate finance and securities regulations. He is currently an independent non-executive director of AEON Stores (Hong Kong) Co., Limited and Melco International Development Limited, both of which are listed on the Stock Exchange.

Dr. TYEN Kanhee, Anthony, aged 51, joined the Group in September 2004. He holds a Doctoral degree in Philosophy and a Master degree in Business Administration, both from the Chinese University of Hong Kong. He is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of both the Association of Chartered Certified Accountants and the Institute of Chartered Secretaries and Administrators, and a member of the Chinese Institute of Certified Public Accountants. He is currently a practising certified public accountant in Hong Kong and has over 29 years' experience in auditing, accounting, management and company secretarial practice. Dr. Tyen is also a director of Recruit Holdings Limited, the securities of which are listed on the Growth Enterprises Market of the Stock Exchange.

Mrs. CHU HO Miu Hing, aged 65, joined the Group in December 2006. She has more than 30 years of experience in securities industry. Mrs. Chu is currently a director of Good Harvest Securities Company Limited. She was an executive director of Sinofert Holdings Limited (formerly known as "Sinochem Hong Kong Holdings Limited") (a company listed on the Stock Exchange) until 31st August 2005.

Mrs. Chu holds a Bachelor's Degree in chemistry from Mount Holyoke College and a Bachelor's Degree in music from New England Conservatory of Music both in the United States. Mrs. Chu was a Council Member of the Stock Exchange. She is currently the vice-chairman of The Chamber of Hong Kong Listed Companies.

Senior Management

Mr. NG Man Hoi, Paul (Chief Operating Officer of Value Convergence Holdings Limited), aged 49, possesses over 21 years of experience in the finance and banking industry. He joined the CEF Group in 1992 and was transferred to the present VC Brokerage Limited in December 2001. During his service with the CEF Group, Mr. Ng had assumed the positions of Group Financial Controller and Head of Group Operations & System, and had worked in Singapore for about 3 years. Prior to joining the CEF Group, he held responsible positions at The Chase Manhattan Bank, N. A. and Dao Heng Bank in the areas of financial management and management information systems. Mr. Ng holds a Master of Business Administration from Newport University, U.S.A.

Mr. LAM Cho Ying, Terence Joe (Managing Director of VC Brokerage Limited), aged 45, joined the Group in April 2004. Mr. Lam has been in the financial industries for more than 21 years. He started out his career at JP Morgan Chase, subsequently with Tai Fook Securities, Crosby Securities, Yuanta Securities and his last appointment was with Kim Eng Securities. Mr. Lam holds a bachelor degree from University of Houston majoring in finance and marketing.

Mr. CHAU King Fai, Philip (Managing Director of VC Capital Limited), aged 45, joined the Group in May 2004. Mr. Chau has over 21 years of experience in banking and corporate finance. He has served as corporate finance directors in REXCAPITAL (Hong Kong) Limited, SocGen-Crosby Securities (HK) Limited (now SG Securities (HK) Ltd.) and SBC Warburg Dillon Read (now UBS Investment Bank). Before joining the corporate finance field, Mr. Chau had worked with several major international banks. Mr. Chau has been involved in numerous corporate finance transactions including floatation of various companies on stock exchanges in Hong Kong and the PRC, fund raising exercises of listed companies in the secondary market and financial advisory work of various nature for public and private companies in the Greater China region. Mr. Chau holds a bachelor degree in Business Administration majoring in Finance.

Mr. LAM Fung, Philip (Director of VC Asset Management Limited), aged 47, joined the Group in 2005, leading the private equity division. Mr. Lam has been in the private equity business for more than 16 years working for multinational financial institutions in Asia, such as Mizuho Corporate Bank and CLSA in Asia. Mr. Lam received his Bachelor and Master degrees in business administration in Ontario, Canada.

Mr. MA Shui Kin, Geoff (Qualified Accountant of Value Convergence Holdings Limited), aged 33, joined the Group in 2006. Mr. Ma has extensive working experience in securities brokerage industry and listed company. He was also an experienced auditor with exposure in various industries. He is a qualified accountant and holds a Master of Science degree from The Hong Kong University of Science and Technology. Mr. Ma is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Deloitte.
德勤

TO THE SHAREHOLDERS OF VALUE CONVERGENCE HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Value Convergence Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 83 which comprise the consolidated and Company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
14th March 2007

Consolidated Income Statement

For the year ended 31st December 2006

	Notes	**2006** **HK$'000**	2005 HK$'000 (Restated)
Revenue	7	**182,587**	115,986
Other income	7	**2,236**	1,560
Net gain on trading investments	7	**11,283**	651
Staff costs	13	**(88,473)**	(58,869)
Depreciation of property, plant and equipment	17	**(1,440)**	(2,627)
Amortisation of trading rights	16	**(506)**	(507)
Impairment of available-for-sale investments		**–**	(120)
Adjustment to goodwill	15	**(1,471)**	(5,135)
Commission expenses		**(10,150)**	(6,832)
Finance costs	9	**(35,094)**	(14,595)
Other operating expenses		**(32,526)**	(25,899)
Profit before taxation	8	**26,446**	3,613
Taxation (charge) credit	10	**(114)**	1,495
Profit for the year		**26,332**	5,108
Earnings per share (HK cents)			
Basic	12	**10.45**	2.08
Diluted	12	**10.22**	2.05

	Notes	**2006** **HK$'000**	2005 HK$'000 (Restated)
Non-current assets			
Goodwill	15	**8,151**	9,622
Trading rights	16	**1,773**	2,279
Property, plant and equipment	17	**2,463**	1,841
Deferred tax assets	25	**2,781**	1,495
Available-for-sale investments	19	**–**	680
Statutory deposits for investment banking and financial services business		**3,236**	3,216
Other intangible assets	21	**547**	547
		18,951	19,680
Current assets			
Accounts receivable	22	**588,236**	319,499
Prepayments, deposits and other receivables		**5,621**	4,845
Trading investments	23	**14,441**	44,956
Investment in convertible bonds	24	**–**	4,000
Amounts due from fellow subsidiaries	20	**62**	194
Bank balances and cash	20	**67,916**	69,275
		676,276	442,769
Current liabilities			
Accounts payable	26	**157,260**	33,381
Accrued liabilities and other payables		**18,192**	11,262
Short-term bank borrowings	27	**49,000**	28,000
Amount due to ultimate holding company	20	**18,679**	5,356
Amount due to an investee company	20	**–**	6
Amounts due to fellow subsidiaries	20	**15,243**	8,579
Loans from ultimate holding company	20	**241,900**	211,900
Taxation payable		**1,400**	–
		501,674	298,484
Net current assets		**174,602**	144,285
Total assets less current liabilities		**193,553**	163,965
Capital and reserves			
Share capital	28	**25,374**	24,964
Reserves		**168,179**	139,001
Total equity		**193,553**	163,965

The financial statements on pages 37 to 83 were approved by the Board of Directors on 14th March 2007 and are signed on its behalf by:

Ho, Lawrence Yau Lung	**Patrick Sun**
Director	*Director*

Balance Sheet

As at 31st December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Investments in subsidiaries	18	**10**	10
Amounts due from subsidiaries	18	**50,000**	50,000
		50,010	50,010
Current assets			
Prepayments, deposits and other receivables		**289**	407
Amounts due from subsidiaries	18	**399,915**	414,869
Amounts due from fellow subsidiaries	20	**358**	480
Bank balances and cash	20	**2,794**	9,754
		403,356	425,510
Current liabilities			
Accrued liabilities and other payables		**298**	196
Amount due to ultimate holding company	20	**20,856**	7,356
Amounts due to subsidiaries	18	**20,217**	88,010
Amount due to a fellow subsidiary	20	**3,011**	3,000
Loans from ultimate holding company	20	**241,900**	211,900
		286,282	310,462
Net current assets		**117,074**	115,048
Total assets less current liabilities		**167,084**	165,058
Capital and reserves			
Share capital	28	**25,374**	24,964
Reserves	29	**141,710**	140,094
Total equity		**167,084**	165,058

Ho, Lawrence Yau Lung
Director

Patrick Sun
Director

Consolidated Statement of Changes In Equity

For the year ended 31st December 2006

	Attributable to equity holders of the parent						
	Share capital *HK$'000*	**Share premium** *HK$'000*	**Capital reserve** *HK$'000*	**Exchange reserve** *HK$'000*	**Retained profits** *HK$'000*	**Share option reserve** *HK$'000*	**Total** *HK$'000*
At 1st January 2005, as originally stated	23,815	–	123,758	–	8,676	–	156,249
Restatement of comparatives *(note 3)*	–	–	–	–	(4,948)	–	(4,948)
At 1st January 2005, as restated	23,815	–	123,758	–	3,728	–	151,301
Exchange difference arising on translation of financial statements of an overseas subsidiary	–	–	–	(61)	–	–	(61)
Net expense recognised directly in equity	–	–	–	(61)	–	–	(61)
Profit for the year (restated)	–	–	–	–	5,108	–	5,108
Total recognised income and expense for the year (restated)	–	–	–	(61)	5,108	–	5,047
Exercise of share options	1,149	6,475	–	–	–	–	7,624
Share issue expenses	–	(7)	–	–	–	–	(7)
At 31st December 2005, as restated	24,964	6,468	123,758	(61)	8,836	–	163,965
Exchange difference arising on translation of financial statements of an overseas subsidiary	–	–	–	(179)	–	–	(179)
Net expense recognised directly in equity	–	–	–	(179)	–	–	(179)
Profit for the year	–	–	–	–	26,332	–	26,332
Total recognised income and expense for the year	–	–	–	(179)	26,332	–	26,153
Exercise of share options	410	2,609	–	–	–	–	3,019
Recognition of equity-settled share based payment	–	–	–	–	–	419	419
Share issue expenses	–	(3)	–	–	–	–	(3)
At 31st December 2006	25,374	9,074	123,758	(240)	35,168	419	193,553

Consolidated Cash Flow Statement

For the year ended 31st December 2006

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Profit before taxation	**26,446**	3,613
Depreciation of property, plant and equipment	**1,440**	2,627
Amortisation of trading rights	**506**	507
Loss on disposal of property, plant and equipment	**–**	267
Adjustment to goodwill	**1,471**	5,135
Recognition of equity-settled share-based payment	**419**	–
Impairment of available-for-sale investments	**–**	120
Impairment of doubtful receivables	**2,980**	2,711
Interest income from authorised institutions	**(1,695)**	(823)
Interest expenses	**35,094**	14,595
Operating cash flows before movements in working capital	**66,661**	28,752
Increase in accounts receivable	**(271,712)**	(16,018)
Increase in prepayments, deposits and other receivables	**(668)**	(1,008)
Decrease (increase) in trading investments	**30,515**	(4,315)
Decrease in amounts due from fellow subsidiaries	**132**	1,663
Increase (decrease) in accounts payable	**123,879**	(3,085)
Increase (decrease) in accrued liabilities and other payables	**6,747**	(15)
Increase in amount due to ultimate holding company	**13,322**	498
(Decrease) increase in amount due to an investee company	**(6)**	12
Increase in amounts due to fellow subsidiaries	**6,664**	5,032
Cash (used in) generated from operations	**(24,466)**	11,516
Interest paid	**(35,077)**	(14,580)
Interest received from authorised institutions	**1,587**	771
Net cash used in operating activities	**(57,956)**	(2,293)

Consolidated Cash Flow Statement

For the year ended 31st December 2006

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Investing activities		
Purchase of property, plant and equipment	**(2,061)**	(805)
Proceeds from disposal of property, plant and equipment	**–**	715
Proceeds from disposal of available-for-sale investments	**680**	–
Proceeds from disposal of convertible notes	**4,000**	–
(Increase) decrease in statutory deposits for investment banking and financial services business	**(20)**	143
Net cash from investing activities	**2,599**	53
Financing activities		
Loans from ultimate holding company	**30,000**	–
Drawdown of bank borrowings	**21,000**	13,000
Proceeds from exercise of share options	**3,019**	7,624
Share issue expenses	**(3)**	(7)
Net cash from financing	**54,016**	20,617
Net (decrease) increase in cash and cash equivalents	**(1,341)**	18,377
Cash and cash equivalents at the beginning of year	**69,275**	50,916
Effect of change in foreign currency translation	**(18)**	(18)
Cash and cash equivalents at the end of year, represented by bank balances and cash	**67,916**	69,275

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. Its immediate holding company is Melco Financial Group Limited (incorporated in the British Virgin Islands) and its ultimate holding company is Melco International Development Limited (incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited ("SEHK")). The address of the registered office of the Company is disclosed in the corporate information of the annual report.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Company and its subsidiaries (the "Group") are investment banking and provision of financial services.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")/CHANGES IN ACCOUNTING POLICIES

(a) In the current year, the Group and the Company has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs"), Amendments and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006 respectively.

The adoption of the following new HKFRSs has no material effect on how the results and financial position for the current or prior accounting periods are prepared and presented.

(b) The Group and the Company has not early applied the following new Standard, Amendment and Interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standard, Amendment or Interpretations will have no material effects on how the results and the financial position of the Group are prepared and presented.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – INT 8	Scope of HKFRS 2[3]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[4]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[5]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[6]
HK(IFRIC) – INT 12	Service concession arrangements[7]

[1] Effective for annual periods beginning on or after 1st January 2007.
[2] Effective for annual periods beginning on or after 1st March 2006.
[3] Effective for annual periods beginning on or after 1st May 2006.
[4] Effective for annual periods beginning on or after 1st June 2006.
[5] Effective for annual periods beginning on or after 1st November 2006.
[6] Effective for annual periods beginning on or after 1st March 2007.
[7] Effective for annual periods beginning on or after 1st January 2008.

3. RESTATEMENT OF COMPARATIVES

Under Statement of Standard Accounting Practice 12 (Revised) "Income Taxes" ("SSAP 12") and Hong Kong Financial Reporting Standards 3 "Business Combination" ("HKFRS 3"), if the potential benefit of the acquired subsidiaries' income tax loss carry-forwards did not satisfy the recognition criteria when a business combination is initially accounted for but is subsequently realised, the benefit is recognised as income. In addition, the carrying amount of goodwill is reduced to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date. The amount for the reduction in the carrying amount of the goodwill is recognised as an expense.

In December 2002, the Group had acquired subsidiaries with income tax loss carry-forwards which did not satisfy the criteria for separate recognition when a business combination was initially accounted for.

During the years 2004 and 2005, the Group had utilised those income tax loss carry-forwards of approximately HK$28,276,000 and HK$20,802,000 respectively and recognised deferred tax assets relating to pre-acquisition losses from the acquired subsidiaries amounting HK$1,495,000 in 2005. However, the carrying amounts of the goodwill in 2004 and 2005 were not reduced as required under SSAP 12/HKFRS 3.

As a result of the above, comparative amounts have been retrospectively restated. The effect of the adjustments to the financial statements on the consolidated income statement for prior year is as follows:

	2005 *HK$'000*
Adjustment to goodwill and decrease in profit for the year	5,135

	HK cents
Decrease in basic earning per share	2.09
Decrease in diluted earning per share	2.07

3. RESTATEMENT OF COMPARATIVES (continued)

The effect of the restatements on the Group's equity as at 1st January 2005 is summarized below:

	As at 1st January 2005 (originally stated)	Adjustment	As at 1st January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*
Retained profits	8,676	(4,948)	3,728
Total effects on equity	8,676	(4,948)	3,728

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of the SEHK and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising from the acquisition of subsidiary companies for which the acquisition date is before 1st January 2004 (the date the Group early adopted HKFRS3), represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiaries, at the date of acquisition. There is no goodwill recognised after the adoption of HKFRS 3.

If the potential benefit of the acquired subsidiaries' income tax loss carry-forwards or other deferred tax assets did not satisfy the criteria for recognition when a business combination is initially accounted for but is subsequently realised, the amount is recognised as income in accordance with HKAS 12 Income Taxes. In addition, the carrying amount of goodwill is reduced to the amount that would have been recognised if the deferred tax asset had been recognised as an identifiable asset from the acquisition date. The amount for the reduction in the carrying amount of the goodwill is recognised as an expense immediately.

Such goodwill is carried at cost less any accumulated impairment losses. It is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the subsidiaries, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Subsidiaries

A subsidiary is an entity that is controlled by the Company.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue arising from investment banking and financial services are recognised on the following basis:

- Commission income for broking business is recorded as income on a trade date basis.
- Underwriting commission, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms of the underlying agreement or deal mandate when the relevant significant act has been completed.
- Arrangement, management, advisory and other fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered.
- Interest income from clients are recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Interest income from authorised institutions is recognised on a time proportion basis, taking into account the principal amounts outstanding and the effective interest rates applicable.

Dividend income is recognised when the right to receive payment is established.

Service fees are recognised when the relevant services are rendered.

Trading rights

Trading rights represent rights to trade on the SEHK and Hong Kong Futures Exchange Limited (“HKFE”). They are stated at cost and amortised using the straight-line method over its estimated useful life.

Trading rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the trading rights’ carrying amount exceeds its recoverable amount. The recoverable amount is the higher of its fair value less costs to sell and value in use. For the purposes of determining the recoverable amount of trading rights, the Group estimates the recoverable amount of smallest cash generating unit to which the trading rights belong.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's and the Company's financial assets are classified into one of the 3 categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprised of financial assets held for trading.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables including accounts receivable, deposits and other receivables, amounts due from fellow subsidiaries, amounts due from subsidiaries and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in income statement. Any impairment losses on available-for-sale investments are recognised in income statement. Impairment losses on available-for-sale equity investments will not reverse through income statement in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in income statement when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including accounts payables, accrued liabilities and other payables, short-term bank borrowings, amount due to ultimate holding company/an investee company/fellow subsidiaries/subsidiaries, and loans from ultimate holding company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and substantially all the risks and rewards of ownership of the financial assets has been transferred. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration is recognised in profit or loss.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxation temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

The expected costs of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors, employees and other eligible persons

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December 2006, the carrying amount of goodwill is approximately HK$8,151,000. Details of the recoverable amount calculation are disclosed in Note 15.

Income taxes

As at 31st December 2006, a deferred tax asset of HK$2,781,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

As at 31st December 2006, deferred tax asset has not been recognised in relation to the estimated unused tax losses approximately HK$120,375,000. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more than expected, a material recognition of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a recognition takes place.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Estimated impairment of trade receivable

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

6. FINANCIAL INSTRUMENTS

(a) Financial risk management objectives and policies

The Group's major financial instruments include investments in equity securities, borrowings, accounts receivables, bank balances, accounts payables and loans from ultimate holding company. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

It is the Group's policy for each operating entity to operate in local currencies as far as possible to minimise currency risks. The Group's principal businesses are conducted and recorded in Hong Kong dollars. Since the impact of foreign exchange exposure is minimal, no hedging against foreign currency exposure has been carried out by the management.

(ii) Interest rate risk

Short-term floating rate bank loans, which are HIBOR-based, are used to fund margin financings of the securities brokerage business which are typically prime-based. The principal risk lies with the interest rate differential between the interbank rate and the best lending rate. The Group mitigates the risk by monitoring the interest rate gap between the short-term bank loans and margin financing facilities and revises the margin financing rate if necessary.

(iii) Other price risk

Other price risk represents the possibilities of changes in fair value or future cash flows due to changes in market prices other than arising from interest rate risk or currency risk.

The Group is exposed to equity security price risk through its trading investments. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. FINANCIAL INSTRUMENTS (continued)

(a) Financial risk management objectives and policies (continued)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts and receivables from margin clients with shortfalls. In addition, the Group reviews the recoverable amount of each individual receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is significantly reduced.

The Company has entered into financial guarantees with banks in respect of banking facilities provided to its subsidiary. The maximum credit risk exposure is the default of banking facilities utilised by the subsidiary. The credit risk is considered minimal as the subsidiary continues to operate with strong financial results and cash flow position. The Company is also exposed to the credit risk for the carrying amounts of the respective recognised financial assets as stated in the Company's balance sheet.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong. The Group has no significant concentration of credit risk by any single debtor, with exposure spread over a number of counterparties and customers.

Bank balances are placed in various authorised institutions and Directors of the Company consider the credit risk for such is minimal.

Liquidity risk

Internally generated cash flow and bank borrowings are the sources of funds to finance the operations of the Group. Majority of the Group's banking facilities are subject to floating rate and are renewable annually. The Group liquidity risk management includes making available standby banking facilities and diversifying the funding sources. The Group regularly reviews its major funding positions to ensure it has adequate financial resources in meeting its financial obligations.

(b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and

- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available. the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the binominal model).

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

7. REVENUES AND SEGMENT INFORMATION

Revenues principally arise from the investment banking and financial services business (comprising, among others, provision of initial public offerings, mergers and acquisitions, and other corporate finance related advisory services; and securities, futures and options broking and dealing).

	2006 **HK$'000**	2005 *HK$'000*
Revenues		
Investment banking and financial services:		
– Brokerage commission from dealing in securities and futures and options contracts	**105,186**	57,433
– Underwriting, sub-underwriting, placing and sub-placing commission	**10,077**	9,232
– Arrangement, management, advisory and other fee income	**6,070**	19,016
– Interest income from clients	**61,254**	30,305
	182,587	115,986
Other income		
Interest income from authorised institutions	**1,695**	823
Dividend income	**415**	667
Sundry income	**126**	70
	2,236	1,560
Net gain on trading investments	**11,283**	651
Total income	**196,106**	118,197

Primary reporting format – business segments

The Group has been engaged in investment banking and financial services business and classified the business segments into broking, margin and other financing, and corporate advisory and others. The details of these three 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 other segment engages in the provision of corporate advisory, placing and underwriting services, proprietary trading and asset management services.

7. REVENUES AND SEGMENT INFORMATION (continued)

Year ended 31st December 2006

	Broking	Margin and other financing	Corporate advisory and others	Corporate	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenues	105,186	61,254	16,147		–	182,587
Inter-segment sales	–	378	–		(378)	–
	105,186	61,632	16,147		(378)	182,587
Segment results	6,707	14,972	7,174		–	28,853
Unallocated costs						(2,407)
Profit before taxation						26,446
Taxation charge						(114)
Profit for the year						26,332
Segment assets	181,097	467,673	39,299	4,377		692,446
Unallocated corporate assets						2,781
						695,227
Segment liabilities	172,601	291,228	2,361	34,084		500,274
Unallocated corporate liabilities						1,400
						501,674
Other segment information:						
Depreciation of property, plant and equipment	747	–	574	119	–	1,440
Amortisation of trading rights	506	–	–	–	–	506
Capital expenditures	1,483	–	523	55	–	2,061
Impairment of doubtful receivables	–	2,895	85	–	–	2,980

7. REVENUES AND SEGMENT INFORMATION (continued)

Year ended 31st December 2005 (Restated)

	Broking	Margin and other financing	Corporate advisory and others	Corporate	Eliminations	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
Segment revenues	60,273	30,305	25,408		–	115,986
Inter-segment sales	–	207	–		(207)	–
	60,273	30,512	25,408		(207)	115,986
Segment results	(9,276)	4,838	8,872		–	4,434
Unallocated costs						(821)
Profit before taxation						3,613
Taxation credit						1,495
Profit for the year						5,108
Segment assets	47,210	307,543	92,025	14,176		460,954
Unallocated corporate assets						1,495
						462,449
Segment liabilities	25,601	239,921	18,640	14,322		298,484
Other segment information:						
Depreciation of property, plant and equipment	1,744	–	587	296	–	2,627
Amortisation of trading rights	507	–	–	–	–	507
Capital expenditures	297	–	504	4	–	805
Impairment of doubtful receivables	–	2,711	–	–	–	2,711

Inter-segment sales are charged at prevailing market rate.

Secondary reporting format – geographical segments

Year ended 31st December 2006 and 2005

No geographical segment analysis is presented for the years ended 31st December 2006 and 2005 as over 90% of the Group's revenues, segment results and the location of assets during the years ended 31st December 2006 and 2005 are derived from or located in Hong Kong.

8. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation is stated after crediting and charging the following:		
Auditor's remuneration	**980**	905
Loss on disposal of property, plant and equipment	**–**	267
Operating leases in respect of land and buildings	**4,405**	2,525
Net exchange gain	**(315)**	(70)
Impairment of doubtful receivables	**2,980**	2,711

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interests on bank loans and overdrafts wholly repayable within five years	**21,827**	5,647
Interests on loans from ultimate holding company	**13,267**	8,948
	35,094	14,595

10. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% on the estimated assessable profit for the year.

The amount of taxation charged to the consolidated income statement represents:

	2006	2005
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong Profits Tax	**1,400**	–
Deferred taxation	**(1,286)**	(1,495)
	114	(1,495)

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Profit before taxation	**26,446**	3,613
Calculated at Hong Kong Profits Tax rate of 17.5%	**4,628**	632
Income not subject to taxation	**(272)**	(135)
Expenses not deductible for taxation purposes	**506**	1,007
Utilisation of previously unrecognised tax losses	**(5,971)**	(3,741)
Unrecognised deferred tax assets arising from estimated tax losses	**590**	453
Others	**633**	289
Taxation charge (credit)	**114**	(1,495)

11. DIVIDENDS

No dividends have been paid or declared by the Company during the year ended 31st December 2006 (2005: Nil).

12. EARNINGS PER SHARE

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

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**26,332**	5,108

	2006	2005
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**252,064**	245,864
Effect of dilutive potential ordinary shares:		
Share options	**5,519**	2,767
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**257,583**	248,631

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	*HK$'000*
Staff commission	**56,766**	30,980
Wages and salaries	**27,586**	25,343
Staff welfare	**1,027**	613
Recruitment costs	**518**	290
Unutilised annual leave	**1,283**	404
Termination benefits	**–**	266
Pension costs – contributions to defined contribution plans	**1,056**	986
Forfeiture of pension contributions	**(182)**	(13)
Recognition of equity-settled share based payment	**419**	–
	88,473	58,869

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) (continued)

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of which are held in separate trustee-administered funds. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme have switched to the MPF Scheme and all new eligible employees joining the Group on or before December 2000 are all under the MPF Scheme. No more contribution was made to the ORSO Scheme after the switch.

Both the Group and the employees contribute a fixed percentage of the relevant payroll to the MPF Scheme.

The Group's contribution to both retirement schemes are expensed as incurred. The Group's mandatory contributions to the mandatory provident fund are vested immediately. The Group's contributions to the defined contribution scheme are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid/payable to the Directors of the Company are as follows:

	Ho, Lawrence Yau Lung	Dr. Lee Jun Sing	Sham Sui Leung, Daniel	Dr. Tyen Kanhee, Anthony	Attorney Patajo-Kapunan, Lorna	Sun Patrick	Chu Ho Miu Hing	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2006								
Fees	–	32	195	195	170	–	2	594
Other emoluments								
Salaries and other benefits	600	–	–	–	–	1,128	–	1,728
Retirement benefits scheme contribution	12	–	–	–	–	5	–	17
Total emoluments	612	32	195	195	170	1,133	2	2,339

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Ho, Lawrence Yau Lung	Dr. Lee Jun Sing	Sham Sui Leung, Daniel	Dr. Tyen Kanhee, Anthony	Attorney Patajo-Kapunan, Lorna	Patrick Sun	Chu Ho Miu Hing	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2005								
Fees	–	21	151	151	140	–	–	463
Other emoluments								
Salaries and other benefits	600	–	–	–	–	–	–	600
Retirement benefits scheme contribution	12	–	–	–	–	–	–	12
Total emoluments	612	21	151	151	140	–	–	1,075

During the year ended 31st December 2006, 2,400,000 options were granted to the Directors of the Company (2005: Nil) in respect of their services provided to the Group, further details of which are set out in note 30 to the financial statements. An amount of approximately HK$14,000 in respect of the share options granted during the year has been charged to the consolidated income statement (2005: Nil).

During the two years ended 31st December 2006, no Directors waived or agreed to waive any emoluments. No emoluments have been paid to the Directors as an inducement to join or upon joining the Group, or as compensation for loss of office.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the two years ended 31st December 2006 are all employees. The details of the emoluments payable to these five individuals are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing allowances, other allowances and benefits in kind	**7,752**	6,214
Retirement benefits scheme contribution	**60**	60
	7,812	6,274

14. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Five highest paid individuals (continued)

The emoluments of the above individuals fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
Nil – HK$1,000,000	**–**	2
HK$1,000,001 – HK$1,500,000	**2**	1
HK$1,500,001 – HK$2,000,000	**3**	2
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	–
More than HK$3,000,000	**–**	–

15. GOODWILL

	HK$'000
COST	
At 1st January 2005, previously stated	19,705
Reduction in goodwill due to utilisation of pre-acquisition tax losses	(4,948)
Restated at 1st January 2005	14,757
Reduction in goodwill due to utilisation of pre-acquisition tax losses	(5,135)
Restated at 31st December 2005	9,622
Reduction in goodwill due to utilisation of pre-acquisition tax losses	(1,471)
At 31st December 2006	8,151

15. GOODWILL (continued)

Impairment testing on goodwill

The Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, the amount has been allocated to two individual cash generating units ("CGUs") by its primary reporting segments, margin and other financing and corporate advisory and others and the carrying amount of goodwill had been allocated as below:

	2006 ***HK$'000***	2005 *HK$'000* (restated)
Margin and other financing	**–**	372
Corporate advisory and others	**8,151**	9,250
	8,151	9,622

During the year ended 31st December 2006, management of the Group determines that there is no impairment of the two CGUs containing goodwill.

The basis of the recoverable amounts of the CGUs and the major underlying assumptions of the CGUs are the same and are summarised below:

The recoverable amounts of the CGUs have been determined on the basis of value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 3-year period and a discount rate of 8.24% (2005: 7.75%). The cash flows beyond the 3 years period are extrapolated using a zero growth rate for an indefinite period. Another key assumption is the budgeted revenue, which is determined based on the CGUs' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amounts of the CGUs to exceed the aggregate recoverable amount of the CGUs.

16. TRADING RIGHTS

	HK$'000
COST	
At 1st January 2005, 1st January 2006 and 31st December 2006	5,066
AMORTISATION AND IMPAIRMENT	
At 1st January 2005	2,280
Provided for the year	507
At 1st January 2006	2,787
Provided for the year	506
At 31st December 2006	3,293
CARRYING VALUE	
At 31st December 2006	1,773
At 31st December 2005	2,279

Trading rights are amortised over 10 years from 6th March 2000, the effective day of the merger of the SEHK, HKFE and Hong Kong Securities Clearing Company Limited.

17. PROPERTY, PLANT AND EQUIPMENT

	THE GROUP			
	Leasehold improvements	Furniture, fixtures and equipment	Computer equipment and software	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At 1st January 2005	4,640	7,894	9,382	21,916
Additions	401	150	254	805
Disposals	(265)	(142)	(1,303)	(1,710)
Transfers (note 33)	(466)	(184)	(65)	(715)
Exchange difference	5	4	4	13
At 31st December 2005	4,315	7,722	8,272	20,309
Additions	416	294	1,351	2,061
Disposals	–	–	(2)	(2)
Exchange difference	11	7	9	27
At 31st December 2006	**4,742**	**8,023**	**9,630**	**22,395**
DEPRECIATION				
At 1st January 2005	2,477	6,254	8,544	17,275
Charge for the year	1,311	858	458	2,627
Disposals	(37)	(110)	(1,296)	(1,443)
Exchange difference	5	2	2	9
At 31st December 2005	3,756	7,004	7,708	18,468
Charge for the year	434	477	529	1,440
Disposals	–	–	(2)	(2)
Exchange difference	11	7	8	26
At 31st December 2006	**4,201**	**7,488**	**8,243**	**19,932**
NET BOOK VALUES				
At 31st December 2006	**541**	**535**	**1,387**	**2,463**
At 31st December 2005	559	718	564	1,841

The property, plant and equipment is depreciated at the following rates per annum:

Leasehold improvements	Over the lease term not exceeding three years
Furniture, fixtures and equipment	20 – 25%
Computer equipment and software	25 – $33^1/_3$%

18. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK$'000	*HK$'000*
Investments at cost:		
Unlisted shares	**10**	10

Amounts due from subsidiaries (non-current):

Included in the amounts are loans to subsidiaries of HK$50 million (2005: HK$50 million) which are unsecured, interest-bearing at prime rate minus 2% per annum.

Amounts due from subsidiaries (current):

Included in the amounts are loan to a subsidiary amounted to HK$120 million (2005: HK$50 million) which is unsecured, repayable on demand, and amounts due from subsidiaries amounted to HK$72 million (2005: HK$111 million) which is unsecured, interest-bearing at prime minus 2% per annum or HIBOR plus 1.25 to 2% per annum and repayable on demand while the remaining are unsecured, interest free and repayable on demand. All amounts are expected to be repaid within 12 months.

Amounts due to subsidiaries:

Amounts due to subsidiaries are unsecured, interest free and repayable on demand. The carrying amounts at the balance sheet date approximate their fair value.

18. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

The following is a list of the principal subsidiaries of the Group as at 31st December 2006:

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
VC Financial Group Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
VC Brokerage Limited[2]	Hong Kong	Provision of brokerage and securities margin financing services in Hong Kong	230,000,000 ordinary shares of HK$1 each	100%
VC Futures Limited[2]	Hong Kong	Provision of futures and options contracts dealing services in Hong Kong	30,000,000 ordinary shares of HK$1 each	100%
VC Capital Limited[2]	Hong Kong	Provision of corporate finance and advisory services in Hong Kong	20,000,000 ordinary shares of HK$1 each	100%
VC Capital (Shenzhen) Limited[2]	PRC	Provision of consultancy services in the PRC	HK$1,000,000	100%
VC Securities Investments Limited[2]	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
VC Asset Management Limited[2]	Hong Kong	Provision of asset management services to clients in Hong Kong	15,000,000 ordinary shares of HK$1 each	100%
VC Investment Management Limited[2]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
VC Finance Limited[2]	Hong Kong	Money lending in Hong Kong	1,000,000 ordinary shares of HK$1 each	100%
VC Research Limited[2]	Hong Kong	Provision of research services in Hong Kong	500,000 ordinary shares of HK$1 each	100%

18. INVESTMENTS IN SUBSIDIARIES AND AMOUNTS DUE FROM/TO SUBSIDIARIES (continued)

Name	Place of incorporation	Principal activities and place of operation	Particulars of issued share capital	Effective interest held
VC Financial Advisory (Macau) Limited[2]	Macau	Provision of financial consultancy and related services in Macau	2 ordinary shares of MOP$24,000 and MOP$1,000 each	100%
VC Services Limited[1]	Hong Kong	Provision of management services to group companies in Hong Kong	10,000 ordinary shares of HK$1 each	100%
VC Strategic Investments Limited[1]	British Virgin Islands	Investment holding in Hong Kong	1 ordinary share of US$1	100%

1 Shares held directly by the Company

2 Shares held indirectly by the Company

None of the subsidiaries had issued any debt securities at the end of the year.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	–	2,000
Impairment losses	–	(1,320)
	–	680

The amount represented unquoted equity instrument for which the fair value cannot be reliably measured because the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed. The impairment losses are not reversible.

The unquoted equity instrument was sold to third party at the carrying value of HK$680,000 on 27th November 2006.

20. OTHER FINANCIAL ASSETS AND LIABILITIES

Amounts due from/to an investee company/fellow subsidiaries/ultimate holding company

The amounts are resulted from the normal course of operations. They are non-interest bearing, unsecured, repayable on demand and in general aged less than a year.

Bank balances and cash

The amounts comprise cash held by the Group and short-term bank deposits at market interest rates ranging from 0.01% to 3.64% with an original maturity of three months or less.

From the Group's ordinary business, it acts as a trustee that result in the holding of client's monies on behalf of clients and other institutions. These assets are not assets of the Group and, therefore, are not included in its balance sheet. As at 31st December 2006, the Group maintained segregated account with HKFE Clearing Corporation Limited ("HKCC") and the authorised institutions in conjunction with its future and brokerage businesses as a result of its normal business transactions with amounts of approximately HK$2,697,000 (2005: HK$1,670,000) and HK$551,852,000 (2005: HK$192,418,000) respectively, which are not otherwise dealt with in the financial statements.

Loans from ultimate holding company

The loans from ultimate holding company are for operation need. They are unsecured and bear interest at prime rate minus 2% per annum or HIBOR plus 1.25 to 2% per annum. The loans from the ultimate holding company were repayable upon written notice given from the ultimate holding company.

21. OTHER INTANGIBLE ASSETS

	HK$'000
COST	
At 1st January 2005, 1st January 2006 and 31st December 2006	1,839
IMPAIRMENT	
At 1st January 2005, 1st January 2006 and 31st December 2006	1,292
CARRYING VALUE	
At 31st December 2006 and 31st December 2005	547

Other intangible assets represent club memberships with indefinite useful lives and are tested for impairment annually by comparing their carrying amounts with their recoverable amounts.

22. ACCOUNTS RECEIVABLE

	2006	**2005**
	HK$'000	*HK$'000*
THE GROUP		
Accounts receivable arising from the ordinary course of business of dealing in *(Note a)*:		
– Securities transactions:		
Clearing houses and brokers	**49,199**	6,362
Cash clients	**232,231**	134,395
Margin clients	**305,511**	177,937
– Futures and options contracts transactions:		
Brokers	**136**	133
HKCC	**43**	44
Accounts receivable arising from the ordinary course of business of provision of corporate advisory, placing and underwriting services *(Note b)*	**1,116**	628
	588,236	319,499

22. ACCOUNTS RECEIVABLE (continued)

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 31st December 2006, the total market value of securities pledged as collateral in respect of the loans to margin clients was HK$2,435,797,000 (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:

	2006 ***HK$'000***	2005 *HK$'000*
The Group		
Within 30 days	**270,365**	115,847
31 – 90 days	**6,853**	12,852
Over 90 days	**4,212**	12,058
	281,430	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:

	2006 ***HK$'000***	2005 *HK$'000*
The Group		
Within 30 days	**741**	409
31 – 90 days	**90**	64
Over 90 days	**285**	155
	1,116	628

23. TRADING INVESTMENTS

	2006	2005
	HK$'000	*HK$'000*
THE GROUP		
Trading investments		
Listed equity securities, at market value	**14,441**	44,956

The trading investments as at 31st December 2006 represent equity securities listed in Hong Kong of HK$14,441,000 (2005: listed in Taiwan and Hong Kong of HK$465,000 and HK$44,491,000 respectively).

24. INVESTMENT IN CONVERTIBLE BONDS

	2006	2005
	HK$'000	*HK$'000*
Unlisted convertible bonds	**–**	4,000

The prior year amount represented debt element of the convertible bonds while the derivative portion relating to the conversion option was accounted for separately with immaterial fair value.

25. DEFERRED TAX ASSETS

	Estimated unused tax losses
	HK$'000
At 1st January 2005	–
Credited to consolidated income statement for the year *(Note 10)*	1,495
At 31st December 2005 and 1st January 2006	1,495
Credited to consolidated income statement for the year *(Note 10)*	1,286
At 31st December 2006	**2,781**

As at 31st December 2006, the Group and the Company have estimated unused tax losses of HK$136,275,000 and HK$47,723,000 (2005: HK$159,669,000 and HK$46,002,000) respectively to carry forward against future taxable income. A deferred tax asset has been recognised in the consolidated financial statements in respect of HK$15,900,000 (2005: HK$8,546,000) to the extent that realisation of the related tax benefit through future taxable profits is probable. These estimated tax losses have no expiry date but subject to the approval of the Hong Kong Inland Revenue Department.

26. ACCOUNTS PAYABLE

Accounts payable arising from the ordinary course of business of dealing in securities transactions (Note a):

	2006	2005
	HK$'000	*HK$'000*
Cash clients *(Note b)*	**150,489**	28,899
Margin clients	**6,771**	4,482
	157,260	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 approximately HK$7,442,000 as at 31st December 2006 (2005: Nil) due to companies with common directors and HK$345,000 (2005: HK$1,000) due to key management personnel, directors and close member of director, in respect of transactions in securities undertaken for their accounts.

27. SHORT-TERM BANK BORROWINGS

The amounts represent short-term bank borrowings of HK$49,000,000 which is repayable on demand and unsecured as at 31st December 2006 (2005: HK$28,000,000 repayable on demand and partially secured by a charge over certain marketable securities from margin clients). The Company also provided a corporate guarantee for the facilities. The interest rates for the loans are HIBOR plus a spread, thus exposing the Group to cash flow interest rate risk. The terms of the facilities are generally renewed annually.

28. SHARE CAPITAL

	Authorised Ordinary shares of HK$0.1 each No. of shares	Amount HK$'000
At 31st December 2005 and 31st December 2006	10,000,000,000	1,000,000

	Issued and full paid Ordinary shares of HK$0.1 each No. of shares	Amount HK$'000
At 1st January 2005	238,154,999	23,815
Exercise of share options	11,486,227	1,149
At 31st December 2005	249,641,226	24,964
Exercise of share options	4,098,953	410
At 31st December 2006	253,740,179	25,374

29. RESERVES

THE COMPANY

	Share option reserve HK$'000	Share premium HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2005	–	–	123,758	10,864	134,622
Loss for the year	–	–	–	(996)	(996)
Exercise of share options	–	6,475	–	–	6,475
Share issue expense	–	(7)	–	–	(7)
At 31st December 2005	–	6,468	123,758	9,868	140,094
Loss for the year	–	–	–	(1,409)	(1,409)
Recognition of equity-settled share based payment	419	–	–	–	419
Exercise of share options	–	2,609	–	–	2,609
Share issue expense	–	(3)	–	–	(3)
At 31st December 2006	419	9,074	123,758	8,459	141,710

Recorded capital reserve was arisen from the Company's capital reorganisation effective on 28th May 2003.

30. SHARE OPTIONS

The Share Option Scheme ("Share Option Scheme") was adopted by the Company on 29th November 2001 (which superseded the previous share option scheme of the Company adopted on 14th March 2001). The purpose of the Share Option Scheme is to recognize and acknowledge the contributions that had or may have made by the participants to the Group and also provide them an opportunity to have a personal stake in the Company with the view to motivating them to optimise their performance and efficiency for the benefit of the Group and to attract and retain or otherwise maintain ongoing business relationship with them whose contributions are beneficial to the long term growth of the Group.

As at 31st December 2006, options to subscribe for an aggregate of (1) 2,137,163, (2) 7,623,065, (3) 654,934 and (4) 2,400,000 underlying Shares granted on 9th July 2002, 25th March 2004, 15th March 2006 and 27th December 2006 ("Share Options") pursuant to the Share Option Scheme at an exercise price of HK$1.00 per share, HK$0.64 per share, HK$1.18 per share and HK$1.292 per share respectively were outstanding, which in total represents approximately 5.05% (2005: 5.7%) of the shares of the Company in issue as at 31st December 2006. The adjusted closing price of the Company's shares immediately before 9th July 2002 and the closing prices of the Company's shares immediately before 25th March 2004, 15th March 2006 and 27th December 2006 were HK$0.65, HK$0.64, HK$1.06 and HK$1.24 per share respectively. The Share Options have a duration of 10 years from the date of grant, i.e. between 9th July 2002 to 8th July 2012, between 25th March 2004 to 24th March 2014, between 15th March 2006 to 14th March 2016 and between 27th December 2006 to 26th December 2016 respectively. Accordingly to the Share Option Scheme, any Share Options granted shall lapse upon the expiration of 3 months after the relevant grantee ceases to be employed (if applicable) by the Group.

30. SHARE OPTIONS (continued)

During the year ended 31st December 2006, certain Share Options to subscribe for a total of 349,552 (2005: 1,654,323) underlying Shares granted to 3 employees (2005: 8 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 year ended 31st December 2006, certain Share Options to subscribe for a total of 1,096,453 and 3,002,500 underlying shares at an exercise price of HK$1.0 and HK$0.64 per share respectively granted to a total of 20 employees were exercised (2005: 42 employees). Since the date of the grant of the Share Options up to 31st December 2006 and 31st December 2005, none of the Share Options were cancelled. Movements in the number of Share Options outstanding during the year are as follows:

2006

Categories of grantees	Grant date of options	Exercise price per share	Balance as at 1st January 2006	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31st December 2006
Directors of the Company	9th July 2002	HK$1.00	982,114	–	–	–	–	982,114
Directors of the Company	27th December 2006	HK$1.292	–	–	2,400,000	–	–	2,400,000
Employees	9th July 2002	HK$1.00	694,842	–	–	(645,348)	(24,552)	24,942
Employees	25th March 2004	HK$0.64	8,900,565	–	–	(2,852,500)	(325,000)	5,723,065
Employees	15th March 2006	HK$1.18	–	–	654,934	–	–	654,934
Other eligible persons	9th July 2002	HK$1.00	1,581,212	–	–	(451,105)	–	1,130,107
Other eligible persons	25th March 2004	HK$0.64	2,050,000	–	–	(150,000)	–	1,900,000
			14,208,733	–	3,054,934	(4,098,953)	(349,552)	12,815,162

2005

Categories of grantees	Grant date of options	Exercise price per share	Balance as at 1st January 2005	Reclassified during the year	Granted during the year	Exercised during the year	Lapsed during the year	Balance as at 31st December 2005
Directors of the Company	9th July 2002	HK$1.00	982,114	–	–	–	–	982,114
Employees	9th July 2002	HK$1.00	1,782,539	(903,553)	–	(19,642)	(164,502)	694,842
Employees	25th March 2004	HK$0.64	23,160,565	(2,050,000)	–	(10,730,000)	(1,480,000)	8,900,565
Other eligible persons	9th July 2002	HK$1.00	1,424,065	903,553	–	(736,585)	(9,821)	1,581,212
Other eligible persons	25th March 2004	HK$0.64	–	2,050,000	–	–	–	2,050,000
			27,349,283	–	–	(11,486,227)	(1,654,323)	14,208,733

In respect of the share options exercised during the year, the weighted average share price before the share options being exercised is HK$2.18.

30. SHARE OPTIONS (continued)

During the year ended 31st December 2006, options were granted on 15th March 2006 and 27th December 2006. The estimated fair values of the options granted on those dates were approximately HK$405,281 and HK$1,745,757 respectively. Share options granted on 15th March 2006 were fully vested at grant date. The vesting period for share options granted on 27th December 2006 is from one to three years.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share option grant date			
	15th March 2006	**27th December 2006**		
Market price at date of grant	HK$1.18	HK$1.19	HK$1.19	HK$1.19
Exercise price	HK$1.18	HK$1.292	HK$1.292	HK$1.292
Expected volatility	139.45%	100.32%	100.32%	100.32%
Expected life	1 year	2 years	3 years	4 years
Risk-free rate	4.15%	3.527%	3.602%	3.656%
Vesting period	N/A	1 year	2 years	3 years

Expected volatility for the options granted on 15th March 2006 and 27th December 2006 was determined by using the historical volatility of the Company's share price over the previous 250 days and 260 days respectively. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non transferability, exercise restrictions and behavioural considerations. The Group recognised the total expense of approximately HK$419,105 for the year ended 31st December 2006 (2005: Nil) in relation to share options granted by the Company.

31. FINANCIAL GUARANTEES

As at 31st December 2006, the Company has given financial guarantees to banks in respect of banking facilities provided to VC Brokerage amounted to HK$140 million (2005: HK$120 million). At 31st December 2006, HK$49 million (2005: HK$28 million) was utilised by VC Brokerage. The fair value of the financial guarantee contracts is immaterial and hence no adjustment has been required.

32. COMMITMENTS

(a) Capital commitments

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

(b) Commitments under operating leases

At 31st December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2006	2005
	HK$'000	*HK$'000*
Not later than one year	**5,991**	4,539
Later than one year and not later than five years	**6,978**	10,108
	12,969	14,647

Operating lease payments represent rentals payable by the Group for certain of its office properties. Rentals are fixed for an average of three years.

At 31st December 2006 and 31st December 2005, the Company does not have other operating lease commitments.

33. RELATED PARTY TRANSACTIONS

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

THE GROUP

	2006	2005
	HK$'000	*HK$'000*
Transfer of property, plant and equipment to fellow subsidiaries	**–**	715
Rental paid to fellow subsidiaries	**50**	178
Technical, network and other service fees charged from fellow subsidiaries	**3,564**	2,869
Purchases of computer hardware and software from fellow subsidiaries	**750**	272
Brokerage commission income/interest income earned from certain directors of the Group or their relatives	**125**	145
Brokerage commission income earned from a company with a common director	**2,245**	–
Interest expenses charged on loans from ultimate holding company	**13,267**	8,948
Management fee paid to a fellow subsidiary	**3,600**	3,600
Financial advisory and arrangement fees charged to ultimate holding company	**550**	900

The balance with related parties are set out on the consolidated balance sheet and in the respective notes.

33. RELATED PARTY TRANSACTIONS (continued)

THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Interest expenses charged on loans from ultimate holding company	**13,267**	8,948

The balances with related parties are set out on the balance sheet and in the respective notes.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

THE GROUP

	2006	2005
	HK$'000	*HK$'000*
Short term benefits	**9,400**	6,165
Share-based payment	**419**	–
	9,819	6,165

THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Short term benefits	**593**	463
Share-based payment	**419**	–
	1,012	463

The remuneration of Directors and key executives is determined by the remuneration committee having regard to the performance of individuals, the Company's operating results and market standards.

A summary of the results and of the asset and liabilities of the Group of the past five financial years/periods is set out below:

	Year ended 31st December 2006	Year ended 31st December 2005	Year ended 31st December 2004	Period from 1st October 2002 to 31st December 2003	Year ended 30 September 2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)		
Results					
Revenues	**182,587**	115,986	163,257	126,159	10,313
Profit/(loss) attributable to equity holders of the parent	**26,332**	5,108	29,307	(31,936)	(91,161)
Assets and liabilities					
Total assets	**695,227**	462,449	434,281	424,531	61,211
Total liabilities	**501,674**	(298,484)	(282,980)	(301,043)	(3,994)
Minority interests	**–**	–	–	–	(70)
Total equity	**193,553**	163,965	151,301	123,488	57,147

Notice of Annual General Meeting of 2007

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Value Convergence Holdings Limited ("Value Convergence") will be held at 38/F., The Centrium, 60 Wyndham Street, Central, Hong Kong on Thursday, 19th April 2007 at 11:00 a.m. for the following purposes:

1. To consider and receive the audited consolidated accounts of Value Convergence and its subsidiaries and the reports of the directors and of the auditors for the year ended 31st December 2006.

2. To re-elect directors and to authorize the board of directors or any of its authorised committees to fix the remuneration of the directors.

3. To re-appoint auditors and to authorise the board of directors or any of its authorised committees to fix their remuneration.

4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (c) of this Resolution, the directors of Value Convergence ("Directors") be and are hereby granted an unconditional general mandate to allot, issue and deal with additional shares in the capital of Value Convergence ("Shares") or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements and options which might require the exercise of such power;

(b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorizations given to the Directors and shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to paragraph (a) of this Resolution, otherwise than pursuant to:

(i) a Rights Issue (as hereinafter defined);

(ii) the exercise of rights of subscription or conversion under the terms of any warrants or any securities which may be issued by Value Convergence from time to time and which are convertible into Shares;

(iii) the exercise of the subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of Value Convergence and/or any of its subsidiaries or such other persons eligible to participate in any such scheme(s) or arrangement(s) of Shares or rights to acquire Shares; or

(iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of Value Convergence or a specific authority granted by the shareholders of Value Convergence in general meeting,

shall not exceed 20% of the aggregate nominal amount of the share capital of Value Convergence in issue as at the date of passing of this Resolution;

(d) subject to the passing of each of the paragraphs (a), (b) and (c) of this Resolution, any prior approvals of the kind referred to in paragraphs (a), (b) and (c) of this Resolution which had been granted to the Directors and which are still in effect be and are hereby revoked; and

(e) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of Value Convergence;

(ii) the expiration of the period within which the next annual general meeting of Value Convergence is required by any applicable law or the articles of association of Value Convergence to be held; or

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of Value Convergence in general meeting; and

"Rights Issue" means an offer of shares in Value Convergence, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in Value Convergence on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to Value Convergence, or any recognised regulatory body or any stock exchange applicable to Value Convergence)."

5. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as Ordinary Resolution:

ORDINARY RESOLUTION

"**THAT**:

(a) subject to paragraph (b) of this Resolution, the Directors be and are hereby granted an unconditional general mandate to repurchase on The Stock Exchange of Hong Kong Limited ("Stock Exchange"), or any other stock exchange on which the securities of Value Convergence may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, securities in Value Convergence and that the exercise by the Directors of all powers of Value Convergence to repurchase such securities, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange or rules of any other stock exchange as may be amended from time to time, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares of Value Convergence ("Shares") or securities of Value Convergence which may be repurchased by Value Convergence pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period (as hereinafter defined) shall not exceed 10% of the aggregate nominal amount of the share capital of Value Convergence in issue as at the date of passing of this Resolution;

(c) subject to the passing of each of the paragraphs (a) and (b) of this Resolution, any prior approvals of the kind referred to in paragraphs (a) and (b) of this Resolution which had been granted to the Directors and which are still in effect be and hereby revoked; and

(d) for the purpose of this resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of Value Convergence;

(ii) the expiration of the period within which the next annual general meeting of Value Convergence is required by any applicable law or the articles of association of Value Convergence to be held; or

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of Value Convergence in general meeting."

6. As special business to consider and, if thought fit, pass with or without amendments, the following resolution as Ordinary Resolution:

ORDINARY RESOLUTION

"**THAT** conditional upon the passing of Resolutions numbered 4 and 5 set out in the notice convening this meeting, the aggregate nominal amount of share capital of Value Convergence that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with the general mandate granted under Ordinary Resolution numbered 4 set out in the notice convening this meeting be and is hereby extended by the addition thereto of the aggregate nominal amount of the shares in the capital of Value Convergence which may be repurchased by Value Convergence pursuant to and in accordance with the general mandate granted under Ordinary Resolution numbered 5 set out in the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of Value Convergence in issue as at the date of passing of this Resolution."

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

Hong Kong, 14 March 2007

Registered office:
28th Floor, The Centrium
60 Wyndham Street
Central
Hong Kong

Notes:

1. A member of Value Convergence entitled to attend and vote at the meeting by the above notice is entitled to appoint one or more proxies to attend and vote in stead of such member. A proxy need not be a member of Value Convergence.

2. A form of proxy in respect of the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.

3. In order to be valid, the form of proxy together with a power of attorney or other authority, (if any) under which it is signed, or a notarially certified copy of such power or authority must be deposited with the registered office of Value Convergence at 28/F., The Centrium, 60 Wyndham Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

4. Where there are joint holders of a share of Value Convergence, any one of such holders may vote at the meeting either personally or by proxy in respect of such share as if he were solely entitled thereto, but if more than one of such holders be present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of Value Convergence in respect of such share shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any share stands shall for this purpose be deemed joint holders thereof.